

23 October 2024

Dear Chief Executive,

FCA strategy for Non-bank Mortgage Lenders & Mortgage Third Party Administrators in 2025

We are writing to non-bank mortgage lenders (NBMLs) and mortgage third party administrators (MTPAs) to set out, in respect of their different but often linked activities, our key concerns and priorities in 2025.

The external environment and strategic context

Recent years have been [‘tumultuous’ for consumers’ financial lives](#) and challenging for firms. The Covid-19 disruption in 2020-21 highlighted the critical role that financial services firms, including mortgage lenders and administrators, play in the daily lives of millions of individuals, businesses, and the wider economy. Through 2022-23, we saw market stresses including geopolitical tensions, volatile asset prices, weak global growth, inflationary pressures, and rising interest rates. The cost of living rose significantly, putting pressure on household finances and increasing the risk of rising arrears rates. 2024 continues to be a year of important elections around the world, including a new government now in the UK.

At the same time, NBMLs and MTPAs have faced significant regulatory change, including the setting of new expectations around treatment of borrowers in financial difficulty (2020-2024) and those customers with characteristics of vulnerability (2021), the implementation of the Consumer Duty (2022-24), and the rising expectations around operational resilience.

In the mortgage market, internal product switches dominate current lending activity, with lending to first time buyers and home movers falling and external re-mortgaging relatively flat. Market conditions remain challenging and have impacted volumes in the NBML sector. Higher funding costs also continue to strain the typical NBML funding model.

In response, some NBMLs are adapting their business models, for example by directing more lending to second charge mortgages, bridging loans and to largely unregulated products such as Buy-to-let (BTL) mortgages.

In addition, some firms are seeking to diversify funding sources, for example through forward flow arrangements with retail banks where one lender originates mortgage business for the other.

Both firms entering into such an arrangement will wish to consider, and reach a shared understanding of, their respective Consumer Duty responsibilities, if any. This will include the appropriate governance and oversight of the arrangement to mitigate any potential consumer harm. We remind firms of the responsibility under Principle 11 to deal with the regulator in an open and honest way (p8 below). As part of this, we would find it helpful to be notified (under Principle 11 or SUP15.3.8) of new forward flow agreements.

However, as our Chief Executive said in his speech '[Investing in Outcomes](#)' (March 2024), we have always been clear that firms may need to adapt their business models in response to competition and a changing market and we recognise that by responding agilely to changes in markets, we can help to facilitate growth, competitiveness and innovation that can bring better outcomes for all consumers.

Thus, NBMLs and MTPAs are having to manage regulatory change, ensure ongoing compliance and act to deliver good customer outcomes, whilst they evolve their business models and technology in a constrained market. This complex set of challenges puts a premium on NBMLs and MTPAs having [effective culture and controls](#), including:

- Leadership and people management which establishes healthy purposeful cultures in which staff at all levels act with integrity and in a customer-centric way.
- Governance and oversight which is strong and balanced enough to plan and execute major changes in a way that safeguards customers.
- Risk management frameworks, including cohesive lines of defence, that give proper early consideration to both prudential and conduct risks and to monitoring the customer outcomes being delivered.

These should apply equally to non-financial as well as financial conduct. If allegations or evidence of non-financial misconduct, such as bullying, harassment or discrimination, come to light, we expect firms to take them seriously and consider each case through appropriate internal procedures, thereby building confidence among staff that such concerns will be independently and fairly assessed. Firms should consider the proposals outlined in [CP23/20](#) to explicitly include non-financial misconduct in Fit and Proper assessments, The Conduct Rules, and the Suitability guidance on the Threshold Conditions. CP23/20 also proposes measures to improve diversity and inclusion, which supports healthy cultures, including by helping to reduce group think.

We will engage NBMLs and MTPAs on their cultures and controls, including in those respects, during our work on the six priority areas below. We will use tools including bilateral firm engagement, 'shallow' and 'deep' dives involving firm visits, and multi-firm work of various kinds. Our programme includes some specific planned pieces of work, but we will continue to reprioritise and adapt where issues or events demand this.

Priority 1 – Financial resilience

In a potentially volatile environment, firms must be aware of interdependencies between risks which could increase the overall risk profile of the firm. For example, what may start as a failure to manage operational, credit, conduct or reputational risk can quickly transform into liquidity or solvency risk and even result in concerns about a firm's financial safety and soundness. In the event of liquidity or solvency challenges, there are often new conduct, operational or reputational challenges to manage. So, firms' ability to manage these risks and the links between them, and the clarity of their communications in such scenarios, is very important and can have a material effect on consumer protection and market integrity.

What we expect NBMLs and MTPAs to do

NBMLs and MTPAs must ensure that they have adequate financial resources in place. They should proactively monitor their prudential position, take necessary steps to ensure they are meeting [Threshold Conditions](#), and notify us promptly if they are experiencing difficulties. The starting point for this is Chapter 4 (Capital resources) of our [Prudential sourcebook for Mortgage and Home Finance Firms](#) and Insurance intermediaries (MIPRU). NBML firms should pay particular attention to MIPRU 4.2D on liquidity resources requirements, including stress testing and contingency funding plans. Further guidance is also found in [FG20/1](#) (Assessing adequate financial resources).

It is important to keep your stress assumptions up to date, especially in respect of your funding model, including remaining alert to concentration risks of various kinds and other unforeseen risks.

All firms should also maintain adequate wind-down plans that have been reviewed and approved by their boards and which are kept up to date. This includes incorporating the liquidity necessary to successfully complete a wind-down into your liquidity risk management framework and considering how you will ensure liquid resources remain available at wind-down. Please see the [Wind-down Planning Guide](#) for further information.

For further observations on good practice and areas for improvement in financial resilience and risk management, see our recent [Multi-firm review of consumer credit firms and non-bank mortgage lenders](#).

You should also take care to consider customer outcomes in taking steps to stay financially sustainable, such as cost cutting or looking to increase sales or fees, and should ensure that such steps are appropriate and do not lead to poor outcomes.

Ultimately, some NBMLs or MTPAs might conclude that their business model is not sustainable and choose to withdraw from certain activities and services or consider merging with other firms. If such steps are being contemplated, you should carefully consider your contractual arrangements and any legislative or regulatory requirements around notice. You should also address how ceasing any activity may affect your customers and how you can mitigate any harm in line with the Consumer Duty. For example, when first considering any sale or purchase of assets you should carefully consider the impact on customers including continuity of service provision, in line with the Duty and other Principles, before starting on the transaction and the necessary regulatory processes.

What we will do

We will continue our regular analysis of firms' data, business models, and other intelligence, to help us identify those with outlier prudential positions and prioritise our engagement or mitigation work with those at greater risk of causing customer harm through disorderly failure. We will also continue to engage with those firms who proactively notify us of prudential matters via the appropriate regulatory channels.

Priority 2 – Treatment of customers in financial difficulty

What we expect NBMLs and MTPAs to do

Amid continuing pressures on household finances, NBMLs and MTPAs must, per the Consumer Duty, support retail customers in financial difficulty to make informed effective decisions, act in their own interests and pursue their financial objectives.

We have reminded firms of the standards they should meet to [support struggling borrowers](#) and where they need to improve [treatment of those in financial difficulty](#). We recently fined a firm for [failing to ensure customers who were in arrears were treated fairly](#).

In June 2023, to support the [Government's Mortgage Charter](#), we made [rules enabling lenders to offer temporary interest-only or reverse a term extension without an affordability test](#).

Firms should continue to treat repossession as a last resort, but where all attempts to resolve the position have failed, they should also consider the impact of extended forbearance on the borrower's remaining equity.

To further build on our expectations that firms treat borrowers in financial difficulty fairly, we made [rules to strengthen protections for borrowers in financial difficulty](#) (PS24/2). These come into force on 4 November 2024 alongside [updated non-Handbook guidance](#) (FG24/2 replacing FG23/2). Under these new rules, mortgage, consumer credit and overdraft providers have to:

- Consider earlier appropriate support for customers who are in or at risk of payment difficulties.
- Consider a wider range of forbearance options and take reasonable steps to ensure that any arrangement remains appropriate.
- Refer or signpost customers to free, impartial money guidance and debt advice, where appropriate.
- Not charge arrears fees that are higher than necessary to recover firms' reasonable costs for consumer credit customers.
- Take in to account the effect of any potential arrangements on the customer's overall mortgage balance.

What we will do

Across all mortgages, including second charge mortgages, we continue to monitor regulatory and other data on new and early arrears and payment shortfalls, to highlight trends, issues and outlier firms, so we know where to focus our engagement or make other interventions. We are likely to focus on segments of the market where customers may be more likely to have characteristics of financial vulnerability.

We will continue engagement where required on firms' resourcing of and controls over their Customer Support functions, and their Collections and Recovery functions, which play a key role in the fair and efficient treatment of borrowers in financial difficulties (see also Priority 4: Operational Resilience, below).

We remain alert to signs of poor treatment or outcomes, including where firms are not offering suitable forbearance options or not exercising these appropriately (including over-forbearing).

Priority 3 – The Consumer Duty

The Duty is a cornerstone of the FCA strategy to set and test higher standards to 2025 and beyond, and of our own work with NBMLs and MTPAs.

What we expect NBMLs and MTPAs to do

We expect the Duty to be a top priority for you personally, as chief executive. Ensuring your firm is acting to deliver good outcomes for retail customers should be at the heart of your strategy and business objectives, and your board and senior management should be embedding the interests of retail customers into the culture and purpose of your firm.

In addition to our [Finalised Guidance on the Duty](#) (July 2022), we commend the following publications to you:

- Our expectations and approach concerning [the implementation of the Duty by mortgage lenders and administrators](#) (February 2023), where we highlighted some specific products, services, risks and outcomes that firms should consider especially carefully under the Duty, and our [feedback to firms on their implementation of the Duty](#) in some of those areas (December 2023) including mortgages used for debt consolidation.
- The [results from our Duty preparedness firm survey across sectors \(February 2024\)](#).
- Our feedback report across sectors on [good practice and areas for improvement in Duty implementation](#), and accompanying [speech](#) (February 2024). That report highlights, among other things, the importance of firms considering the needs of customers with characteristics of vulnerability as part of product/service design and doing more to identify and support these customers and track and improve their outcomes.
- [Our update on good and poor practice around the Price and Value Outcome](#) (September 2024) which collated insights from the first year of implementation and is intended to help firms improve the way they think about fair value assessments.

Having regard to those helpful materials, your priorities now should include:

- Continued embedding of the Duty in your culture and your full range of mortgage and credit activities.
- Continued monitoring that your firm's products and services are designed appropriately for their target markets.
- Evidencing that your firm's products/services are offering fair value, including an assessment of the costs, benefits and limitations of the product/service through its lifecycle and distribution chain, how the product/service compares with others in the firm's portfolio and relevant market competitors, and any differential outcomes affecting particular customer groups.
- Providing support that meets consumers' needs throughout the life of the product or service, and communicating in a way that supports consumer understanding and equips them to make effective, timely and properly informed decisions.
- Continued regard to the importance (which we highlighted previously) of working and sharing information with other firms in the value or distribution chain, including to support your monitoring and review of the outcomes that your mortgage and credit customers are experiencing, to ensure those products and services are distributed to the right target market and meet customers' needs and objectives.
- Continued sourcing and delivery of data, management information (MI) and dashboards you need to monitor and evidence customer outcomes under the Duty and identify and address poor outcomes promptly.
- Refining your mechanisms for governing and reviewing those dashboards and acting on them, including preparing your board's assessment (at least annually) of whether your firm is delivering good outcomes for its customers (see 10.11-14 of our Finalised Guidance).

Your board's assessment will be part of the evidence we use to review compliance with the Duty, and we expect to be provided, if we request it, with the report and the key MI that sits behind it.

Concerning the Duty and mortgage activity, we would highlight specifically that we expect firms to lend responsibly, including by conducting accurate and appropriate affordability assessments

where applicable. We see increased risks of harm and poorer standards in these areas and therefore remind firms of responsible lending requirements in the areas of:

- Second charge mortgage lending, which is increasingly being used to consolidate debts. Where borrowers are already potentially over-indebted, a robust approach to assessing affordability is essential.
- Later life mortgage lending, where we expect firms who operate in this growing and innovative market to continue to take a prudent, proportionate approach to assessing customers' income both before and beyond retirement.

You should by now have finished [implementing the Duty for your closed products or services](#) (applying learnings from your implementation for open books). However, we would highlight again here two ongoing challenges for firms with such typically older books.

1. Out-of-date or incomplete client records that are missing characteristics and needs, sales records, or historic performance of the product. This can make it harder to serve consumers appropriately, particularly those with vulnerabilities. So, if you really can't fill these records gaps, you should take additional steps to mitigate the risk of harm, for example by enhanced outcomes testing for these customers.
2. Tracking down less engaged customers: a lack of engagement by firm or customer can lead to problems such as customers paying for products they no longer need or are now ineligible for, or not being aware of key changes impacting their use. So, you need to test, monitor, and adapt your approach to communications, including timing and content, if these aren't driving the right customer engagement and understanding.

Many closed book mortgage borrowers may be unable to remortgage and will be paying variable rates of interest. Some will also be vulnerable and lack financial resilience. It is important that firms recognise the difficulties facing these borrowers and provide them with the appropriate support.

You should share with us promptly any outstanding challenges or issues arising from your implementation for closed products and services.

What we will do

We will continue to engage with NBMLs and MTPAs on the Duty and its embedding, focusing on their:

- data and MI and board reports on outcomes and what these show
- ongoing embedding of the Duty within their culture and controls framework
- understanding and treatment of the needs of their retail customers in vulnerable circumstances
- communication of the features, costs and risks in the second charge mortgage market

We will continue to actively monitor the market to identify poor customer outcomes for borrowers in closed books and will act where necessary.

Priority 4 – Operational Resilience

What we expect NBMLs and MTPAs to do

NBMLs and MTPAs face inherent risks in relation to their operational resilience which can cause customer distress and loss throughout the customer journey, starting from lending decisions through to servicing during the lifecycle of the loan. We expect NBMLs and MTPAs to have adequate systems and controls, processes and policies, and appropriate governance and oversight, to mitigate the risk of such events and failures.

We expect to see increasing sophistication and maturity in firms' testing of resilience in different scenarios, and their refinement of action plans for remediating vulnerabilities and remaining within their tolerances.

This should include a close and effective relationship between the outsourcer (e.g an NBML) and its chosen business partner (e.g an MTPA), which is key to ensuring that both operate within their regulatory remits so that the harm to consumers and risk to market integrity caused through disruption are minimised. Such arrangements, and how effectively they are delivering in practice, should be reviewed regularly by both parties.

A reminder of your firm's existing obligations around operational resilience can be found at Annex 2 of our [PS21/3 Building operational resilience](#). While the new Business Impact Tolerance framework that PS21/3 sets out does not strictly apply to NBMLs and MTPAs, it should be a helpful framework for firms considering their own approach going forward.

What we will do

Where relevant, we will engage proactively with firms on their resourcing and appetite to invest in technology. But we remind you of your obligation (including under Principle 11) to notify us of relevant issues and events (p8 below), and our expectation that you should promptly remediate these yourselves.

Priority 5 – Financial crime and fraud

What we expect NBMLs and MTPAs to do

By virtue of their less transactional business models, NBMLs and MTPAs generally face lower inherent risks of money laundering or fraud against customers than, for example, retail banks. But NBMLs and MTPAs still have significant legal and regulatory responsibilities in this space and their own important role to play in defending the financial system from criminal misuse.

We have conducted significant work with banks over the last five years, and NBMLs and MTPAs should pay close attention to the public outputs from that work as they evolve their own systems and controls, including to combat the evolving tactics of bad actors: see the [full list of available FCA resources around financial crime](#), and look out for any further publications from us during 2024/25 including our proposed updated [Financial Crime Guide](#).

Firms should also see our update on [FCA progress in reducing and preventing financial crime](#) (2024) which includes 4 areas of focus and a number of related questions for firms' boards to ask themselves.

NBMLs and MTPAs should invest in adequate resources and controls, including appropriate (suitably tested) use of advancing technology where this is likely to assist.

What we will do

Financial crime remains an FCA top 4 priority in our 2024-25 business plan. We will make increasing use of data and analysis to identify outlier firms and target our engagement and other interventions.

Again, we remind you of your obligation (including under Principle 11) to notify us of relevant issues and events, and our expectation that you should promptly remediate these yourselves.

Priority 6 – Sustainable Finance

What we expect NBMLs and MTPAs to do

NBMLs and MTPAs have a role to play in helping the economy transition to a more sustainable long-term future. This includes increasingly looking beyond net zero targets and climate change to consider wider environmental risks, such as those related to nature and biodiversity.

As firms develop sustainable finance offerings, they should take care to have appropriate governance and controls in place and make sure that any sustainability-related claims made about their products and services are fair, clear and not misleading, so that consumers and other market participants can make informed decisions. Our specific new anti-greenwashing rule came into force on 31 May 2024, and we encourage firms to use the [finalised guidance](#) we published.

Similarly, where firms publish climate transition plans, they should be able to demonstrate how they are meeting their commitments. It is important that consumers and the market are protected from potentially misleading or inaccurate information, so any communications made about climate commitments and transition plans should be representative, and any limitations should be clear.

We recognise that appropriate cooperation between firms can be helpful in this space and so we welcomed the publication of the Competition and Markets Authority's [Green Agreements Guidance](#) (October 2023). We encourage firms to consider the CMA's guidance which provides clarity about what is, and what is not, legal when working together towards environmental sustainability goals.

What we will do

With our new anti-greenwashing rule now in force, we will be paying close attention to firms' claims and controls in this area.

Conclusion

We expect NBLs and MTPAs to deliver good outcomes across the full range of those priorities.

For our part, we will make full use of our knowledge, data and technology to deliver incisive outcomes-focused supervision, in support of proportionate and effective regulation and, where appropriate, [our Secondary international competitiveness and growth objective](#).

Together, we can thereby contribute also to high standards of market conduct, to the UK's position as a trusted competitive global financial services centre, and to supporting sustainable growth and competitiveness in the wider UK economy.

Next steps

We expect you and your board to discuss this letter, consider your business in the light of the risks we discuss, and review your approaches to mitigating these and driving improved outcomes, including the prompt remediation of any issues you identify. You should be prepared to show and explain to us how you are taking reasonable steps in those respects.

A cooperative relationship between regulated and regulator is crucial: we expect firms to be open and honest with us, including informing us of anything we would reasonably expect notice of under Principle 11 (relations with regulators), which applies to unregulated activities as well as regulated activities (and takes in to account the activities of other members of a group). Note too the notification obligations under SUP 15.3.1R (matters having serious regulatory impact) and SUP 15.3.11R (significant breaches of a rule/Principle).

In the context of this letter, we note the particular importance of our being notified of:

- Any product, service or customer journey that is significantly non-compliant with the Consumer Duty.
- Any proposed business expansion, change or restructuring which could have a significant impact on your firm's risk profile or resources.
- Any proposed provision of a new type of product/service, or proposed cessation of a regulated or ancillary activity or significant reduction in the scope of such (SUP15.3.8G (1)(c)&(d)), including the purchase or sale of mortgage books or the transfer of legal title.

In our supervisory work, we will continue to consider carefully whether those with relevant senior management functions have carried out their responsibilities appropriately under the Senior Management and Certification Regime.

If you have any questions about this letter, please contact the FCA Supervision Hub on 0300 500 0597, or your normal supervisory contact where applicable.

Yours faithfully

Emad Aladhal
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