

MUTUAL INTEREST



NATIONWIDE'S PARLIAMENTARY NEWSLETTER

Issue no 2 March 2003

Let's be honest...

Nationwide challenges the Government and the FSA to take more action to promote fairness, honesty and transparency for financial consumers

It is only by adopting an open and honest approach to all their dealings that financial services organisations can win back the trust of UK consumers. Meeting the following challenges is seen as an essential step in that process:

Provide mortgage consumers with the information they really need

Transparency in the mortgage industry is poor. Borrowers are frequently confronted with a low headline mortgage rate, only to see costs rise substantially when penalties and additional charges are added on.

The FSA recently introduced comparative tables to address this problem, but these only allow comparison of products on a headline rate basis. Consumer information on mortgages could be greatly improved by introducing new filters to the tables so that consumers can compare products by total cost over a given period and by those that meet the CAT Standard.

Julia Drown MP recently tabled an Early Day Motion calling on the FSA to make this information available which has

now been signed by over 50 MPs.

Building substantive regulation for equity release

Equity release products could play an important part in the financial planning of those who are 'house rich, cash poor'. Nationwide remains apprehensive, however, about launching an equity release product into a market where there is little substantive regulation.

The consumers most likely to use these products are often elderly and vulnerable. Without clear regulation, there is a danger that current practice could lead to future accusations of mis-selling. The Government and the FSA have a clear opportunity to lay down a regulatory framework that will provide protection for these consumers.

In a debate on equity release, Angela Browning MP said;

"Nationwide sent me a letter... saying consumers that are most likely to use these products are often elderly and vulnerable. Without much-needed clear regulation, there is a danger that current practice could lead to future accusations of mis-selling. ...There seems to be great support from the industry for more regulation. That is not something that one often sees."

(Westminster Hall debate, 14 January 2003)

Transparency in credit cards

Nationwide provides members with a simple table in its credit card material, containing details of key features and costs. Our 'consumer box' is based on the Schumer Box, which American credit card providers are legally required to publish.

If adopted by credit card providers in the UK, consumers would be able to compare the costs and features of credit cards across a range of providers and make an informed choice. This is essential in a market with over 1,300 brands and a wide range of rates, fees, terms and conditions.



Philip Williamson, Nationwide's chief executive says, "Over the last few years the banks'

reputation has suffered markedly. Nationwide has fought against this trend by being passionate about consumers. We have campaigned to stop the banks introducing cash machine charges and to bring greater fairness to the mortgage market, but we need help and support to achieve more. In 2003, we would like politicians and regulators to support us with concerted action."

INSIDE THIS ISSUE

The mutual difference

- Commercial and Treasury Director Stuart Bernau talks about Nationwide's fair mortgage campaign

Improving the process

- Are sellers' packs the answer to simplifying the homebuying process? Tracy Morshead examines the issues

Government response to Sandler

- Nationwide sets out its case for a 1% charge cap and a lighter regulatory touch

Talking to Members

- Member Communications Manager Philip Orbell outlines Nationwide's Member TalkBack events

Community affairs roundup

- Comic Relief, Local Heritage Initiative and more. See page four.

2003: soft landing or bumpy ride?

- Economic conditions & sentiment may deteriorate in 2003
- 2003 price growth to reduce to 10% from c25% in 2002
- Slowdown will vary across UK with London to see most marked moderation

For a detailed review of 2002 and a full forecast for 2003, please see page 3.

Banking

Credit Card

Insurance

Investments

Loans

Mortgages

Pensions

Savings



Profile:

Stuart Bernau, Commercial and Treasury Director

Age: 51

Born in Horley, Surrey.
Brought up in Tonbridge, Kent.

Education:

Sir Andrew Judd's Grammar School, Tonbridge
Economics degree from London University;
Diploma in Corporate Treasury Management;
Associate of Chartered Institute of Banks;
INSEAD Leadership Programme.

Career:

Stuart joined NatWest in 1973, as a graduate trainee and worked in the Retail Network, Training, Lending Control and Corporate Finance.

He joined Nationwide in June 1990, as Assistant General Manager (Commercial Lending). He subsequently managed the Mortgage & Insurance Division, and the Society's retail network.

He was appointed to the board in November 1996, and has served as Retail Operations Director and Marketing & Commercial Director before taking up his current appointment.

Stuart is also on the board of the Financial Services National Training Organisation and serves on the Council of Mortgage Lenders Executive and Chairmen Committees and the Council of the Chartered Institute of Bankers.

He is a member of the Association of Corporate Treasurers and a Fellow of the Chartered Institute of Bankers.

Interests:

Stuart has been passionately involved in the development of Service Excellence for customers and employees within Nationwide.

In 2002, Nationwide won the overall Unisys Management Today Service Excellence Award and came 23rd in the Sunday Times best companies to work for in the UK.

Stuart is a keen sportsman – golf and running – and has completed three marathons. He was a keen rugby player and now supports Northampton Saints.

Personal:

Stuart is married to Sue and has two sons.

Time for A Fair, Open and Honest Approach to Mortgage Lending

For many people, a mortgage represents by far the biggest financial commitment they will ever make. However, many people in the UK are losing out through a combination of unclear terms, unfair practices and widespread discrimination against different types of customer.

There is an inescapable difference between the economics of a PLC and a well run mutual. Quite simply, efficient mutuals can and do offer better long term value than their PLC competitors. Mutuals, with no shareholders to pay dividends to, can put their members first whereas PLCs have to maximise profits from their customers in order to pay those dividends. This 'mutual advantage', however, is no excuse for some of the unfair practices that operate in the mortgage market today.

So, when it comes to mortgage lending, what does Nationwide do to bring its 'mutual advantage' to life?

In March 2001, we launched our Fair Mortgage Pricing Initiative. At Nationwide, we believed it was time to treat our existing mortgage customers more fairly and make all of our product range available to all our customers.

In doing so we became the only major high street lender to offer all mortgages on the CAT standard. These have no redemption penalties beyond the term of

the particular deal; no mortgage insurance guarantee payments; offer full flexibility; are subject to daily interest; and, most importantly, are available to all new and existing customers. Additionally, all new borrowers and existing members moving home benefit from 12 months free (MPPI) Mortgage Payment Protection Insurance.

These initiatives have resulted in many more people coming to Nationwide for their mortgages. However, borrowers with many of our competitors are still suffering from a far less consumer-friendly approach. For example, many lenders offer daily interest to new borrowers only and restrict their existing borrowers to inferior deals; in effect, subsidising deals for new customers.

Two years on, we have regained full market share and dramatically improved our retention of existing customers – proof that fairness can work in the mortgage market. We have, however, been disappointed that the CAT standard has not been more actively promoted by Government and the FSA.

We would like to see fairer and more transparent mortgages throughout the market. Our different, mutual approach offers choice on the high street and lays down a challenge to our competitors.

Stuart Bernau,
Commercial and Treasury Director



Improving the Homebuying Process

Tracy Morshead,
Divisional Director
Mortgages & Insurance

As a mutual, Nationwide is committed to

progressing anything that will improve the home buying process. Whilst the recent Bristol-based pilot scheme demonstrated some of the potential of a seller's information pack, it is clear that they are not the panacea they may first appear to be – in fact, the Bristol pilot showed that *paper* packs are too cumbersome. Although sellers packs are an initiative that can speed up the purchase process for consumers, they won't solve all the problems inherent in the system.

It is our belief that greater improvements to the process can be yielded from the complete electronic exchange of information by all parties in the process. This would make the process faster and less costly.

Consequently, Nationwide believes that

several issues need to be addressed before sellers packs will be successful:

- | Whilst the Government is promoting electronic access to data via the National Land Information Service, those local authorities that have yet to do so must come 'on-line';
- | As the Home Condition Report is provided by the seller, and is relied upon by seller, buyer and lender alike, qualification standards required of those preparing the report must be agreed;
- | To ensure that housing market activity is not affected, the pack must be affordable and not disproportionate in price to the value of the property.

The Society looks forward to the contents of the Government's forthcoming consultations on Sellers Information Packs and hopes that some of the above issues will be included. We would like to see ODPM consider a working party of lenders, legal people and surveyors to carry this debate forward and would be keen to play an active part in such a group.

House prices – review of 2002 and looking ahead through 2003



Alex Bannister,
Nationwide's Group
Economist

Market stronger than expected in 2002...

Most forecasts predicted a slowdown in the housing market during 2002, but the market strengthened with house price inflation (at c.25%) reaching the highest levels since the late 1980s. Mortgage lending reached record levels with remortgaging experiencing the strongest growth, up around 80% on a year earlier. The rate of remortgaging is likely to be significantly higher than published data suggests as it excludes borrowers remortgaging with the same lender. Many people also took advantage of rising housing wealth to withdraw equity from their property.

Activity in the housing market was also up sharply on 2001, with house sales up 10% to 1.6 million and mortgage lending for house purchase up 20% to £120bn. In contrast, house building was unable to respond to burgeoning demand for owner occupation, with just c.135,000 new homes completed in 2002. Planning delays, labour shortages and the lack of available land are likely to have been the main constraints.

Overall, 2002 saw a sharp rise in demand for property underpinned by extremely confident households - who as a result of low interest rates and the lowest unemployment in 27 years now view their financial situation as favourably as at any time in the last 20 years.

...outlook improving in 2003 but personal sector conditions to deteriorate slightly.

The outlook for the economy in 2003 is largely the reverse of 2002. We expect economic growth to rise to 2.3%, but for this growth to be more balanced as the corporate sector recovers and the personal sector slows. The latter being affected by increases in National Insurance contributions and a slight worsening in job security.

Affordability, especially for first time buyers, is already stretched due to sharp price rises, particularly in London and other hotspots. Affordability will increasingly act as a drag on the market and this, in conjunction with the slowing personal sector, should help contribute to a slight slowdown of the market in 2003 with house prices ending the year 10% up on a year earlier.

For further details, please log on to <http://www.nationwide.co.uk/Hpi/historical/PDF/2003Forecast.pdf>



Tom Henry, Planning &
Strategy Controller,
Nationwide Life

Now that the Government and FSA have launched consultations around the Sandler product set and sales regime respectively, the future for Sandler's vision of reaching the mass market with simple products is starting to look a bit clearer.

The big surprise in the Government's product proposals was the consultation on the widening of Sandler's proposed range (mutual funds, with profits, pensions) to include guaranteed investment products, term assurance, deposits, annuities, a financial health check and the Child Trust Fund.

The other main Government proposals centred on: how investment risk can be mitigated, with a suggestion that a Sandler product's exposure to equities should be limited to 60%; and a recommendation for

Straightforward and Simple – the key to making Sandler work

the level of the charging cap, for which the Government's starting point is 1%.

The FSA has set out three options for a 'lighter touch' regime for the sale of the Sandler suite, ranging from a watered down version of the current regime to a more radical proposal to remove the vast majority of sales rules.

Nationwide's view is that a 1% cap is acceptable if the sales regime is sufficiently light to reduce significantly the time it takes to make a sale. Our research suggests that many of our members find the current sales process a turn off because it is time consuming and complex.

A combination of simple products bought through a simple sales process will help unlock the potential for consumers to save for the longer term.

Nationwide intends to continue to play a key role in helping the Government and FSA take the debate forward to its conclusion.

Putting Words into Action

As a mutual - owned by, and run for the benefit of, our members - it's important that our executive and divisional directors regularly listen to members' views. Since 1997, thousands of members from across the UK have taken the opportunity to have their say at our monthly Member TalkBack events. These 'no holds barred' events allow members to put their questions direct to the Society's decision makers. In addition, around 150 MPs have been personally invited to the 60 events we have held. Many product and service improvements can be traced back to these meetings.

Philip Orbell, Member Communications Manager at Nationwide, says: "These events reflect how seriously we take our members' views and feedback. As we are answerable to our members, it is only right that they should be able to express their views on the running of their society". He adds that a broad range of issues are discussed - from the benefits we can offer as a building society to our sponsorship of the national game.

Some of the changes we have made as a result of member feedback include:

- ▮ Loyalty products, with preferential rates, have been introduced to reward long-standing members;
- ▮ Transferring money to our e-savings facility on a regular basis has been made easier;
- ▮ Online transfers now happen in 'real time' rather than updating overnight; and
- ▮ Cheque clearance times have been reduced on our savings accounts.

Recently, we've used the power of the internet to reach people who wouldn't normally attend a face-to-face meeting, and to debate the issues that affect them as Nationwide members.

If we are holding a TalkBack event in your constituency, we will invite you to attend. In the meantime, if you would like further information about TalkBack events, please contact Philip Orbell, Member Communications Manager, at philip.orbell@nationwide.co.uk



Directors Jim Willens and John Sutherland talk to members in Essex



Local Heritage Initiative – the story so far

The Initiative is supporting hundreds of schemes across England, ranging from charting Roman remains to looking after hedgerows and restoring village ponds. Projects include studies of historic buildings, creating plays celebrating local history and working to keep craft tradition alive.



The Local Heritage Initiative is devised and run by the Countryside Agency and distributes grants on behalf of the Heritage Lottery Fund. Nationwide provides additional sponsorship. It was established in 2000 and has a 10 year remit to support community-led projects that increase understanding, record and care

for aspects of heritage across England. Since 2000, some £6million worth of grants have been made.

Nationwide searches for local heroes

Nationwide has launched the 2003 Nationwide Awards for Voluntary Endeavour (NAVE), which invites members of the public to nominate individuals and groups deserving recognition for their work in the community. The Awards are organised in association with the National Council for Voluntary Organisations and the Newspaper Society.

Now in its sixth year, the Awards are designed to recognise 'local heroes' whose voluntary work or community activity has made a real difference to people's lives. 10 million people volunteer every week, supporting 136,000 charities and community groups – these volunteers are truly the lifeblood of their communities.

If you'd like to nominate someone in your constituency, you can pick up a nomination form from your local Nationwide branch or public library. The closing date for nominations is 30 April 2003.

Red nose day is coming!



Nationwide will continue to help to show poverty the red card this Red Nose Day – 14 March 2003. It has introduced 'double donations' on all new Comic Relief credit cards opened until 31 March.

As a result, £10.50 will be donated to Comic Relief for every card opened and 1.0% of the value of all purchases (equivalent to 50p per £100). You spend once, Nationwide donates twice!



"Sustainability is relevant to us all"



Jeremy del Strother, Personnel and Development Director, is leading Nationwide's Sustainability Management strategy – a programme to ensure Nationwide meets its

core business needs, while being socially and environmentally responsible.

Jeremy says, "There's growing demand from the public and Government for all organisations to be open, honest and responsible in everything they do. As a mutual, and a consumer champion, this fits in well with our culture."

"We are recognised for our excellent community programmes and we have sound environmental initiatives in place, but we really need to look at developing our environmental policies further. This issue is relevant to everyone – and if Nationwide is to prosper in the future, we must all play our part today."

Editor: Sam Vaughan
Assistant editor: Ted Kellett
Nationwide Building Society
Nationwide House,
Pipers Way,
Swindon SN38 2SN

'Look out for the next issue in June 2003'

Please engage with us on these issues and others of interest to you.
Contact Alan Oliver, Public Affairs Manager or Sam Vaughan, Public Affairs Officer:
alanm.oliver@nationwide.co.uk or 01793 655196
sam.vaughan@nationwide.co.uk or 01793 653331