Consultation Paper

CP25/11**

# Mortgage Rule Review: First steps to simplify our rules and increase flexibility

May 2025

# How to respond

We are asking for comments on this Consultation Paper (CP) by **4 June 2025**.

You can send them to us using the form on our website.

Or in writing to:

Mortgage Policy Team
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

**Email:**
cp25-11@fca.org.uk

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- a list of the names of respondents who made representations where those respondents consented to the publication of their names,
- an account of the representations we receive, and
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# Contents

# Chapter 1

# Summary

## Why we are consulting

1.1 Regulatory reforms since the 2008 financial crisis have improved standards across the mortgage market, leading to consistently better outcomes for consumers. Our rules have helped ensure consumers are better able to repay what they owe, leading to far fewer consumers in arrears and more proactive and tailored support for those who experience financial difficulty.

1.2 In 2023 we introduced the Consumer Duty, setting a higher standard for consumer protection across retail financial services. The Duty's outcomes-based approach presents an opportunity to simplify sectoral requirements. We received significant feedback on our mortgage rules as part of our review of FCA requirements following the introduction of the Consumer Duty.

1.3 Our new 5-year strategy will deepen trust, rebalance risk, support growth and improve lives. We will focus on 4 priorities:

- Be a smart regulator.
- Support sustained economic growth.
- Help consumers navigate their financial lives.
- Fight financial crime.

1.4 Given these developments we are reviewing our mortgage requirements through our Mortgage Rule Review (MRR). We are considering how we can simplify our mortgage framework to further support sustainable home ownership.

1.5 This first set of proposals would help consumers navigate their financial lives by making it easier, faster and cheaper to make certain changes to their mortgage and engage with their provider. They would also introduce options for firms that would promote competition in the interests of consumers and economic growth.

1.6 In June 2025, we will launch a public discussion on the future of the mortgage market. This will consider what the market needs to deliver for different consumers at different stages in their lives and for the wider UK economy, and the role of regulation to deliver it.

## Who should read this document

1.7 This document should be read by:

- Mortgage lenders and administrators
- Home purchase providers and administrators
- Mortgage intermediaries.

1.8 Who else will be interested in this consultation:

- Industry groups and trade bodies
- Consumer groups and organisations
- Mortgage consumers.

## What we want to change

1.9 We want to make it easier, faster and cheaper for consumers to:

- Speak to a mortgage provider about their mortgage needs
- Reduce their mortgage term, and
- Remortgage with a new lender.

1.10 We also propose to retire 2 pieces of non-Handbook Guidance which we believe have fulfilled their purpose.

## Outcome we are seeking

1.11 We want consumers to have more choice in how they deal with their mortgage. Our proposed changes would make it easier for consumers to:

- engage with their mortgage provider without the firm having to provide mortgage advice when not needed
- reduce their mortgage term, lowering the total cost of borrowing and reducing the balance of mortgage debt taken into later life
- access the cheapest products available to them when remortgaging.

1.12 We also want to make mortgage regulation simpler, reducing the different sources firms have to check to understand our regulatory expectations.

## Measuring success

1.13 We would evaluate the success of the proposed changes through our supervision of firms and monitoring regulatory returns, including complaints data. We may also carry out consumer research, or work with firms to assess the impact of changes they may make, including on good and poor customer outcomes.

1.14 We will consider how best to evaluate the overall success of the Mortgage Rule Review as the work progresses. For these proposals, the key indicators we would use are:

- Changes in customer use of execution-only channels.
- The changing profile of mortgage terms extending past the state pension age.

- Levels of external remortgaging activity and the proportion of transactions using a Modified Affordability Assessment.
- The stock and maturity profile of pre-2014 interest-only mortgages, including loans past maturity, time to redemption and repossession activity.

## Next steps

**1.15** We welcome feedback on these proposals by 4 June 2025, using one of the methods in the 'How to respond' section on page 2.

**1.16** We will consider feedback and aim to publish a Policy Statement in Q3 2025.

# Chapter 2

# The wider context

2.1 Our mortgage regime was first introduced in 2004. We last reviewed it in the wake of the 2008 financial crisis under the Mortgage Market Review (MMR), and introduced final rules in 2014.

2.2 Since the financial crisis the mortgage market has undergone significant change. Underwriting and prudential standards have improved significantly. Lenders and mortgaged households have absorbed significant economic shocks and fluctuations in interest rates. Arrears and repossessions have been at historic lows. For those who do fall into financial difficulty, our conduct framework and our expectations of the way firms apply it are clear and deliver a high level of protection.

2.3 Our introduction of outcomes-based regulation and the Consumer Duty represent a significant change in approach. We now want to begin simplifying our requirements and ensure we are supporting good customer outcomes most effectively.

2.4 This CP is proposing targeted new flexibilities that could be introduced quickly while maintaining an appropriate degree of protection for consumers.

2.5 In June 2025 we will launch a Discussion Paper covering, among other things:

- Risk appetite and responsible risk taking.
- Alternative affordability testing and product innovation.
- Lending into later life, and
- Consumer information needs.

## Engagement with statutory panels and other authorities

2.6 We have discussed our approach with the Financial Services Consumer Panel and members of the FCA Smaller Business Practitioner Panel. We thank the Panels for their input and plan to engage further with all panels as part of our consultation and wider MRR.

2.7 We have also engaged with the Financial Ombudsman Service (FOS) and the Prudential Regulation Authority (PRA).

## How our proposals link to our objectives

### Consumer protection

2.8 Our proposals aim to advance our objective to secure an appropriate degree of protection for consumers.

2.9 Proposed changes to our advice rules and guidance aim to improve consumer engagement with firms, allow firms to improve consumer choice, and enable consumers to receive personalised information without receiving advice, if they prefer. The safeguards around execution-only sales, and the obligations of the Consumer Duty, would help ensure that consumers can make an informed choice on whether to transact without advice. We recognise the valuable role advice can play for consumers in many circumstances, and they will still be able to access that advice when they want or need to.

2.10 Proposals to exempt term reductions from full affordability assessments would enable firms to take a simpler, more tailored and risk-sensitive approach to term reductions. Consumers would find it easier to take advantage of this contractual change where they felt it was in their interests, with an appropriate degree of protection ensured, through the Consumer Duty and in line with a firm's responsible lending policy.

2.11 Our proposals would allow for simpler affordability assessments where a proposed remortgage is on similar terms to an existing contract but more affordable than a new deal indicated by a customer's existing lender. This would allow for a more proportionate and risk-sensitive approach and enables consumers to more easily access a cheaper product.

2.12 Our proposal to retire non-Handbook guidance covering maturing interest-only mortgages and rely on the Consumer Duty provides clearer, up-to-date standards against which firms should deliver good outcomes for both existing and future customers.

## Competition

2.13 Where the mortgage market works well, consumers can switch products easily to minimise their mortgage payments. This behaviour can drive competition between lenders to offer attractive rates or higher service levels which benefit all consumers.

2.14 Our proposals on mortgage advice may affect the total volume of advice being given, but would allow intermediaries to add value by focusing on consumers with more complex needs and those who opt to seek advice.

2.15 Our proposal to make remortgaging easier would enable further competition, both for open market remortgage products and product transfers, benefiting existing mortgage consumers.

## Secondary international competitiveness and growth objective

2.16 These proposals aim to enable consumers to make easier, well-informed decisions to change their mortgage to reduce costs and meet their needs.

2.17 Where our proposals would lead to reduced borrowing costs, either through lower monthly payments, reduced overall cost of borrowing or both, consumers would have more income freed up for other consumption and investment.

2.18 Proposed changes to our advice rules should result in more efficient transactions for firms and consumers, reducing compliance costs and resources.

2.19 Retiring guidance which has fulfilled its purpose simplifies our framework, ensuring it remains proportionate and reducing compliance costs.

### The Consumer Duty

2.20 All firms have a responsibility to act to deliver good outcomes for their retail customers.

2.21 The Duty sets high standards of consumer protection and is central to outcomes-based regulation. Firms have to consider the needs, characteristics and objectives of their customers, including those with characteristics of vulnerability, and how they behave, at every stage of the customer journey.

2.22 All proposals in this consultation would be supported by the Duty, but 2 would rely on the Duty as the main standard for firms to apply when dealing with their customers – reducing mortgage terms and dealing with maturing interest-only mortgages.

2.23 If a firm fails to comply with a rule in the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB) a customer is usually able to bring a private action against the firm for damages caused by that breach. Where a firm fails to comply with the Duty, the customer would not have this right. We would also not be able to introduce an industry-wide consumer redress scheme under section 404 of FSMA.

2.24 In such cases, under our proposals consumers would still be able to seek redress directly from the firm or through a FOS complaint. Consumers may also make us aware of poor practice to inform our supervisory and enforcement activity. We consider these to be proportionate options for redress and accountability where the Consumer Duty sets the relevant standard.

## Environmental, social & governance considerations

2.25 In developing this Consultation Paper, we have considered our duty under ss. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under s. 1 of the Climate Change Act 2008 and environmental targets under s. 5 of the Environment Act 2021. Overall, balancing all other factors, including crucially the aim of these proposals and the outcomes we want to achieve, we do not consider that there is any contribution, or impediment, the proposals in this CP can make to these targets. We will keep this issue under review during the consultation period and when considering whether to make the final rules.

2.26 In the meantime, we welcome your input to this consultation on this.

## Equality and diversity considerations

**2.27** We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.

**2.28** Overall, we do not consider that the proposals materially impact any of the groups with protected characteristics under the Equality Act 2010 (the relevant parts of the Equality Act 2010 do not extend to Northern Ireland, but other anti-discrimination legislation applies). But we will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when considering making the final rules.

**2.29** We welcome your input on this and have provided the option to feedback on any equality and diversity issues under Question 16.

# Chapter 3

# Our proposals

3.1 We set out our proposals below to:

- Amend our mortgage advice and selling standards
- Amend our affordability rules for mortgage term reductions and remortgaging, and
- Retire 2 pieces of non-handbook guidance.

3.2 Given the permissive nature of the proposed changes, if adopted, we do not believe that an implementation period is required. Firms would be able to apply them at their discretion once final rules are introduced into our Handbook. We welcome views from stakeholders on this in response to Q17 (page 28).

## Mortgage advice and interactive dialogue

### Background

3.3 The MMR introduced a prohibition on execution-only sales where there is 'interactive dialogue'. This means that, with some limited exceptions, when a firm interacts with a customer in a mortgage sale or contract variation they must give them regulated mortgage advice.

3.4 This requirement was intended to remove the risk of consumers misunderstanding whether they had received mortgage advice. Pre-MMR, 'non-advised' mortgage sales using scripted questions, but with no assessment of appropriateness, accounted for a third of all sales. This led to confusion and poor-quality sales. Combined with poor underwriting practices at the time, this led to poor outcomes for many households.

3.5 The MMR aimed to increase the take up of advice without limiting a consumer's choice if they wanted to deal with a firm on an execution-only basis. However, since 2015, around 97% of new mortgage sales have been advised.

3.6 An advised sale requires a firm to take reasonable steps to ensure that a mortgage, or a change to mortgage, is suitable for that customer and requires an assessment of their needs and circumstances. An execution-only sale requires the customer to know the precise product they want to buy, or change they want to make to an existing one, and to have been told they will not benefit from the protections given by our rules on assessing suitability.

3.7 Our 2019 Mortgages Market Study (MMS) looked at competition in the mortgage market. It concluded that our advice rules and guidance were limiting consumer access to execution-only options more than intended. It also found that our rules were constraining innovation, particularly in the use of digital channels.

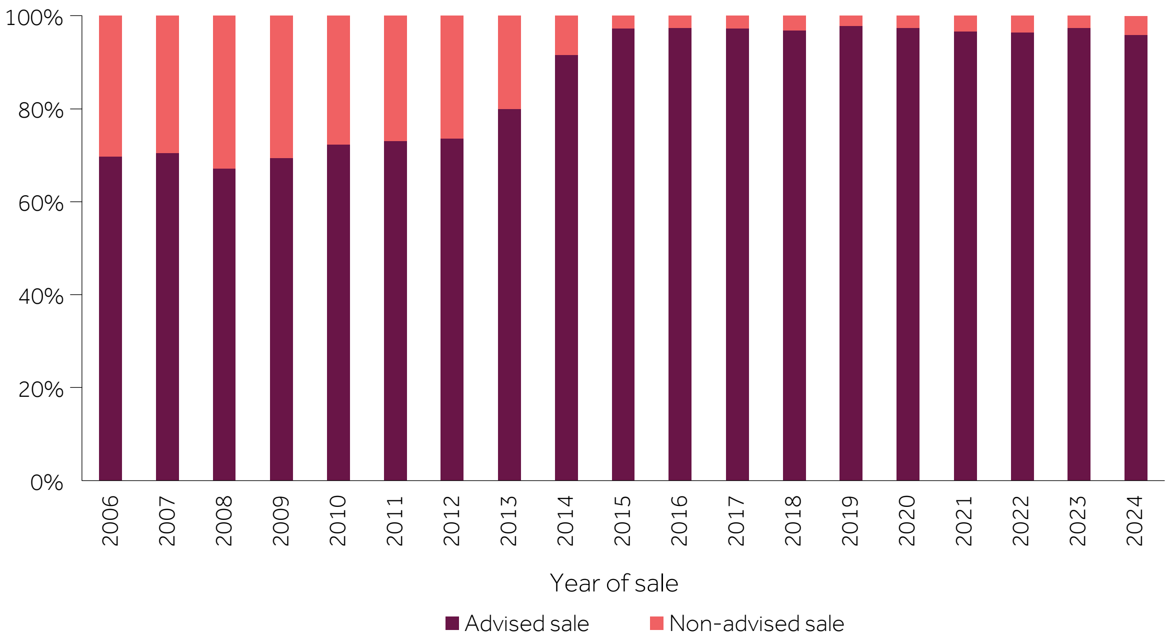
**3.8** The MMS found that consumers who were confident choosing a mortgage found it difficult to do so. This was because they were being diverted to advice and found execution-only sales channels hard to use. Some consumers were diverted from execution-only channels to an advised sale even if interacting with a firm after choosing a product they wanted to buy.

**3.9** Consumer research as part of the MMS compared consumers who bought a mortgage without advice (before the new MMR rules) with those who bought one with advice following the introduction of the MMR rules. The research found that, on average, there was no significant change in specific outcomes (arrears, triggering an early repayment charge or entering forbearance) as a result of getting advice. This suggests that many consumers who opted out of getting mortgage advice before the MMR had sufficient financial capability to make suitable product decisions on their own.

**3.10** Following the MMS, in 2020 we amended our mortgage advice and selling standards and Perimeter Guidance. This permitted more customer interaction before firms were required to give advice and clarified how firms could interact with consumers without providing advice.

**3.11** However, these changes have not had the intended impact. Since 2020 the proportion of advised new sales has remained consistently above 95% (see Figure 1). Firms continue to report low confidence in dealing with customers outside an advised process due to perceived regulatory risk, resulting in poor consumer experience.

**Figure 1: Proportion of advised and non-advised mortgage sales**




Source: PSD001 – all regulated mortgage sales, excl. internal product transfers

3.12 Responses to our recent Review of requirements following the introduction of the Consumer Duty also showed firms do not feel that they could deliver the best support for consumers under the current requirements. This was particularly relevant where customers submit digital execution-only applications or variations but then need to make small changes over the phone, for example reducing the amount borrowed when purchase prices fall, seeking an illustration of updated monthly repayments, finalising a product transfer, or being unable to discuss alternative lending amounts if a consumer has not passed an affordability assessment.

## Proposal

3.13 We propose to remove the interaction trigger at MCOB 4.8A7R (3), and associated Rules and Guidance. Article 53A of the Regulated Activities Order (RAO) defines the activity of advising on regulated mortgage contracts. The associated Perimeter Guidance at PERG 4.6.7G provides firms with guidance on whether or not typical interactions with consumers would be regulated advice under the RAO. Making this change should improve customer journeys and would allow firms more freedom to interact with consumers during a sale or contract variation. These changes would also be effective for Home Purchase Plans.

3.14 We propose to introduce a rule to require that firms must consider whether processes are appropriate to identify execution-only customers for whom advice, or other customer support, may be necessary to avoid foreseeable harm as part of meeting its obligations under the Consumer Duty.

3.15 We do not propose to amend our rules which require advice in circumstances which may involve a higher risk to consumers and where advice is likely to be more important. These circumstances include when the main purpose of the loan is debt consolidation, when exercising a statutory 'right to buy' a home, shared equity arrangements or for lifetime mortgages.

## Potential risks and mitigation

3.16 Our proposals could lead to an increase in consumers making changes to an existing mortgage or buying a mortgage on an execution-only basis. This may lead to consumers choosing a potentially unsuitable product or one that is not the best option for them.

3.17 Customers will have been given regulated disclosures on the product to make an informed choice. An execution-only sale may mean a customer is more likely to choose an unsuitable or more expensive product. However, in the cases of a sale and certain variations, lenders will have assessed the product to be affordable. Most sales allow a 7-day reflection period for customers to consider their position after they have received a mortgage offer (MCOB 6A.3.4R).

3.18 Our execution-only standards are designed to ensure consumers know the nature and implications of using this channel. The firm must clearly inform customers that it will not assess whether the mortgage, or any change to it, is suitable for them and that they will not benefit from the protection of the rules on assessing suitability (MCOB 4.8A.14R). Consumer research to support development of proposals in 2019 showed customers understood when they were buying without advice. However, sometimes consumers thought they were giving up more regulatory protections than they actually were (CP 19/17 – Annex 2).

**3.19** We are proposing to remove the requirement for customers to positively elect to proceed with an execution-only sale where there is interactive dialogue with the firm (MCOB 4.8A.14R (5)). This is consistent with removing the interaction trigger within the sales process. We propose to maintain the requirement for customers to positively elect to proceed with an execution-only sale where they have rejected advice. An amended requirement for customers to positively choose to continue for all execution-only sales would widen the scope of the current requirement, introducing new, disproportionate prescription and new operational costs.

**3.20** Mortgage advice is readily available, and generally free to the customer at the point of use when financed through commission paid by the lender. We expect firms will continue to encourage consumers to take advice where they consider this will deliver good outcomes.

**3.21** Based on current market data we are confident in the supply and availability of advice for those consumers who wish to use it. We would not expect this to change if our proposals were introduced. We are not proposing to amend or revoke the prohibition on encouraging customers to opt out of receiving advice (MCOB 4.8A.5R).

**3.22** The Consumer Duty requires firms to act to deliver good customer outcomes for retail customers. The Duty applies in both advised and execution-only sales. Where firms anticipate a poor outcome if allowing consumers to proceed with an execution-only transaction, they must take steps to avoid causing foreseeable harm (PRIN 2A.2.8R). This could include ensuring the customer understands and accepts the inherent risks of proceeding (PRIN 2A.2.13G) or checking that the customer wanted the product and signposting the availability of advice (FG22/5 – 8.68 – Good Practice).

**3.23** Firms are also required to act honestly, fairly and professionally in accordance with the best interests of the customer for execution-only sales (MCOB 4.8A.4G). We do not propose to amend this requirement at this time, given wider application of this requirement across MCOB and in other sectoral rules. We will consider how best to align references to a customer's 'best interests' with the Consumer Duty at a later date.

**Question 1:** **Do you agree with our proposed changes to MCOB to remove the interaction trigger?**

**Question 2:** **Do you agree with our proposals to amend the circumstances where firms would be required to ensure consumers have made a positive election to use an execution-only channel?**

**Question 3:** **Is there anything else you think we should consider for this proposal (mortgage advice and interactive dialogue)?**

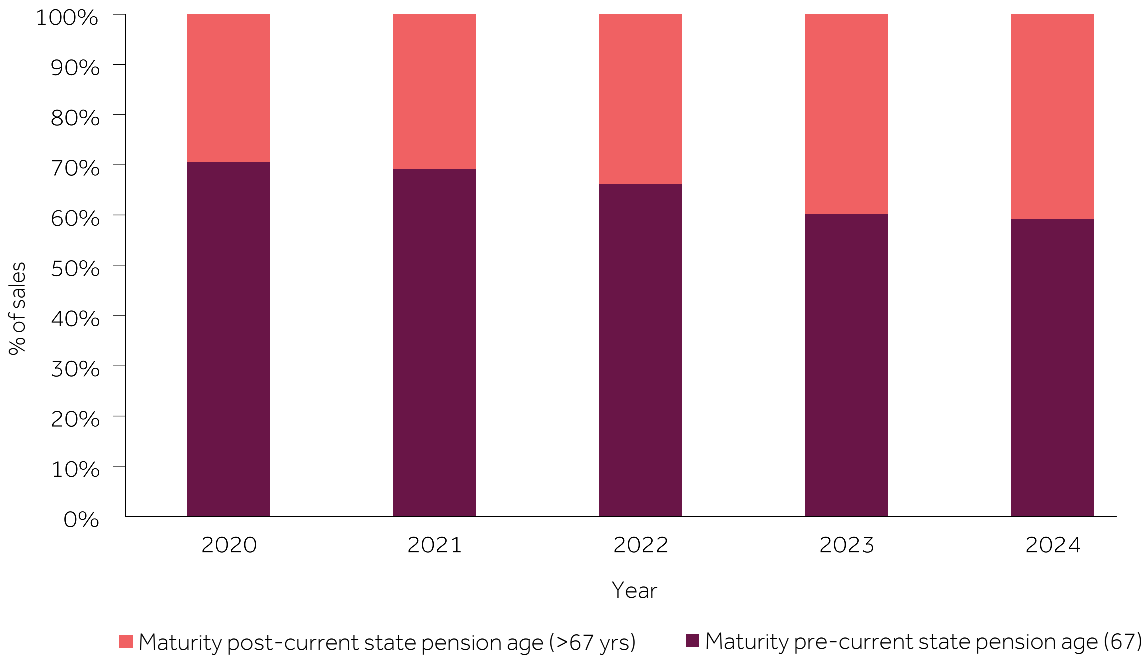
## Affordability assessments when reducing a mortgage term

### Background

3.24 In response to tighter affordability and rising house prices, mortgage terms have been increasing since 2015. 30-year terms are increasingly common and around 15% of first-time buyers opt for a 40-year term. 41% of all sales in 2024 had terms extending past state pension age, a steadily increasing trend. This trend is not limited to first-time buyers, as other borrowers have extended their terms to help with house price affordability and cost of living pressures. Over 75,000 consumers have extended their mortgage term following the introduction of the Mortgage Charter in June 2023, with only 799 using the option to reverse the extension.

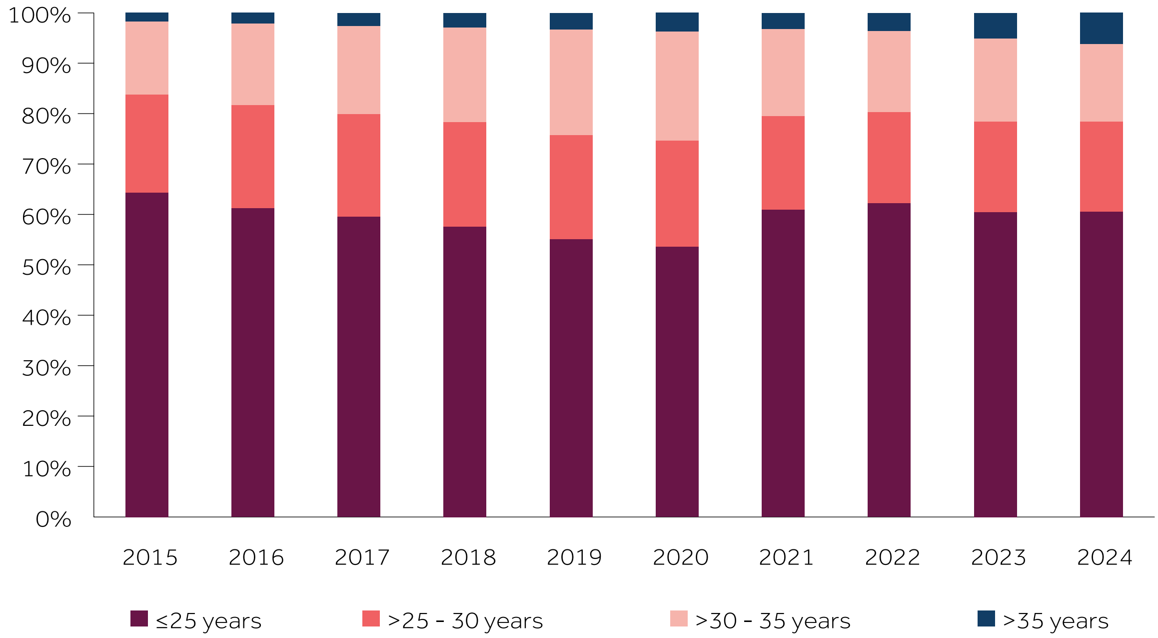
3.25 Longer mortgage terms for repayment mortgages result in lower monthly repayments. However, they also lead to a higher total cost of borrowing for customers.

**Figure 2: Main borrower age at maturity**




Source: PSD001 – all regulated mortgage sales, excl. internal product transfers, lifetime, RIO

**Figure 3: Mortgage term bands as % of sales**




Source: PSD001 – all regulated mortgage sales, excl. lifetime, RIO

**3.26** A longer mortgage term exposes a consumer to increased lifestyle risks. For example, if someone cannot maintain the same income for as long as first assumed. Longer terms may also reduce the viability of extending the term if the borrower falls into financial difficulty. On a repayment mortgage, customers build up equity through capital repayments at a slower rate, making it harder to trade up to their next property. This may also reduce housing turnover below the level we would expect in a well-functioning market, affecting the supply of properties available for those at an earlier stage of home ownership.

**3.27** Our rules currently require lenders to assess affordability when making a change to the mortgage which is likely to be material to affordability. Materiality is not defined, but if a firm does not treat changes set out in the non-exhaustive list in MCOB 11.6.4E as material, that could be relied upon as tending to show contravention of our rules. Term reductions are not in this list and firms must assess if a particular reduction is likely to be material to affordability.

**3.28** This means lenders take different approaches to establish what is material to affordability. For example, some firms use a nominal monetary threshold, while others compare the new monthly repayment to what the repayment could be on an applicable reversion rate.

**3.29** We understand that many consumers have taken longer terms with the aim of reducing them when their circumstances allow. However, we have also been told that some consumers may avoid contractually reducing their term, due to their assumptions about how long an affordability assessment would take. Our Product Sales Data (PSD) shows that just over 2% of internal product transfers involved a term reduction from the previous loan, with an estimated reduction of 5.8 years.

3.30 Most lenders allow voluntary overpayments of between 10-20% annually of the outstanding mortgage balance during a fixed rate period without applying any early repayment charges. While this will be a good option for many consumers, others could value the ease and certainty of an automatic change to their monthly repayment which comes with a term reduction.

## Proposal

3.31 We propose to remove the requirement for a full affordability assessment when reducing the term of a mortgage. This would make it easier for consumers to reduce the term of their mortgage, where it is appropriate for them. This would, among other positive effects, reduce the risk of borrowers being unable to meet contractual repayments later in life, where lifestyle changes are likely.

3.32 By removing the prescriptive requirement, firms would be able to determine what form of assessment would be proportionate to the customer's needs. Firms would need to meet their obligations under the Consumer Duty, in particular to act to avoid foreseeable harm to retail customers (PRIN2A.2.8) and to equip them to make effective and properly informed decisions (PRIN 2A.5.3 (2)).

3.33 We still expect firms to consider affordability in line with the Consumer Duty/PRIN 2A and a firm's responsible lending policy where it chooses to make use of the changes set out above at paragraph 3.32.

## Potential risks and mitigation

3.34 Some consumers may seek to vary the term of their contract more frequently, more significantly, or shortly after sale under our proposed changes. We anticipate that firms will establish controls to monitor this, take a risk-sensitive approach and engage with consumers where appropriate.

3.35 After a period, there is a risk that consumers who have reduced their term may find that their circumstances have changed, and they are struggling to meet the increased monthly repayments.

3.36 A mitigant to this risk may be to extend their term, or revert to their original term, in agreement with the lender, to reduce their monthly repayments.

3.37 An affordability assessment will not generally be required for term extensions up to the customer's expected retirement age if there are no other changes to the terms of the mortgage (MCOB 11.6.3R). Where the term is extending into (or further into) retirement, it is more likely that the change would be material to affordability (see MCOB 11.6.4E), in which case an affordability assessment would still be required.

3.38 Firms may vary a contract without assessing affordability when doing so solely for the purposes of forbearance where the customer has a payment shortfall, or to prevent one occurring (MCOB 11.6.3R(3)(c)). This could include extending the mortgage term into (or further into) retirement.

| | |
|---|---|
| **Question 4:** | **Do you agree that the requirement for a full affordability assessment when reducing the term of a mortgage should be removed with affordability being assessed in line with a firm's obligations under the Consumer Duty and its responsible lending policy?** |
| **Question 5:** | **What further regulatory changes could support borrowers to reduce their term when appropriate?** |
| **Question 6:** | **To what degree could unaffordable term reductions increase as a result of the proposed approach? Are further mitigants required?** |
| **Question 7:** | **Is there anything else you think we should consider for this proposal (amending affordability assessments when reducing a mortgage term)?** |

## Amending affordability assessments when remortgaging

### Background

**3.39** At the end of a fixed term many borrowers now use firms' internal product transfer or 'rate switch' product. Out of 1.6m borrowers who remortgaged in 2024, 83% stayed with their existing lender and 17% remortgaged to a different provider. These proportions have been broadly consistent since we began collecting data on product transfers in 2021.

**Table 1: Borrower Type Description**

| Year of Account Open Date | External Remortgagers | Internal Remortgagers |
|---|---|---|
| **2021** | 20% | 80% |
| **2022** | 22% | 78% |
| **2023** | 17% | 83% |
| **2024** | 17% | 83% |

Source: PSD001

**3.40** There are several barriers or transaction costs, both in time and money, that make external remortgaging less attractive, even if cheaper options are available. Customers may make a conscious choice to stay with their current lender because of these. These barriers can include conveyancing, valuations, engaging with a mortgage adviser and affordability assessments. By contrast, these don't apply when completing an internal product transfer, and an affordability assessment is only required where the change is material to affordability.

**3.41** Where consumers are disincentivised from shopping around they may end up paying more than is necessary for their mortgage. There is significant momentum to digitise the home-buying process, speeding up conveyancing and HM Land Registry processes. Alongside existing, swift tools – such as automated valuations, credit file and HM Revenue and Customs checks – and potential efficiency and innovation that can be delivered through Open Banking, we want to explore options to streamline affordability testing requirements where the customer is remortgaging to a cheaper deal on similar terms.

**3.42** In 2019 we issued a consultation paper (CP19/14) proposing a Modified Affordability Assessment (MAA) to deal with concerns that some consumers could not switch to a more affordable mortgage despite being up to date with their payments. This included those who could not switch because of changes to lending practices during and after the 2008 financial crisis and the subsequent tightening of lending standards following our Mortgage Market Review (MMR) in 2014 and implementation of the Mortgage Credit Directive (MCD) in 2016.

**3.43** We finalised the MAA later in 2019 (PS 19/27) to help these borrowers move to a cheaper mortgage deal. The MAA gives lenders the flexibility to carry out a modified affordability assessment where the consumer:

- Has a current mortgage.
- Is up to date with their mortgage payments (at the point the new mortgage is applied for and over the previous 12 months).
- Does not want to borrow more, other than to finance any relevant product arrangement or intermediary fee for the mortgage.
- Is looking to switch to a new mortgage deal on their current property.

**3.44** The lender is only allowed to enter into the proposed mortgage under the MAA where that contract is more affordable for the customer than the customer's existing mortgage. This means that when interest rates are rising, the new mortgage is unlikely to be cheaper than the customers' existing mortgage deal.

**3.45** Lenders can choose to use the MAA for eligible customers and are not required to use it. Our regulatory data indicates that to date this option has not been widely adopted, supporting approximately 2,655 transactions.

## Proposal

**3.46** We propose to amend the MAA to permit lenders to enter into a new mortgage contract where it is more affordable than either:

- A customer's current mortgage, or
- A new mortgage product that is available to that customer from their current lender.

**3.47** As with the current MAA, this would be optional for lenders to use and depend on their risk appetite. However, we believe widening the scope of when a firm can use the MAA could increase the commerciality of this option and the number of customers who could get a better deal by changing lenders.

## Potential risks and mitigations

3.48 A lender using the MAA is accepting more risk because they are using a simpler assessment of a customer's ability to afford future monthly payments.

3.49 Firms may be concerned about the risk of future complaints and action from customers who subsequently face financial difficulty especially if it can be established that, had a full affordability assessment been carried out, it would have shown the mortgage to be unaffordable.

3.50 This would be mitigated by the current requirement on firms to disclose to customers the basis on which affordability has been assessed. That is, it was carried out using a lighter affordability assessment and is based on what they knew at the time of the application.

3.51 Firms opting to use the MAA would have the choice to undertake a full affordability assessment if they determine that is necessary. Firms would also be able to carry out credit reference checks and underwriting assessments to support their lending decision or determine whether to use the MAA or not.

Question 8: **Do you agree with developing an alternate, more flexible approach to affordability assessments for remortgaging activity?**

Question 9: **Do you agree with our proposal to extend the use of the MAA in this way?**

Question 10: **What evidence (if any) would the new lender need from the customer or their existing lender to confirm the MAA and new product can be made available to the customer?**

Question 11: **What barriers may lenders or consumers face in making use of the proposed approach? How might they be overcome?**

Question 12: **Is there anything else we should consider for this proposal (amending MAAs when remortgaging)?**

Question 13: **What further regulatory changes, if any, could support simpler remortgaging?**

## Retiring FG13/7

### Background

3.52 Borrowers who are unable to repay the principal of their interest-only (IO) mortgage at maturity can face serious harm, including repossession.

3.53 In the period leading up to the financial crisis in 2008, IO mortgages accounted for 39% of total mortgage sales in 2007. IO mortgages now make up a smaller proportion of sales, 4.5% in 2024.

3.54 Prior to the financial crisis lenders were not required to check whether a borrower had a repayment plan, which meant borrowers were at increased risk of failing to repay the capital owed at maturity. Since the MMR was introduced, we have required firms to ensure that an IO borrower has a credible repayment strategy in place for the capital owed, and to review it at least once during the term (MCOB 11.6.49R).

3.55 In 2013 we highlighted the longtail risk of this cohort of IO mortgages maturing. We issued data on the maturity profile and launched an industry customer contact campaign.

3.56 Simultaneously, we introduced non-Handbook guidance (FG13/7) ahead of the MMR coming into force to improve industry standards and conduct, especially when dealing with legacy IO borrowers who were at risk of being unable to repay the capital on their IO mortgage. The guidance sets out how firms could treat customers fairly, minimising the risk of non-repayment through early and effective consumer engagement over the mortgage term.

3.57 Our thematic review in 2017-18 also found that all lenders in the sample had made progress with their strategies for the treatment of IO customers. However, there remained a large number of IO customers, who pre-dated the MMR, whose repayment plans firms did not know about. Strategies existed to contact customers with an IO mortgage, understand their repayment plans and provide appropriate solutions where no suitable plan was in place.

3.58 In August 2023 we published consumer research and an analysis of the latest market data. The consumer research's aim was to give us a better understanding of IO consumers' experiences with these mortgages and their confidence and ability to repay their capital at maturity. The aim of the market data analysis was to help us understand the characteristics of the current stock of IO mortgages, including outstanding balances, remaining terms and when the mortgages started.

3.59 Following the publication of the research and data we reviewed our 2013 guidance. We considered the future relevance and value of the guidance given market and regulatory developments since 2013, particularly the introduction of the Consumer Duty. We established an industry working group to understand how the guidance is used now, alongside wider engagement with the Financial Services Consumer Panel and consumer groups.

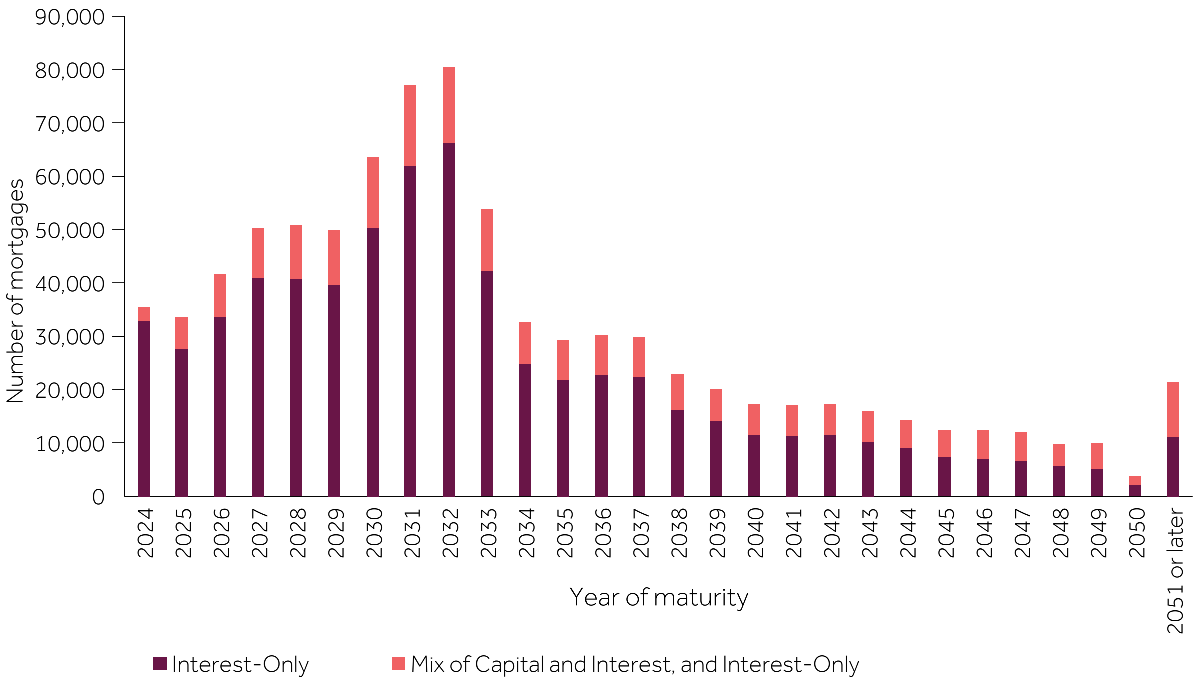
3.60 The Consumer Duty sets high standards of consumer protection across financial services. This includes closed-book products. Legacy IO mortgages account for around half of the remaining closed book mortgages.

3.61 Through our industry working group on IO mortgages and wider engagement we have found that firms have developed practices both in accordance with, and more advanced than, the guidance including through implementation of the Consumer Duty. Industry has also adopted and maintains more advanced frameworks and peer comparison, including credit risk benchmarking.

3.62 Customers are repaying their IO contracts faster than originally expected. In 2015 we projected there would be 1.3m IO mortgages outstanding at the end of 2024. However, the actual data from the end of 2024 showed there were 830,000 IO mortgages outstanding. Around 2% of IO customers have contracts past maturity, with most redeemed within 24 months of the mortgage maturing. This indicates those borrowers had been able to repay all the capital owed or refinance.

3.63 While this faster-than-expected decrease is encouraging, a challenge remains for a significant number of borrowers. We currently project that the peak years for IO mortgage maturities are 2031 (77,000) and 2032 (80,500) where a total of 157,500 IO mortgages are due to mature. After this peak, maturities reduce each year (54,000 in 2033, 32,500 in 2034 and 29,000 in 2035). This is shown in Figure 4 below.

**Figure 4: Maturity horizon for IO mortgages**




Source: PSD007

## Proposal

3.64 We propose to retire FG13/7. We believe the guidance has now fulfilled its original purpose, improving industry risk management and customer communications, contributing to faster-than-expected redemptions of these mortgages and appropriate support for those who cannot pay all monies owed at maturity.

3.65 Firms will be required to meet the standards established under the Consumer Duty and existing, applicable rules in MCOB. This provides clearer, up-to-date standards against which firms should deliver good outcomes for both existing and future IO customers.

3.66 Firms should continue to reduce foreseeable harm by supporting IO customers at risk of facing a shortfall to consider their options early and help those who can improve their position to do so. Where customers have a shortfall at the end of their mortgage, they should receive time and support to resolve the position.

3.67 To avoid a potential and unintended gap in our requirements we propose to introduce a rule and guidance which would make clear that firms must deal fairly with customers whose mortgage terms have expired and not take repossession action unless all other reasonable attempts to resolve the position have failed.

3.68 We consider it appropriate to introduce this limited safeguard against the background of PRIN 6 and now the Consumer Duty/PRIN 2A to ensure that firms consider whether any actions would be appropriate to take in respect of customers with expired terms who have reached maturity and only repossess as a last resort. In proposing this requirement we continue to recognise that customers remain responsible for repaying their mortgages. Repayment of the capital at the end of term is a contractual requirement, and firms would not necessarily be obliged to offer options at maturity.

3.69 The 2013 guidance contains 4 sections that set out where firms should focus to ensure the fair treatment of their customers. These are: governance, documented guidance framework, management information and customer communications. The elements of the Consumer Duty that are relevant to the guidance include customer communications, customer support and avoiding foreseeable harm. We have set out this relevance below.

## Governance

3.70 The governance chapter outlines basic ways to meet Senior Management Arrangements, Systems and Controls (SYSC) requirements (e.g. having a written policy), gives examples of the options firms can offer to at-risk customers, and states that firms should 'give customers enough time to consider' their options to meet the expectations under Principle 6 (Customers' Interests: a firm must pay due regard to the interests of its customers and treat them fairly).

3.71 The new Consumer Duty (Principle 12) imposes a higher and more exacting standard of conduct than Principle 6, requiring firms to act to deliver good outcomes for customers. The options firms can consider are now standard industry practice, and what amounts to timeliness for providing information to enable effective decisions is confirmed in PRIN 2A.5.5R.

3.72 The consumer support outcome requires firms to provide support that meets their customers' needs. This support should enable customers to fully use the products and services they buy and act in their interests. Firms should ensure their customers are adequately supported throughout the lifecycle of their IO mortgage.

## Documented framework guidance

3.73 The guidance sets out that firms should have sufficient monitoring in place to meet SYSC requirements, ensure that staff are adhering to the firm's interest-only maturity policy and ensure they are dealing with customers fairly and consistently. It also confirms our expectations of repossession as a last resort.

3.74 The Consumer Duty goes further than this section's expectations and requires firms to assess, test, understand and be able to evidence the outcomes their customers are receiving. PRIN 2A.8.4R sets out that a firm's governing body should review and approve the firm's assessment of whether it is delivering good outcomes for their customers which are consistent with the Consumer Duty.

## Management information

3.75 The guidance sets a basic expectation that firms 'have enough management information (MI) in place to monitor their interest-only back book'.

3.76 Since the guidance was issued, firms have significantly developed their data, MI and analytical capability. Industry has also adopted more advanced customer segmentation, communications and benchmarking to improve the service and support offered. These are now more advanced than the requirements set out in the guidance.

## Customer communications

3.77 The guidance sets a basic communication standard, outlining that firms should communicate early and frequently in ways which are clearly worded. By contrast, the consumer understanding outcome expects consumers to be given the information they need, at the right time and presented in a way they can understand. PRIN 2A.5 sets out the rules and guidance for the consumer understanding outcome, setting communication standards beyond the guidance.

3.78 For example, under PRIN 2A.5.3R firms must equip retail customers to make decisions that are effective, timely and properly informed. Communications should be tailored to take into account the characteristics (such as vulnerability) of the consumers intended to receive the communication (PRIN 2A.5.8R). Where appropriate firms must also test and monitor its communications to identify whether they are supporting good outcomes for retail customers, adapting them as appropriate (PRIN 2A.5.10R).

3.79 Under the consumer support outcome firms should enable customers to act on these decisions without facing unreasonable barriers.

### Application of MCOB 13

3.80 The guidance explains that, while there are no detailed rules in MCOB 13 that specifically set out how firms must treat IO customers unable, or at risk of being unable to pay at maturity, some MCOB 13 rules may still apply in particular situations.

3.81 The guidance underlines that failure to repay capital at maturity does not fall within our Handbook definition of 'arrears'. This means that only provisions relating to the repossession and sale shortfall apply where relevant, in these cases.

3.82 For any customers who are in arrears when they reach the end of the term, MCOB 13 continues to apply.

3.83 The application of MCOB 13 in this way would continue in future. However, as outlined above, we are proposing to add a rule to MCOB 13 to confirm that firms must deal with customers whose mortgage terms have expired fairly and not take repossession action unless all other reasonable attempts to resolve the position have failed.

### Potential risks and mitigations

3.84 The retirement of FG13/7 may be seen as reducing consumer protection, as it sets a standard for the fair treatment of consumers. However, as outlined above the Consumer Duty provides clearer, up-to-date standards against which firms should deliver good outcomes for both existing and future customers. The proposed additional MCOB rule confirms our expectations and closes a potential gap.

3.85 There may also be concerns that if the guidance is retired the FOS would have a more limited basis on which to determine complaints. We can confirm that the FOS could use the guidance for complaints relating to conduct when it was in force. If the guidance is retired, the FOS could use other rules, including the Consumer Duty, MCOB and legislation, alongside market standards that remain relevant to consumer protection.

**Question 14: Do you agree with our proposal to retire FG13/7?**

## Retiring FG24/2

### Background

3.86 When interest rates spiked at the end of 2022 alongside other increases in the cost of living, we issued final guidance in March 2023 to ensure firms were clear about the effect of our rules and the range of options they had to support customers (FG23/2).

3.87 Since then, the Consumer Duty has entered into force, and we have incorporated our Tailored Support Guidance into the Handbook. We updated the guidance (FG24/2) in 2024 to reflect these changes.

3.88 The guidance restates our Handbook requirements. It did not create new obligations on firms, nor create new protection for consumers.

## Proposal

3.89 We propose to retire the guidance as it is a restatement of our Handbook requirements and does not create any additional protection for consumers. It also has the potential to be confusing and may be inefficient for firms' compliance activities and for us to maintain.

## Potential risks and mitigations

3.90 Retiring FG24/2 may be seen as reducing consumer protection, as it removes a resource that firms can use to ensure fair treatment of their customers.

3.91 Our Handbook sets out the options and requirements firms have to support their customers, underpinned by the Consumer Duty. Retiring FG24/2 does not alter or remove any of these requirements.

**Question 15: Do you agree with our proposal to retire FG24/2?**

## Annex 1

# Questions in this paper

**Question 1:** Do you agree with our proposed changes to MCOB to remove the interaction trigger?

**Question 2:** Do you agree with our proposals to amend the circumstances where firms would be required to ensure consumers have made a positive election to use an execution-only channel?

**Question 3:** Is there anything else you think we should consider for this proposal (mortgage advice and interactive dialogue)?

**Question 4:** Do you agree that the requirement for a full affordability assessment when reducing the term of a mortgage should be removed [with affordability being assessed in line with a firm's obligations under the Consumer Duty and its responsible lending policy]?

**Question 5:** What further regulatory changes could support borrowers to reduce their term when appropriate?

**Question 6:** To what degree could unaffordable term reductions increase as a result of the proposed approach? Are further mitigants required?

**Question 7:** Is there anything else you think we should consider for this proposal (amending affordability assessments when reducing a mortgage term)?

**Question 8:** Do you agree with developing an alternate, more flexible approach to affordability assessments for remortgaging activity?

**Question 9:** Do you agree with our proposal to extend the use of the MAA in this way?

**Question 10:** What evidence (if any) would the new lender need from the customer or their existing lender to confirm the MAA and new product can be made available to the customer?

**Question 11:** What barriers may lenders or consumers face in making use of the proposed approach? How might they be overcome?

**Question 12:** Is there anything else we should consider for this proposal (amending MAAs when remortgaging)?

**Question 13:** What further regulatory changes, if any, could support simpler remortgaging?

**Question 14:** Do you agree with our proposal to retire FG13/7?

**Question 15:** Do you agree with our proposal to retire FG24/2?

**Question 16:** Are there any equality and diversity issues that may arise from the proposals?

**Question 17:** Do you agree that given the permissive nature of the proposed changes, if adopted, an implementation period would not be necessary?

**Question 18:** Do you have any comments on the Cost Benefit Analysis in Annex 2?

# Annex 2

# Cost Benefit Analysis

## Introduction

1. The Financial Services and Markets Act (2000) requires us to publish a cost benefit analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'.

2. This analysis presents estimates of the significant impacts of our proposal. We provide monetary values for the impacts where we believe it is reasonably practicable to do so. For others, we provide a qualitative explanation of their impacts. Our proposals are based on weighing up all the impacts we expect and reaching a judgement about the appropriate level of regulatory intervention.

3. The CBA has the following structure:

- Overview of the UK mortgage market
- Nature of competition
- Problem and rationale for intervention
- Options assessment
- Our proposed intervention
- Baseline and key assumptions
- Summary of impacts
- Benefits
- Costs
- Wider economic impacts
- Monitoring and evaluation

## Overview of the UK residential mortgage market

4. Mortgages are loans made to borrowers to fund property purchases, where the property is used as security. They allow borrowers to spread the often large cost of buying a home over a long period, allowing them to balance current and future consumption. The ability of lenders to take in shorter-term deposits and lend out longer-term loans is an important role of the financial system, creating value for both borrowers who need stable financing and savers who require access to their funds.

5. This Consultation concerns regulated mortgages. This group primarily consists of mortgages for owner-occupiers. But other types of regulated mortgage contract may be affected by our proposals, including secondary (second-charge) mortgages and lifetime or equity release mortgages, which serve specific use cases and are usually

considered separate markets. Non-residential mortgage products such as buy-to-let loans and business mortgages, are mostly are not regulated by the FCA and out of scope of this Consultation.

**6.** Mortgages for owner-occupiers are available in various types according to the interest rate and repayment characteristics of the loan. Interest rates can be fixed for a specific period (after which they typically revert to the lender's higher standard variable rate), vary based on a defined relationship to market conditions or the lender's standard variable rate, or track a benchmark rate, most commonly the Bank of England Base Rate. Mortgage sales reflect both new mortgages to first-time buyers and home movers, and existing customers undertaking internal product transfers, for instance at the end of a fixed interest rate deal, via a new mortgage contract or a contract variation. Repayment mortgages, where the loan balance is paid down over time by monthly repayments, contrast with interest-only mortgages, where the principal is repaid at the end of term.[1] The price of a mortgage to a borrower is a combination of the interest rate, origination fees to secure a mortgage, and other fees (including early repayment charges and the cost of using a broker – see below).

**7.** The UK mortgage market is a major source of lending to households. The latest FCA mortgage lending statistics, based on the Mortgage Lending and Administration Return (MLAR), show that gross mortgage advances (i.e. total new lending) was £246 billion in 2024, down from £322 billion in 2022 and similar to the nominal value in 2016 (£249 billion). The outstanding value of all residential mortgage loans was around £1,680 billion at the end of 2024. Despite lower or flat levels of new lending over the period, the total outstanding value of loans increased from around £1,340 billion at the end of 2016. According to FCA Product Sales Data (PSD) there are approximately 9 million active mortgages in the UK.

**8.** The demand for residential mortgages reflects the demand for housing. This relationship is influenced by various macroeconomic factors, including interest rates, income levels, consumer sentiment, population size, and employment stability and growth. Housing affordability metrics, such as price-to-income ratios, also significantly impact mortgage demand as they determine households' ability to qualify for and service mortgage debt.

**9.** In terms of regulation, while the FCA is responsible for regulating conduct, the Bank of England oversees the prudential regulation of lenders to maintain financial stability and prevent systemic risks. The FCA Consumer Duty, including the requirement to demonstrate that products are pricing provide fair value to consumers, applies to all regulated mortgage contracts within the perimeter.

**10.** The sub-sections below set out some trends in mortgage characteristics that are relevant to the proposals in this consultation.

1 Various other types of mortgage repayment arrangements also exist, for example offset mortgages.

## Mortgage broking and advice

**11.** A significant fraction of homebuyers use mortgage brokers to help find them a mortgage that meets their needs, as opposed to purchasing direct from lenders. Around 90% of first-time buyers and around 78% of home movers purchased via a broker in 2023.

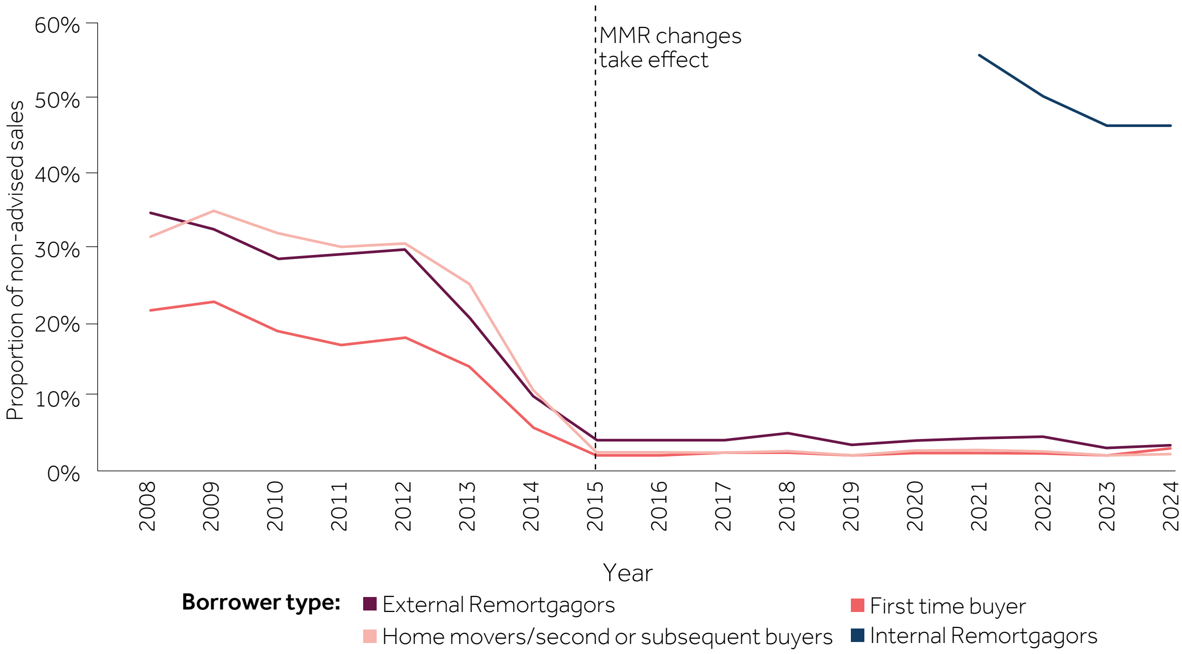
**12.** Brokers are remunerated by a combination of fees from consumers and procuration fees, a type of commission from lenders they place customers with. In PSD data, the average reported intermediary fee in 2024 among transactions that paid a fee was £510, and across all intermediated transactions including zero fees the average fee was £220. (Many brokers do not charge a fee directly to consumers for certain transactions and will instead rely on the procuration fee.) In 2024, the average procuration fee for transactions that paid a fee was £1130, and the average across all intermediated customers, including cases where zero fee was due, was £980.

**13.** Whether via a broker or an in-house mortgage adviser at a lender, the majority of mortgage sales are now advised, reflecting previous regulatory changes. The Mortgage Market Review (MMR) in 2014 required sales involving spoken or "interactive dialogue" between firms and consumers to be advised. In essence the MMR restricted execution-only sales to those without dialogue e.g., online transactions, as well as other limited exceptions e.g., high-net worth and professional consumers. In PS20/1 we changed our Perimeter Guidance and MCOB rules on mortgage advice to permit more interaction with customers before firms are required to give advice.

**14.** The impact of MMR is apparent in a time series of advised sale rates over time, but our subsequent guidance does not appear to have affected advice rates. Figure 1 shows that the fraction of mortgage sales that were unadvised in Product Sales Data (PSD) fell by 2015 to below 5% for first-time buyers, home movers and external remortgagors. Internal remortgagors[2] were brought into PSD in 2021; around half of sales are reported as unadvised, potentially reflecting the greater ease of execution-only transactions for this group.

2 This group includes both new mortgage contracts and contract variations with the existing lender.

**Figure 1: Proportion of execution-only sales over time, by borrower type**




Source: FCA analysis of regulatory return PSD001 'advised sale description'

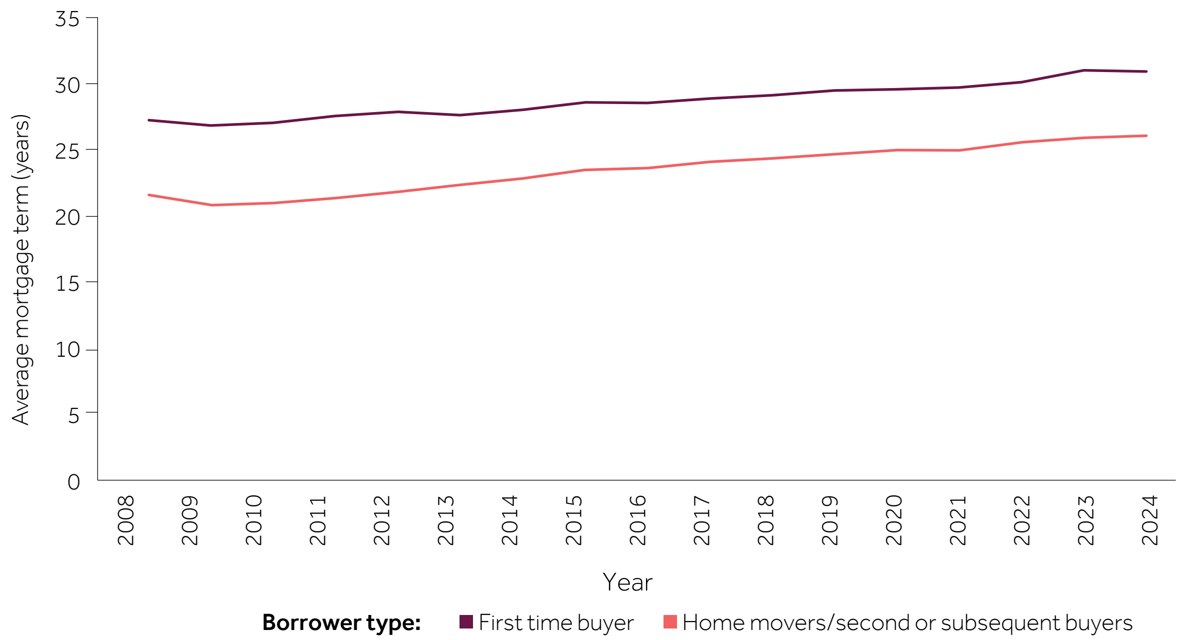
## Mortgage term

**15.** Mortgages typically have a contractual term over which repayments are made, although most borrowers will refinance or switch products multiple times over their lives.

**16.** There is a growing trend towards borrowers taking longer term mortgages. The average term for first-time buyers now exceeds 30 years (Figure 2). At the same time the average age of first-time buyers has increased, from 31.3 in 2010 to 33.1 in 2024. 41% of all sales in 2024, excluding internal remortgages, had terms where the main borrower would be aged 68 or over at maturity.[3] A longer term reduces monthly repayments and therefore makes a given mortgage more affordable on an ongoing basis, even though total lifetime repayments increase with term.

3 PSD001 excluding internal product transfers, RIO and lifetime mortgages

**Figure 2: Average mortgage term for first-time buyers and home movers**




Source: FCA analysis of regulatory return PSD001

**17.** As the average mortgage term has increased, the number of borrowers that subsequently reduce their mortgage term has increased. Analysis of PSD data shows that just over 3% of internal remortgage transactions involved a term reduction from the previous loan, with an estimated term reduction of around 5 years.

## Nature of competition

### Lenders

**18.** As a general summary, lenders compete across the following dimensions:

- Competition on headline or introductory interest rates at the product level. Lenders set interest rates in relationship to Bank of England base rate, funding costs and their own risk appetite.
- The decision whether to offer a prospective borrower a particular product, and how much to offer to loan them. This in turn will reflect lenders' risk appetite regarding borrower affordability characteristics, but also regarding property, which will vary according to market expectations of property values and their existing loan book.
- Product features and innovation – for example loan terms designed to attract previously unserved consumers.
- Fees – primarily loan arrangement fees, and to a lesser extent other fees.
- Non-price competition (service quality, approval speed).

19. Since many mortgages are purchased through brokers, competition among lenders involves not only the mortgage terms offered to borrowers but also the service provided to brokers, specifically processing speed and procuration fees.

20. Price competition across the market is generally most intense for prime lending (borrowers with excellent credit scores) or for borrowers with standard requirements and standard properties. In non-prime and other specialist market segments, e.g. non-standard properties, competition is more oriented towards risk assessment capabilities rather than just price, with lenders differentiating on their underwriting flexibility and willingness to accommodate different circumstances.

21. There is a large number of active lenders in the mortgage market, consisting of banks, building societies and other specialist lenders, though the market is concentrated. PSD data show there were 21 lenders with at least 10,000 residential mortgage transactions in 2023. Overall, the largest 6 mortgage lenders account for around 73% of mortgage transactions by volume. Market concentration is likely to vary in sub-markets, such as regions or mortgage provision for certain customer types.

22. While business models for mortgage lending are generally similar, there are some differences between providers. High street banks and building societies have similar funding models (consumer deposits and savings), but building societies are member-owned institutions that typically pursue objectives such as member value (e.g. competitive financial services to their members) or community support rather than profit maximisation. Some smaller or challenger banks compete more heavily on digital and streamlined processes. Specialist lenders tend to focus on underserved segments such as self-employed or credit-impaired borrowers and may rely on wholesale markets rather than deposits for funding.

## Brokers

23. For brokers, competition can be characterised as a combination of price, breadth of search and service quality. Some brokers charge consumers fees while others offer their services free of charge and are remunerated by lender commissions. Service quality can entail personalised advice, response times, or ability to deal with complex cases. Brokers vary in breadth or effort of their market search, though this is hard for consumers to observe. While competition among brokers is generally thought to be high, previous FCA research has found evidence that intermediaries' preference for familiar lenders could lead to consumers missing out on cheaper alternative mortgage products.

## Demand side

24. On the demand side, most customers switch or transfer regularly to obtain the best deal, primarily internally with the same lender. At the expiry of fixed deals, consumers need to transfer to a new mortgage product, either with their existing or a new lender, to avoid paying higher reversion interest rates. Previous FCA research has found around three quarters of customers switch to a new deal within six months of moving onto a reversion rate. Another indicator of consumer responsiveness is the number of mortgage consumers that remain on a reversion rate for a longer period of time.

Analysis undertaken by the FCA in 2022 showed that the proportion of borrowers who could switch to save money but do not do so is low, having declined since the MMR. The analysis estimated that around 370,000 borrowers on reversion rates could save an average of £1,240 per year for 2 years by switching to a new fixed rate with their existing lender. However, one group of consumers that have been the subject of several FCA interventions are 'mortgage prisoners'—a relatively small number of consumers not able to switch away from their standard variable rate mortgage because they cannot pass the tightened affordability requirements introduced from 2014.

**25.** According to the 2022 Financial Lives Survey, the most common reasons borrowers give as influencing the choice of intermediary for a mortgage transaction in the past 3 years include recommendations from a friend or relative (39%) or having used the intermediary before and being happy with the service (35%).

## Problem and rationale for intervention

**26.** The overall rationale for intervention is that certain elements of our rules may now be harming both borrowers and lenders by making mortgage sales unnecessarily complex, in turn hindering mutually beneficial transactions between lenders and borrowers and reducing potential gains for both parties. In doing so, elements of our rules may contribute to interest rates and fees being higher than efficient levels and may prevent market solutions that could efficiently address gaps in the market.

**27.** In relation to regulated advice, some evidence suggests consumers may be receiving advice when they do not want or require it:

- Lenders responding to our Consumer Duty Call for Input suggested that the current way firms implement the interactive dialogue requirement may create unnecessary procedural overheads for simpler transactions and potentially discourage consumers from discussing mortgage products with lenders. For instance, firms are not allowed under our rules to present borrowers with personalised information without also providing advice. The interactive dialogue requirement contrasts with the simpler 'execution only' process available to consumers undertaking internal product transfers online.
- The advice rate for non-internal mortgage transactions, 97%, appears high relative to consumer understanding – in 2022 around half (51%) of residential mortgage holders felt that mortgage products were simple to understand according to the FLS. By contrast, the advice rate for internal product transfers is 47%[4], which may suggest that many consumers are happy to proceed without advice when the option is available to them (though this could also reflect consumers with simpler circumstances).

**28.** Requiring regulated advice where neither party requires it risks creating harm from a time-consuming and costly process, in addition to making it difficult for consumers to compare products between lenders and discouraging consumers from engaging with their mortgage provider.

4 PSD001

29. In addition, our rules on affordability assessments may disadvantage borrowers seeking to switch to a cheaper deal with a new lender. Under our rules, most borrowers switching to a new lender (out of the 1.7m borrowers who remortgaged in 2024, 17% remortgaged to a new lender) must undertake a full affordability assessment. This contrasts with a customer moving to a new product with the same lender, where no affordability assessment is required. This can lead to perverse outcomes where consumers applying for a cheaper but otherwise identical loan with a new lender must undertake more steps, potentially deterring them from switching to cheaper deals. This risks harm from high prices and distorted competition.

30. Moreover, affordability assessments may be creating friction for term reductions. At present, if a borrower wishes to reduce their mortgage term it triggers an affordability assessment if the change to the terms of the mortgage contract is likely to be material to affordability. The friction associated with an affordability assessment may discourage a term reduction that will be increasingly beneficial for some borrowers as a greater fraction of mortgage terms extend beyond state pension age.

31. Section 3 of the Consultation Paper sets out these concerns in more detail. In addition to the issues identified above, parts of non-handbook guidance issued previously have been retired, and we will rely on the Consumer Duty to set our expectations. Absent clarification this may, at the margin, make complying with our rules more complex than necessary.

32. While the overall rationale for intervention in this CP is regulatory failure, regulation still has an important role to play in promoting a well-functioning mortgage market in the presence of other market failures such as information asymmetry, behavioural biases, and externalities on overall financial stability. For instance, our rules require consumers to take advice in certain circumstances and for affordability tests to prevent both consumers taking on harmful levels of debt and firms from creating harmful side effects on the economy. We explore the potential trade-offs that our proposals may create in the costs and benefits sections below.

## Options

33. We have explored a number of changes to our regulations to encourage greater efficiency in the residential mortgage market. Overall, the proposals chosen were judged to have the best balance between, on one hand, removing unnecessary costly barriers to voluntary transactions between prudent lenders and well-informed borrowers and, on the other, ensuring appropriate protections for consumers. These options included:

- The possibility of allowing borrowers who had reduced their term to be allowed to automatically revert to their previous term length without any applicable affordability assessment. At present, any term extension which goes into a customer's retirement is likely to trigger an affordability assessment. However, this option risks negatively affecting lending into retirement and therefore was not pursued.

- Allowing lenders to provide personalised information to a consumer without triggering the need for regulated advice. We concluded that this would be unlikely to result in a change to lender behaviour, just as our changes in 2020 have apparently had little impact.

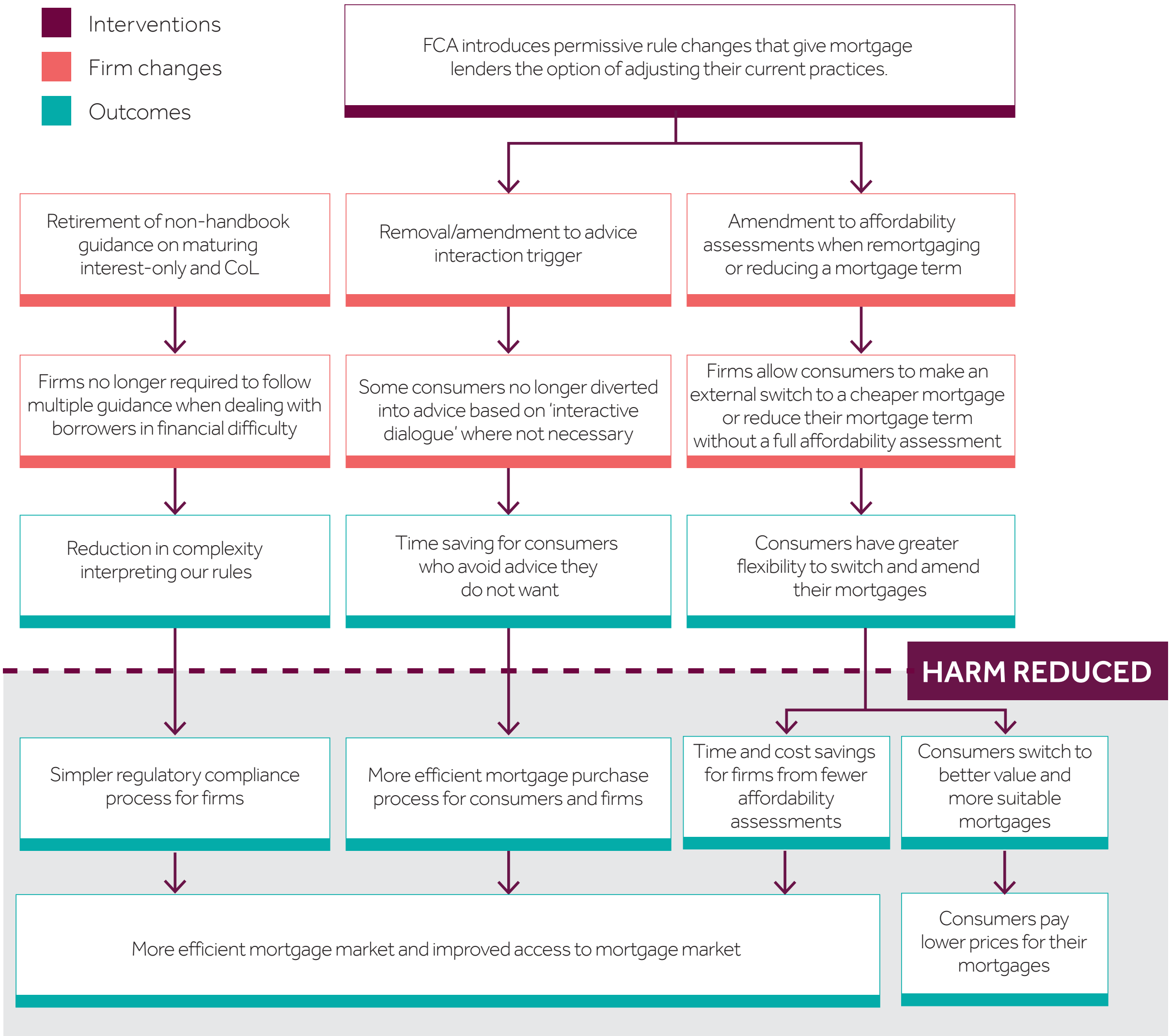
## Our proposed interventions

**34.** Section 3 in the Consultation Paper describes our proposed interventions in detail. All of the proposed changes are permissive; they allow firms to continue to comply with our rules as currently with no obligation to change practices. We summarise our proposals below:

1. **Removal/Amendment to interaction trigger.** We are consulting on removing the requirement that advice must be given whenever a transaction involves 'interactive dialogue'. Firms will be expected to judge and control for where a conversation or transaction meets the threshold for regulated mortgage advice defined in the Regulated Activities Order and our Handbook. Continuing to provide advice whenever there is interactive dialogue during a sale will remain compliant.
2. **Retire maturing interest-only non-handbook guidance (FG13/7).** The FCA introduced FG13/7 in 2013 to improve industry standards and conduct when dealing with borrowers at risk of being unable to repay the capital owed on their interest-only mortgage. The guidance has now fulfilled its original purpose. We propose to retire this guidance. Firms would be required to meet the standards established under the Consumer Duty and applicable rules in MCOB.
3. **Retire cost of living non-handbook guidance (FG24/2).** We issued guidance to firms on the options they have to support borrowers in financial difficulty in FG23/2. We revised this guidance in 2024 in PS24/2 but now propose to remove it. The guidance is a restatement of our Handbook requirements and does not create any additional protection for consumers.
4. **Amending affordability assessments when remortgaging.** We propose amending the 'modified affordability assessment' (MAA) to permit firms to assess the affordability of borrowers who have an existing mortgage using this alternate affordability assessment, under specific conditions. Currently, the MAA is available to lenders where the new mortgage is 'more affordable' than the borrowers existing mortgage. We're consulting to expand the MAA to apply where the new mortgage would be more affordable than a new deal from the current lender — i.e., a lower rate than their current lender, providing they are not in payment shortfall and are not borrowing more.
5. **Amending affordability assessments when reducing a mortgage term.** We are consulting on exempting term reductions from the rule which requires an affordability assessment where there is a change to the terms of the contract which is likely to be material to affordability.

**35.** Our causal chain below sets out how these proposals will reduce harm in the mortgage market.

**Figure 3: Causal chain of how we expect our intervention to work**




## Baseline and key assumptions

**36.** We take the counterfactual—the state of the mortgage market absent our intervention—to be the continuation of the status quo. I.e. we assume that the regulations we are proposing to amend would have continued unchanged. We have noted the market trends in the market overview section above – in particular Figure 2 on the rising average mortgage term. However, given other sources of uncertainty that affect the costs and benefits, there do not appear to be any trends that would have consequential impacts on our estimates.

**37.** We make a number of further assumptions in our analysis:

- We expect our rules to predominantly affect mortgage lenders and brokers. Using FCA permissions data, approximately 5,048 firms will be affected by our proposals. Using standardised internal approach on firm size, we assume 36 affected firms are large, 205 are medium and 4,807 are small.

- We do not have any evidence to suggest there are any mortgage lenders in the supervised run off mechanism of the financial services contracts regime or Gibraltar-based consumer mortgage lenders passporting into the UK.
- Firms are already compliant with our existing rules and guidance, including the Consumer Duty, and have incurred the costs of complying with these standards.
- Unless stated otherwise, all references to 'average' are the mean average.
- All price estimates are in nominal terms.
- When estimating net present value of costs and benefits, we use a 3.5% discount rate as per The Treasury's Green Book.
- Firms' regulatory returns have been filled out correctly and the data provided are accurate.
- Costs and benefits are analysed over a 10-year period following implementation. Mortgages are long-term borrowing products. Our proposals on term length, in particular, could affect consumers over an extended period of time in excess of 10 years. However, we think 10 years is an appropriate time frame to assess cost and benefits to reflect: (i) the fact that many mortgages switch or renew their mortgage at regular intervals, (ii) that our proposals are relatively minor in nature rather than market-shifting, (iii) the nature of the mortgage market will vary over the interest rate and economic cycles, suggesting projecting into the long term is very uncertain.

**38.** Since our rules are permissive in nature, firms have an option whether and how to adopt them. While we assume firms are fully compliant, we do not assume that all firms will adopt the flexibilities offered by our proposals. We explore the potential take-up of our rules in the specific costs and benefits sections below. Given the relatively minor nature of our proposals, and the limits on adoption that we set out in the sections below, we do not consider it likely that our proposals will change the competitive equilibrium so that firms would be disadvantaged if they did not adopt the proposals.

## Costs and benefits

### Summary of Impacts

**39.** The following tables provide a summary of the key impacts of the proposed interventions. Where there is a high level of uncertainty, we present our estimates as ranges with our central estimate typically being the midpoint of this range.

**40.** Table 1 presents the direct costs and benefits of our proposals separately from the indirect costs and benefits that depend on the adoption of our proposals and are inherently more uncertain. Table 2 presents the total estimated costs and benefits in present value terms. Table 3 presents the Equivalent Net Direct Cost to Business.

**41.** The impacts of our proposals are dependent on adoption and implementation of our proposals by lenders. Therefore, we assume that the only direct impacts of our intervention that affected firms will incur are reading and familiarisation costs (Table 1A). Dependent on the voluntary adoption of our proposals by lenders, we anticipate that there will be indirect benefits and costs to firms and consumers (Table 1B). In the 'Benefits' and 'Costs' sections below, we set out in more detail our assessments relating to Table 1.

### Table 1 – Summary table of benefits and costs

#### *A. Direct costs and benefits*

| Group affected | Item description | Benefits (£) | | Costs (£) | |
|---|---|---|---|---|---|
| | | One- off | Ongoing | One-off | Ongoing |
| **Firms (direct)** | Reading & familiarisation | | | £0.92m | |
| **Total** | | | | £0.92m | |

#### *B. Indirect costs and benefits depending on voluntary adoption of our proposals*

| Proposal | Item description | Benefits | Costs |
|---|---|---|---|
| **(i) Firms** | | | |
| **All proposals** | Gap analysis | | £1.65m (one-off) |
| **Interaction trigger** | Training | | £0.48m (one-off) |
| | *Fewer advised transactions – lender time* | £0.21m – £4.11m (ongoing) | |
| | Lower intermediation – Lower procuration fees | *£12.7m – £95.1m (lenders – illustrative scenario analysis)* | *£12.7m – £95.1m (brokers – illustrative scenario analysis)* |
| | Lower intermediation – wider effects | *Not quantified* | *Not quantified* |
| **Lighter affordability tests for remortgaging** | Fewer affordability tests – firm time | £2.13m (ongoing) | |
| | *Greater switching* | | *See illustrative analysis* |
| **Removing affordability tests for term reduction** | Fewer affordability tests – firm time | £0.1m – £0.25m (ongoing) | |
| | Lower repayments over mortgage lifetime | | *See illustrative analysis* |
| **Wider impacts** | Competition | *Not quantified* | |
| | Impacts on housing market and wider economy | *Not quantified* | *Not quantified* |
| **(ii) Consumers** | | | |
| **Interaction trigger** | *Fewer advised transactions – consumer time* | £0.05m – £0.97m (ongoing) | |

| Proposal | Item description | Benefits | Costs |
|---|---|---|---|
| | *Lower intermediation – lower consumer fees* | *£2.8m – £21.4m (illustrative scenario analysis)* | |
| **Lighter affordability tests for remortgaging** | *Fewer affordability tests – consumer time* | £1.51m (ongoing) | |
| | *Greater switching* | *See illustrative analysis* | |
| **Removing affordability tests for term reduction** | *Fewer affordability tests – consumer time* | £0.14m – £0.35m (ongoing) | |
| | Lower consumer repayments over mortgage lifetime | *£4,000 per consumer (See illustrative analysis)* | |
| **Wider impacts** | Risks of worse decision-making | | Not quantified |

### Table 2 – Present Value and Net Present Value

| | PV Benefits | PV Costs | NPV (10 years) (Benefits – Costs) |
|---|---|---|---|
| **Total impact** | **£72.7m** *(£19.6m to £126m)* | **£57.0m** *(£15.8m to £98.2m)* | **£15.8m** *(£3.89m to £27.7m)* |
| **-of which direct** | **N/A** | **£0.92m** | **-£0.92m** |
| **-of which indirect** | **£72.3m** *(£19.6m to £126)* | **£56.0m** *(£14.8m to £97.2m)* | **£16.7m** *(£4.81m to £28.6m)* |
| **Key unquantified items to consider** | | | Increased competitiveness of the mortgage market<br>Risks of worse consumer decision-making.<br>Effects on the wider housing market and economy. |

### Table 3 – Net direct costs to firms

| | Total (Present Value) Net Direct Cost to Business (10 yrs) | Estimated Annual Net Direct Cost to Business (EANDCB) |
|---|---|---|
| **Total net direct cost to business (costs to businesses – benefits to businesses)** | **£0.92m** | **£0.11m** |

## Benefits

42. We set out in the sections below the expected benefits of our proposals. Because of the nature of our proposals, these are intended to be illustrations of the potential indirect benefits should they be adopted by firms.

### Amending the interaction trigger

43. If adopted, the removal of the interaction trigger could result in time and cost efficiencies for firms and consumers:

- By reducing the number of customer interactions that trigger regulated advice requirements, lenders and potentially brokers could save the costs of providing or contracting advice. (If lenders contract out the provision of advice to third parties, then this would represent a transfer.)
- For consumers, particularly those with straightforward needs or good financial literacy, the proposal could result in time saved from faster processes, as well as greater autonomy in dealing with their mortgage.
- The proposal could at the margin encourage greater consumer switching to cheaper or more suitable mortgage deals.

#### *Potential adoption*

44. The way this proposal would be adopted by firms is variable and uncertain. There is uncertainty around which lenders might make changes in their advice requirements, the extent of lenders' deviations from current practice, and the type of mortgage transactions that could be affected by the change.

45. Research undertaken following the introduction of the MMR gives an indication of the scale of the impact that our current interactive dialogue rules had when introduced. FCA Occasional paper 34 found in 2018 that, following the MMR, the proportion of advised mortgage sales to new customers increased from around 75% to over 98%. Consumers also increasingly turned to intermediaries instead of approaching a lender directly (the share of intermediated sales to new customers rose from 50% to 67%).

46. However, we do not expect the proposed rules to wholly reverse these changes for several reasons:

- Our proposal to remove the interaction trigger will still result in a higher requirement than our pre-MMR rules.
- Although advice is not an explicit component in our Consumer Duty rules or guidance, the Duty's outcomes—in particular 'consumer understanding' and 'consumer support'—will affect how firms will approach the decision whether to require advice in a given situation.
- Supervisory experience following rule changes in PS20/1 to permit more customer interaction before firms are required to give advice has suggested a very limited impact. Our understanding from industry feedback is that this is because firms believe the changes still create uncertainty and they have found it easier to de-risk

sale interactions by diverting to advice. While we expect our proposals to clarify this situation, it is still likely that lenders will approach any changes hesitantly.
- Firms may have legitimate reasons to require advised sales to protect themselves and provide legal certainty. Firms may be risk averse in how they amend their practices. Firms may also choose to adopt differential forms of 'advice', even if they stop short of regulated advice.
- Many consumers may also be risk averse and, if offered a choice, prefer the certainty and protections provided by advice.

**47.** Given the uncertainty, we have estimated benefits and costs of the proposal to amend the interaction trigger according to several scenarios. The upper scenarios very broadly reflect an impact around half the magnitude of the headline estimated impacts of MMR in Occasional Paper 34. The scenarios account for the uncertainty concerning the take-up of our proposal and the number of mortgage sales that it could affect. More widespread adoption of our proposals by firms and greater reaction of consumers, for instance the more consumers that would forgo advice given the choice, would make the upper scenarios more likely, whereas lower adoption and more risk aversion among consumers would favour the lower scenarios.

**48.** The interaction trigger may also affect non-sales interactions. These are situations where, for example, a consumer calls their lender to discuss a hypothetical scenario but are directed to advice. We do not hold data on this type of interaction, but for simplicity we assume they are relatively rare and should be captured within the ranges of our scenario analysis above.

### *Benefits to firms*

**49.** To estimate the cost of advice to firms, we have drawn from supervisory expertise as well as previous CBA estimation. In CP19-17, we estimated the cost of advice to firms was approximately 45–90 minutes of a mortgage advisor's time (£19-£38 at the time), including non-wage labour costs. We use the same assumption here, using the latest salary data we hold from the 2022 Willis Towers Watson Financial Services Report, to estimate a cost of advice of £23-£46.

**50.** Absent the interactive dialogue requirement, it is likely firms and consumers would still discuss the same matter in another way, for instance a via shorter call with a customer service agent. Using the same method as above (and using the same salary estimate as a simplification), we estimate that the counterfactual to the interactive dialogue requirement is 15-30 minutes of a firm employee's time. Hence our proposal is estimated to reduce the amount of staff time firms need to spend on advice provision on affected transactions by between 30 and 60 minutes (£15-£31 per transaction).

**51.** In reality, we understand some lenders may not provide advice internally but maintain contracts with third parties. We assume that around 50% of lenders have this arrangement. Since for lenders providing advice is a cost of arranging a mortgage, whereas for a contracted third party it is the main activity, a reduction in the need for contracted advice provision represents a transfer rather than an outright benefit.

52. Since the take-up and impact of our proposals is uncertain we present several scenarios of monetised estimates of benefits to firms in Table 4. These multiply the total number of advised transactions from PSD, around 1.7m in 2023, by the estimated per-unit benefits above.

**Table 4 – Potential ongoing indirect benefits to firms from fewer advised transactions under different scenarios**

| Percentage point reduction scenario | Reduction in total advised sales | Minimum benefit (30 minute saving of mortgage advisor's time) | Maximum benefit (60 minute saving of mortgage advisor's time) |
|---|---|---|---|
| **1pp** | 13,272 | £0.21m | £0.41m |
| **5pp** | 66,358 | £1.03m | £2.05m |
| **10pp** | 132,717 | £2.05m | £4.11m |

53. In addition, if our proposal encouraged some consumers to forgo intermediation and instead engage directly with lenders then lenders would benefit from lower need to pay procuration fees (a transfer from intermediaries). Since this effect is highly uncertain, we have illustrated a range of scenarios (see section below for further details). Based on an average procuration fee across intermediated sales of £980 (inclusive of cases where zero fee is paid), we estimate that a 1 percentage point reduction in the number of intermediated sales would result in an ongoing indirect benefit to lenders of around £12.7m, a 5 percentage point reduction would lead to a benefit to lenders of £63.4m, and a 7.5 percentage point reduction would lead to a benefit to lenders of around £95.1m. These estimates are highly dependent on both on lenders' and consumers' reactions to our proposal and, were they to materialise, would represent a transfer from brokers to lenders.

### *Benefits to consumers*

54. For consumers, as set out in our Statement of Policy on cost benefit analysis, time saved from transactions can be valued at the value of time published by the Department for Transport. The appropriate value in 2024 prices is £7.30.

55. Using the same estimated time difference between advised and non-advised conversations as above, and the same scenarios as Table 4, we estimate an indirect ongoing benefit to consumers in time saved from fewer unnecessary advised sales of between £0.05m and £0.97m.

56. An additional benefit for consumers is that some may be encouraged to go direct to a lender and avoid the costs of using a broker or intermediary (a transfer from intermediaries). (This decision also entails costs – we assess these separately below.) Broker fees vary considerably – many are free to the consumer and earn revenue from commission arrangements. From PSD, the average fee among intermediated sales, including cases with zero fee, is around £220. Around 1.3m advised consumers in 2023 used a broker. Table 5 sets out some potential scenarios of indirect ongoing benefits to consumers if the rate of broker usage was to fall (a transfer from firms to consumers), reflecting the uncertainty of the impact of the proposal. For instance, a 1 percentage

point reduction in the number of consumers using intermediaries would lead to estimated indirect ongoing benefits of £2.8m (a transfer from intermediaries).

**Table 5 – Potential indirect ongoing benefits to consumers from lower use of mortgage intermediaries under different scenarios**

| Percentage point reduction scenario | Reduction in total intermediated sales | Benefit (£220 broker fee) |
|---|---|---|
| **1pp reduction** | 12,940 | £2.8 m |
| **5pp reduction** | 64,700 | £14.2 m |
| **7.5pp reduction** | 97,050 | £21.4 m |

**57.** It is not reasonably practicable to estimate any effects of our proposal to remove the interaction trigger on consumer switching. We would expect any impacts to be minor since advice forms a small part of the overall switching process.

## Retiring interest-only non-Handbook guidance

**58.** Retiring our non-Handbook guidance on interest-only mortgages would potentially reduce firms' costs resulting from any complexity or uncertainty as to duplication from our rules, as identified in our Consumer Duty Call for Input.

**59.** We expect these benefits to be marginal and not reasonably practicable to quantify.

## Retiring cost of living guidance

**60.** Similarly, we expect removing our guidance on cost of living could lead to a marginal reduction in the complexity of interpreting our rules for firms.

## Lighter affordability tests for remortgaging

**61.** The two main indirect benefits from firms' adoption of lighter affordability tests for remortgaging are savings in time and cost from fewer affordability assessments among borrowers that currently remortgage and switch provider (i.e. the intensive margin), and potential facilitation of greater switching (the extensive margin).

**62.** To estimate the approximate costs and time required for an affordability test, we have drawn from supervisory expertise and initial discussions with industry bodies. We understand that the costs of affordability tests are skewed; an affordability test will be a minor time commitment for many consumers with orderly finances and simpler circumstances, whereas for many others (such as self-employed borrowers or those with dependents) they typically require a higher time commitment. Box 1 below sets out our approach, recognising there will be variation around the average and by lender. We assume that income verification and credit checks would still be required so are not included here, even though there will be some overlap. We welcome respondents' views on our assumptions.

**Box 1: Estimating the cost of affordability assessments**

For consumers, the key tasks involved in preparing for an affordability assessment could include (i) gathering and submitting financial documents, (ii) completing expenditure questionnaires (iii) potentially meeting with an advisor to discuss affordability (iv) potentially responding to follow-up queries and gathering further information. In total, based on supervisory expertise and our understanding of the market, we estimate an average assessment will require around 2-4 hours of consumer time. (For simplicity, we assume this is split between joint borrowers.)

Using the DfT value of time estimates of £7.30/hour, our central estimate of 3 hours implies each assessment costs consumers £21.90.

For firms the key tasks involve (i) Reviewing information and adjusting inputs to underwriting models (ii) potentially meeting with the prospective customer (iii) any non-automated documentation and compliance. In total, we estimate an average assessment will require around 1 hour of lender time. Using the same salary data as the previous section, we assume an hour of a mortgage customer service agent's time costs a firm £30.90.

**63.** To illustrate the indicative benefits of switching, we have drawn from previous FCA research. Results of our 2022 technical note on switching in the mortgage market suggest that a subset of around 370,000 borrowers reversion rates (out of a stock of around 8 million mortgages) could save money on average around £1240 by switching their mortgage. Greater switching would represent a transfer from firms to consumers, though at the market level would improve overall welfare by improving competition in the mortgage market.

### *Potential adoption*

**64.** As with other proposals, the degree of take-up by firms and consumers of lighter affordability tests for remortgaging is likely to be variable.

**65.** On the supply side, there are some reasons to suggest widespread relaxation of affordability rules may be limited:

- To have an effect, our rule change requires lenders to onboard consumers with a 'modified affordability assessment'. To protect themselves from potential future redress claims liability, firms may limit the applicability of this rule, for example to consumers that have undergone an affordability assessment with a 'major' lender in the recent past.
- Even then, firms may adopt a risk averse approach to our proposal, for instance by conducting their own affordability assessments to satisfy their own stability and legal risk approach. In addition, it may be that firms amend affordability requirements in certain circumstances but not others.
- Our understanding is that lenders are not currently able to observe the outcomes of affordability tests or verify deals being offered to the consumer by the current lender. A bespoke industry-wide system may need to be developed to allow them to do so compliantly.

**66.** On the demand side, we anticipate existing borrowers that switch would be in favour of porting a previous affordability tests providing they do not lose protections. But the extent to which affordability assessments might promote new switching is more uncertain.

**67.** While we do not hold data on affordability assessments in PSD, *a priori* we anticipate that they play a relatively minor effect in preventing and dissuading people from switching to a new provider. While reducing the volume of required paperwork reduces the psychological barrier to undertake a switch, switching provider still involves multiple other tasks including income verification, credit checks, conveyancing and legal work. Conveyancing, in particular, typically involves many steps – the overall length of process likely also forms part of the psychological barrier to switching. Secondly, many borrowers may not realise affordability checks are no longer required until they switch, suggesting any benefits are partially dependent on the rules are communicated (e.g. by brokers). Lastly, as noted above, lenders may still impose their own internal checks and requirements even if affordability assessments are not required by our rules.

**68.** For these reasons, we have estimated the reduction in the total volume affordability assessments according to scenarios.

### *Benefits to firms*

**69.** Using analysis from PSD, we estimate there were approximately 300,000 switches per year.[5] A subset of these, around 93% or 275,000, meet the following criteria:

- A borrower switching from one of the 30 biggest lenders
- Not borrowing more or increasing term

**70.** Accounting for uncertainty in adoption, if 25% of these switches (around 68,750 no longer required an affordability assessment it would imply ongoing indirect benefits to firms of £2.13m (68,750 x £30.90). This scenario is only intended to be illustrative, reflecting our judgement given the factors affecting adoption that we set out above.

### *Benefits to consumers*

**71.** Using the same estimate of existing switches as above (68,750) combined with our time saving figure, we estimate consumers would benefit by £1.51m annually from reduced need to undertake affordability assessments (68,750 x £21.90).

**72.** For consumers that don't switch currently, but could be encouraged to under our proposal, we also present illustrative estimates only. Our proposal could induce some of the 370,000 consumers on reversion rates that we identified stand to benefit from switching in our 2022 research. For example, if 0.5% of that group saved £1240 each, this would lead to ongoing indirect benefits of £2.29m. This would represent a transfer to consumers from lenders. But the effect of our proposals on switching is highly uncertain, so we present this only as an illustrative figure.

5 We take 'external remortgagors' in PSD to denote borrowers moving between lenders, as opposed to borrowers taking out a new loan on a previous property.

**73.** Lighter affordability assessments for consumers remortgaging with a new lender may also indirectly benefit consumers by incentivising firms to compete more intensively for this section of the market. For example, if firms are able to target remortgaging consumers with new offers, it could marginally increase competitiveness and lead to lower prices or higher quality products for consumers. It is not reasonably practicable to estimate the scale of these benefits.

## Removing affordability tests for term reduction

**74.** If firms adopt lighter affordability tests for term reduction, this may benefit firms and consumers from a reduction in the costs and time of undertaking affordability assessments. In addition, it may potentially facilitate term reduction for some borrowers, in turn reducing total repayments (a transfer).

### *Potential adoption*

**75.** The take-up and implementation of our proposal to remove the requirement to carry out an affordability assessment in MCOB 11.6.2 for term reduction could vary because of several factors:

- Firms' appetite to waive affordability tests for term reductions may be limited to certain borrowers, for instance those whose payment to disposable income ratio stays within a certain range.
- While firms stand to benefit from undertaking fewer unnecessary affordability tests, if a mortgage term is reduced they stand to lose from lower total repayments (reducing term increases the monthly payment but reduces the total value of future repayments). Firms therefore may have limited incentive to apply the rule change widely. While competition could encourage adoption, it is unlikely that lenders compete extensively on the ability to reduce term without an affordability assessment.
- Many firms already allow limited mortgage overpayments without an affordability assessment. Term reductions that lead to monthly payments that exceed these limits may create affordability implications for customers and lead to assessments being required by lenders.

**76.** For consumers, whether affordability assessments dissuade a significant volume of term reductions is uncertain but appears unlikely. As with the previous proposal, affordability tests for term reduction represent a small part of the overall cost of adjusting a mortgage. In addition, our estimated cost to consumers of an affordability assessment (£21.90) is small relative to the lifetime savings of reducing a mortgage term. However, adoption and demand for term reduction may increase in the future as the average mortgage term has increased for recent cohorts of customers.

### *Benefits for firms*

**77.** We are not able to observe the number of term reductions currently that take place with an affordability assessment. From PSD, we can observe borrowers that take a new product with the same lender with a lower term while not increasing loan amount (around 45,000 borrowers, with an average term reduction of 4.9 years). However, that number does not necessarily correspond with the number of borrowers affected by the proposal – borrowers seeking to reduce term, potentially without changing product. However, for illustration and absent another estimate of volume, we assume the number of affected borrowers will be similar.

**78.** To illustrate the potential scale of benefits to firms, and reflecting the take-up discussion above, we assume take-up by between 10% and 25% of the market. These scenarios reflect only our judgement given the uncertainty around adoption set out above. We take the same estimate as the section above for the cost of affordability assessments for firms (£30.90). This implies modest total savings from affordability assessments of between £0.10m and £0.25m.

### *Benefits for consumers*

**79.** Consumers that already reduce their mortgage term with an affordability assessment currently may save time if that requirement is removed. Using our previous estimate of the costs of affordability assessments for borrowers – £21.90 – and the same scenarios as above, we illustratively estimate benefits to consumers of £0.14m – £0.35m per year from requiring fewer assessments.

**80.** If our proposal did encourage more term reductions, consumers would benefit by reducing the amount borrowers are repaying over the term of the mortgage. From 2023 PSD data we can see that, for consumers that reduce their term, the average term reduction is 4.9 years, the average loan value is around £134,000 and the average interest rate is 4.9%. Over the lifetime of the average remaining mortgage term for this group, 22.3 years, the discounted saving from reduced interest payments of reducing the term by 60 months would be approximately £4,000 per consumer, assuming no further changes to term or principal.[6]

**81.** However, we have not attempted to estimate the number of consumers that could be induced to reduce their mortgage term as the result of our policy. If realised, this would represent a transfer from firms to consumers.

## Costs

### Overall costs for our package of proposals

**82.** Given our proposals do not require action from firms, we assume that the only direct costs of our intervention that affected firms will incur are reading and familiarisation costs.

**83.** Using our standardised approach and standard assumptions from our standardised cost model (SCM), we estimate a reading and familiarisation cost to firms of £0.92m. We assume there are 20 compliance staff at large firms, 5 staff at medium firms, and

6 To estimate this figure, we use a simple repayment estimation over the lifetime of the mortgage. Using a standard 10-year evaluation period would make term reduction appear costly for consumers. However, a lifetime mortgage approach is highly uncertain since many borrowers renew or switch and their circumstances change over the longer term. This is one of the reasons we have not attempted to estimate these benefits.

2 compliance staff at small firms who would read and familiarise themselves with approximately 30 pages of our consultation. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take around 1.5 hours to read the policy documentation.

**84.** Firms will only need to undertake a gap analysis of their current practices against the new rules if they voluntarily choose to adopt the proposals. For tractability, we estimate these at the level of the overall package of proposed reforms. Should firms undertake a gap analysis and legal review of the proposals against current practices, we assume there are 4 legal staff at a large firm, 2 at a medium firm and 1 at a small firm who would conduct the legal review. There are around 25 pages of legal instrument to review. Using our standardised approach and assumptions we estimate firms collectively would incur a one-off cost of £1.65m. This does not form part of our estimate of direct costs to firms.

**85.** In the sections below we consider whether our specific proposals could lead to further indirect costs if adopted by firms.

## Amending the interaction trigger

**86.** For our proposal on amending the interaction trigger, we have considered the following types of indirect costs:

- Firms' costs from training staff, e.g. customer service staff, in lieu of advice should they adopt our proposal.
- The costs of lower volumes of advice for mortgage brokers, who earn revenue from advice under the status quo.
- Whether allowing firms to reduce the number of interactions where advice is required could induce some consumers to purchase worse quality products.
- Whether the adoption of the rule change would reduce the probability that consumers use a mortgage broker, in turn reducing consumers' breadth of search and increasing borrowing costs.

### *Costs to firms*

**87.** Any training costs that lenders incur as a result of our proposals would follow from their voluntary adoption of the new rules. For illustration, we estimate training using some indicative estimates of the number of mortgage advisors working at lenders from our regulatory returns data, and a simplified assumption that firms adopting our proposal may train an equivalent number of customer service staff. We assume, indicatively, a take-up of 50%, and an in-person training cost of £700 per employee by using one of our standardised cost model scenarios for 'basic training' that appears most relevant to this proposal. Based on these assumptions, this could result in costs to lenders of around £0.48m. These are indirect costs only.

**88.** If our interaction trigger proposal led to reduced demand for mortgage broking services over time, this would represent an indirect cost to mortgage intermediaries. In the benefits section above we estimated illustrative scenarios for these effects (e.g. Table 5). If realised, a reduction in the demand for broking services would result in both lower fee revenue from consumers and lower procuration fee revenue from lenders. These are both transfers so are reflected in both our cost and benefit estimates.

89. These potential costs to intermediaries are summarised in Table 6 but, as noted in the benefits section, the scenarios are illustrative – the impacts of the proposal are highly uncertain and dependent on the take-up and implementation of our rules by lenders and market reactions by borrowers.

**Table 6 – Scenarios for potential indirect ongoing costs to intermediaries from lower demand for mortgage broking services**

| Percentage point reduction scenario | Reduction in total intermediated sales | Cost from lower broker fees (£220) | Cost from lower procuration fees (£980) | Total cost |
|---|---|---|---|---|
| **1pp reduction** | 12,940 | £2.8 m | £12.7 m | £15.5 m |
| **5pp reduction** | 64,700 | £14.2 m | £63.4 m | £77.6 m |
| **7.5pp reduction** | 97,050 | £21.4 m | £95.1 m | £116.5 m |

### *Costs to consumers*

90. To inform the risk that our proposal leads to poorer decision-making and that consumers would choose worse-value mortgages without the guidance of an adviser, we have drawn from previous research.

91. The results of FCA Occasional Paper 34 are cautiously supportive of the hypothesis that our current proposal to amend the interaction trigger would not lead consumers to purchase more expensive mortgages. The research examined borrowers before and after the MMR 'interactive dialogue' advice rule change, finding that consumers who received advice due to the reforms—and who might not have otherwise—experienced small and ambiguous effects on their overall borrowing costs. This indicates that eliminating the need for advice in marginal cases may not harm the affected consumers, while the benefits that advice brings to many other customers would be preserved. In addition, we are not aware of any research associating the use of advice with greater mortgage suitability or worse outcomes for consumers.

92. These same studies, however, do suggest risks associated with the reduced use of mortgage brokers. Occasional Paper 34 found that consumers that used brokers following MMR—and that previously would have purchased via a direct advised sale—were estimated to save money from lower near-term borrowing costs (£48 in monthly payments during their deal period in 2018 prices, or a 1-19 basis points reduction in 5-year APR net of fees). Recent Bank of England research found brokers enable smaller lenders to reach more customers, while previous structural models of the mortgage market have found that the presence of broker intermediation can improve overall outcomes for consumers.

93. The medium and longer-term implications of consumers' use of intermediaries remains complex, however. The Bank of England research quoted above also suggested that

brokers may 'steer' borrowers towards mortgages with short fixed terms to increase fees. And most empirical research does not attempt to estimate the value that brokers provide in terms of customer service and speed of process.

**94.** Overall, we consider that the risks of indirect costs to consumers from our interaction trigger proposal are hard to judge. The marginal effects in particular are uncertain – we note that any borrowers that choose to forgo advice or the use of a mortgage broker that they previously would have used under the counterfactual would do so voluntarily. If, for example, these consumers were better than average at understanding their needs, then any risks would be substantially mitigated. Overall, we do not consider it reasonably practicable to quantify any indirect effects from our proposal, but we welcome further input from consultation respondents on this issue.

**95.** We have also considered whether consumers could incur costs from a loss of protections from advice. While being in receipt of regulated advice creates additional rights for borrowers to raise complaints with the Ombudsman, we understand this is typically a very high bar so the practical difference at the margin is expected to be very low.

## Retiring interest only non-handbook guidance

**96.** We do not anticipate any additional firm costs arising from this proposal since firms are already applying the Consumer Duty when dealing with these customers. The original guidance targeted improved industry risk management, customer communications, the speed of mortgage redemptions, and appropriate support for those who cannot pay all monies owed at term. Only around 2% of customers have contracts past maturity, with most redeemed within 24 months. If the Consumer Duty was somehow less effective than this guidance at communicating our expectations, then these factors could deteriorate at the margin though we do not expect this to be the case. The Duty's higher communication, consumer support and avoiding foreseeable harm standards, underpinned by rules, is a stronger basis to deal with any poor outcomes arising from IO maturities.

## Retiring cost of living guidance

**97.** We do not expect retiring non-Handbook guidance on cost of living will lead to costs for firms or consumers since it primarily a restatement of Handbook requirements without creating additional protection for consumers.

## Lighter affordability tests for remortgaging

### *Costs to firms*

**98.** If the adoption of the proposed rule for lighter affordability tests for remortgaging customers were to encourage greater switching, then lenders may experience a cost from lower aggregate interest payments. However, as set out in the sections above, we expect that adoption of our proposal would only marginally reduce the costs of switching, so we estimate any costs to firms from greater switching effect to be limited.

As a result, we have not attempted to estimate the impact of switching. However, in the benefits section above, we illustrated that if 0.5% of consumers on reversion rates who would benefit from switching were to do so, it would result in an ongoing transfer of £2.29 million from firms to consumers.

### *Costs to consumers*

**99.** A common risk cited for lightening affordability tests is that they may increase the chance of borrowers taking out unaffordable loans and falling into arrears.

**100.** However, the proposal on lighter affordability tests appears highly unlikely to leave borrowers worse off. The design of the policy to only apply to borrowers switching to a lower interest rate than the one that they could have got from their existing borrower, so should remove or substantially reduce the any risk that a borrower could be worse off than the counterfactual. We cannot observe the impacts of an affordability assessment from PSD data to evidence this.

## Remove affordability tests for term reduction

### *Costs to firms*

**101.** If our proposal to remove affordability tests for term reduction was to encourage consumers to more term reductions, lenders could incur a cost from lower total repayments. Above we estimated a simplified average discounted lifetime savings for the typical term reducer of £4,000 per consumer, which would be a cost for lenders. As above, however, any impact of our proposal on term reduction is very uncertain and indirect, therefore we present this per-consumer figure as an illustration only.

### *Costs to consumers*

**102.** The main risk of the proposal to reduce the need for affordability tests for term reduction is if increased monthly repayments would increase the propensity of affected consumers to get into payment difficulties or enter arrears. If consumers were to enter arrears as a result of our proposal, they could face substantial financial costs (the magnitude is uncertain). In addition, a research report commissioned by the FCA in 2024, estimated that debt arrears was associated with a negative household-level psychological cost of around £12,430.

**103.** Overall, however, we expect this risk to be small. As discussed above, firms have limited incentives to allow large reductions without an affordability assessment. Moreover, our existing consumer mortgage market protections, including the Consumer Duty, should also prevent material changes in repayments being arranged without an affordability assessment. Consumers will also maintain the ability to ask their lender to agree a term extension or seek forbearance should their circumstances change.

## Wider economic impacts, including on secondary objective

**104.** Our proposed rule changes in the mortgage market could enhance market efficiency by reducing transaction costs and unnecessary friction. By reducing the costs of mortgage switching process for certain groups of consumers and limiting affordability assessments in specific circumstances, these changes may enable more consumers to access better mortgage deals and potentially reduce their monthly payments. Together, these effects represent a modest increase in economic efficiency, as resources previously devoted to administrative processes can be redirected to more productive uses.

**105.** We anticipate our proposals will not materially affect the FCA's secondary objective to facilitate economic growth and competitiveness. The minor nature of our proposals is small relative to more fundamental drivers of mortgage market dynamics such as interest rates, housing supply, and broader economic conditions. In addition, mortgages are not internationally traded, suggesting no impact on foreign direct investment. We do not expect our rules to affect the demand for housing, so have not considered any impacts on our secondary objective via that transmission mechanism. Overall, our assessment is that our proposals will have no impact on growth.

## Monitoring and evaluation

**106.** We are proposing supervisory monitoring of the impact of our proposed rule changes.

**107.** For proposals in this paper, we propose to monitor impact primarily through the following data sources:

- Changes in customer use of execution-only channels (PSD) alongside firm and FOS complaints data regarding these sales e.g. whether customers thought they were receiving advice.
- Increased external remortgaging activity as a fraction of sales value (PSD) and reduced differentials between product transfer and remortgaging prices (commercial data), demonstrating increased competition and cheaper rates for consumers.
- Increase in term reductions either through variation or following refinancing alongside cohort analysis demonstrating a reduced proportion of terms ending completing after state pension age (PSD).

**108.** However, PSD and MLAR data do not allow us to identify the specific application of affordability tests or advice, nor the total costs involved for consumers and firms. We plan to monitor the application of affordability tests qualitatively through existing supervisory contacts with lenders.

**Question 18:** **Do you have any comments on the Cost Benefit Analysis in Annex 2?**

## Annex 3

# Compatibility statement

## Compliance with legal requirements

1. This Annex records the FCA's compliance with a number of legal requirements applicable to the proposals in this consultation, including an explanation of our reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).

2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules (a) is compatible with its general duty, under section 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, (b) so far as reasonably possible, advances the secondary international competitiveness and growth objective, under section 1B(4A) FSMA, and (c) complies with its general duty under section 1B(5)(a) FSMA to have regard to the regulatory principles in section 3B FSMA. The FCA is also required by s 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different impact on mutual societies as opposed to other authorised persons.

3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (section 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.

4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.

5. This Annex includes our assessment of the equality and diversity implications of these proposals.

6. Under the Legislative and Regulatory Reform Act 2006 (LRRA) the FCA is subject to requirements to have regard to a number of high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRA.

## The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of promoting effective competition in the interests of consumers.

8. We consider these proposals advance the FCA's operational objective of promoting effective competition in the interests of consumers because consumers being able to switch easily to minimise their mortgage payments can drive competition between lenders to offer attractive rates which benefit all consumers. Making remortgaging easier can enable further competition, both for open market remortgage products and product transfers, benefiting existing mortgage consumers. However, impact may be limited due to uncertainty regarding the degree of take-up by firms and consumers.

9. The proposals also seek to advance the FCA's operational objective of consumer protection. We set out how they seek to achieve this in more detail in paragraphs 2.8 – 2.12 of the CP.

10. We consider these proposals comply with the FCA's secondary objective in facilitating growth by reducing some costs to firms and the total amount paid by some borrowers over the lifetime of their mortgage. However, as set out in the Cost Benefit Analysis, the impacts of these changes on financial growth are likely to be limited.

11. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s 3B FSMA. In particular:

### The need to use our resources in the most efficient and economic way

12. Our proposals are consistent with, and would foster, an efficient and economic use of our resources.

### The principle that a burden or restriction should be proportionate to the benefits

13. Our proposals are permissive in nature and would not impose any additional restrictions or burdens on firms. However, the potential benefits to firms are set out in the CBA.

### The need to contribute towards achieving compliance by the Secretary of State with section 1 of the Climate Change Act 2008 (UK net zero emissions target) and section 5 of the Environment Act 2021 (environmental targets)

14. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.25.

### The general principle that consumers should take responsibility for their decisions

**15.** Our proposals would give consumers more choice about how to buy a mortgage, reduce a term or change their lender. This would enable them to take more responsibility for their decisions.

### The responsibilities of senior management

**16.** Our proposals would not alter the responsibilities of senior management.

### The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

**17.** Our proposals recognise the differences in the nature and objectives of the businesses the FCA regulates and do not adversely impact a subset of businesses.

### The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

**18.** Our proposals do not require firms to publish information. We do not expect that our proposals will result in firms publishing information regarding persons subject to requirements imposed under FSMA.

### The principle that we should exercise of our functions as transparently as possible

**19.** In developing these proposals we have acted as transparently as possible. We set out our broad plans for this consultation in the letter to the Economic Secretary to the Treasury on 7 March 2025. We have attended some of the FCA statutory panels for views on our proposals. Feedback from stakeholders received as part of the 'Review of FCA requirements following the introduction of the Consumer Duty' has been incorporated into the design of these proposals. In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person, to be used for a purpose connected with financial crime (as required by s 1B(5)(b) FSMA). We do not consider our proposals to be relevant in this regard. The financial crime obligations that apply to authorised persons within our handbook apply to lenders and brokers, the FCA has provided guidance in our Financial Crime Guide to help firms comply with this rule in an effective but proportionate manner.

## Expected effect on mutual societies

20. We note that many/several mortgage lenders are Building Societies who are mutual societies. The FCA does not expect the proposals in this paper to have a significantly different impact on mutual societies or present them with any more or less of a burden than other authorised persons.

## Equality and diversity

21. We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, and to foster good relations between people who share a protected characteristic and those who do not.

22. As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in paragraph 2.28 of the Consultation Paper. Q16 of this paper asks respondents to provide us with any views on the potential equality impacts of the proposals.

## Legislative and Regulatory Reform Act 2006 (LRRA)

23. We have had regard to the principles in the LRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are proportionate and result in an appropriate level of consumer protections when balanced with their impact on firms and on competition.

24. We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are consistent with the principles of the code. For example, we are proposing to remove non-Handbook guidance which simplifies our framework, ensuring it remains proportionate and reducing compliance costs. Our other proposals are permissive in nature.

## Annex 4

# Abbreviations used in this paper

| Abbreviation | Description |
|---|---|
| **CBA** | Cost Benefit Analysis |
| **CP** | Consultation Paper |
| **FG** | Finalised Guidance |
| **FOS** | Financial Ombudsman Service |
| **FSMA** | Financial Services and Markets Act |
| **IO** | Interest-Only |
| **LRRA** | Legislative and Regulatory Reform Act 2006 |
| **MAA** | Modified Affordability Assessment |
| **MCD** | Mortgage Credit Directive |
| **MCOB** | Mortgages and Home Finance: Conduct of Business |
| **MMR** | Mortgage Market Review |
| **MMS** | Mortgage Market Study |
| **MRR** | Mortgage Rule Review |
| **PERG** | Perimeter Guidance Manual |
| **PRIN** | Principles for Business |
| **PSD** | Product Sales Data |
| **RAO** | Regulated Activities Order |
| **SYSC** | Senior Management Arrangements, Systems and Controls |

## Appendix 1

# Draft Handbook text

# MORTGAGE RULE REVIEW (EXECUTION-ONLY, AFFORDABILITY AND EXPIRED TERMS) INSTRUMENT 2025

## Powers exercised

A. The Financial Conduct Authority ("the FCA") makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 137A (The FCA's general rules);
(2) section 137T (General supplementary powers); and
(3) section 139A (Power of the FCA to give guidance).

B. The rule-making provisions listed above are specified for the purposes of section 138G(2) (Rule-making instruments) of the Act.

## Commencement

C. This instrument comes into force on [*date*].

## Amendments to the Handbook

D. The Mortgages and Home Finance: Conduct of Business sourcebook (MCOB) is amended in accordance with the Annex to this instrument.

## Citation

E. This instrument may be cited as the Mortgage Rule Review (Execution-Only, Affordability and Expired Terms) Instrument 2025.

By order of the Board
[*date*]

# Annex

## Amendments to the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

## 4 Advising and selling standards

…

### 4.2 Purpose

4.2.1 G …

(2) The purpose of this chapter is to ensure that:

…

(c) ~~the *firm* provides advice whenever it makes a sale during which there is spoken or other interactive dialogue between the *firm* and the *customer* (with exceptions for *high net worth mortgage customers* and *professional customers*, and for loans which are solely for a business purpose);~~ [deleted]

(d) ~~when there is no spoken or other interactive dialogue between the *firm* and the *customer* during the sale,~~ the *firm* is able to provide an execution-only service except for certain vulnerable *customers* (*customers* for *regulated sale and rent back* and *equity release transactions*; *customers* whose main purpose is debt consolidation; and *customers* who are using the transaction in order to exercise a statutory "right to buy") who are given advice in every case;

(e) *execution-only sales* are only provided where the *customer* has been warned about the implications of proceeding without advice, or where the *customer* has rejected advice which has been given, and has specifically instructed the *firm* that ~~he wishes~~ they wish to do so; and

…

…

…

### 4.4A Initial disclosure requirements

Description of a firm's services

4.4A.1 R Using the methods and at the times specified in this section, a *firm* must provide the *customer* with the following information:

(1) whether there are any limitations in the range of products that it will offer to the *customer*, and if so what those are;

(1A) ~~if there are any limitations in the range of the *firm's* products about which it will provide information during a spoken or other interactive dialogue with the customer, what those limitations are;~~ [deleted]

…

Range of products

…

4.4A.3AA G ~~(1)~~ ~~*MCOB* 4.4A.1R(1A)~~ *MCOB* 4.4A.1R(1) addresses situations in which a *firm* may wish to provide information in relation to a range of products that is narrower than the full range of products offered by it to *customers*. For example, if a *customer* visits a branch of a *mortgage lender* and requests information on the mortgages offered by that lender, the lender may wish to only provide information on the mortgages which can be obtained in branch, even though it offers different mortgage products through other sales channels (such as online). A *firm* must inform a *customer* where it is limiting the provision of information in this way.

~~(2)~~ ~~*MCOB* 4.4A.1R(1A) builds on *MCOB* 4.4A.1R(1) and *MCOB* 4.4A.2R (which, amongst other things, have the effect that, when a *firm* gives advice, any limitations on the mortgages the *firm* will consider from within the relevant market must be disclosed). Its purpose is to make it clear that, in the case of interactions that preserve the possibility of an *execution-only sale*, if a dialogue with the *customer* permitted by *MCOB* 4.8A.7AR will cover only a sub-set of the mortgages offered by the *firm*, this must be disclosed.~~

…

4.4A.6 G The disclosure required by *MCOB* 4.4A.1R(1) ~~and (1A)~~, *MCOB* 4.4A.2R and *MCOB* 4.4A.4R(1) about limitations in product range and information provision, and about *direct deals*, should be expressed in simple, clear terms. A *firm* may wish to consider using a sentence (or sentences) appropriate to the circumstances, along the following lines:

…

…

## 4.7A Advised sales

4.7A.1 G …

(3) ~~The *rules* at *MCOB* 4.8A also provide that advice must be given wherever the sales process involves spoken or other interactive dialogue (except for *high net worth mortgage customers*, *professional customers* and loans solely for a business purpose), unless that spoken or other interactive dialogue is of a sort described by *MCOB* 4.8A.7AR. They do not prohibit the giving of pre-contract or preliminary information which does not amount to advice to the particular *customer*, but mean that advice must be given before a *firm* enters into or *arranges* a *regulated mortgage contract*, or variation of such contract, unless (where the dialogue is not of a sort described by *MCOB* 4.8A.7AR) the requirements of the various exceptions in *MCOB* 4.8A are satisfied. *Firms* may wish to refer to *PERG* (particularly *PERG* 4.6) for guidance on the regulatory perimeter in relation to *advising* on *home finance transactions*.~~ [deleted]

…

…

**4.8A Execution-only sales**

Scope and application of this section

4.8A.1 G This section sets out the conditions which must be satisfied for a *firm* to enter into or vary a *regulated mortgage contract* with a *customer*, or *arrange* such a transaction for a *customer*, without giving advice, or where the advice given by the *firm* has been rejected. ~~As explained in *MCOB* 4.7A.1G, it does not prohibit the giving of pre-contract or preliminary information which does not amount to advice to the particular *customer*.~~ If the interaction with the *customer* constitutes or includes advice or a recommendation (see *PERG* 4.6), then, unless the *customer* has rejected advice, the sale cannot be an *execution-only sale*, and the *firm* would need to comply with *MCOB* 4.7A (Advised sales). If a *firm* intends (where permitted under this section) to operate a business model under which it will not give advice to particular *customers*, it may wish to refer to *PERG* (particularly *PERG* 4.6) for guidance on the regulatory perimeter in relation to the *regulated activities* which constitute advising on home finance transactions

4.8A.2 G Subject to certain limited exceptions, and subject to certain requirements being satisfied, where the *rules* in *MCOB* 4.8A apply to a *firm* they restrict *execution-only sales* (which term is defined to include variations of existing contracts) to cases where~~:~~

~~(1)~~ ~~there is no spoken or other interactive dialogue between the *firm* and the *customer* during the sale; or~~

~~(2)~~ ~~if there is spoken or other interactive dialogue between the *firm* and the *customer* during the sale:~~

~~(a) the *customer* is a *high net worth mortgage customer*; or~~

~~(b) the *customer* is a *professional customer*; or~~

~~(c) the loan is solely for a business purpose;~~

~~and in each case the *customer* has positively elected to proceed with an *execution-only sale* and (in the case of a *professional customer*) identified the product he wishes to purchase; or~~

~~(2A) if there is spoken or other interactive dialogue between the *firm* and the *customer* during the sale, the *firm's* contribution to the dialogue is limited to:~~

~~(a) factual information about a *regulated mortgage contract* (provided that it is not personalised to the *customer*), the process of applying for one, or the processing of an application; the making of arrangements related to such matters;~~

~~(b) the provision of an *European Standardised Information Sheet (ESIS)* or an *illustration*; or~~

~~(c) an explanation of the information provided under *MCOB* 4.8A.14R(4) (that the *firm* has not assessed the suitability of the *regulated mortgage contract*); or~~

~~(3)~~ the *customer* has rejected advice, identified the product ~~he wishes~~ <u>they wish</u> to purchase and positively elected to proceed with an *execution-only sale*.

~~In each case certain requirements must be satisfied.~~

4.8A.3 G ~~Interactive dialogue includes SMS, mobile instant messaging, email and communication via social media sites; this list is not exhaustive. Where a sale is carried out entirely on the internet, a *firm* merely permitting the *customer* to input details about the matters specified in *MCOB* 4.8A.14R (1), (2) or (3) in order to select from the *firm's* product range the *regulated mortgage contract* they wish to purchase, or the variation they wish to enter into, would not be engaging in interactive dialogue.~~ <u>[deleted]</u>

The customer's best interests

4.8A.4 G …

<u>4.8A.4A</u> <u>R</u> <u>A *firm* must consider what procedures it is appropriate to establish to identify *execution-only customers* for whom advice on suitability, or other customer support, may be necessary to avoid foreseeable harm in connection with entering into or varying a *regulated mortgage contract*.</u>

…

4.8A.6 G ~~*Firms* are not prohibited from entering into or *arranging execution-only sales* for *regulated mortgage contracts* for *customers* to whom they have provided product information (where otherwise permitted under this section), but~~ *MCOB* 2.5A.1R and *MCOB* 4.8A.5R (The customer's best interests) mean ~~the information they provide~~ <u>that a *firm*</u> should not steer the *customer* to elect to enter into an *execution-only sale.*

…

Cases where execution-only sales are not permitted

4.8A.7 R A *firm* must not enter into or *arrange* an *execution-only sale* for a *regulated mortgage contract* if:

…

(3) ~~there is spoken or other interactive dialogue between the *firm* and the *customer* at any point during the sale, except as described by *MCOB* 4.8A.7AR; or~~ <u>[deleted]</u>

…

4.8A.7A R ~~The *firm* may carry on a spoken or other interactive dialogue with the *customer*, provided that the content of the *firm's* contribution to the dialogue is limited to:~~ <u>[deleted]</u>

~~(1)~~ ~~the provision of factual information to the *customer* about:~~

~~(a)~~ ~~a *regulated mortgage contract*, provided that the information about the contract is not personalised to the *customer*; or~~

~~(b)~~ ~~the process of applying for a *regulated mortgage contract*; or~~

~~(c)~~ ~~the processing of an application for a *regulated mortgage contract*; or~~

~~(2)~~ ~~the making of practical arrangements related to such matters; or~~

~~(3)~~ ~~the provision of an *illustration* or an *European Standardised Information Sheet (ESIS)*; or~~

~~(4)~~ ~~an explanation of the information which the *firm* gives to the *customer* in accordance with *MCOB* 4.8A.14R(4).~~

4.8A.7B G ~~(1)~~ ~~If the interaction with the *customer* constitutes or includes advice or a recommendation (see *PERG* 4.6), the sale cannot be an *execution-only sale* and the *firm* would need to comply with *MCOB* 4.7A (Advised sales).~~ <u>[deleted]</u>

~~(2)~~ ~~*MCOB* 4.8A.7AR allows some interaction with a *customer* without the dialogue triggering the need for the *firm* to give advice in compliance with *MCOB* 4.7A.~~

~~(3)~~ ~~*MCOB* 4.8A.7AR would, for example, permit a *firm* to provide generic information to a *customer* in response to a telephone query about the *firm's* products, fees and charges, about processes and timescales, about how to complete an application, or about the progress of the application. But information about a *regulated mortgage contract* which is personalised to the *customer* is not permitted, for example giving an estimate of the monthly payment due in respect of the amount that the *customer* wishes to borrow under the product they wish to take: giving such information would mean the *firm* would need to comply with *MCOB* 4.7A.~~
~~The *firm* may, however, issue an *illustration* or an *European Standardised Information Sheet (ESIS)* which contains information personalised to the *customer* without that action triggering the need for advice. The *firm* may also explain to the *customer* the information which the *firm* provides in accordance with *MCOB* 4.8A.14R(4) (in relation to the *firm* not assessing the suitability of the *regulated mortgage contract*).~~

~~(4)~~ ~~Examples of spoken or other interactive dialogue which are or are not permitted under *MCOB* 4.8A.7AR include:~~

| | |
|---|---|
| ~~Providing the *customer* with copies of product literature, or weblinks to such literature~~ | ~~This would be permitted, if the provision is in response to a request from a *customer* who has identified the main features of the mortgage they want and is accompanied by an indication that the products described in the literature all have those features (see *PERG* 4.6.15G(6)).~~ |
| ~~Listing the current fixed and variable rates on offer~~ | ~~This would be permitted.~~ |
| ~~Explaining the advantages and disadvantages of fixed rate and variable rate mortgages~~ | ~~This would be permitted if done in purely generic terms, provided that the explanation does not itself constitute advice (see *PERG* 4.6.15G(2) and 4.6.16G) which would prevent the sale from proceeding as an *execution-only sale*.~~<br>~~Where the explanation is couched in the terms of the *customer's* circumstances, it is~~ |

| | |
|---|---|
| | ~~personalised to the *customer*. As such, the interaction is not of a sort permitted by *MCOB* 4.8A.7AR, the sale cannot be an *execution-only sale* and the *firm* would need to comply with *MCOB* 4.7A.~~ |
| ~~Giving the *customer* an indication of the monthly cost of a *regulated mortgage contract*~~ | ~~This would be permitted, if it were in the form of a generic example, including by way of comparison of two mortgages.~~<br><br>~~But this would not be permitted if it were an indication personalised to the *customer*, for example where the indication is of the monthly cost in respect of the amount which the *customer* wishes to borrow over the term for which the *customer* wishes to borrow it; such an interaction will trigger the need for advice and the *firm* would need to comply with *MCOB* 4.7A.~~ |
| ~~Talking the *customer* through a decision tree~~ | ~~This would not be permitted. Although the question of whether decision trees constitute advice is discussed at *PERG* 4.6.15G, the act of talking the *customer* through such a decision-making process is likely to involve doing more than merely providing the *customer* with factual information; as that interaction is not of a sort permitted by *MCOB* 4.8A.7AR, the sale cannot be an *execution-only sale* and the firm would need to comply with *MCOB* 4.7A.~~ |
| ~~Responding to a query about how to fill out an application form (for example: telling a *customer* what supporting documents are acceptable as proof of address or identity and how to supply them, or how to calculate and report their income or expenditure)~~ | ~~This would be permitted, as it is information about the process of applying for a mortgage and the making of arrangements (how to supply supporting evidence) related to that process.~~ |
| ~~Discussing the use of panel solicitors~~ | ~~This would be permitted, provided such discussions are limited to~~ |

| | |
|---|---|
| | ~~factual information about, for example, whether or not a particular firm of solicitors is on the lender's panel and what legal fees are or are not included in the mortgage offer.~~ |
| ~~Taking credit card details by phone to cover payment of a required valuation~~ | ~~This would be permitted, as it is about the making of practical arrangements related to the processing of an application for a *regulated mortgage contract*.~~ |
| ~~Rescheduling a property valuation~~ | ~~This would be permitted because the interaction is about the making of arrangements related to the processing of the application.~~ |
| ~~Calling the *customer* to tell them that an application for a *regulated mortgage contract* needs to be submitted in the next two *days* if a new (higher) interest rate is not to apply~~ | ~~This would be permitted, if it were in the form of a generic communication about the *firm* planning to change its product offering or interest rates in the near future, and indicating the deadline for applying for the current product.~~<br><br>~~However, a communication about a particular *regulated mortgage contract* that the *firm* knows or reasonably suspects the *customer* may wish to apply for, and the product it will be replaced with or the rate that will apply if an application for such a product is received after a particular date, would not be permitted as this is information which is personalised to the *customer*.~~ |

…

~~Exceptions~~ Exception: high net worth mortgage customers~~, professional customers and loans solely for a business purpose~~

4.8A.9 R ~~(1)~~ …

~~(2)~~ ~~*MCOB* 4.8A.7R(3) does not apply where the *customer* is a *professional customer* or the loan is solely for a business purpose.~~

Exception: rate switches and other variations

4.8A.10 R (1) *MCOB* 4.8A.7R does not apply in the case of a variation of a *regulated mortgage contract*, provided that:

…

(b) where the variation will (in whole or part) change from one interest rate to another, the *firm* has presented to the *customer*~~, using only a non-interactive channel,~~ all products offered by it for which the *customer* is eligible~~, whether or not the *customer* then selects from those products using an interactive channel~~; and

…

(3) ~~Where a *customer* informs their existing *mortgage lender* that they are considering redeeming their *regulated mortgage contract* by refinancing it with a *regulated mortgage contract* through another *mortgage lender*, *MCOB* 4.8A.7R(3) does not apply to the existing *mortgage lender* provided that:~~ <u>[deleted]</u>

~~(a)~~ ~~the *customer* specifies to the existing *mortgage lender* at least the following information in relation to the replacement *regulated mortgage contract*:~~

~~(i)~~ ~~the rate of interest;~~

~~(ii)~~ ~~the interest rate type (that is, whether fixed, variable or some other type);~~

~~(iii)~~ ~~the length of the term required by the *customer*;~~

~~(iv)~~ ~~the sum the *customer* wishes to borrow; and~~

~~(v)~~ ~~whether the customer wants an *interest-only mortgage* or a *repayment mortgage*; and~~

~~(b)~~ ~~the existing *mortgage lender* presents to the *customer*, in a *durable medium*, those of its products for which the *customer* is eligible and which match the features the *customer* specifies.~~

…

Requirements for execution-only sales

4.8A.14 R A *firm* must not enter into or *arrange* an *execution-only sale* for a *regulated mortgage contract* unless, except as provided in *MCOB* 4.8A.15R:

(1) for a new *regulated mortgage contract* not falling within *MCOB* 4.8A.10R, the *customer* has identified the *regulated mortgage*

*contract* ~~he wishes~~ they wish to purchase, specifying to the *firm* at least the following information:

…

(2) for a contract variation not falling within *MCOB* 4.8A.10R (but permitted by *MCOB* 4.8A.7R), the *customer* has specified at least the following information, where applicable to the variation ~~he wishes~~ they wish to enter into:

…

(3) for a contract variation falling within *MCOB* 4.8A.10R, the *customer* has specified the variation ~~he wishes~~ they wish to enter into;

(4) the *customer* has been informed, either clearly and prominently and in a *durable medium* or in an oral statement that is audio or video recorded (after providing the information in (1), (2), or (3), where that is required), and with the information required by this paragraph being separate from any other information or contractual documentation):

   (a) in any case falling within *MCOB* 4.7A.24R (Rejected advice) where the *firm* has advised the *customer* that the *regulated mortgage contract* (or variation) is unsuitable for the *customer*, that that is the case; or

   (b) in any other case, that in the provision of its services for the *execution-only sale* the *firm* is not required to assess the suitability of that *regulated mortgage contract* (or variation);

and in either case that the *customer* will not benefit from the protection of the rules (in *MCOB* 4.7A) on assessing suitability. In any case where there is spoken dialogue between the *firm* and the *customer* at any point during the sale, ~~other than dialogue of a sort permitted by *MCOB* 4.8A.7AR,~~ the *firm* must provide this information orally (even if it also provides it in a *durable medium*); and

(5) once the *customer* has been provided with the information in (4)(a), in any case where there is spoken or other interactive dialogue between the *firm* and the *customer* at any point during the sale, the *customer* has confirmed in writing to the *firm*, or has confirmed orally to the *firm* (and that confirmation is audio or video recorded), that they are aware of the consequences of losing the protections of the *rules* on assessing suitability and are making a positive election to proceed with an *execution-only sale*.

…

## 8 Equity release: advising and selling standard

…

### 8.6A Execution-only sales

…

The conditions for execution-only sales

8.6A.4 R A *firm* must not enter into or *arrange* an *execution-only sale* for an *equity release transaction* unless:

…

(2) the *customer* has identified which particular *equity release transaction* ~~he wishes~~ they wish to purchase, and specified to the *firm* at least the required additional information (where applicable);

(3) after providing the required information in (2), the *customer* has been informed, clearly and prominently and in a *durable medium*, and that the *customer* will not benefit from the protection of the rules (in *MCOB* 8.5A) on assessing suitability~~.~~:

(a) in any case where the *firm* has advised the *customer* that the *equity release transaction* is unsuitable for the *customer*, that that is the case; and

(b) in any other case, that in the provision of its services for the *execution-only sale* the *firm* is not required to assess the suitability of that *equity release transaction*;

and in either case that the *customer* will not benefit from the protection of the rules (in *MCOB* 8.5A) on assessing suitability. In any case where there is spoken dialogue between the *firm* and the *customer* at any point, the *firm* must also provide this information orally; and

(4) after the *customer* has been provided with the information in (3)(a), ~~in any case where there is spoken or other interactive dialogue between the *firm* and the *customer* at any point,~~ the *customer* has confirmed in writing to the *firm* that ~~he is~~ they are aware of the consequences of losing the protections of the rules on assessing suitability and ~~is~~ are making a positive election to proceed with an *execution-only sale*. The written confirmation must be in the same document as the information in *durable medium* in (3), which must be separate from any other information and contractual documentation.

Exception: rate switches and other variations to lifetime mortgages

8.6A.5 R (1) The condition in *MCOB* 8.6A.4R(1) does not apply in the case of a variation of a *lifetime mortgage*, provided that:

…

(b) where the variation will (in whole or part) change from one interest rate to another, the *firm* has presented to the *customer*~~,~~ ~~using a non-interactive channel,~~ all products offered by it for which the *customer* is eligible~~, whether or not the *customer* then selects from those products using an interactive channel~~.

…

…

**11 Responsible lending, and responsible financing of home purchase plans**

…

**11.6 Responsible lending and financing**

…

The assessment of affordability

…

11.6.3 R …

(3) *MCOB* 11.6.2R does not apply to a variation to the terms of a *regulated mortgage contract* or *home purchase plan* which:

…

(b) reverses (in full or in part) a term extension within six *months* of it taking effect; or

…

…

(5) Paragraph (3)(b) only applies where the contract:

(a) has not previously been varied in reliance on that paragraph; and

(b) is not a *bridging loan* or a *second charge regulated mortgage contract*.

<u>(6)</u> <u>*MCOB* 11.6.2R does not apply to a variation to the terms of a *regulated mortgage contract* or *home purchase plan* which reduces</u>

its term. A *firm* must consider affordability in line with *Principle* 12 (Consumer Duty) and *PRIN* 2A and its responsible lending policy.

…

**11.9 Remortgaging with the same or a different lender with no additional borrowing**

Application and purpose

11.9.1 R (1) Subject to (2), this section applies to a *firm* in relation to a *customer* who:

(a) is a borrower under a *regulated mortgage contract* ("the existing *regulated mortgage contract*"), whether with that *firm* or a different *firm*; and

(b) wishes to enter into a new *regulated mortgage contract* ("the proposed *regulated mortgage contract*") with that *firm* to replace the existing *regulated mortgage contract*.

…

…

11.9.3 G (1) The purpose of this section is to facilitate borrowers switching mortgages, provided that they are not taking out additional borrowing. But the mortgage does not have to be exactly like-for-like and the borrower can, for example:

…

(2) This section permits *firms* to choose to modify certain provisions when assessing a *customer's* ability to afford a mortgage. The provisions capable of modification are grouped (such as the provisions linked to the assessment of income and expenditure). *Firms* can choose whether to adopt all, some, or none of the modifications in this section, on a case-by-case basis (though they cannot modify some provisions in a group and not others). ~~However, we would~~ We expect *firms* to have regard to ~~*Principle* 6 ("A *firm* must pay due regard to the interests of its *customers* and treat them fairly")~~ *Principle* 12 and *PRIN* 2A (the Consumer Duty) and not unfairly apply *rules* in one case but not another where the *customers'* circumstances are otherwise the same.

…

The assessment of affordability

…

11.9.5 R (1) The *firm* must not enter into the proposed *regulated mortgage contract* unless that contract is more affordable for the *customer* (and any guarantor) than:

(a) the existing *regulated mortgage contract*; or

(b) where the lender of the existing *regulated mortgage contract* has indicated to the *customer* a new deal, that new deal.

(2) …

(3) The proposed *regulated mortgage contract* is more affordable than the new deal indicated to the *customer* by the lender of the existing *regulated mortgage contract* if:

(a) the aggregate amount of:

(i) the monthly payments which would be due from the *customer* under the proposed *regulated mortgage contract* in respect of any discounted or introductory period, or (where there is no discounted or introductory period) in respect of the term of the proposed *regulated mortgage contract*; and

(ii) any product fee or arrangement fee which would be due from the *customer* in relation to the proposed *regulated mortgage contract*, and any fee charged by a *mortgage intermediary* for *arranging* or *advising on regulated mortgage contracts* in relation to the proposed *regulated mortgage contract*, which the *customer* intends to pay without including it in the amount being lent under the proposed *regulated mortgage contract*,

is less than the aggregate amount due from the *customer* under the indicated new deal in respect of the proposed *regulated mortgage contract's* discounted or introductory period or (where there is no discounted or introductory period) in respect of the term of the indicated new deal;

(b) the interest rate applicable under the proposed *regulated mortgage contract*:

(i) in respect of any discounted or introductory period; or

(ii) (where there is no discounted or introductory period) that which is expected to apply during the term of the contract,

is lower than the interest rate which would be applicable under the indicated new deal.

11.9.6 G …

(2) *MCOB* 11.9.5R(2) ~~determines~~ and (3) determine whether one *regulated mortgage contract* is more affordable than another. The references in that *rule*:

(a) to a discounted or introductory period include, for example, any fixed rate period after which a different interest rate applies, and any period in respect of which interest is deferred. Where interest is due in respect of a discounted or introductory period but is deferred, it is the gross rate payable that should be considered for the purposes of the conditions in *MCOB* 11.9.5R(2) and (3), as if interest were not deferred;

…

(c) to aggregate amounts due under the existing *regulated mortgage contract*, or under the indicated new deal, should be taken to be on the assumption that that contract would not be redeemed early and would not incur an *early repayment charge*; and

(d) to future payments or interest rates should be taken to be on the assumption that there is no variation to the reference rate in question, unless the *regulated mortgage contract*, or the indicated new deal, expressly provides for a variation (for example, when considering a lifetime Bank of England base rate tracker, it should be assumed that the Bank of England base rate will remain unchanged).

Assessment of income and expenditure

11.9.7 R (1) A *firm* may elect that the modifications to the *rules* in *MCOB* specified in (2) are to apply in relation to the proposed *regulated mortgage contract*. The *firm* may not elect that only some of those modifications apply in relation to the proposed *regulated mortgage contract* but not others.

…

11.9.8 G (1) *MCOB* 11.9.7R modifies the affordability assessment required by *MCOB* 11.6, in line with the modification to *MCOB* 11.6.2R made by *MCOB* 11.9.4R. ~~This is on the basis that a *customer* who has evidenced an ability to afford a mortgage at a higher monthly payment than that which would be charged under the proposed *regulated mortgage contract* may be treated as likely to be able to afford the proposed *regulated mortgage contract*.~~

…

(4) This section does not prevent a *firm* from undertaking an investigation of the *customer's* financial circumstances before offering to enter into a *regulated mortgage contract* with the *customer*. Where a *firm* does so, it may take into account that the *customer* is not in *payment shortfall* and that the proposed *regulated mortgage contract* is more affordable than the existing *regulated mortgage contract*, or the indicated new deal, when determining the nature and degree of that investigation. In particular, the *firm* may also wish to consider whether it is necessary to require the same information from the *customer* as it would from a customer who does not currently have a *regulated mortgage contract*.

(5) If the *firm* is considering the effect of future interest rate rises on the prospect of the *customer* meeting their obligations under the proposed *regulated mortgage contract*, the *firm* may wish to have regard to the extent to which the interest rate applicable to the existing *regulated mortgage contract* ~~is~~, or to the indicated new deal is, or would be, higher than that applicable to the proposed *regulated mortgage contract*. The *firm* may also wish to have regard to the fact that the *customer* is not in *payment shortfall* in relation to the existing *regulated mortgage contract*.

…

Explanation of affordability assessment, and accompanying warning

11.9.11 R (1) This *rule* applies if a *firm* makes an election under any of the following *rules*:

(a) *MCOB* 11.9.4R (assessment of affordability);

(b) *MCOB* 11.9.7R (assessment of income and expenditure);

(c) *MCOB* 11.9.9R (interest-only mortgages).

(2) The *firm* must provide the *customer* with an explanation which indicates:

(a) what steps the *firm* has taken to ascertain that the proposed *regulated mortgage contract* is more affordable than the existing *regulated mortgage contract* or the indicated new deal; and

(b) how the steps it has taken differ from the steps it would have taken under *MCOB* 11.6 if the *firm* had not applied *rules* in this section.

(3) The *firm* must accompany the explanation with a warning (as relevant to the individual case) that:

(a) interest rates may increase and the *customer* could end up paying a higher interest rate than they are currently paying under the existing *regulated mortgage contract*, or could have paid under the indicated new deal, even though the *firm* has assessed that the proposed *regulated mortgage contract* is currently more affordable;

…

(c) where the term of the proposed *regulated mortgage contract* is to end later than the term of the existing *regulated mortgage contract*, or the indicated new deal, the *customer* may end up paying more in interest overall as a result of entering into the proposed *regulated mortgage contract*.

…

Internal switching policy

11.9.12 R (1) An internal switching policy is a policy which:

(a) is made or approved by the *governing body* of the *firm*; and

(b) commits or obliges the *firm*:

(i) to permit an eligible *customer* to enter into a more affordable *regulated mortgage contract* (see *MCOB* 11.9.5R(2) and (3)); and

…

(2) For the purposes of an internal switching policy, a *customer* must be eligible if:

…

(c) the *customer* wishes to enter into a more affordable *regulated mortgage contract* with the *firm* (see *MCOB* 11.9.5R(2) and (3)); and

…

11.9.13 E If a *firm* has an internal switching policy but does not, without good reason:

(1) permit an eligible *customer* to enter into a more affordable *regulated mortgage contract*; or

(2) apply *MCOB* 11.6.3R or *MCOB* 11.7 (if relevant) or such of the *rules* in this section as may be necessary to enable that *customer* to enter into the more affordable *regulated mortgage contract*;

this may be relied on as tending to show contravention of ~~*Principle* 6~~ *Principle* 12 and *PRIN* 2A (the Consumer Duty).

…

**13 Payment difficulties and repossessions: regulated mortgage contracts and home purchase plans**

…

**13.2 Purpose**

…

13.2.1 G …

13.2.1A G This chapter also requires *firms* to treat expired term *customers* fairly.

…

**13.3 Dealing fairly with customers: policies and procedures**

…

Customers in payment difficulties: procedures

…

13.3.8 G …

Expired term customers

13.3.8A R When dealing with *customers* whose mortgage terms have expired with a balance outstanding, *firms* must deal with *customers* fairly and not take repossession action unless all other reasonable attempts to resolve the position have failed.

13.3.8B G In complying with *MCOB* 13.3.8AR, a *firm* should consider, given the individual circumstances of a *customer*, what actions, if any, it is appropriate to take in respect of the *customer* and the *regulated mortgage contract*. This includes having regard to its obligations under *Principle 12* and *PRIN* 2A (the Consumer Duty).

…

Pub ref: 2-008433