

Consultation Paper **CP26/18****

Mortgage Rule Review:
Supporting first-time buyers
and underserved consumers

June 2026

How to respond

We are asking for comments on this Consultation Paper (CP) by **28 July 2026**.

You can send them to us using the form on our [website](#).

Or in writing to:

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Chapter 1

Summary

Background

- 1.1** The mortgage market, savings and employment patterns have shifted in the last decade. Lending standards have significantly improved since the early 2000s, with over 99% of mortgages originated since 2014 on track. However, house prices have grown much faster than wages and the needs of borrowers – and first-time buyers, in particular – are evolving. These changes have restricted some consumers accessing the mortgage market, with homeownership becoming an increasingly challenging aspiration for many – particularly those without financial support from family.
- 1.2** Later in life, for those who do own their home, accessing their equity can be too difficult. With 43% of working age people projected to be under-saving for their retirement, better access to accumulated housing wealth could be key to helping these people achieve their financial goals in later life.
- 1.3** Regulatory changes alone will not be enough to solve today's challenges, but we do play our part. We will also work with market participants and stakeholders, including Government, to meet these challenges.
- 1.4** We first reminded lenders of the flexibility in our stress test rule, to help more people access the affordable mortgage they need. We then invited firms wishing to increase their high-LTI lending beyond the 15% threshold to contact us to discuss individual guidance, following the Financial Policy Committee's Recommendation. This interim measure will remain in place until we and the Prudential Regulation Authority (PRA) implement the final policy later this year. We estimate that this latter intervention has created the capacity for up to 36,000 additional loans for first-time buyers and up to 28,000 for home movers and remortgagors.
- 1.5** In PS25/11, we set out new rules to help consumers navigate their financial lives by making it easier, faster and cheaper to make certain changes to their mortgage and engage with their lender. These gave firms more opportunities to innovate and made it easier for borrowers to:
- remortgage with a new lender
 - reduce the overall cost of borrowing through term reductions
 - discuss options with a firm without automatically triggering the need for advice, while still having the option to seek it if needed
- 1.6** In June 2025 we published a Discussion Paper (DP25/2) on the future of the mortgage market. In December we set out our response (FS25/6) to the feedback we received and action we will take as part of our longer-term plan to modernise our mortgage rules. The areas we are prioritising in the Mortgage Rule Review are:

- expanding access for first-time buyers and underserved consumers
- enhancing later life lending
- enabling innovation
- protecting consumers in vulnerable circumstances

About this consultation

- 1.7** The Discussion Paper feedback, from consumer groups, industry and individuals, has informed the proposals in this consultation. We have discussed our approach with the Financial Services Consumer Panel, the Practitioner Panel and members of the FCA Smaller Business Practitioner Panel. We have also engaged with the Financial Ombudsman Service (Financial Ombudsman) and the Bank of England (the Bank), including the Prudential Regulation Authority (PRA).
- 1.8** We believe some creditworthy consumers may be currently underserved by the market and we want to help them achieve their financial objective of owning a home by:
- widening access to interest-only and part interest-only lending
 - making it easier to raise mortgage finance in later life
 - lowering barriers for firms who want to lend to consumers with irregular income
 - encouraging lenders to take a more individualised/tailored approach when assessing the creditworthiness of customers with impairment in their credit history, rather than declining them based on a definition designed for debt consolidation and reporting purposes
 - lowering barriers for firms who want to lend in a foreign currency or to consumers with a foreign income
 - increasing flexibility for borrowers who want bridging finance, which can help break a lengthy sales chain or fund a renovation
- 1.9** To enable innovation to support these customers, we propose to increase the scope for firms to offer mortgages with different features, and therefore different risks. Strategic utilisation of these mortgage types could support, widen or promote earlier homeownership.
- 1.10** We are mindful of lessons learnt from past episodes where certain mortgage types were sold at scale. This arose because of weaker underwriting and distribution standards than are permitted in the market today. Our responsible lending framework, and high standards of conduct underpinned by the Consumer Duty, have led to a more resilient market. These remain core to our proposals.
- 1.11** All forms of housing tenure carry risk. Rebalancing risk within the mortgage market means accepting that some consumers may experience financial difficulty or poor outcomes because of access to higher risk products. This is balanced by the positive net welfare and financial benefits from increased homeownership.

- 1.12** Most poor mortgage outcomes arise due to events external to the mortgage contract (e.g., unemployment, illness, or relationship breakdown). Alternate products can increase exposure to other risks (e.g., house prices). We believe that the regulatory changes proposed alongside higher underwriting standards, and expectations on firms to support consumer understanding before entering into a mortgage, provide appropriate protection to mitigate excessive risks to consumers. However, we cannot eliminate all risk.
- 1.13** We do not aim to make interest-only or part interest-only/part repayment mortgages universally accessible, and we carefully considered the increased risk of adverse consequences for some consumers when using these products. We have also considered the risks associated with renting for longer if consumers are unable to buy their own home.
- 1.14** We consider the potential risks, and their mitigants, associated with each of our proposals in more detail in their respective chapters below.
- 1.15** Who needs to read this whole document:
- Mortgage lenders and administrators
 - Home purchase providers and administrators
 - Mortgage intermediaries.
- 1.16** Who else will be interested in this consultation
- Industry groups and trade bodies
 - Consumer groups and organisations
 - Mortgage consumers.

Measuring success

- 1.17** We will evaluate the success of the proposed changes through our supervision of firms and monitoring of the market through regulatory returns, including complaints data, product availability and criteria 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.
- 1.18** For these proposals, the key indicators we plan to use are:
- volume and proportion of interest-only mortgages taken out by first-time buyers and the self employed
 - volume and proportion of mortgages taken out by credit impaired consumers
 - sales of retirement interest-only mortgages
 - sales of mortgages in a foreign currency
 - sales of longer-term bridging loans

- arrears levels
- regulatory mortgage sales and performance returns

Environmental, social & governance considerations

- 1.19** In developing this Consultation Paper, we have considered the environmental, social and governance (ESG) implications of our proposals and our duty under section 1B(5) and section 3B(1)(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under section 5 of the Environment Act 2021. Overall, we do not consider that the proposals are relevant to contributing to those targets. We will keep this issue under review during the course of the consultation period and when considering whether to make the final rules.
- 1.20** In the meantime, we welcome your input on this as part of this consultation.

Equality and diversity considerations

- 1.21** We have considered the equality and diversity issues that may arise from the proposals in this Consultation Paper.
- 1.22** Overall, we do not consider that the proposals adversely impact any of the groups with protected characteristics under the Equality Act 2010 (in Northern Ireland, the Equality Act is not enacted but other anti-discrimination legislation applies).
- 1.23** Proposals to increase product flexibility and better serve certain consumers may have positive impacts for people with protected characteristics, particularly age, sex, and disability. For example, our proposals for retirement interest-only will primarily benefit older consumers.
- 1.24** We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.
- 1.25** In the meantime, we welcome your input to this Consultation Paper on what, if any, material impact there may be on different protected groups and how our proposals may otherwise impact on equality and diversity considerations.

Question 1: Do you have any comments on our equality and diversity considerations?

Next steps

- 1.26** We welcome your feedback on these proposals by 28 July 2026, using one of the methods in the 'How to respond' section on page 2.
- 1.27** We will consider feedback and aim to publish a policy statement in the second half of 2026.
- 1.28** We are continuing with policy development across the remaining three themes of the Mortgage Rule Review: enhancing later life lending, enabling innovation and protecting consumers in vulnerable circumstances.

Chapter 2

Interest-only mortgages

- 2.1** This chapter sets out our proposals to update our framework for interest-only mortgages and widen its scope for use as a strategic tool to support homeownership.

Background

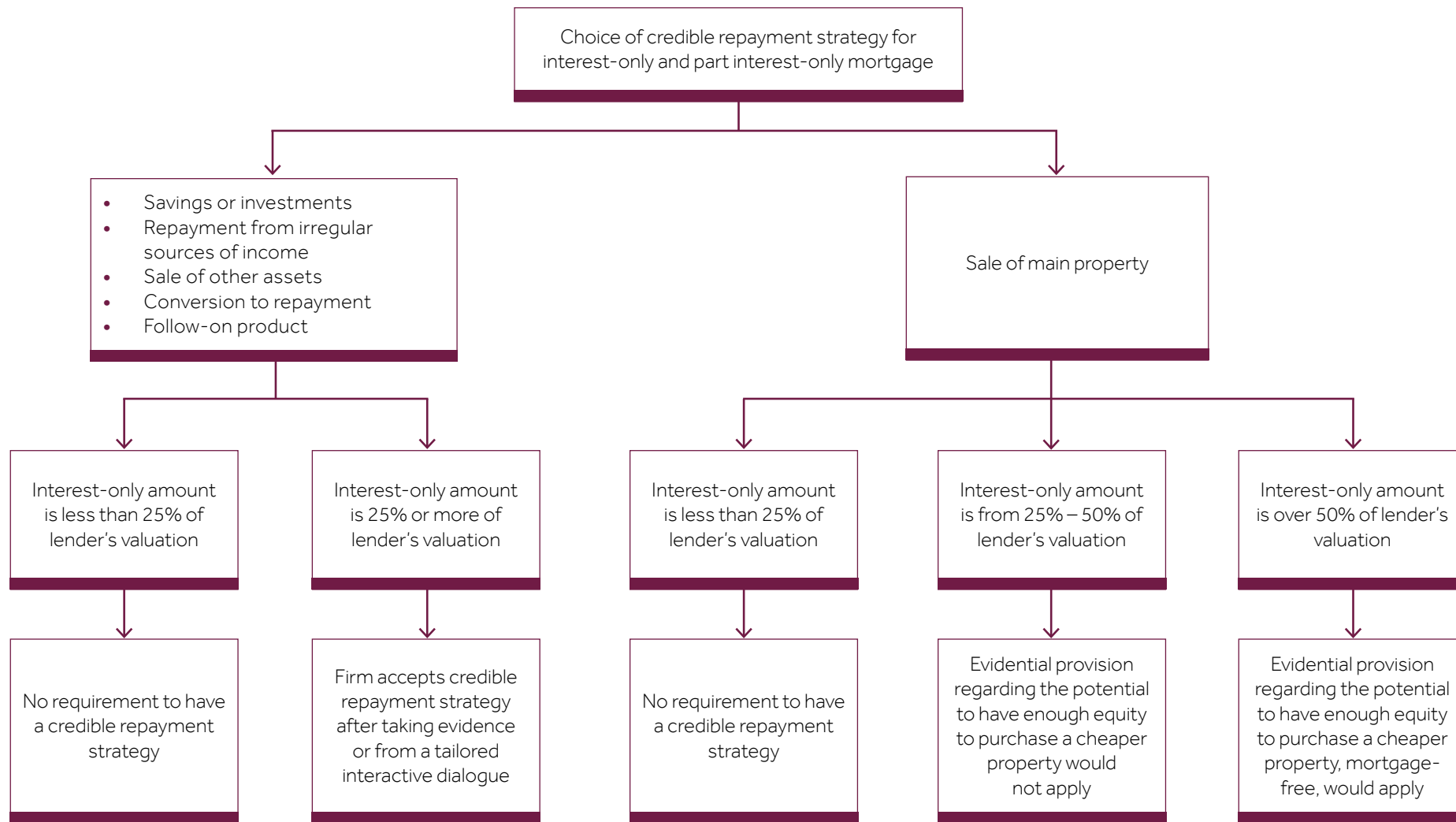
- 2.2** Interest-only mortgages only require the interest to be paid during the term. The capital borrowed is repaid in full at the end of the term. Delaying the repayment of capital can help borrowers to strategically plan around other financial aims and future expectations by reducing monthly payments, or access homeownership earlier by borrowing more than they could otherwise.
- 2.3** Part interest-only/part repayment means a portion of the mortgage is serviced on an interest-only basis, while another portion is on a repayment basis. This means the borrower is reducing part of the outstanding loan on the property, but the regular payments will be higher than on an interest-only mortgage.
- 2.4** Before the financial crisis in 2008 interest-only lending was used to reduce monthly mortgage payments but underwriting and sales standards were poor, especially around affordability testing (self-certification) and ability to repay the capital (no requirement to ensure a repayment strategy was in place). This has resulted in some borrowers not being able to repay the capital borrowed at the end of the interest-only mortgage term. So, in 2014, we introduced stricter affordability requirements as part of the Mortgage Market Review (MMR). This included the need for lenders to ensure there was a credible repayment strategy to repay the capital at maturity.
- 2.5** The introduction of these rules, together with lenders' reduced appetite to lend on an interest-only basis and the types of lenders who drove the poor practices exiting the market, led to a considerable drop in the number of interest-only sales (38.8% of all sales in 2007 compared to 5.4% in 2014).
- 2.6** In [DP25/2](#), last year we asked if we should update our interest-only rules to support first-time buyers (FTBs), as since 2013 sales of any kind of interest-only product to FTBs have been less than 0.5% of all sales.
- 2.7** General feedback was that allowing more flexibility on part interest-only/part repayment in particular would be beneficial, but the market shouldn't be able to return to the pre-financial crisis days on interest-only lending.
- 2.8** We believe that interest-only and part interest-only/part repayment lending could support some FTBs in getting on the property ladder, however the changes we are proposing are targeted, and would not make interest-only mortgages universally accessible.

- 2.9** The changes may also support other borrowers who, due to not being able to meet affordability on a full repayment basis, or cannot stretch mortgage term (e.g., due to age or preference) but can meet certain criteria could benefit from an interest-only or part interest-only/part repayment mortgage. For example, a borrower whose income has reduced, or starts low, but is expected to increase in the future.

What we are proposing

- 2.10** We are proposing three changes to our interest-only framework:
- Adapting requirements for where a credible repayment strategy is needed
 - Adding further examples of credible repayment strategy options
 - Clarifying expectations of the review requirement and providing examples of trigger points for when to carry out a review
- 2.11** Where the interest-only part of the mortgage is less than 25% of the valuation the lender receives as part of the mortgage application, we are proposing to remove our requirement for the borrower to have a credible repayment strategy.
- 2.12** Where a credible repayment strategy is required, a lender must have evidence that the borrower has one. Where evidence is not reasonably available or obtainable, we are proposing that a lender may instead make a reasonable assessment as to whether the borrower has a clearly understood credible repayment strategy following a tailored interactive dialogue with the borrower.
- 2.13** Sale of the main property is, with other options available, the most used credible repayment strategy. Currently if a firm does not consider whether this sale would allow the purchase of a cheaper property, this may be relied on to show contravention of the firm's obligations. We are proposing to introduce thresholds as to when this provision would apply.
- 2.14** The thresholds we are proposing are:
- Interest-only amount is over 50% of the valuation the lender receives as part of the mortgage application – the evidential provision regarding the potential to have enough equity to purchase a cheaper property would apply
 - Interest-only amount is between 25% – 50% of the valuation the lender receives as part of the mortgage application – the evidential provision regarding the potential to have enough equity in the property to purchase a cheaper property would not apply
- 2.15** We are proposing to add the use of a follow-on mortgage product (such as retirement interest-only and lifetime mortgages) and conversion to repayment within a reasonable period as examples of credible repayment strategies.

Figure 1: Credible repayment strategy decision tree



- 2.16** We also propose to make changes to MCOB 11.6.49R to clarify our expectations around reviews during the term of the mortgage.
- 2.17** The proposals on the thresholds and changes to sale of main property will only apply to first charge interest-only and part interest-only/part repayment mortgages.

Why we are proposing this

Credible Repayment Strategies

- 2.18** A credible repayment strategy provides some protection for the customer and firm, but we want to encourage firms to consider more strategies and changes in some lender approaches.
- 2.19** Under our current rules, a lender can only enter into an interest-only or part interest-only/part repayment mortgage if:
- a.** It has evidence that the borrower will have in place a clearly understood credible repayment strategy at the start of the mortgage, and
 - b.** As far as it is reasonably able to assess at that time, the credible repayment strategy has the potential to repay the capital borrowed and interest accrued.
- 2.20** This can be difficult for some borrowers, especially FTBs, as they may not be able to provide evidence of a credible repayment strategy that a lender would accept at the start of a mortgage.
- 2.21** Examples of what a firm could accept as a credible repayment strategy at present include regular deposits into a savings or investment product, periodic repayment from irregular sources of income, sale of other assets and sale of main property (with additional requirements).
- 2.22** We know that some firms take a very conservative approach to the credible repayment strategy. For example, for a savings or investment product they require a certain percentage of the amount borrowed to be in the savings or investment plan at the start of the mortgage.
- 2.23** Adding follow-on mortgage products, such as a retirement interest-only mortgage or a regulated lifetime mortgage, and conversion to repayment as examples of a credible repayment strategy would allow more FTBs and/or underserved customers to access interest-only and part interest-only/part repayment mortgages in a safe way. It would also better reflect the realities of options a consumer may have as they come closer to the end of their interest-only mortgage term.
- 2.24** The use of follow-on products may also help borrowers who had originally used sale of main property as their credible repayment strategy, but it is no longer an appropriate option.

- 2.25** The new examples we propose to add could help borrowers to choose a credible repayment strategy that was more appropriate to them based on where they are in their mortgage journey. For example, a young FTB may choose conversion to repayment as they will likely receive pay increases over time which will mean they could afford full repayment at a later date, or they may move several times and convert to repayment as part of the moving process.
- 2.26** Older borrowers who may not want to move again could identify that a follow-on product is the most viable credible repayment strategy as they won't have to worry about having to sell the property at the end of the mortgage term.

Question 2: Do you agree with our proposal to add follow-on mortgage products and conversion to repayment as examples of credible repayment strategies?

- 2.27** Firms would still need to ensure the chosen repayment strategy is credible i.e. that the borrower will realistically be able to convert to repayment within a reasonable period, or that they could likely get a follow-on product based on what is currently available in the market and their individual circumstances.
- 2.28** However, where evidence is not reasonably available or obtainable, firms would now have the option to use tailored interactive dialogue to reasonably assess whether a credible repayment strategy is in place. We are proposing that firms could use tailored interactive dialogue with customers to assess whether their repayment strategy is credible, for example that an increase to salary is likely to enable a conversion to repayment at a future point or that moving to a follow-on product is a viable option.
- 2.29** Tailored interactive dialogue would mean that any dialogue should be personal to the individual circumstances of a customer and should be based on their needs and circumstances. It would give the lender or mortgage intermediary enough information to allow them to assess if the customer has a credible repayment strategy or not, but it would be for the lender or intermediary to decide how much information they need to be able to make this assessment. The dialogue between a lender or intermediary and a customer could be via different channels including in person, SMS, mobile instant messaging, email etc.
- 2.30** The use of tailored interactive dialogue would be an alternative option where a customer did not have specific evidence, such as investment statements or valuations of other assets. This could primarily be used where the proposed repayment strategy was conversion to repayment or a follow-on product, but it would be for a firm to use its judgement on what is more appropriate based on the individual circumstances of the borrower and the firm's risk appetite.
- 2.31** Where the mortgage is sold via a mortgage intermediary, lenders may make arrangements for the intermediary to undertake the tailored interactive dialogue or undertake it directly. Following the Consumer Duty framework, lenders must ensure that the intended distribution strategy for the product or service is appropriate for the target market and carry out regular reviews to ensure that the product or service continues to meet the needs, characteristics and objectives of the target market. As today, the

lender would be responsible for assessing affordability, and the validity of conclusions drawn from a tailored interactive dialogue, before offering a mortgage. Intermediaries would be responsible for quality of the advice provided to the customer and accuracy of information shared with the lender.

- 2.32** While we are not setting an evidential requirement where a tailored interactive dialogue is used, firms may set their own criteria and evidential expectations for different repayment strategies. For example, where a customer intends to use a follow-on product to repay the capital, the firm may assess expected equity at term, and likely availability of a follow-on product in the current market the customer could qualify for. Or in the case of expected salary increases, evidence from their employer.
- 2.33** Firms are currently required to keep a record of the evidence of a customer's repayment strategy, and we propose that they would also need to keep a record of the tailored interactive dialogue about the repayment strategy, in line with what they do now.

Question 3: Do you agree with our proposal to allow a lender to make a reasonable assessment as to whether the borrower has a clearly understood credible repayment strategy following a tailored interactive dialogue with the borrower?

Sale of Main Property

- 2.34** Borrowers are currently able to use sale of main property as their credible repayment strategy, but if lenders do not consider whether the property will have the potential to provide equity to repay the capital (and where applicable accrued interest), and purchase a cheaper property, this may be evidence of a breach of the credible repayment strategy requirements.
- 2.35** In practice, this has proved very restrictive for FTBs as we know that the majority of lenders currently set minimum equity requirements at the start of the mortgage to meet this requirement.
- 2.36** The need to consider having enough equity to purchase a cheaper property was introduced as part of the MMR rules. This was due to concerns that borrowers could find themselves in difficulty if they have reached the end of their working life and haven't budgeted for ongoing housing costs in retirement.
- 2.37** We still believe it's important that a borrower's future housing needs are considered (whether that be continuing to be an owner-occupier, moving into the rental market or moving in with family and so on) when using sale of main property as the credible repayment strategy.
- 2.38** We are proposing to introduce thresholds to determine what requirements apply around sale of main property as the credible repayment strategy, as well as to remove the need to have a credible repayment strategy at all in certain circumstances. These are based on how much of the borrowing is on interest-only as a percentage of the valuation the lender receives as part of the mortgage application.

- 2.39** Those who take out a part interest-only/part repayment mortgage will increase the equity amount over time as they repay that element of the mortgage. They would therefore have more equity than a borrower with the same deposit, but who has taken the mortgage on full interest-only.
- 2.40** We want borrowers to be able to continue to fund their housing needs at the end of an interest-only or part interest-only/part repayment mortgage through the equity they will have built up in the property over time.
- 2.41** However, by using the proposed thresholds borrowers would be able to access interest-only and part interest-only/part repayment mortgages without needing a large deposit while remaining protected from the mortgage reaching maturity and not being able to meet their future housing needs.

Over 50% threshold

- 2.42** For borrowers with an element of their mortgage on interest-only which is over 50% of the lender's valuation, the current evidential rules around sale of main property would continue to apply. This means that the lender would need to consider the potential for there to be enough equity to repay the capital and purchase a cheaper property to live in or execute any other associated strategy.
- 2.43** We are also proposing to clarify that the cheaper property should be capable of being purchased mortgage-free along with issuing guidance on what factors might be relevant to determine what an associated strategy may be.
- 2.44** It's important to maintain this evidential provision for higher loan-to-value (LTV) interest-only or part interest-only/part repayment loans to ensure firms and borrowers have considered their future housing needs. If we removed the evidential provision from these higher LTV mortgages, it could harm consumers as they may not have sufficient funds for their future housing needs.

25% – 50% threshold

- 2.45** Where the interest-only amount is between 25% and 50% of the lender's valuation, we are proposing to remove the evidential rule in relation to considering whether the property would provide enough equity for the borrower to purchase a cheaper property at the end of the mortgage term.
- 2.46** At the end of the mortgage term the borrower should have built equity either through the deposit they put down (full interest-only) or by having a portion on full repayment (part interest-only/part repayment). This should then give them options at the end of the mortgage term, and there should be enough equity to purchase a cheaper property or use alternative housing options (rented, moving in with family, assisted living accommodation etc).

Less than 25% threshold

- 2.47** For borrowers who want to take out a mortgage where the interest-only element is less than 25% of the lender's valuation, we are proposing to remove our requirement for the borrower to have a credible repayment strategy.
- 2.48** The equity a borrower should have in this scenario should give them enough options at maturity to decide what they want to do, and they shouldn't need to specify this when they take the mortgage out. For example, they could choose to sell and downsize, take out a follow-on product, or they may have built up enough funds to pay off the capital and remain in the property.

Question 4: Do you agree with our proposals to introduce thresholds for when the sale of main property evidential provision would apply and to not require a credible repayment strategy at all for interest-only borrowing of less than 25% of the lender's valuation?

Question 5: Do you agree with our proposals to clarify that where the sale of main property evidential provision does apply, that a mortgage lender should consider whether a cheaper property could be purchased mortgage-free and to add guidance on what an associated strategy could be?

Question 6: As an alternative to the proposed rule changes and additional guidance, could the Consumer Duty alone be sufficient to protect interest-only customers?

Requirement to carry out at least one review during the term of the interest-only mortgage

- 2.49** Our rules (MCOB 11.6.49R (2)) currently set out that a mortgage lender must carry out at least one review during the term of the mortgage to check that the repayment strategy is still in place, and that it is still reasonable to expect that it has the potential to repay the capital borrowed and any interest accrued, where applicable.
- 2.50** Firms would continue to be required to undertake at least one review, adjusted to deliver good outcomes for customers as required under the Consumer Duty. Firms should ensure their customers are adequately supported throughout the lifecycle of their mortgage and must enable and support consumers to pursue their financial objectives.
- 2.51** Any review should be at a time that is appropriate for the customer's mortgage journey and could help the lender in avoiding causing foreseeable harm. A review is in both the customer's and lender's interest as it may identify any problems with the repayment strategy at the earliest opportunity and where needed a new strategy can be put in place or other options discussed.

2.52 We propose to add some guidance on the suitable trigger points for a review, and these would include things such as when the customer requests it, when the customer's current product is coming to an end, a change in circumstances or if house prices begin to fall meaning the repayment strategy may no longer be appropriate. This list would be non-exhaustive.

Question 7: Do you agree with our proposal to add guidance on trigger points for when a review of an interest-only mortgage should take place?

Potential risks and mitigation

- 2.53** Removing some of the rules and guidance around interest-only and part interest-only/part repayment mortgages could potentially increase the risk of harm for some consumers. We have considered this when developing the proposals and this is why the changes we are proposing are targeted. We do not aim to make interest-only or part interest-only/part repayment mortgages universally accessible.
- 2.54** The proposed changes to our rules on credible repayment strategies for interest-only lending aim to help some borrowers who may not be able to meet the affordability requirements for a repayment mortgage. The changes could mean that some consumers rent for less time (potentially saving them money if they have higher rental costs than the prospective mortgage payment), and help them meet their financial objectives, along with the security, of owning a home.
- 2.55** The proposed changes to the credible repayment strategy rules could increase the risk of borrowers not being able to pay the outstanding capital when due, or of falling into arrears. We believe the proposals would continue to secure an appropriate degree of consumer protection due to the overarching requirements of the Consumer Duty and our responsible lending framework. We require firms to enable consumers to understand their products and services, their features and risks, and the implications of any decisions they must make. Where firms do this, we expect consumers to take responsibility for their decisions.
- 2.56** Where sale of main property is the chosen credible repayment strategy, there is the risk that house prices fall during the mortgage term and affect the borrower's ability to realise this strategy. This could particularly be a concern in the 25% – 50% threshold where a firm would no longer have to consider the borrower's ability to purchase a cheaper property.
- 2.57** If house prices started to fall, a firm may want to get in touch with any borrowers who have chosen sale of main property as their credible repayment strategy to discuss if this is still the most appropriate option and what other strategies may be available to them.
- 2.58** The changes we are proposing are permissive in nature and allow firms to take advantage of them if they wish but firms can continue to follow their own policy if they wish to.

Chapter 3

Retirement interest-only mortgages

- 3.1** This chapter sets out our proposals for retirement interest-only mortgages within the Mortgage Rule Review, focusing specifically on our current affordability guidance.
- 3.2** The Later Life Mortgages Market Study is examining whether further change is needed to enable the lifetime and retirement interest-only mortgage sector to meet the increased and differing needs of consumers. We have chosen to propose a change now, rather than wait for the completion of this review, as we have sufficient feedback that removing the guidance will help support lenders to offer these to more customers.

Background

- 3.3** Following the implementation of the Mortgage Credit Directive in 2016, we defined retirement interest-only mortgages as lifetime mortgages. We revisited this definition and consulted on changes to our definition in 2017 because it may have been restricting consumer access to retirement interest-only mortgages. An example of how this definition may have been restricting access is because firms who are set up to offer standard mortgage lending may have been reluctant to change systems and staff arrangements to be able to offer lifetime mortgages.
- 3.4** Retirement interest-only mortgages have different risks compared to lifetime mortgages. In particular, they do not feature the roll-up of interest, meaning that consumers are not at risk of equity erosion and the subsequent reduction of funds available for a bequest. Retirement interest-only mortgages require a borrower to manage the on-going monthly payments, whereas a lifetime mortgage does not require monthly payments. Consumers are also more likely to be familiar with the product features of a mortgage involving interest payments.
- 3.5** We received feedback as part of the 2017 consultation asking for additional guidance on assessing affordability, particularly for joint borrowers.
- 3.6** As a result, as part of the final rules we gave additional guidance (MCOB 11.6.15G (4)) on affordability assessments for joint applications for retirement interest-only mortgages.
- 3.7** This guidance sets out that when assessing affordability of a retirement interest-only mortgage with joint borrowers, firms should consider the ability of a single borrower to continue making the required payments if the other borrower dies. Firms can take into account relevant evidence such as pensions payable to the surviving spouse or civil partner.

What we are proposing

- 3.8** We propose to remove this guidance which would mean affordability for joint retirement interest-only mortgage applications are assessed in the same way as for standard joint mortgages i.e. firms would not be obliged to always consider a sole borrower's ability to afford the mortgage if the joint borrower passes away.
- 3.9** By removing this guidance, firms would be able to determine more flexibly, based on their risk appetite and in line with mortgages conduct rules and the Consumer Duty, whether and how to assess whether the surviving spouse or civil partner could still afford the required payments or what their exit strategy may be.

Why we are proposing this

- 3.10** Sales of retirement interest-only mortgages remain low compared with lifetime mortgages (3,002 RIOs v 26,974 lifetime mortgages in 2025) and standard mortgages for those aged 55 and over. This shows there is demand from older borrowers for mortgage products.

Table 1: Mortgage Sales to Borrowers Aged 55 and over in 2025

Main Borrower Age	Retirement Interest-Only Mortgage Sales	Lifetime Mortgage Sales	Repayment Mortgage Sales	Interest-only Mortgage Sales	All
55 – 60	70	2,124	216,389	30,930	249,513
61 – 65	358	4,859	62,774	18,589	86,580
66 – 70	821	5,697	14,690	8,363	29,571
71 – 75	811	5,931	4,338	3,694	14,774
76+	942	8,363	1,789	3,246	14,340
Total	3,002	26,974	299,980	64,822	394,778

Source: FCA analysis of PSD001, includes internal remortgages and product transfers

- 3.11** Firms have told us through engagement, including responses to the DP, that the availability of retirement interest-only mortgages are constrained due to the guidance being too restrictive.
- 3.12** We acknowledge that it's more likely that a life event occurs over the course of a retirement interest-only mortgage than a standard mortgage but believe this guidance could be unnecessarily preventing consumers from being able to access retirement interest-only mortgages.

- 3.13** A retirement interest-only mortgage is an option for older customers who don't have enough income or liquid capital to finance their retirement needs. Taking out a retirement interest-only mortgage allows them to borrow without a defined repayment period (it does not get repaid until all borrowers have passed away or moved into permanent care) meaning they don't have a cliff edge moment to worry about, and that the equity in the property isn't eroded as they will continue to pay the interest each month.
- 3.14** We anticipate that removing the joint affordability guidance for retirement interest-only mortgages could reduce the number of consumers taking out a lifetime mortgage and the equity erosion that comes with a lifetime mortgage, where a retirement interest-only mortgage might have been the more suitable product. It could also reduce the number of consumers taking a standard interest-only mortgage with a term into later life, taking away the concerns about what will happen at maturity.

Potential risks and mitigation

- 3.15** The Consumer Duty requires firms to avoid causing foreseeable harm and to ensure customers are equipped with the right information, at the right time, to understand the product, including any risks, to make effective decisions.
- 3.16** Some firms may be concerned that if they don't assess the surviving spouse or civil partner's ability to afford the mortgage in the event of a joint customer passing away, this could lead to the customer getting into financial difficulty and ultimately falling into arrears.
- 3.17** If a firm is concerned about what would happen if one of the borrowers passed away, then it can choose to consider the ability of the surviving party to continue making payments as part of its affordability assessment. Firms would still be able to consider any future income the surviving party will receive, such as spousal pension.
- 3.18** We know from our product sales data that arrears in retirement interest-only mortgages are extremely low, with less than 1% being in arrears.

Question 8: Do you agree with our proposal to remove guidance on what should be considered when assessing affordability for joint retirement interest-only mortgages?

Question 9: Do you think that, if we remove the guidance, the Consumer Duty would be sufficient to meet our objectives?

Chapter 4

Variable and irregular income

- 4.1** This chapter sets out our proposals to clarify our standards which allow lenders to exercise discretion to flex payment schedules to match consumer need.

What we are proposing

- 4.2** Lenders may currently agree to any payment schedule appropriate for the customer within the mortgage contract, including quarterly or other regular payment frequencies. To make this clearer, we propose amending references to monthly payments in relevant parts of the Handbook to 'regular contractual payments.' We consider this would encourage lenders to better accommodate customers on variable and irregular income.
- 4.3** We propose to expand our guidance to include examples of evidence for assessing affordability for customers with variable or irregular income.
- 4.4** We also propose to clarify that lenders may agree payment schedules at a frequency other than monthly, including quarterly or other regular frequencies by:
- expanding the existing example in our Handbook to include non-monthly payment schedules (MCOB 5.6.40R).
 - amending references from 'monthly payments' to 'regular contractual payments' where appropriate (MCOB 11.9.5R) and removing guidance which is no longer relevant (MCOB 11.9.6 (2)(b)G).
 - making clear that, where there is a payment shortfall, before adding the unpaid amount to future payments firms should consider the customer's ability to pay the 'regular contractual payments'.
- 4.5** Firms should continue to clearly explain to borrowers the implications of the agreed payment schedule, including how choices such as paying quarterly rather than monthly may affect the total interest payable, in line with MCOB 4A.2.1R and their obligations under the Consumer Duty to support customer understanding and avoid foreseeable harm.

Question 10: Do you agree with our proposed revisions?

Why we are proposing this

- 4.6** Many consumers such as the self-employed, gig economy workers, contractors, locums and those with seasonal or irregular income – are underserved in the current mortgage market relative to their representation in the workforce. FCA Product Sales Data from 2025 shows that around 6% of mortgage sales included at least one borrower whose employment status was recorded as “self-employed” at application. This compares to c.13% of the workforce who are self-employed, (including c.1-2% who are independent contractors or locums).
- 4.7** We think our guidance could be clearer with the addition of further examples for individuals with variable or irregular income. These would be similar to existing provisions for self-employed individuals to demonstrate that affordability assessments can accommodate these circumstances, such as professionally prepared accounts.
- 4.8** Feedback to [DP25/2](#) indicates that a lack of standardised data or verifiable data, can make some lenders reluctant to lend to those with variable income while operational constraints such as systems built around monthly income are also barriers.
- 4.9** Our rules do not prohibit lenders from taking on customers with variable income or offering variable payment schedules, and we support use of alternative data to build a more rounded picture of borrower affordability from sources such as Open Banking.
- 4.10** Firms have flexibility to consider different types and evidence of income over appropriate periods. Some firms we have spoken to look back over a 12-month period at the consumer’s income when assessing affordability which helps to even out fluctuations. However, there are some parts of our mortgage rules which reference ‘monthly’ payments which we believe may influence firms’ interpretation and deter them from product innovation.
- 4.11** We want to make it clear that a firm can agree to any regular payment schedule it considers appropriate in its mortgage contract with a customer, such as quarterly payments. We want to encourage lenders to innovate using variable payment schedules to support customer needs and help them develop innovative payment structures that align better with consumers’ income patterns. This could help people who are self-employed, own or are employed in seasonal businesses, or are contractors/locums.

Current industry practice varies according to system capability

- 4.12** We are aware that some firms can allocate lump-sum payments across months within internal systems (e.g. quarterly payments may be recorded as three monthly payments). Other firms, including smaller firms, may lack this capability and require monthly direct debits. In both cases, borrowers are often encouraged to fund an account from which regular payments can be made.
- 4.13** We recognise that changes to mortgage systems can be complex. However, they should not of themselves preclude alternative product design, including the use of variable payment schedules that better align with a customer’s income pattern.

- 4.14** We intend any changes to be permissive but if innovation across the industry in this area fails to meet legitimate demand, we may consider a more directive approach in future.

MCOB rules and monthly-based income assessments

- 4.15** When using the Modified Affordability Assessment, our existing rules require firms to use monthly mortgage payments as the main point of comparison. Firms must compare the customer's current monthly payment or payments under their existing regulated mortgage contracts with the monthly payment they would make under the proposed new mortgage. This comparison must consider the payment in each of the 12 months following the application date and ignore any payments that are unusual or non-standard. The assessment must focus solely on regular monthly payments and must not take account of payments that relate to periods other than one month (MCOB 11.9.5R, MCOB 11.9.6 G(2)(b)). Firms may wish to model their assessment using the customer's preferred payment frequency and our rules could be clearer that this is acceptable.
- 4.16** In relation to suitability, firms should explain to the customer where they recommend a product which is not the cheapest option among available suitable contracts (MCOB 4.7A). Firms must base their assessment on the aggregate of monthly payments due under each contract. We are proposing that firms could base their assessment on payment schedules at a frequency other than monthly.
- 4.17** Our disclosure requirements often refer to how frequently customers make payments (MCOB 5.6.40R). In most cases, this is illustrated using monthly payments. We think customers would benefit if the rules clearly showed that other payment schedules are available as well.
- 4.18** Other references to monthly payments will be reviewed as set out in [FS25/6](#).

Interaction with payment difficulties (MCOB 13)

- 4.19** Our rules do not prevent firms supporting customers on agreed payment schedules that are non-monthly. A payment shortfall arises when a customer does not pay the full amount due by the contractual due date. A customer is regarded as being in arrears when two or more regular payments are missed. Arrears reporting requirements in SUP 16 Annex 19BG define arrears by reference to a monetary calculation rather than payment schedule.
- 4.20** Our rules are intended to ensure that customers who experience payment difficulties on a regulated mortgage contract are treated fairly and proportionately. We expect lenders to provide clear and timely information and only consider repossession as an option when all other reasonable attempts to resolve the position have failed.

- 4.21** Firms must not automatically capitalise a payment shortfall where the impact would be material. Before deciding to add any unpaid amount to the loan, a firm must first carry out an affordability assessment to ensure the customer can afford the capitalised monthly payments. It may only be appropriate to add the unpaid amount to the loan where the firm reasonably considers that the customer can afford the higher monthly payments (MCOB 13.3.4DG (1)).
- 4.22** We propose revising the reference in MCOB 13.3.4DG (1) from monthly payments to regular contractual payments. This will clarify that where a payment shortfall is added to their loan, firms should consider a customer's ability to afford future payments based on their capitalised contractual payment schedule.

Chapter 5

Credit-impaired or recently recovered

- 5.1** This chapter sets out our observations that firms may be using the FCA Handbook Glossary definition of a 'credit-impaired customer' in mortgage lending beyond its intended purpose for debt-consolidation mortgages. The definition includes borrowers with any of the following: arrears of three months or more on a previous loan in the last two years; county court judgment (CCJ) over £500 in the last three years; or being subject to a bankruptcy order or Individual Voluntary Arrangement (IVA) at any time in the last three years.
- 5.2** The definition of a credit-impaired customer was developed for reporting and a specific purpose within the affordability rules for debt consolidation mortgages. However, some firms appear to be applying it more broadly (including where the borrower has recovered and the loan is not for debt consolidation).
- 5.3** Our rules require firms to assess ability to repay using sufficient, verified and appropriate information (MCOB 11.6.2R); but they do not prevent lending to customers who meet the glossary definition. By basing their credit policies on our definition of credit-impaired, lenders are preventing consumers with low level impaired credit or those who have recently recovered, from demonstrating affordability or avoiding higher-priced mortgage lending. We encourage lenders to review their approach and consider the extent to which it is justified based on the evidence.

Background

- 5.4** Using the 'credit-impaired customer' definition beyond its intended purpose to filter out potentially eligible customers, even where the borrower is now recovered, can deny consumers access to mainstream lending. It can lead to higher-priced lending, or channel consumers to lenders offering less favourable terms.
- 5.5** Mortgage rates for borrowers treated as credit-impaired are materially higher: the median rate on credit-impaired sales (excluding lifetime and second-charge mortgages) in 2025 was 6.44% vs 4.33% on non-impaired sales.
- 5.6** Adverse credit is increasing as use of unsecured credit rises. Recent evidence from the FCA Consumer Lives Survey (2024) data indicates that 74.3% of low to middle income borrowers (c.19.8m people) uses some form of credit, and financial difficulty is common (7.4m people were struggling to pay bills or credit commitments as of January 2024). Rising costs can contribute to missed payments, defaults and County Court judgements (CCJs), which can affect consumer credit files and access to lending.
- 5.7** Evidence suggests this is across income groups. A [study](#) by Pepper Money estimates 16.6m UK adults have experienced adverse credit at some point, including 9.26m in the last three years. The same study found adverse credit was becoming more common among high earners: 49% of people earning more than £100,000 (higher earners) reported adverse credit at some stage in life, compared to 35% of those earning less

than £50,000. In the last year, 24% of higher earners missed a payment, compared to 9% of lower-income earners.

- 5.8** Recovery for many who experience adverse credit may be within faster timescales than set out in the glossary. Our Financial Lives Survey 2024 indicates improving resilience. The number of adults struggling to meet their financial commitments fell from 10.9 million in 2023 to 7.4 million in 2024. 1.7 million people used debt advice services last year and 61% reported that their finances were more manageable as a result.
- 5.9** Credit file data can also lack context (for example where missed payments follow life events, or economic/financial abuse), and consumer understanding of credit scores is low (only around 1 in 10 self-report a very good understanding) which may mean consumers do not know when they are eligible and don't apply for a loan.
- 5.10** Financial associations, such as joint accounts with ex-partners with poor credit can impact credit files. Further, the government has recognised the impact that coerced debt can have on a victim-survivor of financial abuse in its [Financial Inclusion Strategy](#). By applying the 'credit-impaired' glossary definition within their credit-risk policies, firms may not be lending to victim-survivors who might be able to afford mortgages.

What we are proposing

- 5.11** We propose to be explicit that the definition applies only in: (a) MCOB 11.6.16R (additional steps where a credit-impaired borrower uses a mortgage for debt consolidation), MCOB 4.7A.22 G (for the example given when advising in relation to credit-impaired) and (b) SUP 16.12 reporting.
- 5.12** Firms are free to set credit risk appetite and target markets but should not treat the glossary definition as a factual indicator of unaffordability. Historic adverse credit and current/emerging financial difficulties are different considerations; we propose guidance to reflect this.
- 5.13** Any different outcomes for particular groups within a target market must be justified and evidence-based and consistent with delivering good outcomes. We expect firms to avoid causing foreseeable harm, act in good faith and support customers to pursue their financial objectives.

Why we are proposing this

- 5.14** Life events (for example temporary job loss) can drive credit impairment, and consumers may recover faster than some policies reflect. Reliance on historic indicators may not fully reflect current circumstances.
- 5.15** Under the Duty, we expect firms to provide consumers with the information they need, at the right time, and presented in a way they can understand. Where appropriate, firms should signpost solutions to help consumers.

- 5.16** Industry stakeholders have told us that misunderstanding eligibility can be a barrier (some consumers believe they must have a clean credit file for 6 years before being eligible for a mortgage, where it might be 6 months for some lenders).
- 5.17** The Financial Lives Survey (2024) indicates consumer understanding is low. Only one in ten consumers self-report a very good understanding of how credit scores are calculated, 51% have a reasonable or moderate understanding and just over a third have little understanding. A fifth don't know whether clearing a credit card balance will improve or hurt their score.
- 5.18** The information lenders use can lack the granularity of detail and context behind the consumer's credit impairments. While missing a payment can be an indicator of ongoing struggles, it can also be a result of prioritisation of debts or the consumer going through a life event, such as ill-health, the death of a partner or even financial abuse.
- 5.19** Nearly three-quarters of all low to middle income adults (72%) want credit score providers to take account of the reasons for missed payments when calculating scores. The same proportion would be willing to share details (e.g. redundancy, illness) with lenders and score providers if this meant their score improved.
- 5.20** Work is underway to improve reporting and transparency in credit files, and lenders should review their approach to affordability in that light. We published our [Credit Information Market Study Final Report in December 2023](#), which set out a comprehensive package of proposals for FCA-led, industry-led and joint governance remedies. In February this year we published [CP26/7 Credit Information Market Study: Proposed approach to implementing FCA remedies](#).
- 5.21** These reforms aim to improve the quality and coverage of credit information supporting better outcomes for consumers, improving lender decision-making, enhancing competition and innovation in the credit information ecosystem. The consultation closed on 1 May 2026, and we are currently considering responses to inform our final approach.
- 5.22** There are also improvements to the recording of CCJs. The Ministry of Justice has agreed in principle to allow the name of the claimant to be published on the Register of Judgments, Orders and Fines. This will allow lenders to understand the context of CCJs and see the type of underlying debt (for example, utilities, parking enforcement versus mortgage).
- 5.23** At the same time, the Registry Trust is introducing the recording of partial settlements which will allow lenders to differentiate between borrowers who have engaged with repayment and those who have not, improving the accuracy and usefulness of CCJ data in credit assessments.

Question 11: Do you agree with our proposed clarification on the application of the definition of 'credit-impaired customer'?

Affordability adjustments for borrowers who have recently recovered from poor credit

5.24 Some market practices are either especially conservative, reflecting firms' freedom to set and apply their own credit risk appetite, or a misunderstanding of the application of the definition of a credit-impaired customer. This may adversely affect consumers who are or may become creditworthy. For example:

- Applying lower maximum loan-to-value limits or higher interest rates to customers treated as credit-impaired.
- Requiring longer periods of clean payment history (e.g. 6 years from a CCJ) or enhanced explanations for historic credit events.

5.25 Other lenders do take a more contextual approach, sympathetic to the customer's journey and level of credit impairment. We found this is largely a result of firms using manual underwriting for a smaller volume of lending.

A prospective borrower separated from their former partner 2 years ago after experiencing prolonged economic abuse. Despite having stable employment, a strong recent payment record and being able to afford repayments, they were automatically declined by the firm because of their impaired credit history from this period.

Later, they disclosed to a broker that their adverse credit history resulted from economic abuse by a former partner, including coerced debt and missed repayments on joint accounts following separation. The broker contacted the firm directly who recognised the customer as being in vulnerable circumstances and adapted its approach. It accepted the Economic Abuse Evidence Form, recorded the vulnerability appropriately, and assessed the application through manual underwriting, focusing on the borrower's current income, affordability and recent payment behaviour rather than historic abuse-related credit data.

The firm offered a mortgage on affordable terms after carrying out enhanced affordability checks based on the borrower's current finances.

5.26 We found examples in some firms of a more tailored approach to eligibility with reduced weight for older adverse events and greater tolerance of low-level unsecured arrears, which actively supported consumers with adverse credit histories such as:

- CCJs and defaults under £300 that have been satisfied
- Missed payments on personal loans in the last 12 months (such as missed payments on credit cards, mobile phone bills)

Question 12: **Is there anything more we can do to encourage lenders to support prospective borrowers with impaired credit or those who have recently recovered?**

Chapter 6

Foreign currency loans

- 6.1** A foreign currency loan is where the denomination of the mortgage is not the same as the income of the borrower, or not in sterling – for example, the mortgage is denominated in sterling, but the consumer’s income is in euros; or, the mortgage is denominated in US dollars but the consumer’s income is in sterling.

What we are proposing

- 6.2** We propose to differentiate standards and protections for loans denominated in a foreign currency from those where all or part of the income is in a currency other than sterling. We want to ensure our rules are proportionate, enable firms to deliver good outcomes under the Consumer Duty, and target requirements where risks to consumers and lenders are greatest.
- 6.3** We want to move away from prescriptive, Mortgage Credit Directive derived rules and towards a more proportionate, outcomes-focused framework consistent with the Duty. Our proposals would remove some EU-derived requirements that do not reflect UK market conditions while maintaining protections for consumers with the greatest exposure to foreign exchange rate risk.
- 6.4** We want to keep proportionate protections for consumers while addressing some of the operational challenges resulting from current rules. This would mean distinguishing requirements for foreign currency loans in non-sterling from those where the income of the borrower is in a foreign currency.
- 6.5** For both foreign currency scenarios, we want firms to continue to have arrangements in place to limit the exchange rate risk which the consumer is exposed to, such as a risk warning, at the point of sale.
- 6.6** For foreign currency loans in non-sterling, lenders:
- could, for new contracts, no longer offer the conversion right;
 - would continue to notify borrowers promptly on foreign exchange rate movements (MCOB 7A.4.1R) but could remove the 20% notification trigger and judge for themselves whether the value of the total amount outstanding or the regular instalments ‘varies significantly’ compared to what it would be using the exchange rate that applied at the start of the contract, having regard to the Consumer Duty; and
 - would continue to report these loans based on SUP 16 Annex 19B.

- 6.7** For loans where the income of the borrower is in a different currency to the loan, lenders could:
- no longer offer the conversion right, and;
 - not provide warnings on exchange-rate movements.
- 6.8** Because foreign exchange rates tend to move more frequently, tracking some currency rates can be onerous and may discourage lenders from offering some currencies.
- 6.9** Lenders may want to put foreign exchange risk mitigation strategies in place and we remind lenders of their obligations under the Consumer Duty to ensure any measures are proportionate and outcomes-focused.
- 6.10** We think these changes could support a more innovative and competitive UK mortgage market.

Question 13: Do you agree with our proposals to allow firms more flexibility to determine what arrangements they put in place to limit the exchange rate risk to consumers with foreign currency loans?

Question 14: Do you think that, rather than require lenders to monitor the foreign exchange rate risk for non-sterling mortgages, the Consumer Duty alone would be sufficient to meet our objectives?

Question 15: Do you consider the changes would encourage lenders to offer foreign currency loans?

Why we are proposing this

- 6.11** The current rules were introduced through the Mortgage Credit Directive in 2016 and embedded consumer protections in MCOB. These requirements were introduced following episodes of consumer harm in other EU markets, where mortgages denominated in a foreign currency made up a significant proportion of sales. These provisions represented an extension over the previous UK regime and introduced significant monitoring and reporting requirements for firms.
- 6.12** We think consumers who need foreign currency loans could be better served, for example borrowers living in Northern Ireland but who work in the Republic of Ireland. Similarly, a growth in professional, scientific and IT contractors has meant increased global hiring practices with borrowers residing in the UK but paid in whole or in part in US dollars, euros or another currency.

- 6.13** Loans denominated in non-sterling currencies pose different risks from sterling loans where the borrower earns foreign currency income, and requirements should reflect this. There is a foreign currency risk to affordability where the consumer's income is non-sterling. Firms may wish to consider this. However, once a sterling mortgage loan is approved, the mortgage operates on the same risk basis to the consumer as a standard residential mortgage.
- 6.14** We do not consider that lenders should be required to carry out currency monitoring for sterling mortgages where all or part of the income is in another currency. Before the Mortgage Credit Directive was implemented in 2016, our rules focused on customer understanding of exchange-rate risk, the adequacy of disclosures, and the risk of mis-selling. Although firms submitted foreign currency data via PSD001 and the MLAR, the Handbook did not contain prescriptive rules on the monitoring or management of exchange-rate fluctuations. Nor did it require firms to offer contractual rights to convert a loan into an alternative currency or otherwise limit a customer's exposure to foreign exchange rate movements.

Current requirements

- 6.15** MCOB 2A.3 requires lenders to either give borrowers the right to convert their loan into an alternative currency or put mechanisms in place to limit the risk of currency fluctuations. This is designed to reduce the risk of borrowers being trapped in a high-debt scenario because of adverse exchange rate movements. The alternative currency must be either the currency in which the borrower primarily earns income or holds assets used to repay the loan, or sterling. If the borrower wants to convert their loan to an alternative currency, our rules require that the market exchange rate on the application day applies unless otherwise agreed.
- 6.16** MCOB 7A.4.1R requires lenders to give the borrower regular warnings when the outstanding amount of their loan or repayments vary by more than 20% due to foreign exchange rate movements. Lenders must use the European Standardised Information Sheet to explain to borrowers their conversion rights and any mechanisms they have put in place to limit foreign exchange rate risk.
- 6.17** Stakeholder feedback to [DP25/2](#) indicates these requirements are overly disproportionate, operationally complex and may restrict access to mortgages for consumers with whole or part non-sterling income. Because of this, some lenders have chosen not to offer these loans or accept foreign income to support a mortgage application.

The impact of proposed changes on the European Standardised Information Sheet

- 6.18** The European Standardised Information Sheet is a disclosure document which enables consumers to compare mortgage offers and understand key features, risks and costs. Lenders must provide it in good time before the consumer signs their mortgage contract or offer. The requirements were introduced before the Consumer Duty and are prescriptive, with key standards originally derived from EU requirements.

- 6.19** Firms would need to consider the changes they need to make to their European Standardised Information Sheet if they chose to use the flexibility we have outlined.
- 6.20** We propose to revise MCOB 5A to enable firms to insert their own wording into Section 3 of the European Standardised Information Sheet. We recognise the system investment that firms have already made and want them to have the option to continue to use their current European Standardised Information Sheet if they wish. Where firms choose to continue using their existing European Standardised Information Sheet, they could retain a contractual right for the borrower to convert the loan currency and could continue to apply the 20% exchange rate movement trigger for notifying borrowers of currency fluctuations.
- 6.21** In [FS25/6](#) we set out our wider intent to explore changes to disclosure and financial promotion rules to support innovation and give firms more flexibility to tailor customer-facing communications in a way which promotes consumer understanding and allows for more modern customer journeys.
- 6.22** We will engage with firms and system providers to help us further develop our general approach to disclosure. If we decide rule changes would improve market competitiveness, support growth or improve consumer outcomes, we expect to consult on proposals during 2027.

Chapter 7

Bridging loans

- 7.1** Bridging loans are defined in our glossary as an MCD-exempt bridging loan or a regulated mortgage contract which has a term of 12 months or less.

Background

- 7.2** Regulated bridging loans can be useful in several situations, including when building a house, buying at auction, settling issues of probate, carrying out refurbishments and 'breaking the chain' when buying or selling property.
- 7.3** Bridging loans tend to be arranged as an interest roll-up mortgage or the borrower can make interest payments throughout the term. Where a bridging loan is an interest roll-up mortgage, nothing needs to be paid by the borrower until the end of the term. An escalating balance due to compounding interest can quickly erode the equity in the property, putting the borrower at a higher risk.
- 7.4** The term limit, introduced when we defined bridging loans following the Mortgage Market Review, is, in part, to protect consumers from the equity erosion which can occur when taking out a bridging loan secured on their main residence over a longer term.
- 7.5** We have engaged with trade bodies, regulated bridging lenders and brokers, taking this feedback into account alongside relevant responses to our Discussion Paper in 2025 and the Consumer Duty Call for Input in 2024.
- 7.6** We've consistently heard that the maximum 12-month term can cause harm to consumers who need more time, and that a more flexible approach could now work alongside the Consumer Duty.

Terms and extensions

- 7.7** For some lenders that offer extensions beyond 12 months, consumers will be considered past-term and incur additional costs, as well as it being reported to their credit file.
- 7.8** Consumers that need more time and cannot extend their bridging loan beyond 12 months may be able to 're-bridge' by taking out a second bridging loan with their existing, or a new, lender. These consumers will also incur costs, paying the associated fees of taking out a new loan.
- 7.9** We've heard that a term of 15-18 months could be sufficient for those who need a bit more time and end up extending their bridging loan.
- 7.10** We've also heard that a maximum term of 24 months would be needed to address this harm as well as enabling more flexibility for consumers who want to carry out extensive renovations or a self-build.

Charges

- 7.11** Most regulated bridging loans are taken out with a maximum 12-month term, regardless of how long consumers think they will need. FCA PSD shows that 92.7% of regulated bridging loans taken out in 2024 were with a 12-month term.
- 7.12** Lenders said this is because of the mitigation the maximum term offers against unforeseen delays, and because consumers generally don't incur prohibitive, or any, Early Repayment Charges (ERCs) to exit the loan early.
- 7.13** Some lenders said the ERCs their customers are required to pay to exit the loan early are the equivalent of the following month's interest payment, while some said they offered products with no ERCs.

Exit strategies

- 7.14** Lenders emphasised that they would naturally consider the loan-to-value (LTV) and interest to be applied throughout the term when assessing the term and exit strategy.
- 7.15** Some lenders said they would check-in with their customers on how their exit strategy was progressing on a case-by-case basis, while others said they had set check-ins at certain months in the term.

Switching from interest roll-up to interest-only payments

- 7.16** Some lenders said they would discuss with their customers who needed more than 12 months whether they could afford to, and wanted to, switch from a bridging loan that is an interest roll-up mortgage to one where they made interest payments to manage their equity position.

What we are proposing

- 7.17** We are proposing to amend our Handbook definition of bridging loans which are regulated mortgage contracts to include terms of up to 24 months. We don't consider that our proposals in relation to regulated bridging loans overlap or conflict with the statutory exemptions for some types of bridging loans in FSMA 2000 (Regulated Activities) Order 2001.
- 7.18** We are proposing to amend our rules regarding bridging loan extensions, with the total combined term, including the original term and any extensions, capped at 24 months.

Question 16: **Do you agree with our proposal that a maximum term of 24 months, including extensions, is appropriate, and allows sufficient time for most consumers to exit the loan without the need to extend the term beyond 24 months or 're-bridge'?**

Question 17: Do you think that the Consumer Duty alone, without defining a maximum regulated bridging loan term, would be sufficient to meet our objectives?

7.19 We are also proposing to remove the requirement for lenders to assess affordability as if the bridging loan were a new loan when extending the term of a bridging loan which is not an interest roll-up mortgage.

Question 18: Do you agree with our proposal to remove the requirement for lenders to assess affordability as if the bridging loan were a new loan when extending the term of a bridging loan which is not an interest roll-up mortgage?

Why we are proposing this

7.20 We know that consumers take out regulated bridging loans for reasons such as breaking the chain when buying and selling property, renovations, or settling probate, all of which can take longer than 12 months.

7.21 We estimate based on FCA PSD that 6.7% of consumers who took out a regulated bridging loan between June 2022 and June 2023 took out another regulated bridging loan before or within 6 months of the first loan's expected end date, based on a 12-month term.

7.22 We estimate that around 19% of consumers who currently have a loan with a specialist bridging lender have extended the term beyond the original 12 months by 2 months or more, with a median extension of 6 months.

7.23 We know that consumers do not have the option to take out a regulated bridging loan for something they are certain would take longer than 12 months, such as a self-build or extensive renovations. This might limit options for consumers who have an existing mortgage or rent to pay and therefore want to take out an interest roll-up mortgage, rather than, for example, a self-build mortgage.

7.24 We think that regulated bridging finance should be a 'bridge', with a clear purpose and exit strategy, and therefore, we think a term limit is still necessary. We think 24 months is sufficient time in most cases for the purposes consumers use, or could use, regulated bridging loans for.

7.25 We also think our rules on extensions should be clear that a regulated bridging loan can be extended up to a maximum combined term of 24 months.

7.26 In addition, where a bridging loan that is not an interest roll-up mortgage is extended, we do not think another affordability assessment is required, considering the mortgage would have been assessed for affordability already within the last 12 months.

Potential risks and mitigation

Consumer Duty

- 7.27** One of the reasons we are comfortable proposing to enable longer terms is because of the obligations on firms under the Consumer Duty, including that firms offering bridging loans have a responsibility to act to deliver good outcomes for their retail customers.
- 7.28** Firms seeking to offer bridging loans with longer terms must design them to meet an identified target market's needs, characteristics and objectives, and avoid causing foreseeable harm, in line with the product and services outcome in the Duty.

Equity erosion

- 7.29** A consumer that needs to extend a bridging loan, take out another bridging loan, or is unable to complete their project could experience more harm than they otherwise would by taking out one bridging loan with a term of 13-24 months.
- 7.30** We think a maximum term of 24 months, where consumers can exit the loan early, would continue to guard against equity erosion while enabling flexibility for consumers and lenders.
- 7.31** We think that firms determining the appropriate term based on the customer's needs and circumstances, as required by MCOB 4.7A.6 R, would also continue to guard against equity erosion.

Charges

- 7.32** Where longer and more realistic terms can be agreed at the outset, consumers who need more than 12 months are more likely to see the total cost of the loan before agreeing to proceed, as opposed to extending or re-bridging later at an unknown cost.
- 7.33** We think consumers' ability to exit the loan early without prohibitive costs incurred mitigates against the risk of 24-month terms becoming the default period for bridging loans to be settled.
- 7.34** Another way to manage a consumer's equity position would be for lenders to charge simple rather than compound interest, where longer terms are agreed. However, where simple interest is applied in place of compound, firms could increase other fees to cover costs.
- 7.35** Firms must ensure that any costs, including fees and charges, associated with longer bridging terms represent fair value in line with the Duty and are not excessive as per MCOB 12.5.1 R.

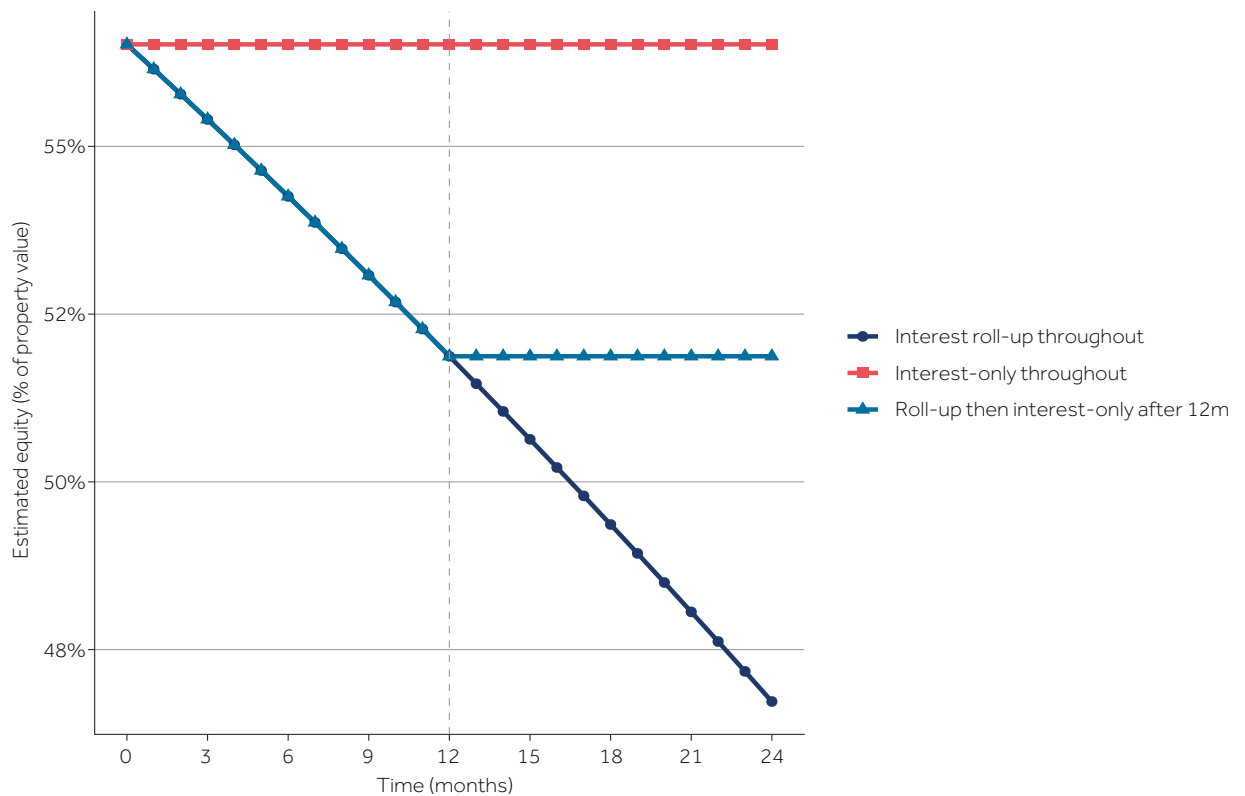
Exit strategies

- 7.36 We think firms will consider the LTV, equity, interest to be applied over the course of the loan, and the term, when considering the borrower’s exit or credible repayment strategy.
- 7.37 We do not think that this, nor at which points lenders check in with their customers as to the progress of their exit strategy, needs to be set out in our Handbook.
- 7.38 We expect firms to communicate with their customers throughout the product or service lifecycle to support consumer understanding and equip customers to make decisions that are effective, timely and properly informed, in line with the Duty.

Switching from interest roll-up to interest-only payments

- 7.39 Taking a bridging loan that is not an interest roll-up mortgage, or one that switches from being an interest roll-up mortgage during the term, is another way to mitigate against the equity erosion that could occur due to a longer term.
- 7.40 The impact of interest roll-up compared with interest-only payments, and a combination of the two, is demonstrated in an example scenario in Figure 2.

Figure 2: Impact of interest roll-up structures on borrower equity over a 24-month term



Source: FCA analysis of PSD001.

Notes: Illustrative scenario based on the median loan-to-value (LTV) for regulated bridging loans in 2024 (43%), implying an initial equity position of 57%. Assumes constant property value and interest rates.

- 7.41** Figure 2 shows an example of a borrower with 57% equity in their property at the outset of their regulated bridging loan, and who would have under 52% worth of equity in their property at the end of a 24-month term if they started making interest payments at month 12. The remaining equity in their property would be under 47% if they stayed on interest roll-up for 24 months.
- 7.42** However, some lenders only offer regulated bridging loans that are an interest roll-up mortgage. Furthermore, the purposes some consumers take out regulated bridging finance for may mean they do not want, or are unable, to make interest payments during the term.
- 7.43** Lenders may want to consider how they could facilitate conversations with their customers about switching from an interest roll-up mortgage to one with interest payments, where the borrower wants to manage their equity position.

Annex 1

Questions in this paper

- Question 1:** Do you have any comments on our equality and diversity considerations?
- Question 2:** Do you agree with our proposal to add follow-on mortgage products and conversion to repayment as examples of credible repayment strategies?
- Question 3:** Do you agree with our proposal to allow a lender to make a reasonable assessment as to whether the borrower has a clearly understood credible repayment strategy following a tailored interactive dialogue with the borrower?
- Question 4:** Do you agree with our proposals to introduce thresholds for when the sale of main property evidential provision would apply and to not require a credible repayment strategy at all for interest-only borrowing of less than 25% of the lender's valuation?
- Question 5:** Do you agree with our proposals to clarify that where the sale of main property evidential provision does apply, that a mortgage lender should consider whether a cheaper property could be purchased mortgage-free and to add guidance on what an associated strategy could be?
- Question 6:** As an alternative to the proposed rule changes and additional guidance, could the Consumer Duty alone be sufficient to protect interest-only customers?
- Question 7:** Do you agree with our proposal to add guidance on trigger points for when a review of an interest-only mortgage should take place?
- Question 8:** Do you agree with our proposal to remove guidance on what should be considered when assessing affordability for joint retirement interest-only mortgages?
- Question 9:** Do you think that, if we remove the guidance, the Consumer Duty would be sufficient to meet our objectives?
- Question 10:** Do you agree with our proposed revisions?
- Question 11:** Do you agree with our proposed clarification on the application of the definition of 'credit-impaired customer'?

- Question 12:** Is there anything more we can do to encourage lenders to support prospective borrowers with impaired credit or those who have recently recovered?
- Question 13:** Do you agree with our proposals to allow firms more flexibility to determine what arrangements they put in place to limit the exchange rate risk to consumers with foreign currency loans?
- Question 14:** Do you think that, rather than require lenders to monitor the foreign exchange rate risk for non-sterling mortgages, the Consumer Duty alone would be sufficient to meet our objectives?
- Question 15:** Do you consider the changes would encourage lenders to offer foreign currency loans?
- Question 16:** Do you agree with our proposal that a maximum term of 24 months, including extensions, is appropriate, and allows sufficient time for most consumers to exit the loan without the need to extend the term beyond 24 months or 're-bridge'?
- Question 17:** Do you think that the Consumer Duty alone, without defining a maximum regulated bridging loan term, would be sufficient to meet our objectives?
- Question 18:** Do you agree with our proposal to remove the requirement for lenders to assess affordability as if the bridging loan were a new loan when extending the term of a bridging loan which is not an interest roll-up mortgage?
- Question 19:** Do you have any questions on our cost-benefit analysis?

Annex 2

Cost benefit analysis

Executive Summary

- 1.** In this chapter we set out our assessment of the costs and benefits of the proposals in this Consultation Paper (CP) relating to responsible lending in the mortgage market.
- 2.** The proposals are intended to reduce regulatory frictions that may currently prevent some creditworthy consumers from accessing suitable mortgage products. In particular, the proposals seek to improve access to interest-only and part interest-only mortgages (as well as retirement interest-only mortgages), clarify and simplify rules affecting borrowers with unconventional sources of income, clarify the application of the definition of credit-impairment to our mortgage rules, and extend the regulatory limit on the term of regulated bridging loans.
- 3.** The overarching objective is to enable more efficient, risk-appropriate lending as well as promoting competition while maintaining appropriate consumer protection and financial stability safeguards.
- 4.** Overall, we expect the proposals to be net beneficial under plausible adoption scenarios, though impacts are uncertain and depend on firm take-up and substitution effects. Where it is reasonably practicable to do so, we have quantified impacts. We estimate one-off direct familiarisation and gap analysis costs to firms of around £0.4m in aggregate, with no material ongoing compliance costs expected. For consumers, certain benefits are partially quantifiable — for example, we estimate avoided fees and time costs from reduced repeat regulated bridging loans of around £1.3m per annum under illustrative assumptions.
- 5.** The impacts of the proposals are distributional rather than market-wide. Benefits are expected to accrue primarily to creditworthy borrowers who are currently constrained under existing rules, including some borrowers with variable incomes, historic credit impairment, or later-life financing needs. Lower-income consumers are unlikely to benefit materially, given continuing affordability constraints, and some borrower groups may face relatively higher risks.
- 6.** The main benefits arise from unquantified but positive consumer welfare effects, including improved access to mortgages for currently constrained but creditworthy borrowers, enhanced consumption smoothing and greater flexibility and innovation for firms.

7. The proposals are designed to be proportionate and targeted. They are permissive in nature, do not mandate changes to firms' business models, and retain core affordability, prudential and consumer protection safeguards. The primary costs arise indirectly – through potential increases in credit risk, higher lifetime interest payments for some borrowers and uncertainty around behavioural responses – rather than through direct regulatory burdens. We expect these risks to be mitigated by existing affordability requirements, prudential regulation, and firms' own risk management practices. Overall, we consider the proposed intervention to represent a proportionate rebalancing of risk that delivers net benefits while maintaining appropriate protections.

Introduction

8. 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'.
9. This analysis presents estimates of the main 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.

The Market

10. The proposals affect regulated mortgage lenders active in residential mortgage lending in the UK. The structure of housing tenure has evolved over time; a similar proportion of adults now own their home outright as hold a mortgage. In May 2024, 28% of UK adults (15.2m) owned their property outright whilst 29% of UK adults (15.9m) held a residential mortgage, a lifetime mortgage or through shared ownership (FLS, 2024). Since the proposals in this CP apply only to particular product types and borrower circumstances, this section provides a brief overview of the specific types of mortgages and consumer groups affected by our proposals.
11. The consumers most likely to be affected fall into the following groups:
 - Prospective first-time buyers and home movers who may be creditworthy but struggle to meet standard repayment-mortgage affordability tests, including where expected future income growth is not fully reflected under current approaches.
 - Later-life borrowers, particularly those seeking alternatives to lifetime mortgages or wishing to refinance or extend interest-only borrowing in a way that better matches their income and housing needs in retirement.

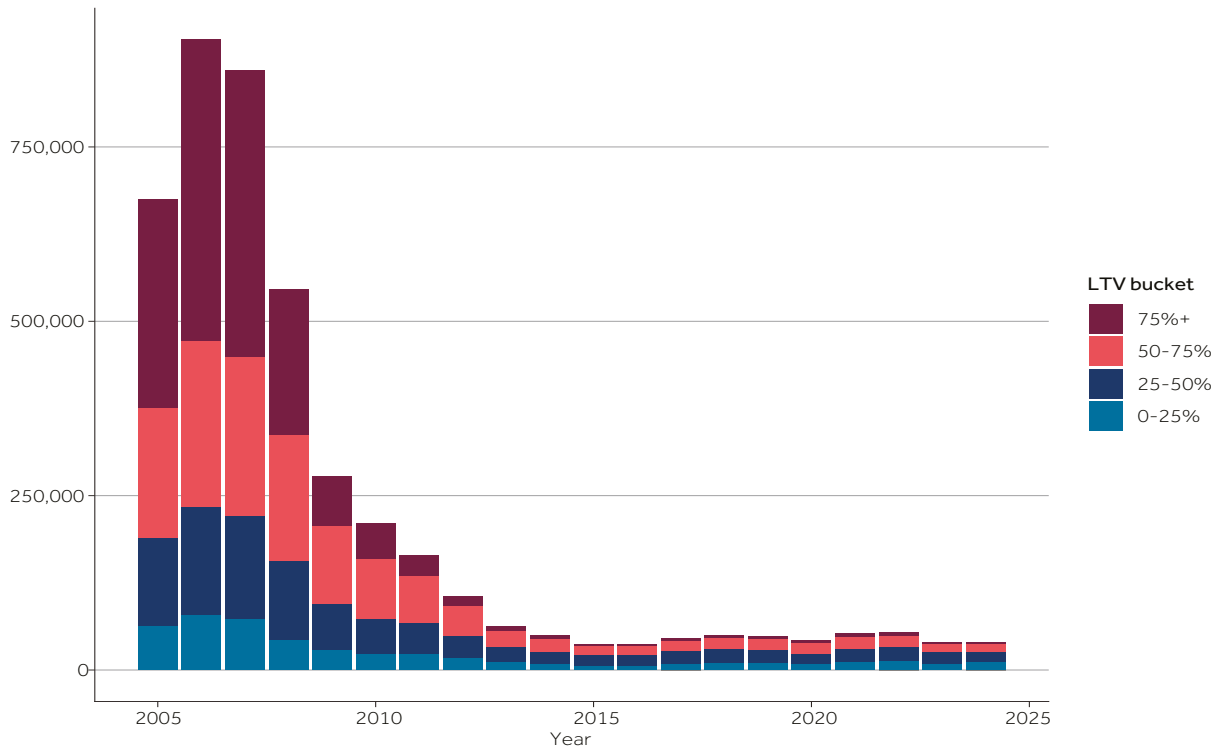
- Borrowers with variable or irregular income, such as the self-employed, contractors or those with fluctuating earnings patterns, who may have sufficient underlying repayment capacity but find it difficult to demonstrate affordability under approaches that rely heavily on monthly income.
- Borrowers with historic credit impairment, or who have recently recovered from impairment, but otherwise would face no issues in credit testing or affording mortgage repayments.
- Consumers requiring more specialised forms of lending, including shorter-term secured finance (such as bridging loans) or, in a small number of cases, lending supported by foreign-currency income.

Products affected

Interest-only and part-and-part mortgages

- 12.** Interest-only mortgages require borrowers to pay only interest during the term, with the principal repaid in a single lump sum at maturity. Monthly payments are therefore lower than for repayment mortgages, but total interest paid is typically higher if the loan runs to term. Part-and-part mortgages combine repayment and interest-only elements, with consumers gradually repaying part of the balance while paying interest only on the remainder.
- 13.** From an economic perspective, interest-only mortgages allow consumers to smooth consumption over time by reducing near-term repayments in return for higher costs later. Consumers often choose these mortgages where they expect higher future resources (e.g. income, asset sales, inheritance) or lower future needs (e.g. downsizing to a smaller property or moving to a less costly area). However, these products may also be used by some borrowers for speculative purposes, effectively leveraging expected house price growth.
- 14.** Sales of interest-only and part-and-part mortgages have fallen markedly since the financial crisis. FCA Product Sales Data (PSD) shows annual sales excluding internal remortgages declined from a peak of over 900,000 in 2006 to around 50,000 by 2014 (Figure 1), prior to the Mortgage Market Review (MMR) reforms. Since the MMR, interest-only lending has been subject to tighter constraints, including lower LTV limits and a narrower borrower profile. Volumes have fallen further since the Covid-19 period, to around 40,000 annually, and remain well below pre-crisis levels. This reflects lender de-risking and may also indicate regulatory frictions that restrict some potentially beneficial transactions.

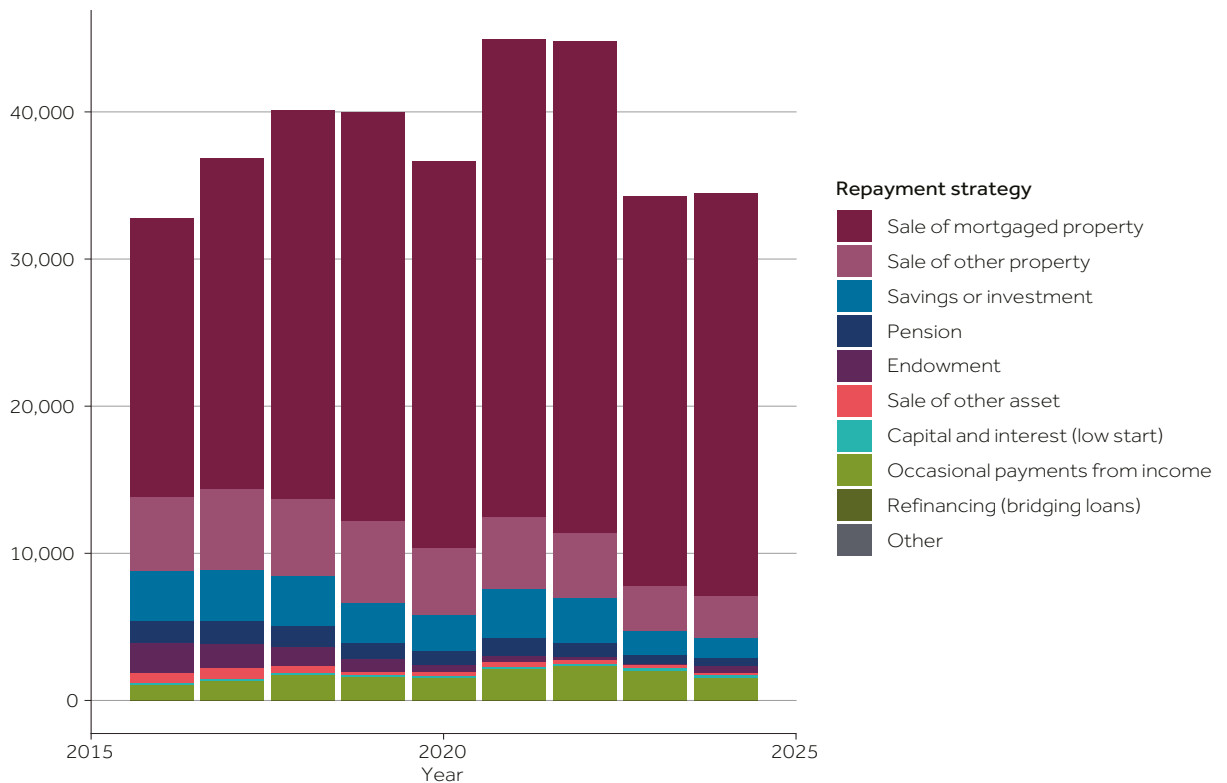
Figure 1: Annual interest-only and part-and-part interest only mortgage sales, by LTV bucket (2005-2024)



Source: FCA analysis of PSD001.
 Notes: Includes RIO mortgages but excludes lifetime mortgages and internal remortgages.

15. In terms of repayment strategy for interest-only and part-and-part interest only mortgages, currently the largest category recorded in PSD is 'sale of mortgaged property', followed by 'sale of other property' and 'savings or investment' (see Figure 2).

Figure 2: Interest-only and part-and-part interest only mortgage sales, by repayment strategy (2015-2024)



Source: FCA analysis of PSD001.

Note: Excludes 2nd-charge mortgages but includes bridging loans, lifetime mortgages and other products.

Retirement interest-only mortgages

16. Retirement interest-only (RIO) mortgages are products restricted to older customers (typically aged 55 or over), where the borrower is only required to pay the interest that accrues on the loan each month and pay back the principal at the end of the contract – typically upon death, moving into care or sale of the home.
17. FCA PSD shows that RIO mortgage sales are relatively low compared to other mortgage types available to older borrowers (such as capital and interest mortgages or lifetime mortgages). Table 1 shows the count of mortgage sales for these different products for older borrowers.

Table 1: Count of mortgage sales to later life borrowers, by product type (2018-2025)

	RIO mortgage	Lifetime mortgage	Interest-only mortgage	Capital and interest (repayment) mortgage
2018	112*	43,033	24,999	67,187
2019	1,416	44,179	23,546	70,084
2020	1,676	41,286	18,897	60,244
2021	2,742	45,018	50,226	188,876
2022	3,157	56,757	61,557	229,470
2023	2,119	30,678	54,581	229,547
2024	2,734	25,400	55,682	246,554
2025	3,002	26,974	64,822	299,980

Source: FCA analysis of PSD001.

Note: Mortgage sales are calculated based on the first borrower being aged 55 or over at the point the mortgage started. Includes internal remortgages and product transfers.

* Data collection for RIO mortgages commenced in Q3 2018.

Foreign currency denominated mortgages

18. Chapter 6 of this CP sets out the definition of a foreign currency loan.
19. FCA PSD shows that only a very small number of mortgage sales are denominated in a foreign currency. In 2025, almost all regulated mortgage lending was issued in pound sterling, with foreign-currency denominations accounting for a negligible number of sales (see Table 2).

Table 2: Count of mortgage sales in 2025, by currency denomination

Currency	Count	Percentage (%)
EUR	3	0.0001%
GBP	2,774,530	99.9994%
Other	9	0.0003%
USD	5	0.0002%

Source: FCA analysis of PSD001.

Note: Percentages may not sum to 100% due to rounding.

20. Mortgage applications where the borrower's affordability is supported by foreign income (where the mortgage is denominated in sterling) appear to be more common, but still rare. PSD does not capture whether borrowers use foreign income in support of their mortgage application. However, one large lender told us that fewer than 1% of mortgage applications involved the use of non-sterling income. This is consistent with wider evidence suggesting that reliance on foreign-source income among UK residents is concentrated within a small subset of the population and is not widespread across

mortgage borrowers. HMRC administrative data identifies a finite population of UK residents with foreign income reported through international information exchange arrangements (Undisclosed foreign income in Self Assessment by UK residents, 2018 to 2019 – GOV.UK).

Bridging loans

- 21.** Our proposals in Chapter 7 concern regulated bridging loans. Bridging loans are short-term, secured mortgage loans that allow consumers to borrow relatively large sums. They are typically used to purchase a property before the sale of an existing home or to fund renovation projects before a sale.
- 22.** Based on FCA PSD, in 2024 there were 4,200 regulated bridging loans taken out, with a median LTV of around 43%. Our analysis of new bridging loan borrowers who took out a loan between June 2022 and June 2023 found that 6.7% subsequently took out a second bridging loan before or within 6 months of the first loan's expected end date.

Consumers affected

- 23.** In addition to specific mortgage products, some proposals primarily affect particular groups of borrowers rather than a distinct product category. The section below therefore considers borrower characteristics that may interact with firms' affordability assessments and lending decisions across multiple mortgage types. These groups are relevant to understanding the potential scope and distribution of impacts of the proposals.

Consumers with variable and irregular income

- 24.** Borrowers with variable or irregular income may include self-employed individuals, those working on zero-hours or contract-based arrangements, and employees whose earnings rely materially on bonuses, commission or overtime. Although many of these borrowers may have sufficient long-term repayment capacity, fluctuations in income can make affordability harder to demonstrate.
- 25.** It is difficult to accurately identify the magnitude of lending to borrowers with variable or irregular income. FCA PSD records information on the level and sources of a borrower's gross income at the point of mortgage application, for example income from self-employment. However, the data collected do not identify whether income is variable or irregular, and borrowers may have multiple income sources. In 2025, FCA PSD shows that around 6% of mortgage sales included at least one borrower whose employment status was recorded as self-employed at application.

Credit-impaired or recently recovered consumers

- 26.** Assessing the scale of potential mortgage borrowers who are credit impaired is difficult. One recent study found that 16.6 million people in the UK have experienced adverse credit at some point in their lives and 9.26 million people have experienced adverse credit in the last 3 years. The study found that 66% of people who have experienced adverse credit in the last 6 months believe it will negatively affect their ability to get a mortgage.

27. FCA PSD shows that in 2025 less than 1% of mortgage sales had at least one borrower with an impaired credit history.

Firms

28. The proposals apply to regulated mortgage lenders operating in the UK residential mortgage market, although the scale and nature of the impact will vary across firms.
29. In Q4 2025, 283 firms held permission to enter into regulated mortgage contracts as lenders, of which 160 were active, defined as originating at least one regulated mortgage transaction during the quarter (FCA PSD001). The market is concentrated among a relatively small number of large lenders, alongside a long tail of smaller banks, building societies and specialist lenders.
30. Competition in the UK residential mortgage market takes place both on price and on product design, and varies by segment. While larger lenders account for a significant share of overall lending volumes, smaller banks, building societies and specialist lenders play an important role in serving particular product niches or borrower groups, including later-life lending, interest-only lending and lending to borrowers with non-standard income profiles. In the specialist segment, competition is often based more on underwriting approach, flexibility and customer suitability than on headline price competition. Larger firms typically benefit from more diversified funding and more advanced credit modelling, whereas smaller firms often focus on specific products or borrower segments where niche expertise or manual underwriting offers a comparative advantage.
31. Table 3 shows the number of firms accounting for specified proportions of total lending.
32. Experience from earlier stages of the Mortgage Rule Review (MRR) also suggests that firm behaviour following regulatory simplification is heterogeneous. Previous reforms have shown that, where changes are permissive, firms' decisions to enter or expand within particular mortgage segments depend not only on competitive conditions but also on internal systems capability, governance processes and risk appetite. As a result, competitive responses and market participation tend to evolve gradually at the segment level rather than through large-scale entry or exit across the market.

Table 3: Number of firms responsible for the given proportion of lending

Time period	Metric	Number of firms with specified market share			
		50%	75%	90%	99%
2014 – 2025	Number of loans	4	11	21	76
2014 – 2025	Value of loans	4	10	20	86
2025	Number of loans	4	9	18	62
2025	Value of loans	4	8	16	69

Source: FCA analysis of PSD001.

Note: 1 firm equates to 1 unique firm reference number (FRN). Groups will have a number of entities operating with different FRNs.

33. As discussed below, uptake of the proposals is expected to vary across firms, reflecting differences in firm specialism, risk appetite, systems, funding structures and underwriting approaches. Not all lenders currently offer the products affected (including interest-only, retirement interest-only or regulated bridging loans), and some may choose not to use the new flexibilities. Firms most likely to be affected include:
- lenders already active in, or seeking to expand into, interest-only, later-life or bridging lending, where changes relate to repayment strategies, affordability guidance or permitted loan terms;
 - firms serving borrowers with variable or non-standard income, where clarification or simplification of affordability expectations may reduce operational frictions;
 - smaller or specialist lenders, including some mutuals, that already rely more heavily on manual or case-by-case underwriting and may find it easier to adapt processes without major system changes.

Problem and rationale for intervention

34. While the current mortgage lending framework is broadly effective, some elements of our current rules may constrain lending outcomes more tightly than is necessary to achieve consumer protection and prudential objectives. In particular, aspects of the current rules and guidance may exclude some creditworthy borrowers or deter firms from offering products that could be suitable. These frictions can reduce welfare through diminished consumer choice and access to credit, sub-optimal matching of products to borrowers' circumstances (including reduced ability to smooth consumption over time), and overly conservative lending decisions.
35. Where borrowers are unable to access mortgage products that are appropriately aligned with their income patterns or financing needs, consumer harm may arise through several channels:
- **Impaired consumption smoothing:** Rigid product structures can force higher near-term repayments than are necessary to manage underlying credit risk, constraining cashflow and limiting consumers' ability to smooth consumption over time, even where long-term affordability is sound.
 - **Restricted access to homeownership:** Creditworthy borrowers may face denied or delayed access to mortgage finance where assessment approaches or product design do not adequately reflect individual circumstances, delaying entry into, or progression within, homeownership despite sustainable repayment capacity.
 - **Reliance on sub-optimal alternatives:** Where suitable mortgage products are unavailable, consumers may resort to more costly, complex or temporary forms of borrowing, or be required to choose an alternative housing tenure that may increase their costs or reduce their welfare compared with the counterfactual.
 - **Reduced financial resilience:** Poor alignment between mortgage terms and income patterns can limit borrowers' ability to absorb shocks or adjust repayments as circumstances change, increasing the risk of financial stress over time.

36. The underlying market failure can be characterised as a form of regulatory failure. However, the choice to intervene also reflects a deliberate policy choice to rebalance risks within the mortgage market, accepting a degree of tolerable consumer harm in order to reduce inefficiencies and improve overall welfare (see [DP 25/2](#) for a fuller discussion).
37. More specifically, the rationale for intervention for each of the specific areas of the market where we propose to intervene is set out below:
- **Interest-only:** Our current rules and guidance on credible repayment strategies may create unnecessarily high hurdles for borrowers to demonstrate an affordable repayment strategy, which may lead to viable and affordable mortgage applications being denied.
 - **Retirement interest-only:** Our current affordability guidance may prevent firms from offering retirement interest-only mortgages to consumers seeking to release equity or to repay an existing interest-only mortgage due to the need to consider the ability of a surviving spouse/civil partner to afford the mortgage on their own.
 - **Variable income:** Borrowers with fluctuating income may be denied mortgages despite being able to afford the payments, leading to a loss of welfare/efficiency by having to rent or move jobs.
 - **Foreign currency:** Some borrowers may require a foreign currency mortgage (e.g. consumers who live in Northern Ireland but work in Ireland). Requirements are disproportionate and operationally complex so many lenders do not offer them. Lack of choice and competition may lead to consumers not being able to secure a foreign currency mortgage.
 - **Credit-impaired definition:** Clarifying that the glossary definition of 'credit-impaired' should not be used as a proxy for unaffordability.
 - **Regulated bridging loan term:** Delays in chain completion, probate and self-build mean many consumers need finance beyond the current 12-month term – resulting in consumers incurring additional fees.
38. Survey evidence indicates that many consumers face binding affordability constraints when seeking to access mortgage finance. The FCA Financial Lives survey (FLS) indicates that affordability constraints remain a key barrier to mortgage access. Among non-homeowners who aspire to become a homeowner in the future, 76% said they face issues related to affordability, including being unable to save a large enough deposit or finding an affordable property ([FLS, 2024](#)). These barriers are likely to be more acute for consumers with non-standard or volatile income, even where their expected long-term income would support sustainable borrowing.
39. Economic literature shows how overly rigid mortgage repayment structures can lead to consumer harm in the form of welfare costs. In model-based settings where households face liquidity constraints or volatile income, greater flexibility in mortgage repayment profiles can improve welfare by allowing consumption to be smoothed over the lifecycle ([Boar et al., 2022](#); [Piskorski and Tchisty, 2010](#)). Related studies on housing equity access and mortgage contract design indicate that some households place a high value on short-term liquidity and may, in certain circumstances, be willing to accept higher long-term costs in exchange for lower near-term repayment burdens, particularly

where income is uncertain or expected to increase (Been et al., 2024). These studies may provide some tentative support for our interest-only and retirement interest-only proposals.

40. However, the literature also highlights risks associated with greater repayment flexibility. These include higher leverage, increased exposure to house price and interest rate shocks, and the potential for some borrowers to underestimate future repayment challenges (Campbell and Cocco, 2011), potentially driven by behavioural biases of consumers. Since affordability rules and repayment strategy requirements play a role in mitigating these risks and market failures, the policy challenge is to balance these considerations by reducing unnecessary regulatory barriers where risks are manageable but maintaining protections against greater consumer harm or financial instability.

Options considered

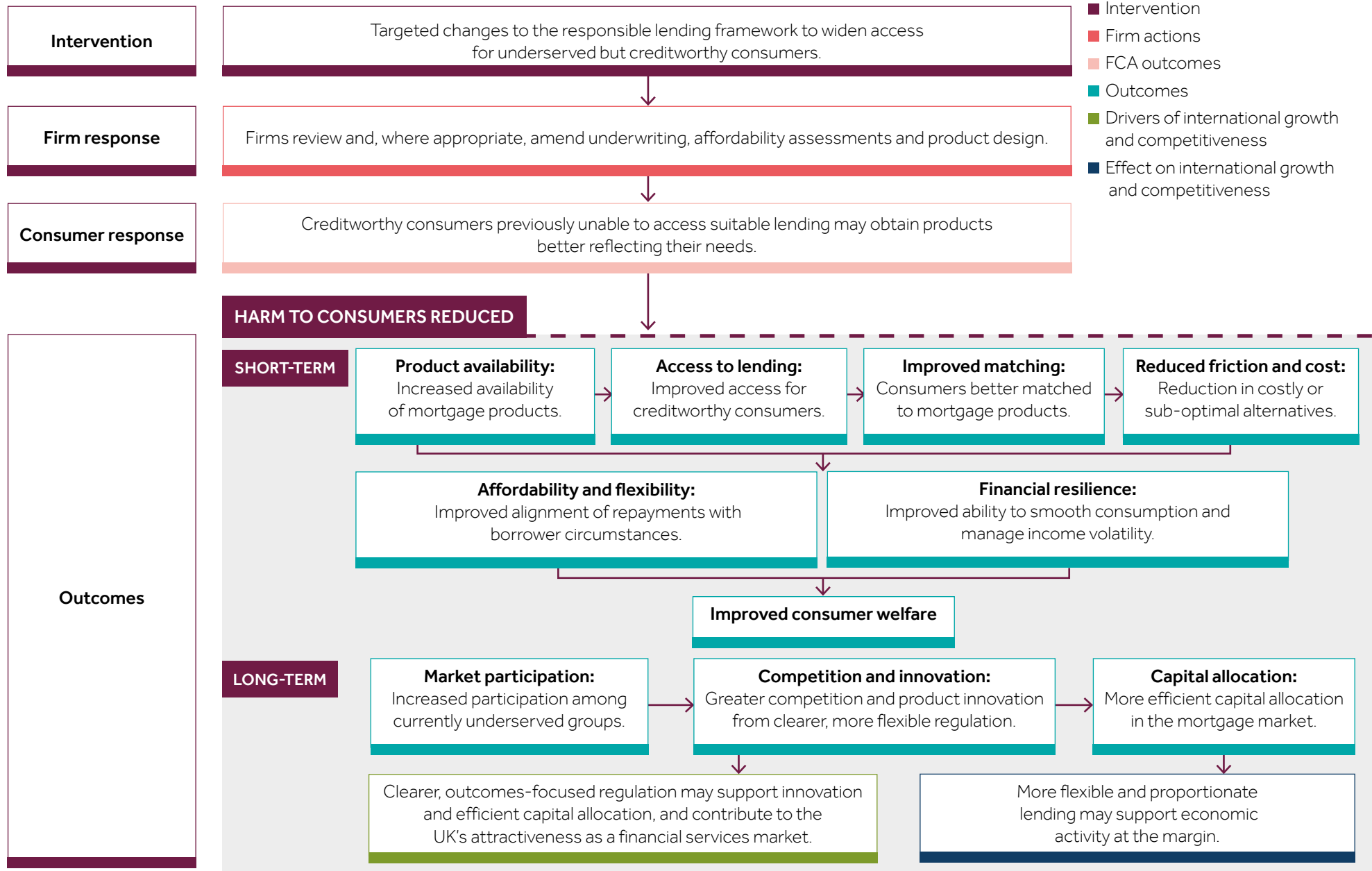
41. In developing the proposals set out in this consultation, we considered a range of regulatory options for each of the six policy areas covered in this CBA: interest-only mortgages, retirement interest-only mortgages, variable and irregular income, foreign currency loans, credit-impaired or recently recovered borrowers, and regulated bridging loan terms.
42. The options considered included:
- **Do nothing:** Retain the existing rules and guidance. This option would avoid any change in costs but would leave the identified inefficiencies and frictions unaddressed. Under this option, creditworthy consumers who are currently constrained by existing requirements would continue to be so.
 - **Targeted clarification and permissive reform (preferred option):** Introduce targeted amendments and clarifications to rules and guidance to allow firms greater flexibility and use of judgement, while maintaining core consumer protections. This option focuses on reducing unnecessary regulatory frictions, improving clarity and supporting proportionate risk-taking, rather than mandating new products or approaches.
 - **More extensive deregulation:** Remove or substantially rewrite existing affordability tests, repayment strategy requirements or product rules. This option was not pursued further, as it would materially increase the risk of consumer harm, weaken existing safeguards and be inconsistent with the FCA's statutory objectives, including consumer protection and market integrity.
43. In assessing these options, we considered the following criteria across all six proposals:
- Effectiveness in addressing the identified problem
 - Proportionality and targeting
 - Impact on consumer risk and protection
 - Flexibility and compatibility with firms' business models
 - Costs and operational complexity
 - Alignment with the FCA's objectives

- 44.** Across all six proposals, we judged that targeted clarification, and permissive reform best met these criteria.

Our proposed intervention

- 45.** The proposals are intended to address potential inefficiencies and frictions arising from the current mortgage framework.
- 46.** The proposals in this CP clarify expectations in our mortgage lending rules and permit a wider set of lending outcomes, while retaining core affordability and consumer protection requirements. In summary, the proposals:
- add further examples of credible repayment strategies for interest-only and part-and-part interest-only mortgages, adapt requirements for where a credible repayment strategy is needed, including introducing thresholds that determine when evidential requirements apply where sale of the main property is relied on, and clarifying expectations of the review requirement
 - review affordability guidance for retirement interest-only products
 - simplify and proportionately adjust rules affecting borrowers with variable or foreign currency income
 - review the application of the definition of credit-impaired customer to encourage firms to consider lending to borrowers who previously had poorer credit scores but now can demonstrate improved financial stability
 - increase the maximum term of regulated bridging loans
- 47.** While consumers may benefit from improved access to mortgage products that better align with their circumstances, the proposals do not remove core affordability requirements and do not guarantee access to borrowing. Firms will remain responsible for determining whether individual consumers can sustainably repay their mortgage, consistent with the responsible lending rules and the Consumer Duty.
- 48.** The diagram below (Figure 3) sets out our causal chain. This diagram illustrates how the package of responsible lending proposals may affect firm behaviour and consumer outcomes.
- 49.** By clarifying expectations and reducing operational complexity, the proposals may enable firms to consider lending to a broader range of borrower circumstances where this is consistent with their risk appetite and affordability assessments.

Figure 3: Causal chain of actions and responses through which our proposed intervention changes outcomes



Baseline

50. Our baseline assumes that, in the absence of the proposals, current rules and guidance continue to apply and that the mortgage market evolves broadly in line with recent trends. Under this baseline, the identified harms, particularly the exclusion of some creditworthy borrowers, are expected to persist.
51. We recognise that other recent regulatory developments may affect the market over time and should be taken into account when defining the baseline:
- The clarification of the FCA stress test rules under MCOB 11.6.18R in 2025
 - The FPC, PRA and FCA proposed changes to the framework for high LTI mortgage lending to provide firms with more flexibility while maintaining the same overall macroprudential risk appetite (CP26/12)
52. Both of these prior changes are expected to increase lending volumes in the baseline, including among first-time buyers and borrowers who would otherwise not have held a mortgage. However, the effects of these measures have not yet been fully realised or reflected in PSD. This means that our use of current market conditions and lending volumes as a proxy for the baseline is unlikely to be fully accurate; lending may have increased in the market segments we target. While we do not have sufficient evidence to adjust our estimates, the fact that these earlier interventions were broad, demand-side measures, and our current proposals are narrower and targeted at specific market segments mean the status quo may be a reasonable approximation of the baseline.
53. No other regulatory changes by other parts of the state such as the Bank of England are assumed, as well as no (significant) state intervention that increases demand (such as Help to Buy) or increases supply (such as state funding to housebuilders or changes to the planning system).

Key assumptions

54. Two assumptions are particularly important for the CBA:
- Scale of adoption and take-up
 - Substitution of lending vs. new net lending

Adoption and take-up

55. The scale of the impacts depends on both firm adoption of the revised regulatory flexibilities and borrower take-up of any resulting product changes. As firm adoption is likely to depend in part on expectations of borrower demand, and vice versa, it is most tractable to consider these jointly within a single adoption assumption.
56. Lenders' decisions on whether, and to what extent, to adopt the new flexibilities are uncertain and difficult to model ex-ante. Adoption is expected to depend on a range of factors, including a firm's internal risk appetite, capital and operational constraints, existing systems and expertise, and the interaction with wider regulatory and macroeconomic conditions. Lenders already active in the affected product areas may

be better placed to adjust their lending practices, while other firms may face upfront costs (for example, changes to underwriting models, systems or staff training) that reduce their incentive to adopt.

- 57.** On the demand-side, evidence from international studies suggests that borrower responses to flexible mortgage products are heterogeneous and may evolve over time (Larsen et al., 2023). Take-up and subsequent borrower behaviour vary across households depending on factors such as income volatility, liquidity constraints and transaction costs. Learning effects and changing macroeconomic conditions further limit the ability to predict the scale and persistence of demand-side responses ex-ante.
- 58.** Reflecting this uncertainty and drawing on pre-consultation engagement with firms — where industry participants generally indicated that the market impact of most proposals would be modest — we model a range of scenarios. Specifically, the CBA presents scenarios for a 1% and 10% uplift in relevant volumes of new lending for each affected category (set out below), to illustrate the potential order of magnitude of impacts under different adoption assumptions.

Substitution of lending

- 59.** The second key assumption in the CBA concerns the extent to which any increase in lending enabled by the proposals represents net additional mortgage credit, as opposed to substitution within lenders' existing portfolios.
- 60.** While relaxed affordability and repayment requirements may allow some currently excluded borrowers to access mortgage finance, lenders operate under a range of wider constraints, including capital, risk appetite and loan-to-income (LTI) limits. Where these constraints bind, additional lending to newly eligible borrowers is likely to be offset by reduced lending elsewhere — for example through smaller average loan sizes, tighter approvals for other applicants, or reallocation across mortgage products. More broadly, lenders and the capital markets that finance them may also reallocate funding away from other forms of lending (such as corporate lending), reflecting relative returns and risk, with potential implications for wider economic activity.
- 61.** As a result, any observed increase in lending following adoption of the proposals is likely to reflect a mix of genuinely new lending and substitution within lenders' balance sheets. Feedback from pre-consultation engagement suggests that substitution effects could be material, consistent with evidence from [previous mortgage credit interventions](#) where easing borrowing constraints did not translate one-for-one into higher aggregate lending, particularly in supply-constrained or balance-sheet-constrained markets.
- 62.** We therefore reflect uncertainty around substitution through our scenario analysis using judgement-based assumptions. For simplicity, and because we are not aware of evidence on the scale of potential crowding-out of non-mortgage lending, this assumes total mortgage lending is held constant. Our two scenarios are:
- Lower bound: 75% of additional lending flowing from the proposals reflects substitution rather than net new lending.
 - Higher bound: 50% of additional lending flowing from the proposals reflects substitution rather than net new lending.

Scenario analysis

63. Combining these two assumptions above, we propose to use the scenarios set out in Table 4. These do not represent the full range of potential market-level outcomes from our proposals, but rather illustrative scenarios to allow readers to understand the implications of different levels of adoption. We set out how we define 'net new lending' below.

Table 4: Adoption of new rules by lenders

Scenario	Adoption assumption	Substitution assumption	Net additional lending
Low	1% uplift in net new lending	75%	0.25%
High	10% uplift in net new lending	50%	5%

Notes: Net additional lending represents adoption x (1- substitution).

Summary of impacts

64. We summarise the main costs and benefits of the proposals below. Detailed discussion follows in subsequent sections. Since many of the costs and benefits are very similar between individual proposals, we have grouped together some of the discussion.
65. The key benefits include:
- improved access to mortgages for currently constrained but creditworthy consumers
 - welfare gains from improved consumption smoothing and, in some cases, access to homeownership
 - greater flexibility and potential innovation for firms
 - possible efficiency gains in capital allocation
66. These benefits are expected to be concentrated among specific consumer groups and are therefore distributional in nature; we discuss distributional impacts in more detail later in this annex.
67. Aligned with the wider aims of the Mortgage Rule Review (MRR), the proposals aim to promote sustainable homeownership in certain segments of the mortgage market. DP25/2 set out evidence and a literature review of the benefits and costs of homeownership, including the wider link with economic growth and risks of house price inflation. We have referred to some of that evidence in the subsections below, but the Discussion Paper contains a fuller examination of this wider context. For example, we have referred to welfare benefits of marginal increases in homeownership, whereas DP25/2 sets out how homeownership may affect people's propensity to invest in their community or human capital.
68. Key costs of our proposals include:
- small direct familiarisation costs for firms (one-off)

- potential increases in credit risk and arrears for some borrower groups (ongoing)
- higher lifetime interest payments for some consumers (a transfer from consumers to firms) (ongoing)
- increased risk-taking by some lenders, which could raise the probability of firm distress or failure and, in aggregate, contribute to financial instability (ongoing)

69. Table 5 below sets out a summary of the benefits and costs. Given the uncertainty of our illustrative scenarios of new lending, we do not present net present value (NPV) estimates.

Table 5 – 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			£0.41m	
	Changes to systems and processes			Not estimated / minimal.	
FCA (direct)	Policy and supervision				Absorbed in BAU.
Total				£0.41m	

B. Indirect costs and benefits (all proposals grouped)

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Firms	Increased revenues		£2.21m – £53.20m (illustrative scenarios)		
	Reduced fee revenue (bridging loans) <i>[Transfer]</i>				£1.3m per annum (illustrative)
	Higher credit risk and potential firm distress or failure				Unquantified (negative)

Group affected	Item description	Benefits (£)		Costs (£)	
		One off	Ongoing	One off	Ongoing
Consumers	Improved access to mortgage lending		Unquantified (positive)		
	Improved consumption smoothing / welfare gains		Unquantified (positive)		
	Reduced fees (bridging loans) <i>[Transfer]</i>		£1.3m per annum (illustrative)		
	Increase in repayment difficulties / arrears				Unquantified (negative)
	Higher lifetime interest payments <i>[Transfer]</i>				Unquantified (negative)
Wider market	Improved competition and product availability		Unquantified (positive)		
	House price effects – likely positive		Second order / uncertain.		
Total		-	-	-	-

70. Table 6 provides the net direct cost to business.

Table 6 – Net direct costs to firms

	Total (Present Value) Net Direct Cost to Business (10 years)	EANDCB
Total net direct cost to business (costs to businesses – benefits to businesses)	£0.41m	£0.047m

Lending volumes

71. To support the cost and benefit sections below, we present below illustrative estimates of the net additional mortgage lending that could arise from the proposals. With the exception of the foreign currency and regulated bridging loan proposals, which we present separately below, our remaining proposals share the feature that their costs and benefits will be largely tied to the extent of new lending that they create.

72. Table 7 sets out these estimates. For each proposal area, the table shows baseline volumes of relevant mortgage lending in 2024, alongside estimated additional sales and associated annual repayments by consumers under our high and low adoption and substitution scenario analysis. The low scenario assumes a 1% adoption rate with

75% substitution, while the high scenario assumes a 10% adoption rate with 50% substitution (see Table 4 above). We assume no further switching between products. These estimates are not intended to predict future market outcomes, but to provide an indication of the possible order of magnitude of impacts under our proposals. Table 7 shows that estimated impacts vary in scale across proposal areas and scenarios, reflecting differences in baseline market size and the scope of the relevant changes.

- 73.** We attempt to distinguish between new lending and remortgaging activity. New lending includes first-time buyers, home movers and remortgages where a further advance is made. Remortgaging is where no further advances are made, and therefore predominantly represents market churn. We distinguish between these as our focus is on potential market expansion, our rules could also facilitate greater switching and between-firm competition for existing borrowers. We welcome views from consultation respondents on our assumptions regarding this distinction.

Table 7 – Net additional lending estimates under our proposals (annual)

Proposal	Scenario	Category	Baseline sales	Baseline repayments (£m)	Policy sales*	Policy repayments (£m)*
Interest-only	Low	New lending	15,945	399	40	1
		Remortgaging	96,878	1,666	200	4
		Total	112,823	2,065	300	5
	High	New lending	15,945	399	800	20
		Remortgaging	96,878	1,666	5,000	80
		Total	112,823	2,065	6,000	100
RIOs	Low	New lending	614	3	1	0
		Remortgaging	2,129	12	5	0
		Total	2,743	15	6	0
	High	New lending	614	3	30	0
		Remortgaging	2,129	12	100	1
		Total	2,743	15	100	1
Variable income	Low	New lending	32,462	527	80	1
		Remortgaging	16,054	304	40	1
		Total	48,516	831	100	2
	High	New lending	32,462	527	2,000	30
		Remortgaging	16,054	304	800	20
		Total	48,516	831	2,000	40

Proposal	Scenario	Category	Baseline sales	Baseline repayments (£m)	Policy sales*	Policy repayments (£m)*
Credit impaired	Low	New lending	4,902	68	10	0
		Remortgaging	2,850	34	7	0
		Total	7,752	102	20	0
	High	New lending	4,902	68	200	3
		Remortgaging	2,850	34	100	2
		Total	7,752	102	400	5

Source: FCA analysis of PSD001.

Notes: Foreign currency and bridging loan proposals not modelled.

*Policy sales and repayments are rounded to 1 significant figure.

Benefits

- 74.** The discussion below draws on the illustrative scenario analysis set out in Table 7. Where appropriate, we refer to the low- and high-adoption scenarios to indicate the potential order of magnitude of impacts, recognising that actual outcomes will depend on firm uptake and behavioural responses.

Credible repayment strategies for interest-only mortgages and Affordability for retirement interest-only mortgages

- 75.** We have grouped our discussion of benefits for these two proposals as we expect them to work very similarly.

Benefits to consumers

- 76.** If adopted, our proposal to provide additional examples of repayment strategies for interest-only (IO) mortgages would allow some borrowers greater access to mortgage products that better align with their circumstances and preferences. Greater access could arise either because some creditworthy borrowers are able to obtain mortgage finance where they previously could not, or because existing borrowers are able to move to products that are a better fit for their needs and constraints. In practice, we expect this proposal to have limited effects on the first group given the typically high deposit requirements associated with interest-only lending and small numbers of interest-only first-time buyers.
- 77.** Greater access to suitable mortgage arrangements could generate consumer welfare benefits. Under the low-adoption scenario in Table 7, the proposals are associated with a small increase in new lending volumes across the affected product categories, while under the high-adoption scenario this could rise to several thousand additional loans per year in some segments. These effects provide an indication of the potential scale of consumer benefits, although the welfare gain per borrower is heterogeneous and not readily monetised. In particular, where our current rules prevent transactions,

consumers are likely to benefit from greater welfare from pursuing their first choice and reduced distorted behaviour (for example, delaying purchase, selecting a less suitable product, or remaining with a sub-optimal arrangement).

- 78.** Our interest-only proposal may also support improved consumption smoothing for some households. In particular, greater use of interest-only profiles can allow borrowers to align repayments more closely with the timing of their income and expenditure, which may be valuable for liquidity-constrained or income-volatile consumers. In theory, and relative to repayment mortgages, interest-only mortgages offer households an ability to build up liquid precautionary savings and emergency funds more quickly. In welfare terms, this could potentially improve resilience to temporary shocks, even where it implies higher long-run mortgage costs relative to alternative products, provided consumers understand the trade-off.
- 79.** Some academic literature supports these effects of interest-only mortgages on wider consumption and saving decisions, though the applicability of these findings to our specific proposals is not clear. Lower initial mortgage payments have been shown to support consumption smoothing and reduce short-term financial stress for liquidity-constrained or income-volatile households ([Boar et al., 2022](#)). A number of studies suggest the welfare consequences of accessing home equity can be substantial ([Been et al., 2024](#); [BoE, 2022](#); [Kovacs & Moran, 2021](#)) but the application to interest-only lending is complex. However, the evidence base on the consumption and savings impacts of interest-only mortgages is stronger, where [Bäckman & Khorunzhina \(2023\)](#), [Larsen et al. \(2024\)](#) and [Andersen et al. \(2024\)](#) present high-quality evidence on household spending and saving in Denmark. However, the long-term impact of interest-only mortgages in the UK context is more uncertain, particularly given high deposit requirements and the increasing gap in total interest costs relative to repayment mortgages over time.
- 80.** We have also considered the impact that our interest-only proposals could have on arrears rates. In theory, some consumers could experience a benefit from lower short-term risk of repayment difficulties relative to a counterfactual of a repayment mortgage if they were to take up an interest-only mortgage as a result of our proposals. However, this needs to be balanced against a potential higher risk of failure to repay the capital sum at the end of the mortgage as the loan approaches its term. So, the overall impact remains ambiguous. We discuss these effects in more detail in paragraph 108.
- 81.** Finally, under the proposal to recognise follow-on mortgage products such as retirement interest-only and lifetime mortgages as credible repayment strategies, some existing IO borrowers could benefit. Borrowers whose original repayment strategy is not working to plan may be able to take advantage of an additional flexibility whereas otherwise they could have faced repayment difficulties, forced sales, arrears or costly adjustments. This represents a benefit for consumers from avoided financial and non-financial costs of repayment difficulty.

Benefits to firms

- 82.** If adopted, the proposals could result in an increase in approval rates and volumes for certain mortgage products, including interest-only and part interest-only lending. This may include both some new borrowers entering the market and, more commonly, existing repayment borrowers switching into alternative product structures enabled by the proposals.
- 83.** While monthly repayments on equivalently sized interest-only loans are lower than for standard repayment mortgages, lifetime expected interest payments are higher. As a result, where borrowers switch from repayment to interest-only products, firms may receive higher interest revenue over the life of the loan. Any such increase in revenue would represent a transfer from consumers to firms rather than a net economic benefit. Moreover, the discounted present value of this revenue over the 10-year CBA horizon could be higher or lower than under the counterfactual, depending on pricing, repayment behaviour and discounting assumptions.
- 84.** Separately, the proposals may generate efficiency benefits for firms. To the extent that existing rules around credible repayment strategies have constrained product design or increased operational complexity, firms that choose to adopt the proposals may face lower internal processing costs. In particular, simplification or clarification of repayment strategy requirements may reduce the time and resource intensity of underwriting and review processes. These efficiency gains could improve profitability through reduced costs rather than increased revenues.
- 85.** The proposals may also modestly reduce barriers to entry or expansion for firms wishing to offer interest-only or more flexible mortgage products, which could support competition in specific market segments. However, any competitive effects are expected to be limited and uneven across firms, reflecting differences in business models, systems capability and risk appetite. Increased competition may also constrain the extent to which firms can pass revenue gains through into higher profits.
- 86.** Overall, we expect firm-level benefits to be modest. Revenue effects largely reflect transfers from consumers, while any improvements in profitability are more likely to arise from operational efficiencies than from sustained increases in margins. We have therefore not quantified these effects.

Variable income lending

Benefits to consumers

- 87.** The proposals could lead to greater lending to otherwise creditworthy borrowers with variable income who do not meet current monthly affordability tests. Greater clarity around acceptable evidence and repayment flexibility may reduce unnecessary exclusions or deterrence, enabling some households to access mortgage lending where they would otherwise have remained in the private rental sector or relied on less suitable or more expensive forms of borrowing.

- 88.** For affected households, access to homeownership may generate material financial benefits, including reduced exposure to rental costs and greater security of tenure, alongside non-financial benefits to consumers such as improved wellbeing ([Lindblad and Quercia, 2015](#)). Where the proposals enable households to purchase a home earlier than would otherwise have been possible, these benefits may accrue over a longer period and could be significant for some consumers.
- 89.** However, the magnitude of these benefits is uncertain and will depend on the extent to which the proposals result in genuinely new access to homeownership, rather than changes in the timing or structure of borrowing for households that would have been able to buy at a later point under the baseline. Given this uncertainty, and heterogeneity in borrower circumstances and responses, we do not attempt to quantify these effects.
- 90.** Overall, any consumer benefits are expected to be distributional rather than market-wide, accruing primarily to a limited set of borrowers with non-standard income profiles who are currently constrained under existing practices.

Benefits to firms

- 91.** Firms stand to benefit from greater profitability if they are able to lend to borrowers with variable income they currently do not serve, where these borrowers are assessed to be creditworthy. Any firm-level benefits are expected to be modest and unevenly distributed, accruing primarily to firms active in, or seeking to enter, these market segments.
- 92.** The proposals may provide benefits to firms by clarifying the application of responsible lending requirements for borrowers with variable income, reducing uncertainty over acceptable evidence and repayment structures. Greater clarity may lower compliance risk and support more consistent underwriting practices across firms. Similarly, for lenders that currently offer, or wish to offer, mortgages to borrowers with variable income, the proposals may reduce operational frictions associated with interpreting existing rules. This may allow firms to make greater use of existing underwriting flexibility and support more efficient assessment processes, without requiring material changes to core affordability standards.

Foreign currency income lending

Benefits to consumers

- 93.** If the proposals result in a modest increase in lending to borrowers whose mortgage affordability is supported by foreign-currency income, affected consumers may benefit from improved access to mortgage products that better reflect their income profiles. Proportionate adjustments to requirements may improve access for specific groups, such as cross-border workers or individuals returning to the UK with overseas income, by reducing operational frictions that currently limit product availability. Improving access for these cohorts may also support better alignment between income profiles and mortgage arrangements, without weakening affordability standards.

Benefits to firms

94. The proposals may provide marginal reductions in compliance costs to firms by clarifying regulatory expectations where mortgage affordability is supported by foreign-currency income, reducing uncertainty over acceptable evidence and repayment structures in these cases.
95. Greater clarity may support more consistent underwriting practices and enable some firms to serve niche customer groups more efficiently. Over time, this may support competition by enabling a broader set of firms to participate in this segment, although any firm-level benefits are expected to be modest and concentrated among specialist or internationally-active lenders.

Credit-impaired and recently recovered borrowers

Benefits to consumers

96. Our proposals on the application of the credit-impaired customer definition are intended to reduce unnecessary regulatory frictions that may prevent some creditworthy borrowers with historic adverse credit from accessing suitable mortgage finance. By clarifying that the Glossary definition was designed for debt-consolidation affordability steps and reporting purposes, and is not intended to act as a proxy for unaffordability, the proposals may reduce the risk that firms automatically decline applicants who can demonstrate current affordability and financial stability. This, in turn, could improve access to mainstream lending for consumers who might otherwise be excluded from, or experience delays in, home purchase or remortgaging. There may also be benefits from fewer consumers self-excluding from the market on the assumption that minor historic credit events will prevent them from obtaining a mortgage. As for the other proposals above, this could lead to wellbeing and welfare improvements for affected borrowers that are able to obtain their preferred housing tenure.
97. In addition, the proposals may help some borrowers to avoid higher-priced mortgage lending and/or to transition more quickly back to standard products, where this is consistent with responsible lending and firms' risk appetite. FCA PSD shows that, in 2025, the median rate on credit-impaired sales (excluding lifetime and second-charge mortgages) was 6.44%, compared with 4.33% for non-impaired sales.

Benefits to firms

98. By clarifying that the definition is not intended to act as a blanket indicator of unaffordability, the proposals may enable firms to broaden the cohort of consumers they lend to, including applicants who were previously screened out on the basis of being credit-impaired under the FCA definition. Improved access to mainstream lending for some previously excluded borrowers may allow firms to compete for a broader pool of customers without materially increasing credit risk, where lending remains consistent with firms' risk appetite and responsible lending standards. Over time, this could support more effective customer retention, including earlier transitions from higher-priced or specialist products to standard mortgages.

Regulated bridging loan term limits

Benefits to consumers

- 99.** Extending the regulatory limit on regulated bridging loans from 12 months to up to 24 months is expected to benefit consumers by better aligning permitted terms with the timescales typically required to complete the purpose for which bridging finance is taken out.
- 100.** Evidence from PSD and industry engagement indicates that a 12-month term is insufficient for some consumers, particularly where exit strategies are affected by delays in property chains, probate, or complex renovation and self-build projects. Our analysis of new bridging loan borrowers who took out a loan between June 2022 and June 2023 found that 6.7% subsequently took out a second bridging loan before or within 6 months of the first loan's expected end date, suggesting that term length can be a binding constraint. Allowing longer regulated terms would enable consumers to select products that better reflect their needs and reduce the likelihood of repeat borrowing, with associated costs discussed below.
- 101.** Where consumers are unable to complete their exit strategy within 12 months, re-bridging typically involves additional arrangement, legal and valuation fees, as well as the time and friction associated with a further application. By reducing the need for re-bridging, longer permitted terms are expected to lower these costs and reduce time pressure, including the risk of rushed decisions or sub-optimal refinancing. We estimate the benefits from avoided fees and time savings at around £1.3m per annum, although the realised benefit may be lower if firms adjust pricing or product features, for example by increasing the cost of longer-term bridging loans relative to the counterfactual of shorter-term lending. The £1.3m estimate reflects avoided re-bridging costs, calculated by applying observed repeat-borrowing rates in PSD to the annual volume of regulated bridging loans and multiplying by indicative repeat application fees and time costs. The estimate is illustrative and assumes that longer terms would allow repeat borrowing to be avoided. Extending the maximum regulated term may also marginally expand the set of consumers for whom regulated bridging finance is suitable, though any such effects are expected to be limited and dependent on firm uptake and consumer preferences.

Benefits to firms

- 102.** Extending the regulatory limit on regulated bridging loans from 12 months to up to 24 months is expected to generate benefits for firms that choose to adopt the increased flexibility, by allowing product offerings to better align with the timeframes over which bridging transactions are typically resolved.
- 103.** Longer permitted terms would enable firms to structure loan terms, interest arrangements and exit strategies more coherently at origination, particularly for cases involving probate, extensive renovations, self-builds or complex sales chains. This allows firms to assess affordability, interest accrual and exit risks over a timeframe that better reflects expected borrower behaviour, rather than relying on extensions or re-origination. In turn, this may support more stable portfolio management and closer alignment between product design and firms' risk appetite.

- 104.** The proposal may also reduce operational churn associated with repeat borrowing where consumers currently take out a second regulated bridging loan to complete the same underlying objective. By lowering the frequency of repeat underwriting, legal and administrative processes, firms may realise operational efficiencies and make more effective use of capital and resources. Greater term flexibility may also allow pricing to better reflect loan duration rather than relying on fees linked to extensions or repeat lending. As the proposals are permissive, any effects on competition and innovation — particularly among smaller or specialist lenders — are expected to be limited and dependent on firm adoption and market conditions.

Costs

Costs to consumers

Repayment risk

- 105.** Across the proposals to promote responsible mortgage lending, an important potential cost is an increase in repayment difficulties relative to the counterfactual. This risk arises as the counterpart to reducing regulatory constraints on affordability assessments: to the extent that the proposals allow some mortgages to be advanced on less conservative assumptions about future income, expenditure or repayment capacity, the likelihood of affected borrowers being able to repay their loans in a given year may decrease at the margin. This could raise the likelihood that a subset of consumers experience payment stress or arrears over the life of the loan, particularly following adverse income or interest rate shocks.
- 106.** Any increase in repayment difficulties would represent a cost to affected consumers. Table 7 suggests that even under the high-adoption scenario, the number of additional mortgages advanced as a result of the proposals remains modest relative to the size of the mortgage market as a whole. This implies that any increase in arrears would likely be limited in aggregate, though it could still be material for the individuals affected.
- 107.** Arrears are also associated with wider detriment to consumer wellbeing. While not able to isolate a value for mortgage arrears specifically, a [study by Oxford Economics for the FCA](#) estimated that entering aggregated arrears — covering mortgage, mail-order, hire-purchase, formal-loan and household-bill arrears combined — reduces life satisfaction by approximately 0.41 points on a 0–10 scale, monetising to a cost of over £12,000 per household per year. Indirectly, firms may face costs through higher credit-risk management, forbearance and remediation activity.
- 108.** Given the importance of this risk to our rebalancing risk approach, we have undertaken accompanying analysis on the drivers of arrears ([Research Note: Mortgage arrears risk among UK first-time buyers: A survival analysis approach](#)). This suggests that some segments targeted by the proposals are associated with higher risk of arrears. In particular, based on loans originated from 2015 to 2024, loans to first-time borrowers

who are self-employed or have a history of credit impairment exhibit higher rates of arrears, holding other loan characteristics constant. Any net additional lending to these groups may increase the number of households entering arrears in a given year.

- 109.** However, we do not consider it reasonably proportionate to attempt to estimate the impact of the current proposals on future arrears rates for several reasons:
- Behavioural and implementation uncertainty. Any impact would depend on how firms choose to adopt and implement the flexibilities, including how they adjust underwriting practices, risk limits and pricing. These responses are heterogeneous and cannot be robustly inferred from historical data.
 - Interaction with existing safeguards. Firms will remain subject to affordability requirements, credit-risk standards and the Consumer Duty, all of which act to constrain risk-taking. Historical arrears observed under different regulatory constraints may therefore overstate the marginal effect of the proposals.
 - Macroeconomic sensitivity of arrears. Arrears outcomes are highly sensitive to economic conditions, particularly interest rates and labour market developments. The period underpinning our analysis includes rapidly rising interest rates, during which some mainstream mortgage characteristics — such as tracker products — were associated with elevated arrears risk. These relationships may not be stable or predictive of future outcomes.
 - Selection effects. Historical estimates reflect borrowers who accessed lending under tighter constraints. The risk profiles of marginal borrowers under the proposals may differ in ways that are not observable in past data, limiting its predictive value. In particular, we would have to make assumptions for how the risk of any new mortgages advanced under the proposals would compare with the existing stock of similar loans in those market segments.
 - Substitution patterns. As set out in the key assumptions section above, the extent to which new lending would substitute away from existing lending is uncertain, but this would affect the magnitude of any arrears estimates.
 - Long time horizons. Mortgage arrears often materialise several years after origination, making it difficult to attribute future arrears outcomes to specific policy changes rather than to subsequent shocks or changes in borrower circumstances.
- 110.** For these reasons, while our analysis indicates that some borrower segments targeted by the proposals have historically experienced higher arrears rates on average, we do not consider it proportionate or reliable to translate these findings into quantitative estimates of future arrears impacts.

Costs to firms

- 111.** Our proposals are permissive and do not require firms to change their lending practices. As a result, impacts on firms will depend on individual business models, risk appetite and strategic choices. Some firms may choose not to adopt the new flexibilities at all, while others may do so selectively.

Familiarisation costs

- 112.** Familiarisation costs are expected to arise across all relevant firms, irrespective of whether they ultimately choose to adopt any of the new flexibilities introduced by the proposals. All firms offering regulated residential mortgage lending will need to review and understand the changes set out in this CP in order to assess whether, and how, the proposals affect their existing policies, procedures and risk appetite.
- 113.** These costs therefore relate to the full package of proposals in this CP, rather than to a specific subset, and represent the baseline direct compliance cost associated with engaging with the consultation and its accompanying legal instrument.
- 114.** The only direct compliance costs that firms are expected to incur are one-off reading and familiarisation costs. Firms offering regulated mortgage products will need to familiarise themselves with the proposals set out in this CP before deciding on further steps. We use the Standardised Cost Model (SCM) to estimate these one-off costs for FCA-regulated firms, applying the FCA's standardised approach and assumptions. As set out earlier, in Q4 2025, 160 firms held permission to enter into regulated mortgage contracts as lenders and were active, defined as originating at least one regulated mortgage transaction during the quarter (FCA PSD001). Of these 160 firms, 16 are classed as large, 85 as medium and 59 as small. There are 87 pages of policy documentation excluding the legal instrument. Assuming 300 words per page and a reading speed of 100 words per minute, it would take approximately 4.4 hours to familiarise themselves with the proposals. We assume that the document will be read only by compliance staff; 20 staff in large firms, 5 in medium firms and 2 in small firms.
- 115.** In addition, firms that choose to make use of the new flexibilities introduced by the proposals will need to assess the implications for their existing policies and procedures and will therefore incur legal (gap-analysis) costs. The legal instrument is 20 pages and firms that choose to adopt the new flexibilities will need to read the legal instrument as part of their gap analysis. We anticipate that 4, 2 and 1 legal staff will read the legal instrument in large, medium and small firms respectively.
- 116.** Overall, we estimate that the combined familiarisation and legal (gap-analysis) costs for affected firms amount to approximately £0.41m. This corresponds to total costs of around £0.15m for large firms, £0.22m for medium firms and £0.04m for small firms.

Other compliance costs

- 117.** We have not estimated the indirect costs associated with any changes to underwriting systems, product design, staff training or ongoing operational processes that firms would incur if they adopted the permissive proposals. These will depend on voluntary firm adoption, which, as set out in our key assumptions section, is uncertain and will partly depend on the business model and cost structure of firms. (For example, adoption may be more likely among those that already operate in the market segments our proposals target and that would not require large systems changes to change their affordability criteria, e.g. because of the use of manual underwriting processes.) We consider it most proportionate to consider these potential costs qualitatively elsewhere in the CBA.

Repayment risk

- 118.** Repayment risk also gives rise to costs for firms and the wider financial system. To the extent that this results in higher mortgage losses, it may erode firms' capital positions and limit the capacity for further lending. In aggregate, this may also increase the probability of firm distress or failure, with wider costs for other firms and potential implications for financial stability.
- 119.** In the sections below, we consider whether specific elements of the proposals could give rise to further indirect costs where firms choose to adopt the new flexibilities.

Credible repayment strategies for interest-only mortgages & Affordability for retirement interest-only mortgages

- 120.** We again consider the costs of these proposals jointly, given similarities in the potential effects.

Costs to consumers

- 121.** Consumers that would gain access to new forms of interest-only lending under our proposals may pay higher interest fees than they otherwise would have done. The impact depends on the counterfactual – whether a new interest-only borrower would otherwise have bought a home using a repayment mortgage or, if they would otherwise have rented. Although monthly repayments are lower, lifetime interest-only repayments and total interest due are higher than repayment mortgages. (The comparison with renting is ambiguous and more complex – see our discussion in DP25/2.) However, we do not consider higher interest payments represent a conventional CBA cost as, provided new interest-only borrowers are making an informed choice, choosing a more expensive but more suitable lifetime product would represent a welfare enhancement and an increase in consumer surplus.
- 122.** Greater costs to consumers could arise if the proposals encourage borrowers to choose interest-only or part interest-only mortgages in a less informed manner. One potential risk of interest-only mortgages is that consumers may, driven by behavioural biases, make a superficially appealing choice to lower monthly repayments but to underweight the long-term consequences of that decision and to misunderstand their future financial needs (Andersen et al., 2024). Similarly, borrowers may be tempted to take an interest-only mortgage for speculative purposes without a well-defined repayment strategy should the property value not rise as expected. These borrower groups could go on to regret their choice of mortgage, for instance if they go on to face higher debts inconsistent with their future preferences. A second risk is moral hazard – once approved for interest-only loans, borrowers may face incentives to abandon their savings discipline and spend in a way that reduces their chance of being able to repay the loan at term in an orderly way. These non-optimal uses of interest-only or part interest-only loans can lead to lower consumer welfare through restricted future ability to switch mortgage, forced sales at inopportune times (e.g. during an economic downturn), and potentially financial distress near the mortgage term.

- 123.** Some of these risks appear to be borne out by evidence on the historical stock of interest-only mortgages, though most loans were created prior to our current affordability rules. Evidence from the FCA's Financial Lives 2024 survey suggests that a minority of interest-only mortgage holders experience uncertainty about how their mortgage will be repaid at maturity. Among adults with interest-only or part-and-part mortgages in 2024, 14% said that they do not know how they will repay the outstanding capital and 8% said they have never thought about it (FLS, 2024). In addition, 27% agreed with the statement "I am less confident now in my ability to repay the mortgage capital than I was when I took out my current mortgage", indicating that perceived repayment risk can increase over time (FLS, 2024). This is consistent with wider consumer research commissioned by the FCA using mortgage performance data and borrower surveys, which suggested that stated confidence among some interest-only borrowers may be optimistic relative to underlying repayment capacity (FCA, 2023). The same sources, however, indicate that many borrowers with interest-only mortgages actively manage repayment risks. In 2024, one in five (20%) adults with interest-only or part-and-part mortgages said that they are already paying off some of the capital (FLS, 2024). Non-repayment at the end of interest-only mortgage terms is also relatively low – our 2023 research found 2.2% of interest-only and part-and-part mortgages (22,000) were not repaid at the end of the stated mortgage term (FCA, 2023).
- 124.** While it is hard to judge magnitudes, the likelihood that these consumer risks would increase materially relative to the current position as a result of our proposals appears relatively low. Widening the range of credible repayment strategy examples could potentially increase the proportion of sales where some consumers later face repayment difficulties. However, the proposals do not materially reduce the need for borrowers to demonstrate credible repayment strategies at origination, nor do they remove existing safeguards. In particular, follow-on mortgage products are already permitted under the current framework, and firms remain subject to affordability requirements and the Consumer Duty, which together act to constrain speculative behaviour and moral hazard.
- 125.** The proposal affecting retirement interest-only (RIO) mortgages differs in nature from the wider interest-only changes. It does not expand eligibility for borrowing or relax affordability standards but instead removes specific guidance requiring lenders to assess affordability for joint RIO borrowers on a single-survivor basis in all cases. This change is intended to enable firms to assess affordability for joint RIO applications in a more proportionate and risk-based way, consistent with approaches used for standard joint mortgages.
- 126.** We expect the direct consumer risks associated with this proposal to be limited, while potential benefits arise from improved access to a product that may be more suitable than lifetime mortgages or standard repayment mortgages for some older borrowers.

Costs to firms

- 127.** Firms could experience costs if there was an increase in consumers attempting to use interest-only loans for speculative use, or if there was an increase in moral hazard. These risks should be priced into interest rates and approval criteria – interest-only loans already carry higher prudential capital costs than amortising loans because loan-to-value levels remain elevated throughout the term and at maturity. Firms may seek to price these risks into interest rates and approval criteria. However, to the extent that increased risk-taking leads to higher arrears or defaults in aggregate, this may raise the likelihood of firm distress or failure and create wider costs for the financial system and wider society.

Variable and foreign-currency income lending

Costs to consumers

- 128.** We do not expect either of these proposals to give rise to material costs for consumers. If adopted, the changes do not introduce new affordability requirements, fees, or mandatory changes to mortgage products or terms. Where firms choose to offer mortgage products to borrowers with variable or foreign-currency income, consumers are not expected to face higher charges or reduced protections as a result of the proposals.

Costs to firms

- 129.** The proposals are expected to give rise to limited costs for firms if they adopt the proposal. These are primarily ensuring relevant staff are aware of the clarified regulatory expectations or where they choose to update internal policies, underwriting frameworks or training materials to reflect the clarified approach to assessing variable or foreign-currency income. However, any such changes are expected to be absorbed within firms' existing business-as-usual processes.
- 130.** Lending to borrowers with foreign-currency income already exposes firms to repayment risk arising from exchange rate fluctuations. To the extent that firms make greater use of this flexibility, adverse currency movements could increase the likelihood of arrears or defaults, potentially raising credit losses.

Credit-impaired and recently recovered borrowers

Costs to consumers

- 131.** A potential cost of the proposals is an increase in repayment risk for a small subset of consumers who are newly able to access mortgage lending despite recent credit difficulties or ongoing financial fragility. In such cases, consumers may underestimate the likelihood or impact of future income shocks, increasing the risk of payment stress, arrears, or reduced financial resilience over time, and some borrowers may incur higher borrowing costs than if borrowing were delayed until their financial position had further stabilised.

- 132.** These risks are mitigated by the fact that firms will continue to be required to undertake affordability assessments and apply their own credit-risk standards when making lending decisions, as well as by firms' ongoing obligations under the Consumer Duty. As a result, any adverse impacts are expected to be limited in scale and concentrated among a small minority of borrowers.

Costs to firms

- 133.** The proposals on credit-impaired and recently recovered borrowers are clarificatory and do not require firms to change their lending practices. However, firms that choose to respond to the clarification by adjusting credit policies or underwriting approaches may incur some one-off operational and governance costs, such as reviewing internal credit-risk frameworks, updating policies, or providing targeted training to underwriting staff. Any such costs would be discretionary and are expected to be absorbed within firms' existing regulatory change and compliance processes.
- 134.** Firms may also face indirect costs if increased access to lending for this cohort results in slightly higher expected credit risk relative to more conservative screening approaches. While affordability requirements and firms' risk appetites remain unchanged, lending to borrowers with a history of adverse credit may entail higher expected default probabilities or losses than prime lending. The scale of any such effect is uncertain and likely to vary across firms. While we expect firms to manage these risks through pricing, lending limits and ongoing portfolio oversight, doing so may increase costs, including through higher capital requirements and additional operational risk management.

Regulated bridging loan term limits

Costs to consumers

- 135.** Extending the maximum permitted term for regulated bridging loans from 12 months to up to 24 months may increase the risk of equity erosion for some consumers, particularly where interest is rolled up over a longer period or where projects experience delays or cost overruns. While longer terms may reduce the need to re-bridge, they also expose borrowers to interest accrual for a longer duration, which could materially reduce the equity available in the property if the exit strategy takes longer than anticipated. Consumers who underestimate the length of time it takes them to complete their main property sale, or to complete refurbished works could face higher costs than they anticipated.

Costs to firms

- 136.** The proposals to extend the maximum permitted term for regulated bridging loans from 12 months to up to 24 months are permissive and do not require firms to change their existing lending practices. Firms that choose to offer longer regulated terms may incur some one-off operational and governance costs, including updating product documentation, reviewing internal policies, and making limited system or process changes to support longer loan terms.

- 137.** There may also be indirect costs for firms associated with managing loans over a longer duration. Longer terms could increase firms' exposure to credit risk and operational risk, particularly where exit strategies are delayed or market conditions deteriorate. In particular, extended interest roll-up periods may increase losses given default where loans do not exit as expected. The scale of any such costs is uncertain and likely to vary across firms depending on product design, underwriting standards and portfolio characteristics. We envisage that firms will be able to manage these risks through a number of mechanisms.

Costs to the FCA

- 138.** Across all the proposals, the FCA may incur small additional costs from monitoring outcomes under the more flexible framework. These costs are expected to be low and absorbed within existing supervisory activity.

Wider economic impacts, including on secondary objective

- 139.** Since August 2023, the FCA has had a secondary objective to facilitate the international competitiveness of the UK economy and its growth in the medium to long term. This is secondary to our primary operational objectives, to protect consumers, protect the integrity of the UK financial system, and promote effective competition in the interest of consumers.
- 140.** The package of proposals set out in this CP will not materially impact the international competitiveness of the UK economy but additional mortgage lending may at the margins support the UK economy. Our analysis in [DP25/2](#) discussed the links between expanding lending and economic activity.
- 141.** There will also be wider economic impacts to society that we set out below.
- 142.** Although we expect a modest overall impact on new mortgage lending, if a marginal increase in mortgage lending relative to the counterfactual leads to higher demand for housing without a commensurate increase in supply, this could place upward pressure on house prices. For example, evidence from large-scale policy interventions that materially relaxed borrowing constraints, such as the UK's Help to Buy equity loan scheme, illustrates how increased access to mortgage credit can translate into higher house prices in supply-constrained markets, rather than increased housing supply ([Carozzi, Hilber and Yu, 2024](#)). Any such effect would represent a second-order impact of the proposals and could give rise to distributional and wealth effects, including higher purchase costs for prospective buyers and changes in housing wealth for existing homeowners. The extent of any house price response would depend on local market conditions, supply responsiveness, and the degree to which increased credit availability translates into higher effective demand, and is therefore subject to considerable uncertainty. Consistent with the fixed short-run supply perspective, evidence from other countries suggests that affordability reforms expanding interest-only lending have not led to higher homeownership rates (e.g. [Bäckman & Lutz \(2020\)](#)).

- 143.** Some of the proposals include modest changes to affordability-related requirements and may result in a marginal increase in the use of interest-only mortgages. In principle, higher use of such products could lead to slightly higher aggregate household leverage than under the counterfactual, which could increase exposure of the household sector to adverse housing market or macroeconomic shocks.
- 144.** In practice, we do not expect the proposals to give rise to a material increase in system-wide risks. Detailed modelling of the marginal effects of these proposals would not be proportionate. The changes are limited in scope, operate within an established prudential framework, and sit alongside continued affordability requirements, firm risk appetites, and capital and risk-management standards. Taken together, these factors materially constrain household leverage and loss amplification, and we therefore do not expect the proposals to result in a meaningful change in financial system resilience.
- 145.** Finally, by reducing barriers to offering certain products, the proposals may support greater competition and innovation in the mortgage market. Smaller or specialist lenders may particularly benefit from clearer regulatory expectations when serving niche consumer segments.

Distributional impacts

- 146.** The proposed reforms may have asymmetric effects across consumer groups. While the overall impact is expected to be positive for creditworthy borrowers who are currently constrained by existing rules, distributional considerations remain relevant in assessing how benefits and risks may be shared.
- 147.** The primary beneficiaries are likely to be households with strong underlying repayment capacity who do not pass current affordability tests, including first-time buyers with expected income growth, self-employed or variable-income borrowers, and later-life borrowers relying on alternative repayment strategies. Historically, access to interest-only mortgages has been concentrated among higher-income and higher-wealth households, with a median loan-to-value ratio of around 37% (FCA, 2023). The proposals may broaden access to some middle-income households, but are unlikely to materially benefit lower-income consumers who continue to face binding affordability constraints.
- 148.** Some consumer groups may face relatively higher risks. Younger borrowers with high loan-to-income ratios may be more exposed to repayment shocks when amortisation begins, while variable-income borrowers may be more vulnerable if realised income underperforms expectations. Borrowers with high loan-to-value ratios also face greater repayment difficulty following adverse financial shocks. These risks may be amplified by behavioural factors such as over-optimism or time-inconsistent preferences, which tend to be more prevalent among consumers with lower financial resilience.
- 149.** Regional impacts may also differ. Proposals relating to foreign-currency income could have more pronounced effects in regions such as Northern Ireland where cross-border employment is more common. In addition, interest-only lending tends to be more prevalent in higher house price areas, suggesting that any benefits may accrue more quickly in London and the South East.

150. Impacts may also vary across firms. On one hand, larger lenders with more sophisticated credit modelling and underwriting may be able to better identify creditworthiness in the market segments our proposals target, and have the economies of scale to make profitable amendments to affordability rules. However, our interviews with firms have suggested smaller firms, mutuals and specialist lenders may in fact benefit from greater lending in specific niches where they already have comparative advantages, such as later-life lending or lending to borrowers with variable or non-standard income profiles. In addition, smaller firms with manual underwriting or simpler systems may be better suited to adapting to our proposed rules and guidance changes. The net effect on competitiveness is uncertain.

Risks and uncertainty

151. Estimating the potential costs and benefits of the proposals carries inherent uncertainty. This is because the mortgage market is dynamic, borrower behaviour is not homogeneous, and the interactions between regulatory requirements, lender risk appetite and macroeconomic conditions can generate effects that are difficult to anticipate with precision.

152. Below we set out the key sources of uncertainty:

- **Uncertainty in lender behaviour and adoption of the proposal(s) and substitution effects** (as set out in the key assumptions section above). Uncertainty in adoption will feed directly into uncertainty in estimates of incremental lending volumes, credit losses, firm costs and consumer benefits.
- **Behavioural risks, moral hazard and adverse selection.** Behavioural biases such as over-optimism, time-inconsistent preferences and inattention may influence both take-up of new borrowing opportunities and behaviour once adopted. Relaxing eligibility and affordability criteria may also create moral hazard — inadvertently attracting more speculative or less informed applicants, resulting in unsuitable property purchases, or incentivising existing interest-only mortgage holders to increase their borrowing in ways that may reflect genuine preferences or, alternatively, short-sighted behaviour. Lenders cannot fully determine borrowers' intentions or commitment. Together, these uncertainties make it more challenging to quantify costs such as increased arrears, reduced resilience, or potential forced sales.
- **Macroeconomic and housing market uncertainty.** The mortgage market is highly sensitive to macroeconomic conditions (demand for mortgages is a derived demand for housing). Macroeconomic uncertainties, including interest rate environment and house building rates, may affect the extent of credit losses, welfare effects, and the broader distributional impacts of our proposals.
- **Interaction with other regulatory frameworks.** There is uncertainty regarding how firms will approach risk rebalancing given their existing requirements under the Consumer Duty (where lenders may adopt a cautious interpretation of flexibility under the proposals, reducing their scale), prudential regulation including capital requirements, and other factors such as judicial processes in possession actions.

These factors may amplify or moderate the effects of the proposals and are difficult to predict ex-ante.

- **Distributional uncertainties.** While the reforms are targeted, particularly at borrowers currently excluded from the mortgage market (FTBs, variable income borrowers, later life borrowers), it is possible that the proposals may primarily benefit existing borrowers, including higher income or higher-wealth borrowers (for interest-only especially). This will be an important consideration for monitoring and evaluation of the policy.
- **System wide financial stability uncertainties.** Higher levels of interest only lending may marginally increase aggregate household leverage. While existing prudential rules mitigate much of the systemic risk, there may be some uncertainty regarding system level impacts under stressed scenarios, such as housing downturns.

Monitoring and evaluation

- 153.** Monitoring and evaluation is an important part of the policy development cycle. It helps policymakers understand the impact of an intervention (including any unintended outcomes) and can be used as a feedback mechanism to improve the policy intervention.
- 154.** Given uncertainty around uptake and behavioural responses, monitoring could play an important role in assessing the costs and benefits of the policy proposals over time, and in informing whether any further policy adjustments may be needed. The proposals could benefit from evaluation in the future, alongside other elements of the Mortgage Rule Review (MRR), though we consider that attributing causality may be difficult.
- 155.** Table 8 sets out some potential monitoring metrics concerning implementation of our proposals — whether lenders are adopting the new flexibilities available to them and for which consumer cohorts — and risk rebalancing.

Table 8 – potential monitoring metrics

Possible metric/issue	Data sources
A: Implementation	
Repayment strategy plans for interest-only mortgages.	PSD001
Volume (number and proportion) of interest-only and part and part mortgages.	PSD001
Total and % of mortgage sales into different consumer cohorts (including credit-impaired borrowers).	PSD001 and PSD007
Composition of mortgage lending, number of lenders active in different consumer segments, pricing.	PSD001 and PSD007
Length of bridging loan terms.	PSD001

Possible metric/issue	Data sources
B: Risk rebalancing	
Number of consumers in arrears for their mortgage.	FCA Quarterly mortgage lending statistics.
Loan-to-value (LTV) and loan-to-income (LTI) distributions of new interest-only borrowers	PSD001
Early indicators of arrears such as financial stress	To explore, e.g. new FCA Consumer Credit PSD
Market-wide metrics such as changes in product offerings, pricing and the composition of mortgage lending	PSD001 and PSD007

Question 19: Do you have any questions on our cost-benefit analysis?

Annex 3

Links to our objectives and 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 the FCA's 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 section 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 section 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 (LRRRA) 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 LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

- 7.** The proposals set out in this consultation are intended to advance the FCA's operational objectives of promoting effective competition in the interests of consumers and of advancing consumer protection.
- 8.** We consider these proposals are compatible with the FCA's operational objective of promoting effective competition in the interests of consumers because by simplifying or clarifying our current requirements, and introducing new measures, we look to make it easier for firms to design products that meet the needs of consumers who may be underserved at present. Increasing the range of mortgage products available, from a greater number of lenders, can drive competition between them to innovate and offer more attractive rates which benefit all consumers. However, as set out in our Cost Benefit Analysis, the impact may be limited due to uncertainty regarding the degree of take-up by firms and consumers.
- 9.** We also consider that these proposals are compatible with the FCA's operational objectives of consumer protection. If firms choose to take advantage of our proposed changes, the mortgages that they sell may have a different risk profile to a standard repayment mortgage. It is for firms to consider these risks when they design these products. We believe that our proposed changes have been drafted in a way which secures consumers an appropriate level of protection because of the overarching requirements of the Consumer Duty and our responsible lending framework.
- 10.** While we acknowledge that there may be some increased risk to consumers as a result of our proposals, we have communicated in our most recent five year strategy document (*Strategy 2025-2030*) our belief that regulation should be about enabling informed risk to be taken, not eliminating it entirely. We also believe that while the majority may benefit, a minority may not get the outcome for which they hoped.
- 11.** When designing our proposals, we have considered the general principle that consumers should take responsibility for their decisions and the Consumer Duty requires firms to enable consumers to understand their products and services, their features and risks, and the implications of any decisions they must make.
- 12.** Proposed changes to our rules on interest-only, and part interest-only and part repayment, would make it easier for lenders to offer these types of mortgages, which do carry a higher inherent risk than a normal repayment mortgage. This is mainly because there is a greater possibility that the borrower may not ultimately own their own home at the end of the mortgage term if they cannot repay the outstanding capital when due. There may also be a greater risk of negative equity, or exposure to interest rate changes.
- 13.** These mortgages can be more complex for consumers than repayment mortgages and that is one of the reasons why around 98% of sales of these products have been advised over the past 10 years. We expect firms to give consumers a level of care appropriate to the degree of risk involved in the transaction. We anticipate that this will continue and are not proposing to mandate advice, but lenders and mortgage intermediaries must ensure they meet the consumer understanding and consumer support outcomes, where these products are sold on an execution-only or advised basis.

- 14.** Our proposals on the definition of 'credit impaired' consumers could make it easier for these consumers or those who have recently recovered to demonstrate affordability and avoid more expensive mortgage lending. There would be no change to our rules on responsible lending, and firms will continue to require consumers to demonstrate that a mortgage is affordable.
- 15.** Our proposals on foreign income will help those borrowers whose income is in a different currency to that of their mortgage. We believe that the existing rules are too difficult for firms to apply and are limiting the number of products on offer. Our proposals would replace these with simpler rules, supported by the Consumer Duty to encourage firms to expand and innovate their product offerings, while continuing to ensure good outcomes through consumer understanding and consumer support.
- 16.** When designing proposals for foreign currency mortgages, we recognised that there is a different level of risk for a mortgage where the loan is denominated in a foreign currency to one where the borrower is paid in a foreign currency but the loan is in sterling. So we have allowed firms more flexibility when lending in sterling to a borrower with an income in a foreign currency. This is discussed in more detail at paras 6.11-6.14.
- 17.** We are proposing longer maximum terms for regulated bridging loans. This will mean that consumers who need more time than is currently allowed will avoid the harm caused by extending their bridging loan or taking out a new one to settle their existing loan. We think that where longer and more realistic terms can be agreed at the outset, consumers who need more than 12 months are more likely to see the full cost of the loan before agreeing to proceed.
- 18.** We consider these proposals comply with the FCA's secondary objective in advancing competitiveness and growth. Mortgage finance is just one part of a complex housing ecosystem that includes construction, property exchange, planning regulations and rental markets. However, we believe that our proposals could support economic growth and encourage wider market participation by simplifying our requirements and allowing firms to exercise more judgement. This may support sustainable access to homeownership for consumers who are currently underserved, greater innovation in product design, and a mortgage market that reflects the consumers' evolving needs.
- 19.** If banks were credit constrained, increased mortgage lending could come at the expense of commercial credit that might have generated higher economic returns.
- 20.** Our proposals aim to boost access to lending for underserved consumers and allow them to meet their financial objectives. Owning one's own home reduces the amount paid in rent over a lifetime and may help consumers to accumulate equity. Reducing the likelihood of some consumers renting for longer can create a monthly cashflow improvement for households.
- 21.** Our proposals to simplify our rules on interest-only lending and retirement interest-only mortgages look to increase competition. This should reduce borrowing costs for consumers, which in turn may free up income for other consumption and investment.

- 22.** Our proposals on bridging finance may allow more people to invest in property refurbishment. Helping homeowners access more finance to improve their homes or self-build could contribute to economic growth through building and construction works.
- 23.** The proposals in this consultation are designed to be outcomes-focused. We want to leverage the existing requirements of the Consumer Duty as far as possible rather than writing new rules and guidance.
- 24.** All firms have a responsibility to act to deliver good outcomes for their retail customers. Although lending responsibly and conducting robust affordability assessments will remain key to preventing causing foreseeable harm, firms must also act with the overarching principles and requirements of the Duty in mind.
- 25.** The Duty sets high standards for consumer protection and is central to outcomes-based regulation. Firms have to consider the needs, characteristics and objectives of customers in their target market, including those with characteristics of vulnerability, and how they behave, at every stage of the product or service lifecycle. We have also published guidance, and examples of good and poor practice, on how firms should support customers in vulnerable circumstances.
- 26.** More innovative products, such as interest-only or part interest-only mortgages, can be more difficult to understand for some consumers. Before bringing these products to market, we expect firms to be mindful of their obligations under the products and services and consumer understanding outcomes, and outcomes monitoring requirements under the Duty.
- 27.** We are mindful of how products with an interest-only element were sometimes sold in the past. We carefully considered the increased risk of adverse consequences for some consumers when using products with an interest-only element. Mortgage lenders should design products that are fit for purpose and meet the needs, characteristics and objectives of the identified target market. Intermediaries and in-house advisers should provide product information which includes a balanced picture of a product's costs and risks as well as its benefits.
- 28.** Our proposals on bridging loans would give some consumers more time to achieve their exit strategy by selecting a longer term at the start of the mortgage. Lenders must ensure that any costs, including fees and charges, associated with longer bridging terms represent fair value in line with the Duty. Lenders seeking to offer bridging loans with longer terms must design them to meet an identified target market's needs, characteristics and objectives, and avoid causing foreseeable harm, in line with the products and services outcome in the Duty.
- 29.** In line with our commitment to the Prime Minister in January 2025 we have carefully considered where we may be able to rely on the Consumer Duty in place of new rules. We concluded that we can rely on the Duty to a large extent, but propose targeted additions or revisions to rules and guidance in some areas. We have done this to clarify our expectations to lenders who may not have recently designed, or sold, these products to a wider set of consumers.

30. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in section 3B FSMA.

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

31. 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

32. Our proposals are permissive in nature and would not impose any additional restrictions or burdens on firms who do not choose to take advantage of them. 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)]

33. The outcome of our consideration in relation to these matters in this case is stated in paragraph 1.20.

The general principle that consumers should take responsibility for their decisions

34. Where lenders take advantage of our proposals, they would give consumers a wider choice of products which may be more suitable for their needs and circumstances. This would enable them to take more responsibility for their decisions. Our proposals for firms to engage in tailored interactive dialogue with customers about their credible repayment strategy for an interest-only mortgage would support customers in making their decisions.

The responsibilities of senior management

35. 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

36. Our proposals recognise the differences in the nature and objectives of the businesses the FCA regulates and we have identified potential impacts on mutual societies below at Para 40.

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

37. 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

38. In developing these proposals we have acted as transparently as possible. We set out our broad plans for this consultation in our Feedback Statement which was published in December 2026. Feedback from our Discussion Paper, published in June 2025 has been incorporated into the design of these proposals. We have also attended some of the FCA statutory panels for views on our proposals.
39. 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 or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by section 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

40. We note that many/several mortgage lenders are Building Societies and Credit Unions who are mutual societies. Our proposals on interest-only lending would require changes to underwriting criteria which smaller firms, who may be mutuals, may be able to adopt more quickly than larger banks. This may create a temporary increase in competitive pressure between larger banks and the smaller mutuals. Mutuals may also benefit from a comparative advantage in niche areas such as later life or lending to consumers due to their different make up of their customer base.

Equality and diversity

41. 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, to and foster good relations between people who share a protected characteristic and those who do not.

- 42.** 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 equality and diversity is stated in paragraphs 1.22 – 1.26.

Legislative and Regulatory Reform Act 2006 (LRRRA)

- 43.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that our proposals are proportionate, transparent, accountable and consistent. For example, our proposals are proportionate as they are permissive in nature and allow firms to take advantage of them if they wish but are not imposed on firms who do not. Likewise, our proposals have been developed transparently, using feedback from stakeholders received as part of our Discussion Paper which was published last year. We have also engaged with various statutory panels. Our proposals are consistent with the wider aim of the Mortgage Rule Review, which is to simplify our mortgage rules to support sustainable homeownership.
- 44.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider our proposals are consistent with the principles of the code. For example, we are proposing to remove some of the prescriptive, MCD-derived rules for foreign currency mortgages and move towards a more proportionate, outcomes focused framework.

Treasury recommendations about economic policy

- 45.** This section explains how we have considered the recommendations made by the Treasury under section 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.
- 46.** We consider that our proposals are consistent with the aspects of the Government's economic policy to which the Financial Conduct Authority should have regard. In the remit letter from the Chancellor of the Exchequer to the FCA on 14 November 2024, the Chancellor affirms the FCA's role in protecting consumers and supports our efforts to enable consumers to make informed choices, including responsible risk-taking.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
CBA	Cost-benefit analysis
CCJ	County Court Judgement
CP	Consultation Paper
DP	Discussion Paper
ERC	Early Repayment Charge
EU	European Union
EUR	Euro
FCA	Financial Conduct Authority
FLS	Financial Lives Survey
FSMA	Financial Services and Markets Act 2000
FTB	First-time buyer
GBP	Great British Pound
IT	Information Technology
IVA	Individual Voluntary Arrangement
LRRA	Legislative and Regulatory Reform Act 2006
LTV	Loan-to-Value
MCD	Mortgage Credit Directive 2014
MCOB	Mortgage Conduct of Business sourcebook
MLAR	Mortgage Lending and Administration Return
MMR	Mortgage Market Review

Abbreviation	Description
MRR	Mortgage Rule Review
PSD	Product Sales Data
RIO	Retirement Interest-Only
SUP 16	FCA Handbook SUP 16 Reporting requirements
UK	United Kingdom
US	United States of America
USD	United States Dollar

Appendix 1

Draft Handbook text

**MORTGAGE RULE REVIEW (SUPPORTING FIRST-TIME BUYERS AND
UNDERSERVED CONSUMERS) INSTRUMENT 202X**

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 Glossary of definitions is amended in accordance with Annex A to this instrument.
- E. The Mortgages and Home Finance: Conduct of Business sourcebook (MCOB) is amended in accordance with Annex B to this instrument.

Notes

- F. In the Annexes to this instrument, the notes (indicated by “*Editor’s note:*”) are included for the convenience of readers but do not form part of the legislative text.

Citation

- G. This instrument may be cited as the Mortgage Rule Review (Supporting First-Time Buyers and Underserved Consumers) Instrument 202X.

By order of the Board
[*date*]

Annex A**Amendments to the Glossary of definitions**

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

Amend the following definitions as shown.

- bridging loan* (1) an *MCD exempt bridging loan*; or
- (2) (other than in (1)) a *regulated mortgage contract* which has a term of ~~twelve~~ 24 months or less.

credit-impaired customer (in MCOB 4.7A, MCOB 11.6 and SUP 16) a *customer* who:

...

Annex B

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 otherwise stated.

2A Mortgage Credit Directive

Insert the following new section, MCOB 2A.-1, before MCOB 2A.1 (Remuneration: MCD regulated mortgage contracts). The text is all new and is not underlined.

2A.-1 Application

- 2A.-1.1 R To the extent that a *rule* in this chapter does not already apply to *Gibraltar-based firms* as a result of GEN 2.3.1R, it applies to them so far as the *rule* would have applied were it in effect before *IP completion day*.

Amend the following as shown.

2A.3 Foreign currency loans

- 2A.3.-2 R MCOB 2A.3.1R and MCOB 2A.3.2G apply to regulated mortgage contracts entered into before [Editor's note: insert the date on which this instrument comes into force].
- 2A.3.-1 R MCOB 2A.3.1AR and MCOB 2A.3.2AG apply to regulated mortgage contracts entered into on or after [Editor's note: insert the date on which this instrument comes into force].
- 2A.3.1 R ...
- 2A.3.1A R Where an MCD regulated mortgage contract relates to a foreign currency loan, at the time the MCD regulated mortgage contract is entered into the MCD mortgage lender must ensure there are arrangements in place to limit the exchange rate risk to which the consumer is exposed under the MCD regulated mortgage contract.
- 2A.3.2 G ...
- 2A.3.2A G The 'arrangements' referred to in MCOB 2A.3.1AR may include:
- (1) a cap; or
 - (2) a risk warning (where a risk warning would be sufficient to limit the exchange rate risk (if any) to which the consumer is exposed).

...

4 Advising and selling standards

...

4.7A Advised sales

...

Cost of the mortgage

4.7A.23 R (1) This *rule* applies if the *firm's* product range includes more than one
A *regulated mortgage contract* that is appropriate to the needs and
circumstances of the *customer* (see *MCOB* 4.7A.5R and 4.7A.6R).

...

(3) For the purposes of this *rule*:

...

(b) the “total amount payable” means:

(i) the aggregated ~~monthly~~ regular contractual payments;
and

...

...

(d) ~~monthly~~ regular contractual payments should be calculated on
the assumption that there is no variation to the interest rate
that would apply if the *regulated mortgage contract* were to
be entered into immediately, unless the contract
expressly varies the interest rate (in which case, the ~~monthly~~
regular contractual payments should be calculated by
reference to rates specified in the contract in relation to the
relevant periods).

...

5 Pre-application disclosure

...

5.6 Content of illustrations

...

Section 6: ‘What you will need to pay each [insert frequency of payments from
MCOB 5.6.40R]’

...

5.6.40 R The heading for Section 6 of the *illustration* and the heading of the column on the right-hand side of this section must state the frequency with which payments must be made by the *customer*. (For example, if payments are to be made on a monthly ~~basis~~, quarterly, or any other frequency, the heading for this section must be ‘What you will need to pay each ~~month~~ [insert payment frequency]’ and the column must be headed ‘~~Monthly~~ [insert payment frequency] payments’.)

...

5 Annex 1 The mortgage illustration: table of contents, prescribed text and prescribed section headings and subheadings-

5 Annex 1 R This annex consists only of one or more forms. Forms are to be found through the following address:

[*Editor’s note*: insert link to form]

MCOB 5 Annex 1R

The mortgage illustration: table of contents, prescribed text and prescribed section headings and subheadings.

...

6. What you will need to pay each [insert frequency of payments from MCOB 5.6.40R e.g. monthly]	[insert frequency of payments from MCOB 5.6.40R e.g. <u>monthly</u>, <u>quarterly</u>, or <u>any other frequency</u>] payments
...	...

...	...
This section is required only for multi-part mortgages where there is a future change in the interest rate(s) charges. It must be numbered as a subset (e.g. 6a) to follow the preceding section. 6a. What will you need to pay in future	[insert frequency of payments from MCOB 5.6.40R e.g. <u>monthly</u>, <u>quarterly</u>, or <u>any other frequency</u>] payments
...	...

...

5A MCD Pre-application disclosure

...

5A Instructions to complete the ESIS
Annex 2

[*Editor's note:* This annex is split into provisions for data management purposes. Where relevant, gender-neutral pronouns have also been inserted. No substantive changes are made to this annex except as set out in MCOB 5A Annex 2.5 and MCOB 5A Annex 2.7.]

5A [Note: Annex II Part B of the *MCD*]
Annex
2.1

1.1	R	This Annex belongs to <i>MCOB 5A.5.3R(3)</i> .
...		

5A
Annex
2.2

2	Section 'Introductory text'
...	

5A
Annex
2.3

3	Section '1. Lender'
...	

5A
Annex
2.4

4	(Where there is a credit intermediary who is not the lender) Section '2. Credit intermediary'
...	

5A
Annex
2.5

5	Section '3. Main features of the loan'	
...		
5.2	R	Where the currency of the MCD regulated mortgage contract is different from the national currency of the consumer, the firm must <u>Where the MCD regulated mortgage contract is a foreign currency loan and there is an exchange rate risk, the firm must, where applicable:</u>
	(1)	indicate that the <i>consumer</i> will receive a regular warning at least when the exchange rate fluctuates by more than 20% <u>[by more than 20%] [significantly], as applicable;</u>
	...	
	(4)	where applicable, indicate that the <i>consumer</i> has the right to convert the currency of the <i>MCD regulated mortgage contract</i> ;
	(5)	where applicable, indicate to the <i>consumer</i> the right to renegotiate the conditions of the <i>MCD regulated mortgage contract</i> ; and/or
	(6)	indicate any other arrangements available to the <i>consumer</i> to limit his <u>their</u> exposure to exchange rate risk.
...		
5.12	R	The amount of the loan to be granted is:
	(1)	in cases where, on the basis of the information obtained from the <i>consumer</i> , before providing the <i>ESIS</i> it is clear that the <i>consumer</i> would not be eligible to borrow the amount he <u>they</u> requested, an estimate of the amount that the <i>consumer</i> could borrow based on the information obtained from the <i>consumer</i> . This does not require information to be obtained from the <i>consumer</i> before providing an <i>ESIS</i> to ascertain the amount the <i>consumer</i> is eligible to borrow, instead, this means that the <i>firm</i> does not have to provide a <i>consumer</i> with an <i>ESIS</i> for an amount it knows the <i>consumer</i> would not be eligible for, based on whatever information it has obtained from the <i>consumer</i> before providing the <i>ESIS</i> ; or

		...	
--	--	-----	--

5A
Annex
2.6

6	Section '4. Interest rate' and other costs	
...		
6.15	R	Where a <i>consumer</i> has informed the <i>firm</i> of one or more components of his <u>their</u> preferred <i>MCD regulated mortgage contract</i> , such as the duration of the <i>MCD regulated mortgage contract</i> and the total amount of <i>credit</i> , the <i>firm</i> must, where possible, use those components.
...		

5A
Annex
2.7

7	Section '5. Frequency and number of payments'	
7.1	R	Where a <i>consumer</i> will be required to make payments under an <i>MCD regulated mortgage contract</i> on a regular basis, the <i>firm</i> must indicate the frequency of those payments (eg, monthly, <u>quarterly</u> , or any other frequency).
...		

5A
Annex
2.8

8	Section '6. Amount of each instalment'	
...		
8.9	Where the <i>MCD regulated mortgage contract</i> is a deferred-interest <i>MCD regulated mortgage contract</i> under which interest due is not fully repaid by the instalments and is added to the total amount of the <i>MCD regulated mortgage contract</i> outstanding, the <i>firm</i> must include an explanation of how and when deferred interest is added to the <i>MCD</i>	

	<i>regulated mortgage contract</i> as a cash amount, and what the implications are for the <i>consumer</i> in terms of his <u>their</u> remaining debt.
--	--

5A
Annex
2.9

9	Section '7. Illustrative repayment table'
...	

5A
Annex
2.10

10	Section '8. Additional obligations'
...	

5A
Annex
2.11

11	Section '9. Early repayment'
...	

5A
Annex
2.12

12	Section '10. Flexible features'
...	

5A
Annex
2.13

13	Section '11. Other rights of the borrower'
----	--

...	
-----	--

5A
Annex
2.14

14	Section '12. Complaints'
...	

5A
Annex
2.15

15	Section '13. Non-compliance with the commitments linked to the MCD regulated mortgage contract: consequences for the borrower'
...	

5A
Annex
2.16

16	Section '14. Additional information'
...	

5A
Annex
2.17

17	Section '15. Supervisor'
...	

...

7A Additional MCD disclosure: start of contract and after sale

7A.1 Application and general

...

7A.1.2 R ...

7A.1.3 R To the extent that a *rule* in this chapter does not already apply to *Gibraltar-based firms* as a result of *GEN 2.3.1R*, it applies to them so far as the *rule* would have applied were it in effect before *IP completion day*.

...

7A.4 Foreign currency loans and significant exchange-rate movement disclosure

7A.4.-1 R *MCOB 7A.4.1R* applies where an *MCD regulated mortgage contract* relates to a *foreign currency loan*, denominated in a currency other than pound sterling.

7A.4.1 R (1) A *firm* must warn any *consumer* with a *foreign currency loan*, on a regular basis, where the value of either:

(a) the *total amount payable* by the *consumer* which remains outstanding; or

(b) the regular instalments;

varies ~~by more than 20%~~ significantly from what it would be if the exchange rate between the currency of the *MCD regulated mortgage contract* and ~~the currency of the EEA State~~ pound sterling, applicable at the time of the conclusion of the *MCD regulated mortgage contract*, were applied.

...

[*Editor's note*: In *MCOB 7A.4.1AG*, the definition of 'Consumer Duty' takes into account the proposals and legislative changes suggested in the consultation paper 'Targeted Clarifications of Handbook Materials' (CP25/37) as if they were made final.]

7A.4.1A G In determining whether a value varies significantly for the purposes of *MCOB 7A.4.1R(1)*, the *firm* may have regard to the characteristics of the *foreign currency loan*, the nature and frequency of exchange-rate movements, and its obligations under the *Consumer Duty* to deliver good outcomes for *consumers*.

...

11 Responsible lending, and responsible financing of home purchase plans

...

11.6 Responsible lending and financing

...

The assessment of affordability

...

11.6.6 R ...

11.6.6A G For the purposes of the assessment referred to at MCOB 11.6.2R(1), a regulated mortgage contract or home purchase plan may be affordable for the customer even if the customer has or has had a level of credit impairment.

...

Income

...

11.6.9 G In relation to taking account of the *customer's* income for the purposes of its assessment of whether the *customer* will be able to pay the sums due:

...

(3) ...

(3A) where a customer's income is variable or irregular, a firm may consider evidence such as bank deposits, historical payment patterns, transaction data or professionally prepared accounts over an appropriate period;

...

...

Future changes to income and expenditure

...

11.6.15 G ...

(4) ~~When assessing the affordability of a retirement interest only mortgage with joint borrowers, the firm should consider the ability of a single borrower to continue making the required payments if the other dies, taking into account relevant evidence such as pensions payable to the surviving spouse or civil partner. [deleted]~~

Debt consolidation and credit-impaired consumers

...

11.6.17 G (1) The requirement in MCOB 11.6.16R(2) for reasonable steps may be satisfied by the *mortgage lender's*, or *home purchase provider's*, repaying the committed expenditure directly to the creditors

concerned as a condition of granting the *regulated mortgage contract* or *home purchase plan*.

- (2) The Glossary definition of *credit-impaired customer* does not prevent a *firm* from having its own definitions in its internal policies and procedures relating to *customers* with levels of credit impairment.

...

Entering into interest-only mortgages

- 11.6.41 R (1) A Except where an *interest-only mortgage* or the interest-only part of an *interest-only mortgage*, other than a *second charge regulated mortgage contract*, is less than 25% of the *mortgage-lender's valuation*, a *mortgage lender* may only enter into an *interest-only mortgage*, or switch a *repayment mortgage* onto an interest-only basis for all or part of its term, if:
- (a) it has evidence, and/or where evidence is not reasonably available or obtainable, following an interactive dialogue with the *customer* tailored to the *customer's* individual needs and circumstances, it reasonably assesses that the *customer* will have in place a clearly understood and credible *repayment strategy*; and
- ...
- ...
- (4) ...
- (5) In MCOB 11.6.41R and MCOB 11.6.46E, the '*mortgage lender's valuation*' means the valuation used by the *mortgage lender* as part of the application process for the *interest-only mortgage*.

[*Editor's note:* In MCOB 11.6.42G and MCOB 11.6.45G, the definition of 'Consumer Duty' takes into account the proposals and legislative changes suggested in the consultation paper 'Targeted Clarifications of Handbook Materials' (CP25/37) as if they were made final.]

11.6.42 G *Firms* are reminded that:

- (1) *interest-only mortgages* include those where some, but not all, interest is payable at the end of the term. Accordingly, the requirement in MCOB 11.6.41R(1)(b) applies equally to such *interest-only mortgages* as it does to those where all of the interest is accrued until the end of the term; ~~and~~
- (2) a *lifetime mortgage* is a type of *interest-only mortgage*, as full repayment of capital and interest is not required over the term. Accordingly, the requirements in the Handbook (including in MCOB 11.6 and MCOB 11.7) which apply to *interest-only mortgages* apply to

lifetime mortgages, unless specifically disapplied. Depending always on its terms, a *lifetime mortgage* may also be an *interest roll-up mortgage*, as noted in *MCOB 11.6.59G*; and

- (3) when complying with *MCOB 11.6.41R(1)(a)*, the *Consumer Duty* will apply. *Firms* may want to consider factors such as the *customer's* individual circumstances.

...

- 11.6.45 G The following are examples of *repayment strategies* that may, subject to the circumstances of the *customer*, be acceptable for the purposes of *MCOB 11.6.41R(1)*:

...

- (3) the sale of assets such as another property or other land owned by the *customer*; ~~and~~
- (4) for a *shared equity credit agreement* or a *retirement interest-only mortgage*, the sale of the property which is the subject of the agreement;:
- (5) a follow-on product such as a *retirement interest-only mortgage* or a *regulated lifetime mortgage*. When considering whether a follow-on product might be a credible *repayment strategy* for the *customer*, and in line with the *Consumer Duty*, *mortgage lenders* may consider the *customer's* potential eligibility for a product on the market at the time, looking at factors such as the *customer's* age and the loan to value and length of the *interest-only mortgage*; and
- (6) an intention of the *customer* to convert to a *repayment mortgage* within a reasonable period, which may align with expected increased income, such as salary increases. In assessing the credibility of this *repayment strategy*, *mortgage lenders* may consider whether the *customer* has relied on this *repayment strategy* in a previous *interest-only mortgage*.

- 11.6.46 E Acceptance by a *mortgage lender* of any of the following *repayment strategies* for the purposes of *MCOB 11.6.41R(1)* may be relied upon as tending to show contravention of that *rule*:

...

- (3) the sale of the property which is the subject of the *regulated mortgage contract*, where that is the *customer's* main residence and the *mortgage lender* does not consider whether the property will have the potential to:
- (a) provide sufficient funds for the *customer* to repay the capital borrowed and, where applicable, the interest accrued under the *interest-only mortgage*; ~~and~~

- (b) except where paragraph (c) applies, where the *interest-only mortgage* or interest-only part of the *interest-only mortgage* is over 50% of the *mortgage lender's* valuation, allow the *customer* to purchase without any mortgage a cheaper property to reside in or execute any other associated strategy; and
- (c) where the *interest only-mortgage* is a *second charge regulated mortgage contract*, allow the *customer* to purchase without a mortgage a cheaper property to reside in or execute any other associated strategy.

...

...

- 11.6.47 G (1) In complying with *MCOB* 11.6.41R (1), where a *customer's* repayment strategy is the sale of the property which is the subject of the *regulated mortgage contract*, a *mortgage lender* may wish to consider, as part of its assessment of that *repayment strategy*, factors such as the equity in the property when considered in relation to the level of property prices in the relevant area at the time of the consideration or, for a *lifetime mortgage*, the borrower's life expectancy.
- (2) For the purpose of *MCOB* 11.6.46E(3)(b) and (c), examples of an associated strategy may be renting property or moving in with family or into residential care. *Mortgage lenders* may consider the age of the *customer* and the length of the mortgage when assessing the credibility of the strategy for the *customer*.

Assessing affordability under an interest-only mortgage

- 11.6.48 R For the purposes of *MCOB* 11.6.2R, where a *mortgage lender* is lending under an *interest-only mortgage* in accordance with *MCOB* 11.6.41R(1), it may assess affordability on the basis of payment of interest only over the term (plus repayment of such capital as may be due to be repaid over the term). If it does so, it must consider as part of the *customer's* committed expenditure under *MCOB* 11.6.5R(2)(b)(i) (or the equivalent alternative provision for transactions with *high net worth mortgage customers* or solely for business purposes) the cost to the *customer* of ~~the~~ any repayment strategy (unless the mortgage is a *retirement interest-only mortgage*).

Review during the term of interest-only mortgages

- 11.6.49 R ...
- (2) Except as set out in (3), a *mortgage lender* must carry out a review (as a minimum, once) during the term of the mortgage, in which contact is made with the *customer*, to check that the *customer's* repayment strategy is still in place, and that it is still reasonable to expect that the *repayment strategy* has the potential to repay the capital borrowed and, where applicable, pay the interest reasonably expected to be

accrued under the *interest-only mortgage*. The ~~review~~ reviews must be carried out at ~~a stage~~ stages of the term when, if the *repayment strategy* is not in place, or not adequate, there is likely to be sufficient time prior to the end of the term for the *customer* to take appropriate steps to remedy the situation.

...

- 11.6.49 A G When deciding when a review is appropriate, mortgage lenders may consider factors such as when the customer requests it, when house prices are falling, the end of a product term, or changes in the customer's circumstances so that the repayment strategy may no longer be appropriate. Where it appears that the repayment strategy may not be appropriate, mortgage lenders may consider alternative strategies, for example, follow-on products.

Interest-only policy

- 11.6.50 R A mortgage lender which enters into *interest-only mortgages* (unless they are only *lifetime mortgages*) must include in the policy which is required by MCOB 11.6.20R (Responsible lending and financing policy) a policy on *interest-only mortgages*, setting out its processes and procedures for ensuring compliance with MCOB 11.6.41R(1) and for safeguarding the interests of *customers* during the term of *interest-only mortgages*. This policy must include:

...

- (5) the process for ~~the review~~ reviews required by MCOB 11.6.49R which, as a minimum:
- (a) prescribes the ~~timing of the~~ circumstances which may indicate that a review would be appropriate;
 - (b) prescribes the content of ~~the any~~ any review, including the questions to be asked of the *customer* and the actions to be taken if the *customer* proves difficult to contact or otherwise does not co-operate with the review;

...

...

Extending the term of a bridging loan

- 11.6.55 R Except in relation to a secured overdraft which is solely for a business purpose or is with a *high net worth mortgage customer*:
- (1) ~~when considering extending the term of a bridging loan, a mortgage lender must comply with MCOB 11.6.2R as if the bridging loan were a new loan; [deleted]~~

- (2) where ~~MCOB 11.6.2R does not apply in relation to extending the term of a bridging loan (because the a bridging loan is an interest roll-up mortgage, and therefore MCOB 11.6.57R applies)~~, the mortgage lender must consider with the customer, before ~~he commits himself~~ they commit themselves to extend the loan, the impact of the extension on the customer's remaining equity in the property which is the subject of the bridging loan; ~~and~~
- (3) a firm must not agree to extend the term of a bridging loan unless the customer has made a positive choice to do so; and
- (4) a firm must not extend a bridging loan to a revised term of more than 24 months.

...

Record-keeping

11.6.60 R ...

- (3) In relation to *interest-only mortgages*, the record in (1) must include:

...

- (b) the evidence of, and/or the record of the tailored interactive dialogue about, the customer's repayment strategy and, where applicable, its cost;

...

...

...

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

...

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:

...

- (2) The proposed *regulated mortgage contract* is more affordable than the existing *regulated mortgage contract* if:

- (a) the aggregate amount of:
- (i) the ~~monthly~~ regular contractual payments due from the *customer* under that 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

...

- (b) the ~~monthly~~ regular contractual payment that was due from the *customer* under the existing *regulated mortgage contract* (or the aggregate of the ~~monthly~~ regular contractual payments due under all the existing *regulated mortgage contracts*, if more than one) in ~~each~~ of the 12 months before the date on which the customer applies for the proposed *regulated mortgage contract*, ignoring any atypical payments, was greater than:

- (i) the ~~typical monthly~~ regular contractual payment which would be due from the *customer* under the proposed *regulated mortgage contract* in any discounted or introductory period; or
- (ii) (where there is no discounted or introductory period) the ~~typical monthly~~ regular contractual payment which is expected to be due for the term of the proposed *regulated mortgage contract*; and

...

- (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~~ regular contractual 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

...

is less than the aggregate amount of:

- (iii) the ~~monthly~~ regular contractual payments which would be 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 indicated new deal; and

...

...

11.9.6 G ...

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

...

(b) ~~to a typical monthly payment should be taken to ignore any payment in respect of a period greater or less than a *month* (for example, where a first payment is larger, or smaller, than that which would normally be due because it relates to a period greater or less than a *month*; [deleted]~~

...

...

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

...

13.3 Dealing fairly with customers: policy and procedures

...

Customers and payment difficulties: procedures

...

13.3.4A R In *MCOB* 13.3.4AR, the impact of a capitalisation would be material if, either on its own or taken together with previous automatic capitalisations, it increased:

(1) the interest payable over the term of the *regulated mortgage contract* by £50 or more; or

(2) the regular contractual ~~monthly~~ repayment amount under the *regulated mortgage contract* by the equivalent of £1 per month or more.

...

13.3.4D G In the *FCA's* view, although *firms* must not automatically capitalise a *payment shortfall* where the impact would be material, it may be appropriate to agree to capitalise a *payment shortfall* if:

- (1) the *firm* reasonably considers (taking into account the root cause of the *payment shortfall*) that the *customer* can afford the capitalised ~~monthly~~ regular contractual payments;

...

...

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