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By email: cp20-13@fca.org.uk

Dear Sir / Madam,

Financial Services Consumer Panel response to CP20/13: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages

1. Intra-group switching

The Mortgages Market Study identified that up to 800,000 consumers are missing out on an average of £1,000 a year by not changing deals. Recent FCA consumer research¹ also revealed that those not switching are on average of lower income, live in a more deprived area and are older than those who do. These vulnerable circumstances can make consumers more susceptible to harm.

Therefore, the FSCP welcomes the FCA's intention to address consumer harm through removing barriers to intra-group switching. Helping mortgage prisoners is an area of priority for the Panel.

However, the Panel is concerned that not undertaking a standard affordability check for closed book customers is only voluntary, which may provide little incentive for firms to proactively promote and implement this change. Further, those in closed books that may benefit from this policy are likely to be disengaged consumers, who will therefore have a low level of awareness regarding the options available to them.

This, in conjunction with the limited scope of this policy, only affecting consumers that are in closed books within a wider financial group that contains an active lender (63,000 consumers, while the market study identified 800,000 consumers missing out from not switching), means that further policy interventions are required to address the significant harm in the market.

As the FSCP has previously stated, any consumer for whom there is a cheaper deal available with their current lender should be able to switch, including those who are in arrears.

In addition, the Panel makes the following observations:

Knowledge and awareness amongst consumers

- The new rule is to benefit consumers through *reducing the cost of switching for consumers as they do not need to switch externally.*

¹ <https://www.fca.org.uk/news/news-stories/fca-issues-research-mortgage-switching>

- It is therefore essential that consumers are made aware of this policy change and the options it makes available, particularly as these consumers are likely to be some of the most inert.
- It is important that the FCA does not assume firms will proactively raise awareness of options and potential benefits.

Prioritising those who would most benefit from switching

- Lenders should prioritise reducing barriers to switching for vulnerable consumers who are trapped in a mortgage deal they cannot afford, and could therefore benefit significantly from switching to a more affordable rate.
- This is particularly important as Covid has created and exacerbated financial difficulties, and a mortgage may be a household's largest outgoing.

Consumers getting appropriate advice

- Mortgages are complicated products for consumers to navigate. Therefore, while the Panel supports removing barriers to switching, it is important to ensure consumers continue to receive relevant, high quality and timely advice to help them choose a product that best suits their (changing) needs.
- The absence of an affordability assessment should not mean consumers are moved to cheaper deals without fully understanding the implications of doing so.

2. Maturing interest-only or part-and-part mortgages

We support the FCA issuing temporary guidance to offer financial relief to mortgage holders in the context of the economic hardship surrounding Covid.

The Panel welcomes the application of this policy up to 31 October 2021. However, given the evolving nature of the crisis, the FCA should regularly assess the need to extend this timeframe. We also welcome that consumers who delay repayment of capital should be charged the borrower's pre-maturity rate (or lower) and that consumers who make use of this policy are not to have it reflected negatively in their credit file.

However, it is essential that consumers receive information that allows them to make informed decisions in their best interests. Lenders should be proactive in making consumers aware that they are able to delay repayment of the capital on their mortgage as soon as possible, to alleviate stress surrounding impending financial difficulties. As the consultation states, it is also important that firms make consumers fully aware of the implications of their decision.

The FCA should assertively supervise and proactively monitor implementation of this measure by firms, to ensure that all customers are receiving fair treatment and a consistent level of support.

In addition, the Panel makes the following observations:

Knowledge and awareness amongst consumers

- Particularly as the number of vulnerable consumers has risen significantly since before the start of the crisis in February (the FCA estimates by 1.5 million²), ensuring consumers are made aware of the options this change presents is essential.

² <https://www.fca.org.uk/publication/call-for-input/call-for-input-ongoing-support-consumers-affected-coronavirus-mortgages-consumer-credit.pdf>

- Continuing to make interest payments will add to the total cost of the mortgage and therefore this may not be the appropriate option for some consumers to take. Consumers must be made fully aware of the implication of their decision.

Scope of the policy

- This policy does not apply to those who are not up-to-date or cannot continue to make interest-only payments. Other measures must address consumers affected in this way. We reiterate the points made in our recent consultation response³.
- The Panel strongly supports that those who took payment deferrals under the recent FCA temporary guidance can still benefit from this policy and this must remain the case in the context of future guidance.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel

³ [https://www.fs
cp.org.uk/sites/default/files/final_fscp_response_to_cfi_coronavirus_mortgages_and_consumer_credit_070820
20.pdf](https://www.fscp.org.uk/sites/default/files/final_fscp_response_to_cfi_coronavirus_mortgages_and_consumer_credit_07082020.pdf)