FCA
Financial Services
Consumer Panel

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06 June 2025

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Dear Sir/Madam,

Financial Services Consumer Panel response to FCA CP 25/11: Mortgage Rule Review: First steps to simplify our rules and increase flexibility

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to the FCA's Mortgage Rule Review. For the majority of UK residents, a mortgage represents their most significant financial commitment. Home-ownership remains a key aspiration, offering both security of tenure and long-term investment potential. As a panel, we believe the mortgage market must function in the best interests of consumers, acknowledging the diversity of their circumstances and income patterns. Information provided by lenders must be transparent and devoid of concealed terms, enabling consumers to effectively compare mortgage products suited to their needs and to make informed, empowered financial decisions.

However, for many, the path to home-ownership via a mortgage has been fraught with challenges. The collapse of the housing market in 2007/8 was precipitated in part by the widespread issuance of high loan-to-value, variable-rate mortgages to borrowers who failed to meet conventional lending criteria[1]. Affordability assessments at that time lacked the rigour now standard, and as payment difficulties mounted during the subsequent economic downturn (affably referred to as 'the credit crunch'), many borrowers were unable to sell their homes to repay outstanding debt, ultimately defaulting and remaining indebted even after relinquishing ownership. This was particularly true for borrowers with 100% mortgages. Some of these borrowers ended up as 'mortgage prisoners[2]', unable to

[1] https://www.economicsobservatory.com/why-did-the-global-financial-crisis-of-2007-09-happen#:~:text=Before the crisis%2C banks were,avoid such crises in future.

[2] https://researchbriefings.files.parliament.uk/documents/CBP-9411/CBP-9411.pdf

remortgage to cheaper deals and paying very high Standard Variable Rates on their debts.

In response, the Financial Conduct Authority (FCA) and relevant regulatory bodies implemented robust measures to prevent recurrence of such instability. These reforms have proven largely effective; while the mortgage market has encountered difficulties in the intervening years, none have approached the systemic disruption experienced during the financial crisis. It is essential that these hard-learned lessons are not forgotten, and the long road to recovery from that episode for both consumers and the broader economy must inform any future regulatory changes in the mortgage market.

Nevertheless, this cautious approach has come under scrutiny. In 2022, the Bank of England removed the requirement for borrowers to demonstrate affordability under a hypothetical three-percentage-point rise in interest rates[3]. At the time, it was argued that existing constraints on income multiples (capped at 4.5 times income) and the FCA's affordability framework would suffice to protect consumers from excessive borrowing.

It is against this backdrop that we submit our views on the proposals outlined in the current consultation, which seeks stakeholder perspectives on simplifying mortgage rules in three specific areas:

1. Permitting borrower engagement with lenders in the course of applying for a mortgage without automatically triggering a requirement for financial advice.
2. Reducing the regulatory burden and simplifying communication where a borrower seeks to shorten their mortgage term.
3. Facilitating easier access to the most competitively priced mortgage products during the re-mortgage process.

These changes would be supported by an increased reliance on the Consumer Duty to ensure firms are held accountable for delivering good outcomes to consumers in the absence of prescriptive regulation. Our responses to each proposal are outlined below.

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1. Consumer Engagement Without Mandatory Advice

The consultation suggests that a higher number of consumers, than currently is the case, prefer to execute mortgage transactions

[3] https://www.bankofengland.co.uk/paper/2022/an-fpc-response-consultation-on-withdrawal-of-the-affordability-test-recommendation

independently, but minor enquiries with lenders can unnecessarily route them into advised channels. While this may appear restrictive, the Panel maintains that firms often recommend advice out of a duty to ensure better outcomes under the Consumer Duty.

To support this proposal, we would require clear evidence demonstrating that firms are excessively risk-averse or that consumers referred to advice routes rarely alter their mortgage decisions post-consultation. Even in such instances, consumers likely benefit from reassurance and additional insight—an outcome of intrinsic value.

The vast majority of mortgages are sold on an advised basis, particularly new mortgages. This predominance reflects both consumer preference and firms' prudent efforts to ensure compliance with regulatory standards. The Panel sees no compelling rationale for altering this dynamic at present.

Nonetheless, we acknowledge the looming challenge posed by the impending retirement of a significant portion of the advisory workforce. This underscores the need to expand the pipeline of qualified mortgage advisers, intermediaries, and Independent Financial Advisers (IFAs) to meet future demand. Indeed a recent finding was that around one-third of IFAs who planned to retire in the next ten years did not have a succession plan[4]. These qualified and knowledgeable advisers know well how to help those with more variable incomes to secure a mortgage, and as the percentage of people with income variability is growing, evidence from the National Statistics Office shows a growth in zero hour contracts from 1.04mn in Q1 2022 to 1.17mn in Q1 2025[5][6], it is important to ensure that their needs are catered for.

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2. Easier access to Lower-Cost Products During Re-mortgaging

While the intention to ease access to more affordable re-mortgaging options is commendable, the Panel urges caution in its implementation. Several key considerations must be addressed:

[4] https://www.financialreporter.co.uk/ifas-not-planning-for-succession-early-enough.html
[5] https://www.fca.org.uk/publication/occasional-papers/occasional-paper-34.pdf
[6] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/datasets/emp17peopleinemploymentonzerohourscontracts

Affordability is not synonymous with suitability: The lowest-cost product may not always represent the best option for an individual borrower. Early repayment charges, fee structures, amortisation schedules, and product flexibility must be evaluated holistically.

Consumer circumstances must remain stable: Transfers to a new lender offering cheaper products should only occur where no material change in the borrower's financial situation has occurred. Enhanced due diligence—potentially through a revised Modified Affordability Assessment (MAA)—would be essential.

Future financial commitments must be considered: Advisory services incorporate forward-looking discussions that self-serve pathways currently lack. Embedding self-assessment prompts into the consumer journey could help mitigate this shortfall.

Consumer protection awareness: Borrowers must be explicitly informed of the different protections associated with non-advised routes to ensure they make fully informed decisions.

Impact on advisory services: Encouraging greater reliance on self-service pathways may reduce opportunities for intermediaries to earn commissions, potentially shrinking the supply of advisory services. Given the findings in FCA Occasional Paper 34 and Bank of England research[7], which demonstrate better outcomes for advised consumers in specific circumstances and the beneficial impact of intermediation overall, this proposal must be approached with careful scrutiny.

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3. Facilitating Reduction in Mortgage Terms

In 2024, approximately 50% of first-time buyers entered into mortgage terms of 30 years or longer[8]—a trend driven by affordability constraints in the context of high property prices and stagnating real incomes. While extending terms can reduce immediate financial burden, it increases the risk of repayment stretching into retirement years, where consumers could experience health and income challenges.

[7] https://www.bankofengland.co.uk/-/media/boe/files/working-paper/2024/the-effect-of-mortgage-brokers-on-banks-business-models.pdf

[8] https://www.ukfinance.org.uk/news-and-insight/press-release/half-new-first-time-buyer-mortgages-have-terms-over-30-years-quarter

Enabling borrowers to reduce their mortgage term appears beneficial but must be implemented with caution. The Panel's key concerns include:

> **Affordability of increased payments**: Rising interest rates or declining incomes could render the higher payments unsustainable.
>
> **Potential early repayment penalties**: It remains unclear whether term reductions would trigger such charges. This must be clarified.
>
> **Flexibility**: Consumers should have the option to revert to their previous mortgage term in the event of adverse changes in personal circumstances. Of course, in such circumstances one could argue that forbearance requirements will suffice but this needs to be tested.

A potentially superior approach may lie in enhancing the flexibility of overpayment options. Many products already permit penalty-free overpayments, and expanding this feature may achieve similar objectives without formal term alterations. However, lenders may respond to reduced early repayment charges by seeking revenue through other means, potentially offsetting consumer benefits.

The increased reliance on the Consumer Duty also brings into sharper focus the non-requirement for a Consumer Duty board-level champion in firms and the absence of a Private Right of Action for consumers—mechanisms that could bolster accountability.

Equality and Diversity Considerations

Anecdotal evidence suggests that women and individuals from ethnic minority backgrounds disproportionately hold interest-only mortgages. As these products mature, any regulatory change affecting the treatment of consumers, may disproportionately impact these groups. The Panel strongly recommends that the FCA undertake a thorough data analysis to understand these disparities and to ensure that policy responses are sensitive to structural inequalities in income and employment impacting these two protected characteristics.

Conclusion

In conclusion, the Panel is cautiously supportive of measures to facilitate term reductions, though we believe expanding overpayment flexibility may be a more effective route. We advocate for reversible options where consumers seek shorter terms and support self-serve re-mortgaging only under conditions that ensure robust consumer protection and informed decision-making.

While simplifying access to more affordable products is a worthy objective, its execution must not inadvertently undermine the quality of outcomes, particularly given evidence that consumers often benefit from advised processes. The proposals require further development to avoid unintended negative consequences, particularly in light of broader market dynamics. Mortgage switchers need to be armed with the information they should be considering when using the self-serve route and to be made aware of the protection afforded to them in a clear and transparent manner.

The Panel looks forward to engaging further with the FCA in its efforts to simplify the mortgage market and reduce the regulatory load on firms, which in theory could lower transaction costs for consumers. However, given that mortgages are the largest financial obligation for most consumers and the consequences to consumers and the economy are immense if things go wrong, we would ask for a cautionary approach. A suggestion that firms could adopt these changes at their own pace, if these changes are agreed, would be confusing to consumers and runs the risk of consumers in similar circumstances receiving different treatment. The consultation mentions that the FCA may do consumer research to establish how the firms' changes were impacting consumers. The Panel views this as essential and would recommend additional consumer research, especially in the area of behavioural insight, before implementation.

Yours sincerely,

Chris Pond – Chair of the Financial Services Consumer Panel