MONEY ADVICE TRUST

BUSINESS DEBTLINE · NATIONAL DEBTLINE · WISER ADVISER

Consultation Response:

FCA Mortgages: Removing barriers to switching

Response by the Money Advice Trust

Date: September 2020

Contents

Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence.

The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

In 2019, our National Debtline and Business Debtline advisers provided help to more than 199,400 people by phone and webchat, with 1.97 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2019 we delivered this free training to over 981 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to comment on the proposals in this consultation.

- ✓ We support the FCA's proposals to extend the rules to include borrowers in closed books switching to a lender within the same financial group as their existing "closed book" lender.

- ✓ We suspect these changes will have limited effects in practice despite previous FCA interventions, and these additional proposals, as there is no compulsion on lenders to offer alternative products. It appears that none have done so up to now.

- ✓ The situation for the wider group of mortgage prisoners remains intractable without government intervention. We note that the all-party parliamentary group on mortgage prisoners is now calling for a cap on the standard variable rate for mortgages.[1]

We agree that the guidance that has been proposed to allow consumers to delay repayment of capital on interest-only mortgages appears to be sensible and fair to consumers in this position.

- ✓ Credit reporting is always an issue that is very important to consumers. We agree that firms should not be making negative reports to credit reference agencies for accounts in this position.

- ✓ We are pleased to see that the FCA has covered the potential issues relating to mortgage payment deferrals in the guidance, by deeming that a borrower who has had a payment deferral is considered up-to-date with payments.

- ✓ We think the FCA should therefore extend the scope of the guidance to require firms to give the same options to consumers who are not up-to-date with their payments, *"provided they are in the borrower's best interests and borrowers are treated fairly"*.

[1] https://www.bbc.co.uk/news/business-53380724
https://www.appgmortgageprisoners.com/post/fca-action-on-interest-only-mortgages-is-welcome-but-mortgage-prisoners-need-a-cap-on-rates

Responses to individual questions

Question 1: Do you agree with this timeline for when our proposed rule change on ‘intra-group switching’ would come into force?

We agree with the FCA that the proposals should come into force immediately upon publication of the relevant policy statement.

Question 2: Do you agree with this timeline for when our proposed guidance on maturing interest-only and part-and-part mortgages would come into force?

The guidance should be put in place as soon as possible given the circumstances.

We note that the FCA intends to include borrowers whose mortgages were due to mature from March 2020 onwards, when the Covid restrictions came into force.

However, the paper states that the guidance will only be in place from 31st October 2020 which we assume is to coincide with the date that the ban on mortgage repossessions ends.

4.11 We propose that the guidance should be in place for 12 months from 31 October 2020. We consider that the economic implications and uncertainty of the crisis suggest that this is a reasonable period.

Question 3: Do you agree with our proposal to extend our rules, that do not require a standard affordability assessment for borrowers switching with their existing lender, to include borrowers in closed books looking to switch with a lender within the same group as their closed book?

Yes, we agree with the FCA's proposals to extend the rules to include borrowers in closed books switching to a lender within the same financial group as their existing "closed book" lender.

However, we suspect these changes will have limited effects in practice. From the cost benefit analysis, the FCA predicts a maximum of 25,000 customers in closed books paying rates above their 4% benchmark, but it is unclear how many of these could benefit from the proposed changes.

16. It is not clear what proportion of the 25,000 consumers who were paying rates above our 4% benchmark would switch as a result of our proposals here. It is difficult to predict with any certainty consumers' behavioural response to the reduction in switching costs. Any increase in switching would depend on the consumers' willingness to respond and whether consumers qualify for the deals available and are within lenders' credit risk appetite. It would also depend on lenders' appetite to make use of our proposed rule change, as lenders may choose to continue to follow standard affordability checks for intra-group switching.

As the FCA says about its changes to approve modified affordability assessments in 2019:

2.6 However, the success of these changes depends on lenders offering new switching options to consumers. Lenders have reported that due to the coronavirus crisis they will be unable to offer a range of switching options or support remortgaging under our amended rules as quickly as originally anticipated. We are committed to working with industry to see these actions happen as soon as practicable.

It appears that the planned new switching options for mortgage prisoners are unlikely to materialise soon. It seems unlikely that these additional broadening of the rules to include the wider pool of the financial group will have the necessary effect on availability of products as there is no compulsion on lenders to offer such products. The situation for existing borrowers in closed books is likely to remain broadly unchanged.

Question 4: Do you agree with the guidance we are proposing on interest-only and part-and-part mortgages?

The guidance that has been proposed to allow consumers to delay repayment of capital on interest-only mortgages appears to be sensible and fair to consumers in this position. It is not the fault of consumers that their interest-only mortgages happen to be maturing during the current Covid 19 emergency.

It is helpful that the FCA has set out its position on credit reporting. This is always an issue that is very important to consumers. We agree that firms should not be making negative reports to credit reference agencies for accounts in this position.

4.28 We understand that industry practice is to report to credit reference agencies that past-term borrowers, who continue to make interest payments, are up-to-date, with arrears reported where payments are not made. For borrowers who continue to make interest payments in accordance with this guidance, given the exceptional circumstances arising out of coronavirus, we would expect payments to be reported in this way, with no other negative reporting to credit files (eg arrangement flag/status).

We are pleased to see that the FCA has covered the potential issues relating to mortgage payment deferrals in the guidance, by deeming that a borrower who has had a payment deferral is considered up-to-date with payments.

4.15 We propose that to be eligible to delay repayment of the capital when their mortgage matures, a borrower has to be up-to-date with payments and have an interest-only or part-and-part mortgage maturing between 20 March 2020 and 31 October 2021. A borrower that has needed to make use of a payment deferral under our temporary guidance is considered as being up-to-date with mortgage payments and is eligible. We do not propose further eligibility criteria beyond this.

Question 5: Do you agree that the guidance should only apply to those up-to-date with payments at maturity and who maintain interest payments thereafter?

We are reluctant to agree that this guidance should only apply to consumers who are up to date with their mortgage payments at maturity.

The FCA states in the paper that firms can offer similar options to borrowers who are not up to date and acknowledges that it is possible for firms to do so.

4.23 If a borrower encounters payment difficulties before their mortgage matures, MCOB 13 applies. Firms are not prevented from offering similar options as those in the proposed guidance to borrowers who are not up-to date with payments upon maturity, provided they are in the borrower's best interests and borrowers are treated fairly.

We therefore cannot see why this guidance cannot apply to everyone in this situation, including borrowers who are behind with their payments. We think the FCA should therefore extend the scope of the guidance to require firms to give the same options to consumers who are not up-to-date with their payments, *“provided they are in the borrower’s best interests and borrowers are treated fairly”*.

Question 6: Do you agree that the guidance on interest-only and part-and-part mortgages should be in place for 12 months?

We agree that the guidance should be in put in place for an initial period of 12 months. However, this time period should be reviewed and extended if it becomes necessary to do so.

Question 7: Do you have any comments on our cost benefit analysis on the proposed rule changes on intra-group switching?

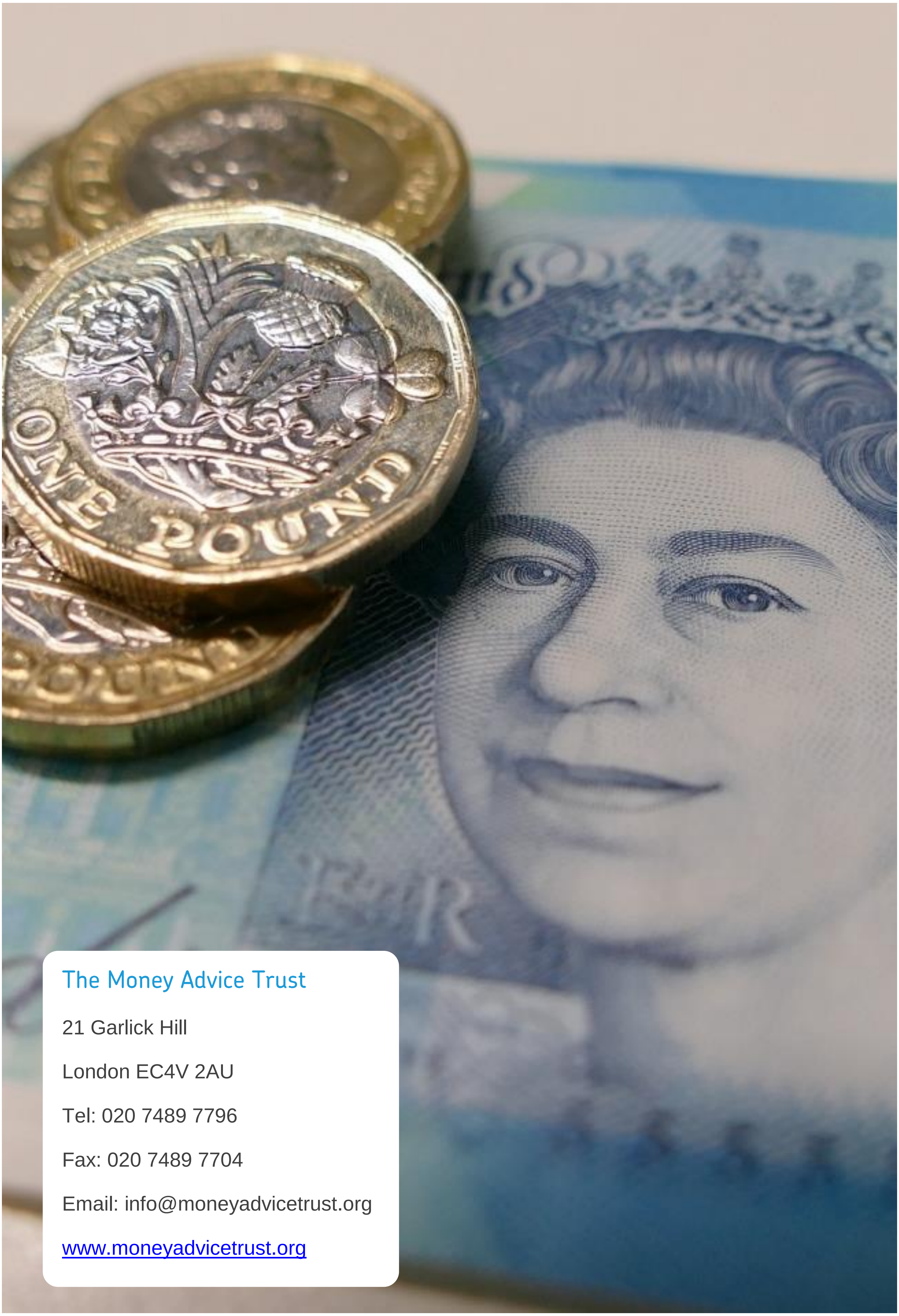
We do not have any comments on the cost benefit analysis on these rule changes.

Question 8: Do you have any comments on our cost benefit analysis on the proposed guidance on interest-only and part-and-part mortgages?

We do not have any comments on the cost benefit analysis on interest-only and part-and-part mortgages.

For more information on our response, please contact:

Meg van Rooyen, Policy Manager
meg.vanrooyen@moneyadvicetrust.org
0121 410 6260



The Money Advice Trust

21 Garlick Hill

London EC4V 2AU

Tel: 020 7489 7796

Fax: 020 7489 7704

Email: info@moneyadvicetrust.org

www.moneyadvicetrust.org