FINANCIAL CONDUCT AUTHORITY

Discussion Paper

DP25/2

Mortgage Rule Review: the future of the mortgage market

June 2025

How to respond

We are asking for comments on this Discussion Paper (DP) by **19 September 2025**.

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

Or in writing to:

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

Email:
dp25-2@fca.org.uk

Disclaimer

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Chapter 1

Overview

Introduction

1.1 Our new 5 year strategy aims to deepen trust, rebalance risk, support growth, and help consumers navigate their financial lives. We want to improve our mortgage rules to help more people access sustainable home ownership and encourage a dynamic, innovative and competitive market.

1.2 We previously published our statement and call for evidence on our interest rate 'stress test' rule (MCOB 11.6.18R). We then published our consultation (CP 25/11) on first steps to simplify our rules and increase flexibility. This closed on 4 June 2025, and we aim to publish the Policy Statement in Q3 2025. We will also consider relevant responses to the consultation alongside responses to this paper.

1.3 This discussion paper (DP) aims to launch a public conversation on the future of the mortgage market. It sets out a discussion on the trade-offs and risks that changing our rules would entail. If we decide to take forward any changes in light of the feedback we receive, these will require further analysis to understand the potential costs and benefits, and would be subject to public consultation. We would also consider the implications for relevant stakeholders, and continue to work closely with our fellow regulators.

1.4 The DP considers areas where changes may be needed to support sustainable home ownership and economic growth, and where introducing more flexibility could allow firms to tailor their product offerings to consumers' evolving needs:

- Potential to revise our responsible lending rules to support wider access to sustainable home ownership.
- Ensuring the regulatory framework and the market are prepared for the likely future increase in demand for later life lending.
- Introducing more flexibility to promote consumer understanding, information needs, and innovation.
- Rebalancing the collective risk appetite in mortgage lending.

1.5 There are many factors at play when considering the future of the mortgage market. Government policy, housing supply, and other factors play a vital and interconnected role in shaping the future of UK homeownership. Other social and economic changes also play their part. This paper considers these factors, to stimulate and contribute to a wider public discussion, while focusing on the areas where we have a regulatory remit.

Context

1.6 The UK mortgage market currently comprises approximately 8.96m regulated mortgages. There are also around 3.6 million renting households who are expected to buy a home in the future.

1.7 Following the 2008 financial crisis, regulatory and industry reforms have raised standards around mortgage lending. This has led to a more resilient market, with far fewer consumers in arrears than after the financial crisis: our data shows over 99% of mortgages originated since 2014 are on track. Our rules have helped ensure that consumers who are in financial difficulty receive support tailored to their individual circumstances.

1.8 However, this more cautious approach may also have unduly restricted consumer access to the market. As house prices have grown much faster than wages, home ownership has become an increasingly challenging aspiration for many – particularly those without financial support from family. Increasing numbers of consumers are finding it hard to meet affordability criteria, access a mortgage and consequently own a home.

1.9 Additionally, with 38% of working-age people projected to be under-saving for retirement, access to mortgages could be key to helping people achieve their financial goals in later life. Recent research by Fairer Finance suggests half of households age 60+ could require housing wealth to support their spending needs in later life and retirement by 2040.

1.10 We want a well-functioning mortgage market where all borrowers who can afford to repay can access the mortgages they need. This means enabling firms to offer products which are better tailored to consumers' needs, while continuing to help ensure a sustainable mortgage market which maintains the core lessons from the 2008 crisis. Responsible lending, in line with our consumer protection objective, will remain core to our regulatory framework.

Our supervisory approach

1.11 Oversight and monitoring of the market and regulatory data, the Consumer Duty, and supervision of individual firms will continue to be central to our approach.

1.12 In future, we may amend our rules to allow more flexibility to promote innovation and greater competition. Where firms use new flexibilities, and/or seek to innovate within existing rules and frameworks to deliver good consumer outcomes, we would support them. But we also recognise this may potentially increase existing, or introduce new, risks.

1.13 We will continue to hold firms to a high standard using the Consumer Duty, which requires firms to act to deliver good outcomes for their retail customers. We would closely monitor trends and early risk indicators to do this and continue to use data to identify new trends and outliers. Where we identified concerning trends or outliers, we would take appropriate action, recognising that this may be after some harm has already occurred.

1.14 This close monitoring would aim to pick up any potential conduct risks at an early stage. We would also continue to liaise closely with the Prudential Regulation Authority (PRA), particularly on any potential systemic risks.

Who does this document affect?

1.15 This paper will primarily interest:

- Mortgage lenders and administrators, including later life and equity release firms.
- Home purchase providers and administrators.
- Mortgage intermediaries.
- Trade bodies representing mortgage lenders and intermediaries.
- Consumer groups and organisations.
- Consumers who own, or want to own, their home with a mortgage, or who want to release equity from their home for later life.

Equality and diversity considerations

1.16 We have considered the equality and diversity issues that may arise from this discussion. We expect any potential regulatory changes coming out of the Mortgage Rule Review (MRR) to affect some of the groups with protected characteristics under the Equality Act 2010.

1.17 Structural issues within society and life events linked to protected characteristics can influence outcomes for potential and current consumers mortgage holders. These include:

- Sex – the gender pay gap can affect financial choices and resilience for women; women are more likely to be the victims of economic abuse and coercion, work part-time and be paid less than men.
- Ethnicity – those from ethnic minority backgrounds are more likely to rent than own their property.
- Disability – a characteristic of vulnerability which can contribute to poorer outcomes, particularly if employment or earnings potential is affected.
- Age – many younger potential borrowers face prohibitive barriers to entry, while mortgages taken into or during retirement can create risks of poorer outcomes for some consumers, for example due to ill-health affecting earnings.

1.18 There are also intersections and links between the protected characteristics (eg age and disability).

1.19 Our regular Financial Lives Survey helps provide insight into the demographic characteristics in the UK mortgage market.

1.20 We will continue to consider equality and diversity implications when we review the feedback to this DP and decide on next steps. We welcome any comments on whether any of the ideas in this DP could have a positive or negative impact any of the groups with protected characteristics, including age, disability, sex, marriage or civil partnership, pregnancy and maternity, race, religion and belief, sexual orientation and gender reassignment.

The Consumer Duty

1.21 The Consumer Duty is central to our regulatory approach. It sets a high standard of care that firms must give their retail consumers. The Duty's outcomes-based approach allows firms to adapt and innovate in a way that helps consumers, and which responds to technological change and market developments.

1.22 In our letter to the Prime Minister in January, we said that we would seek views on the role of the Duty in future consultations on consumer protection.

1.23 In July 2024, we also published a Call for Input (CfI) to ask for views on whether, where and how we could review our other rules following the Duty's introduction. Some CfI responses identified examples of mortgage regulation where we may be able to simplify our rules and rely more on the Duty. But some responses noted the Duty does not provide for customers to bring a private action against firms or allow the FCA to set up industry-wide redress schemes under the Financial Services and Markets Act 2000 (FSMA) s404, while recognising consumers would still be able to seek redress directly from firms or through the Financial Ombudsman Service. Others made a case for keeping more detailed rules where they are necessary for a more effective or clear regulatory position.

1.24 We ask for further views on the role of the Duty in this DP, and will consider the CfI feedback alongside the responses we receive as we decide our next steps.

Environmental, social & governance considerations

1.25 In developing this DP, we have considered the environmental implications of our proposals and our duty under s. 1B(5) and 3B(c) of FSMA to have regard to contributing towards the Secretary of State achieving compliance with the net-zero emissions target under section 1 of the Climate Change Act 2008 and environmental targets under s.5 of the Environment Act 2021.

1.26 We do not consider this DP to be directly relevant to contributing to those targets. However, in Chapter 2 we discuss how climate change may affect the mortgage market and ask for views on the future implications. More broadly, greater access to mortgage finance could encourage housebuilding, with impacts on the environment, energy consumption and greenhouse gas emissions. However, the environmental impact of building homes is a systemic issue which mortgage regulation has limited ability to impact, and the UK Government and devolved administrations are responsible for the relevant regulatory regimes (including spatial planning and building control). We welcome your views on the impacts of climate change on the mortgage market and regulatory interventions which could help address them, and will keep this issue under review.

Next steps

1.27 We are asking for your views on the topics discussed in this paper, and specifically the questions asked throughout the paper and collated in Annex 1. Please send us your comments by 19 September 2025.

1.28 You can send your comments to us using the form on our website, or by email to dp25-2@fca.org.uk. If emailing, please tell us whether you wish your response to be confidential and, separately, if you are content to be named as a respondent.

1.29 Following the publication of this DP, we are keen to continue engagement and will be holding a number of stakeholder meetings. Once the DP feedback period closes, we will consider the feedback and decide our next steps. Where there is a case for making changes to our rules and guidance we will consult on any proposed changes in the normal way.

Chapter 2

Supporting wider responsible lending

Summary

2.1 Our responsible lending rules put consumer affordability at the centre of firms' lending decision process. When assessing a mortgage application, lenders must assess that the customer will be able to afford the repayments and get evidence to confirm this. We want to understand if lenders' approach towards some customers is outweighing the opportunity to support homeownership by those that can afford a mortgage.

2.2 This chapter considers the challenges faced by groups who may be more likely to struggle to pass current approaches to affordability assessments, including first-time buyers, the self-employed, and those with variable incomes. We also set out potential methods of assessing affordability, including a rent-based approach. The chapter seeks views on how we can improve the treatment of survivors of economic abuse and coercion and considers the implications of climate change.

Introduction

2.3 This chapter explores whether we could update our responsible lending rules to support product innovation and greater homeownership for those consumers who can repay. We will explore if firms can give more support to groups which may currently be underserved by the mortgage market, such as:-

- Potential first-time buyers
- Consumers on variable incomes
- Self-employed consumers.

Question 1: **Do you agree that these are the groups we should focus on? Are there any other groups that may not be effectively served by the market?**

First-time buyers

2.4 In Chapter 5, we set out how the profile of first-time buyers has changed when faced with the challenges of the housing market.

2.5 Many prospective first-time buyers who would like to buy a property are finding it increasingly difficult to do so. The standards set out in our rules are one of several factors which can make it difficult to buy a first home. For example, house prices relative to incomes and saving for a deposit. The way lenders have interpretated our standards into their operational processes have also played a part, such as the Interest Rate Stress Test.

2.6 We know that revising our rules alone will not make buying a house more affordable for some first-time buyers. However, we welcome views on adjusting our collective risk appetite to support responsible wider access to lending.

What our affordable lending rules currently require

2.7 Our rules require lenders to assess whether mortgage payments will be affordable to a borrower as they fall due.

2.8 The key elements of our affordability assessment rules are:

- **Income and expenditure:** Lenders must take account of (verified) income and expenditure including credit commitments, basic essential expenditure, any future changes and how far the consumer is borrowing into retirement.
- **Interest rate stress test:** Where borrowers are not fixing their interest rate for at least 5 years, firms must also apply an interest rate stress test to take into account potential increases in interest rate on the mortgage payment.
- **Interest-only mortgages:** Where borrowers seek to take out interest-only mortgages they must demonstrate a credible repayment strategy for the capital.

Those wanting to buy their first home face other challenges

2.9 As well as meeting affordability criteria, there are several other factors facing first-time buyers.

Lender standards

2.10 Lenders will consider other factors based on the risks the loan poses such as loan-to-value (LTV) borrowing ratio, loan-to-income (LTI) ratio, type/location of the property and a borrower's employment status and credit profile. Therefore, would-be homebuyers can also face challenges if they do not have an adequate deposit (to lower the LTV of their mortgage), are not in more secure employment or have impaired credit and a higher LTI ratio.

Needing a deposit

2.11 Most buyers need a deposit to fund a purchase, typically ranging from 5% to 20% of the home's value. Compared to 2006, the median deposit paid by first-time buyers has almost tripled from just over £13,600 to £37,400. The most recent results from the English Housing Survey suggest that, in 2023-24, some 31% per cent of first-time buyers received deposit help from friends or family, and a further 9% used money from an inheritance.

2.12 Young people, those with lower-paying jobs and those paying private rents also find it hard to save enough for the required deposit due to high living costs. UK Finance data shows first-time buyers without family financial support end up buying lower-priced properties at an older age despite being on higher average incomes.

Changing patterns of employment

2.13 Many people's patterns of employment in the UK are now very different to those of earlier generations. There is more use of short-term contracting, zero-hours contracts and more people are self-employed. These factors can lead to variable incomes and less ability to predict a steady future income stream over long periods of time, such as those needed for a mortgage.

Income volatility

2.14 Volatile income can create barriers for consumers because they are not able to verify their past income or demonstrate a regular future income. This may mean lenders have concerns over the ability of borrowers to afford repayments.

2.15 Income volatility is more common among those with temporary contracts, zero-hours contacts, multiple jobs and those working part-time. It affects those on high as well as low incomes, potentially undermining their ability to build savings and qualify for credit.

Self-employed

2.16 Income volatility also affects those who are self-employed. Our data shows that those who are self-employed are consistently underrepresented in mortgage lending (trending at 7% of sales, compared to 13% total employment. Source: PSD001).

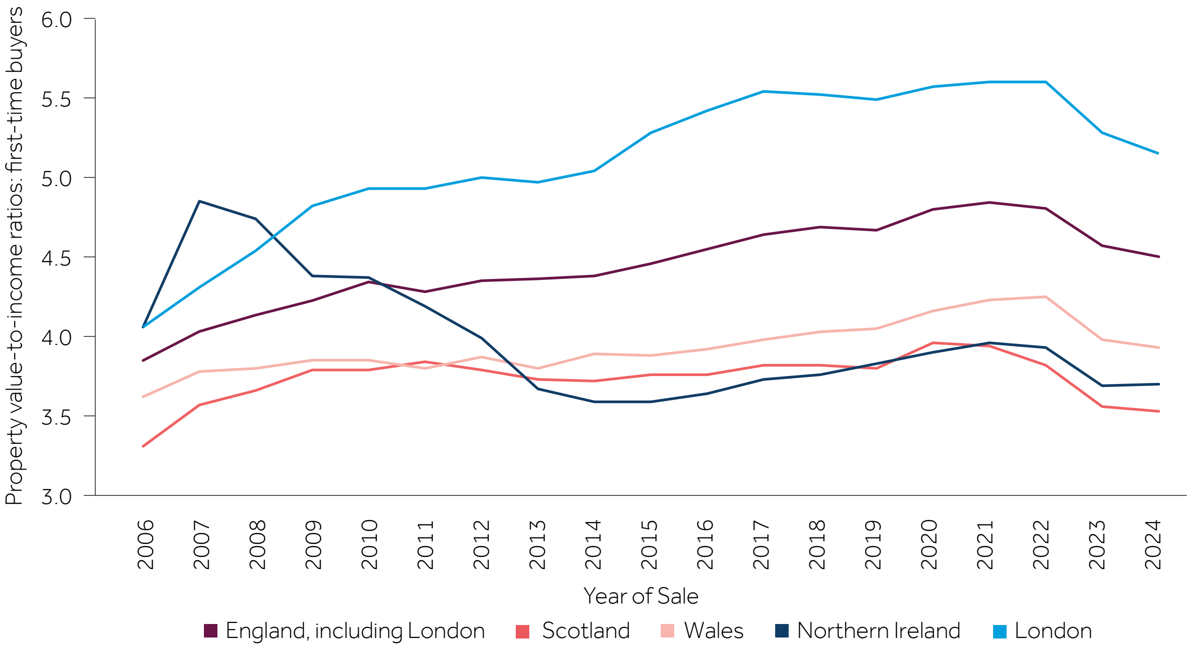
2.17 Before COVID, self-employment in the UK underwent a period of rapid growth rising from 12% of the labour force in 2001 to 15.1% in 2017. Post-covid this figure has fallen to 13% in the second quarter of 2024.

Question 2: **What further changes are needed within the mortgage market to support access for those who are self-employed or with volatile income to mortgage finance, both for home purchase and later in life?**

Earnings have not kept up with house prices

2.18 Property prices in the UK make it difficult for many first-time buyers to afford the initial cost of a home. In general, house prices have consistently risen above the rate of inflation and wages making it harder for those on average incomes to access mortgages: in England and Wales, for example, while earnings have doubled since 1997, house prices have more than quadrupled.

Figure 1: Property value-to-income ratios: first-time buyers



Note: data excludes internal product transfers, retirement interest-only mortgages, second charge mortgages, further advances, lifetime mortgages
Source: PSD001

Housing supply has not kept pace with demand

2.19 The supply of affordable homes in the UK has not kept up with demand which pushes up prices for the homes that do exist. A lack of suitable properties for older consumers has meant they stay longer in larger homes reducing the supply for those looking to move up the housing ladder. Those looking to buy their first home often need 2, above-average incomes to buy a property. Greater access to mortgages could increase demand from some consumers. This could raise house prices if there is not a corresponding increase in the supply of homes. We set this out in more detail in Chapter 5.

The effects of wider policies

2.20 Stamp duty rates (and equivalent taxes across the UK nations) can affect a buyer's ability to allocate more funds toward their deposit or other related expenses. The tax also discourages older homeowners from downsizing, reducing mobility in the market. Previously, the government has reduced stamp duty rates for first-time buyers over a period to stimulate home purchases.

2.21 Student debt can also affect the net income of first-time buyers reducing the amount of funds they can save towards a deposit or afford mortgage repayments.

2.22 Student loans in England are large by international standards and the forecast average debt among the cohort of borrowers who started their course in 2022/23 is £45,600 when they complete their course (£43,700 for those who started in 2023/24).

2.23 The loan to income (LTI) flow limit recommendation set by the Bank of England limits the number of mortgages extended at LTI ratios of 4.5 or higher to 15% of a lender's new residential mortgage lending.

Government interventions to help first-time buyers

2.24 The government has implemented several measures to support first-time buyers and those buying a home. These have included shared ownership, First Home schemes, Lifetime Individual Savings Accounts (LISAs), Mortgage Guarantee and Help-to-Buy.

What could change

2.25 Our data also shows that across the market first-time buyer performance is not materially different to any other type of borrower (Source: PSD001 / 007). Should the collective appetite for lending change, there are potential options for alternative responsible lending tests which could increase access to home ownership for first-time buyers.

The Interest Rate Stress Test

2.26 The interest rate stress test, set out at MCOB 11.6.18R, requires firms to consider the potential impact of likely future changes to interest rates, unless the rate is fixed for a period of more than 5 years or until the end of contract. They must assume that rates will rise by a minimum of 1% over that time, even if they are projected to rise by less than that or decline. It has been a feature of mortgage regulation since 2014. It is also an expected feature of a jurisdiction's mortgage regulation under the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting Practices (April 2012).

2.27 Until 2022 the FPC recommended that lenders should assess whether borrowers could still afford their mortgage if, at any point over the first 5 years of the loan, mortgage rates were to be 3% higher than the contractual reversion rate.

2.28 While the stress test has strengths, we are concerned that it may be unduly limiting the amount of borrowing that some otherwise creditworthy customers can access.

Existing Provisions

2.29 The stress test was intended to require firms to take reasonable steps to factor expected interest rate rises into affordability assessments. When it was introduced our predecessor, the Financial Services Authority (FSA) estimated that 90% of firms were already stress testing their customers.

2.30 In coming to a view as to likely future interest rates, firms must consider market expectations and any relevant prevailing FPC recommendations. Firms are expected not to rely on their own forecasting of market expectations and use external publications of market expectations.

2.31 In March 2025, we reminded firms of the flexibility in our stress test, which has already prompted several firms to use this flexibility, allowing more borrowers to access additional credit.

2.32 Following our statement, we published a call for evidence on our stress test approach. Much of the discussion in this section is informed by the evidence we received.

Strengths of Existing Provisions

2.33 The stress test is a protective measure; it is not intended to guarantee a customer can afford the mortgage in all interest rate scenarios.

2.34 Recent experience shows the advantages of a robust stress testing regime. Following the significant interest rate increases in 2022/23, many borrowers reaching the end of introductory periods face significantly higher rates. This has meant an increase of 2.7 percentage points (a 126% increase) in the median initial rate for mortgages fixed for fewer than 5 years. However, stress testing means that the vast majority of borrowers who came to the end of their fixed terms in 2023 faced new mortgage rates which were lower than those they had been 'stressed' at. Arrears levels remained low throughout this period.

2.35 The stress test is an important safeguard for financial stability. The FPC has made clear that it views the stress test, alongside the wider assessment of affordability, as important for financial stability and for delivering resilience in the UK financial system. It exists to prevent individual customers from borrowing at a level which is likely to become unaffordable in the short term.

2.36 Respondents to our call for evidence emphasised the importance of the stress test to market resilience, and to protecting consumers from short-term rate rises. They also highlighted the requirement to use external benchmarks, and said obliging firms to do their own modelling risks raising the bar for new entrants and creating an opportunity for gaming.

Weaknesses of Existing Provisions

2.37 Stress testing can restrict access to credit. In the cost benefit analysis undertaken for the MMR, the FSA estimated that 3-4% of borrowers would be affected by the introduction of the stress test, assuming hypothetically that no lenders were stress testing in its absence.

2.38 We think that, where interest rates are projected to fall, the way most firms applied the rule before our March statement may have unnecessarily restricted otherwise affordable mortgages. We asked for responses to this and most respondents agreed. Several firms suggested that it limits their total volume of lending by around 2%. Since advisors may not advise borrowers who are likely to fail an affordability assessment to apply, the true figure could be higher.

2.39 We think the existing stress test could be clearer. The response to our statement and the way that some firms apply the stress test may suggest a misunderstanding of what our current rule requires. For example, many firms stress test on fixed-terms over 5 years, which is not required by our rules.

What could change

Changing the stress test

2.40 We recognise the advantages of stress testing and its role in managing the impact of interest rate rises in recent years. However, given the above issues, we want to understand if we can refine the stress test further. We want the stress test to be:

- Easily understood and deliverable by firms.
- A protection against foreseeable harm, in particular financial difficulties arising from likely rate rises.
- Flexible enough to reflect circumstances across the interest rate cycle, and
- Proportionate to the risks it mitigates against, and not an undue barrier to borrowing.

Creating a central stress rate

2.41 Before MMR, the FSA considered whether it should set a central stress rate, ie a minimum interest rate at which lenders must assess affordability. The consensus at the time was that this would not be appropriate for all borrowers, given the range of product types in the market, and so firms were made responsible for setting their stress rate. However, we could reconsider such an approach.

2.42 We could set a central stress rate in various ways. For example, we could develop our own forecasting model, updated at regular intervals or when deemed appropriate.

2.43 This approach should be straightforward, easy to understand and implement, and set a universal standard. Firms would be unable to 'game' it, and it could reduce the regulatory burden particularly on new entrants and smaller lenders.

2.44 There may also be some drawbacks to this approach. Firms would lose flexibility to adapt their test to different product types. A central stress rate may also disproportionately affect lower-risk borrowers, who might expect to pay lower interest rates and so would be faced with a higher stress margin. It would also be more prescriptive than the current system, giving firms less flexibility to deliver good outcomes for their customers.

Changing the 5 year Timeframe

2.45 The current rule creates a cliff-edge at 61 months. This may not be a problem in itself, as any length of time would mean a hard cut-off, but we want to ensure that 5 years is the most appropriate period.

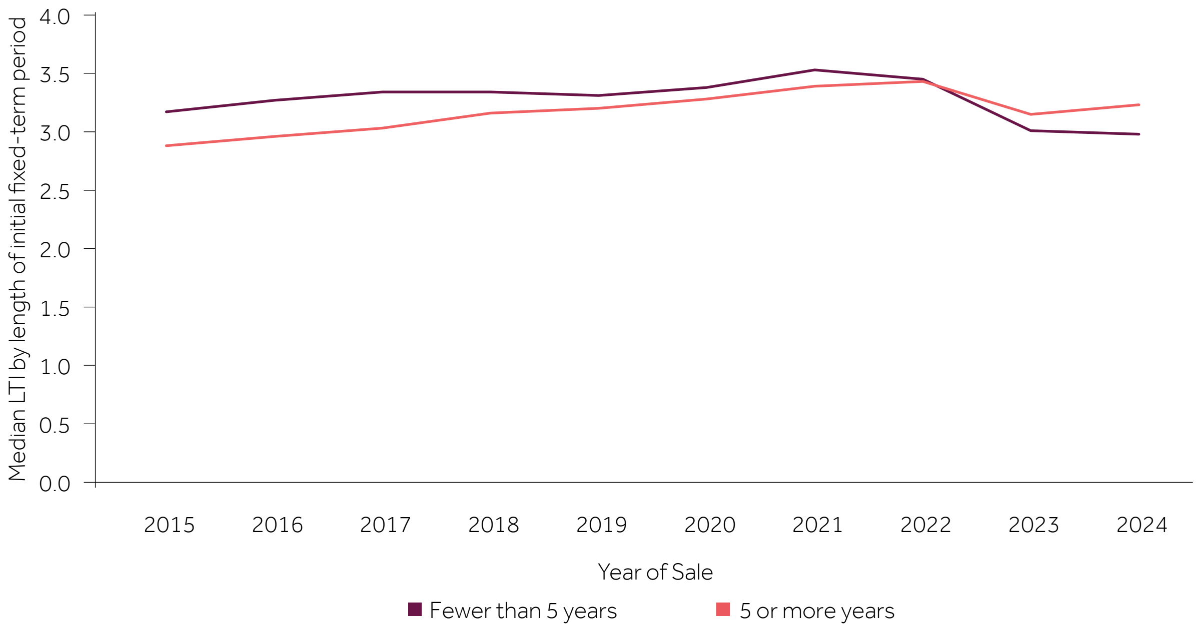
2.46 We have received feedback that some customers with '5 year' fixes are subject to a stress test, as their fixed period is technically 59 months. The answer may be that firms could redesign their fixed rate period. However, we want to ensure that our rule is not creating an undue burden.

2.47 One option is removing the 5-year timeframe altogether, and apply the stress test to all mortgages. If rates are expected to rise over any time period, there is a reasonable argument to suggest that they should be stress tested. Clearly the reliability of interest rate forecasts reduces the longer into the future they are made, but firms would only need to account for likely rises. We could also simply extend the period to, for example, 10 years, based on further analysis.

2.48 This could restrict lending even further. Extending the timeframe could mean firms have to stress at higher rates than they do today. Analysis undertaken in support of MMR found that the longer the timeframe, the higher the expected rate rises, depending on economic conditions. However, it may also mean more borrowers are protected from foreseeable harm. If made in combination with another change, for example a reduction in the minimum stress rate, it could increase consumer protection without restricting lending to creditworthy customers.

2.49 Another consequence could be that more borrowers take out shorter-term fixes, if the stress test as it is currently designed is incentivising borrowers to fix for longer. Data on median LTI suggests that this may be the case in a rising rate environment.

Figure 2: Median LTI by length of initial fixed-term period



Note: data excludes internal PTs, RIOs, second charge, further advances, lifetime
Source: PSD001

2.50 Before 2023, fixes of fewer than 5 years had a higher average LTI ratio, likely due to the lower average monthly payments. However, now that expected rates are less stable, the stress test may be pushing borrowers towards longer-term fixes.

2.51 The Bank of England publishes expressions of market expectations over longer periods than 5 years. For example, they publish data on UK overnight index swaps for the next 25 years. This means firms will have access to external forecasts if we were to extend the timeframe.

Amend the 1% Minimum Stress Margin

2.52 Before MMR, around 90% of firms were already applying a stress test above the product rate. So we might expect the market to continue to take a responsible approach to stress testing given a lower regulatory minimum margin, or even none at all.

2.53 Some responses to our call for evidence said that expected interest rate rises over 5 years are likely already factored into current pricing. This suggests that the minimum margin could be more important than might be assumed, if firms would be unlikely to stress above present rates without it. We would need to test this if we were to consider changes to the minimum margin.

2.54 We do have evidence that the minimum margin is restricting lending, though not necessarily to prospective borrowers who could afford it. Reducing the margin would mean a higher risk that borrowers enter arrears. Respondents to our call for evidence suggested that total lending could be increased by around 0.5% if the minimum margin were reduced by 0.25PP, or 1% if it were reduced by 0.5PP, with some lenders suggesting the impact could be even higher at up to 5%. This is potentially a significant sum across the whole market, and could be higher for some segments, such as first-time buyers stretching their affordability. It is difficult to estimate the actual impact on individual mortgages, given the other factors which go into lending decisions.

2.55 We could consider varying the minimum margin depending on prevailing economic conditions. This might enable us to ensure adequate consumer protection in rising rate environments, without restricting lending when rates are predicted to decline.

Introducing a product rate margin

2.56 Finally, we could remove the minimum margin and requirement to consider future rates altogether, and instead institute a regulatory margin on present product rates. This would follow approaches in other jurisdictions, including the Republic of Ireland.

2.57 This approach would improve the clarity and simplicity of our rule, and ensure a standardised approach across the market. This could potentially reduce the burden on firms and avoid the risks of a race to the bottom.

2.58 It also shares some of the advantages and disadvantages of a central stress rate, particularly the ability to vary it in line with market conditions and the risks of disproportionately affecting certain product types.

Question 3: **Should the stress test be changed? In response set out any changes you believe are needed.**

Longer term fixed-rate mortgages (LTFRs)

2.59 LTFRs are seen by some firms and commentators as an option to improve access to mortgages, particularly for first-time buyers. The argument is that interest-rate risk causes unnecessary poor outcomes for borrowers, and that LTFRs are uniquely suited to higher LTI borrowing. Our view is that:

- Consumer demand for LTFRs remains persistently low, and there is little evidence of lender appetite.
- There are no clear harms arising from a low availability of LTFRs, including for first-time buyers.
- Our rules do not appear to be a barrier to the development of the LTFR market.

2.60 Borrowers already have options if they want to avoid interest rate risk. Some LTFRs are currently available up to 40 years, and 10+ year fixes are widely available and are offered at comparable rates to shorter fixes (median 5.12% for 10+ year fixes vs 4.99% for 2-3 year fixes, Moneyfacts 26 May 2025).

2.61 So consumers can already access most of the potential advantages of LTFRs, albeit over 1 decade rather than 3. Given more than 60% of UK mortgage borrowers move home after less than 10 years, it is difficult to identify evidence of harm.

Question 4: **Should we intervene to support take up of long-term fixed-rate mortgages? If so, what action should we take?**

Alternative methods of affordability assessment

Rent based affordability

2.62 As we set out in Chapter 5, the relative costs of private rent and quality of tenure mean that we should consider if better outcomes can be achieved for those who rent but want to own.

2.63 Industry has called for our rules to allow past payment of rent to prove affordability without further assessment of income and expenditure.

2.64 Some market participants integrate an applicant's rental payment history (and other regular payments) into credit file and affordability assessments or help prospective applicants to improve their credit files. For example, using Open Banking to report rental payments to major Credit Reference Agencies.

2.65 Our current rules allow past rental payments as an indicator of affordability.

2.66 Our rules give firms flexibility when assessing if a consumer will be able to pay the mortgage being applied for. MCOB 11.6.12R(1) allows firms to generally rely on any information on expenditure the consumer provides.

What could change

2.67 We could go further by allowing past payment of rent alone to prove affordability.

2.68 This would simply compare a customer's prospective mortgage with their rental payment track record. Provided the rental payments were consistently higher than the prospective mortgage payment it could be deemed affordable.

2.69 By definition, a purely rent-based test would not include verification of income, an interest rate stress test or an assessment of current or likely future expenditure. Nor would it include an assessment of the additional costs of homeownership such as buildings insurances, repairs and maintenance and property related charges.

2.70 While simpler, a purely rent-based test could place more risk on the borrower than our current assessment that looks more widely at a customer's financial position, ability to pay and the impact of likely future interest rate increases on affordability. A customer's rental payments may make up a significant proportion of their outgoings, leaving little capacity to meet future increases or costs. The borrower may also, for example be using credit to meet those payments.

2.71 It is also worth noting that:

- The contractual commitment, risk and consequences of failing to maintain payments of rent and a mortgage differ. The risk of large, unexpected bills for renters is also generally lower than for homeowners.
- Using rent paid, without verifying income, assessing other expenditure or considering future interest rate rises, may be contrary to the Financial Stability Board's Principles for Sound Residential Mortgage Underwriting Practices (2.2) and the PRA's prudential rules

Question 5: **Can a rent-based affordability assessment be a responsible basis on which to assess a consumer's ability to repay a prospective mortgage? If so, what key features or requirements would this test need?**

Question 6: **Should we decide not to prescribe an approach on rent affordability, leaving firms to decide on an appropriate approach, with the Consumer Duty helping to establish a clear consumer outcome focus?**

Differentiated affordability assessments

2.72 We want to explore opportunities to increase lending to first time borrowers based on their expected career trajectories. This may also help other types of mortgage borrowers.

2.73 Some lenders already offer enhanced mortgages using higher income multiples for those working in certain professions, such as medicine.

Question 7: **What regulatory incentives and/or barriers could be amended to increase appetite for innovation for mortgage products that support different employment types? In your response, please explain the targeted employment type.**

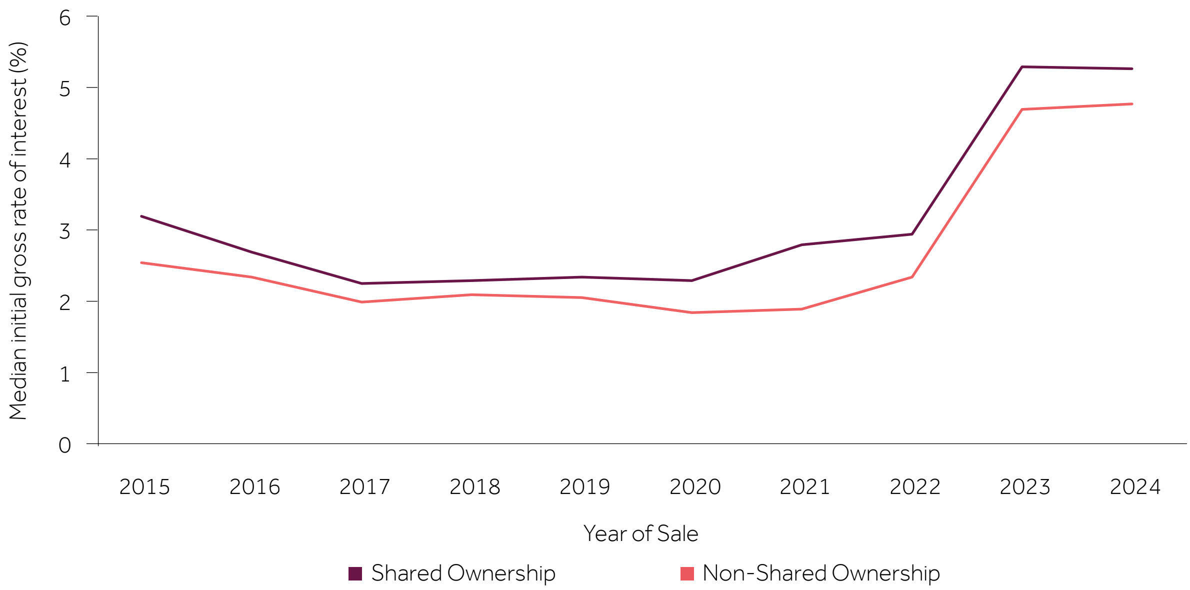
Shared Ownership Schemes

2.74 Research has shown that, on balance, Shared Ownership can provide better outcomes than renting, largely due to capital appreciation. The recently established Shared Ownership Council has piloted an industry code, to address some of the scheme's issues relative to full ownership. For example, making it easier for shared owners – who cannot sell without meeting rules set by their housing provider – to sell by promoting fairness and transparency in the selling process.

2.75 In 2022/23 17,507 Shared Ownership homes were sold, 77% of which went to first time buyers. Sales of Shared Ownership mortgages are around 3% of mortgage sales to first-time buyers. So the scheme plays a small but important role in overcoming barriers to ownership, and we want to understand if we might be able to help it play a larger role.

2.76 Shared Ownership mortgages are, on average, more expensive than standard mortgages, as shown in the chart below.

Figure 3: Median initial gross rate of interest (%): shared ownership vs. non-shared ownership mortgages



Note: data excludes internal PTs, RIOs, second charge, further advances, lifetime
Source: PSD001

2.77 Most Shared Ownership lending is done by Building Societies – 58.6% in 2024 (PSD 001)– who traditionally focus more on niche products. Taken together, this data highlights that the Shared Ownership sector is distinct from mainstream lending. We want to make sure that our rules are not acting as a barrier to entry, or adding disproportionate costs to processing these loans. We want to ensure that the sector is as competitive as possible in the interests of consumers.

2.78 Mortgage intermediaries play a key role in Shared Ownership, with a responsibility to apply Homes England's affordability rules in line with the policies of the housing provider.

2.79 Overall, we want to understand whether there is an appropriate level of competition and access in this market, and make sure our rules treat this form of lending correctly.

Question 8: **How well do our rules currently support Shared Ownership? In your response identify potential barriers, if any, to Shared Ownership lending that regulatory intervention could help address.**

Interest-only mortgages

2.80 Interest-only mortgages can be a flexible way for consumers to engage with the property market. Monthly payments on a fully interest-only mortgage allow borrowers to pay only the interest charges on the loan, substantially reducing the contractual monthly payment and potentially making the mortgage more affordable. There is no requirement for a monthly capital repayment unless the borrower chooses to do this. Selling the property before the capital becomes due could give borrowers the opportunity to affordably own their home for a period that suits their needs.

2.81 Consumers can also enter into mortgages where only a part of the mortgage is on an interest-only basis with the remainder on a repayment basis (part and part). This has a similar effect on reducing monthly payments for affordability for the repayment element of the mortgage.

2.82 Under an interest-only or part and part mortgage the borrower must repay any remaining capital borrowed at the end of the mortgage term. Both are treated as interest-only mortgages under our affordability rules.

2.83 Interest-only mortgages can often cost borrowers more in the longer term as interest is paid on a non-reducing balance.

What our rules require

2.84 We expect lenders to ensure that an interest-only borrower has a credible repayment strategy in place for the capital owed, and to review it at least once during the term (MCOB 11.6.49R).

2.85 Lenders should consider whether it is reasonable to expect the property to have the potential to provide sufficient funds to repay the mortgage and enable the borrower to buy a cheaper property to live in or associated strategy, without relying on increased property prices. When making this assessment, the lender may consider factors such as the equity in the property compared to property prices in the relevant area (MCOB 11.6.46(3)E).

Past experience of interest-only mortgages has been mixed

2.86 Interest-only mortgages made up a significant portion of regulated mortgage sales before the financial crisis (39% in 2007 compared to 4.5% in 2024). Some of these mortgage were taken out by customers without a plan for repaying the capital, meaning borrowers were at risk of failing to repay the loan at maturity.

2.87 Interest-only mortgages could be suitable for consumers who may struggle to afford a repayment mortgage and can support sustainable homeownership. However, where taken out solely to make the mortgage affordable, there is an increased risk of not being able to pay off the mortgage at maturity if customers cannot put a plan in place to repay the capital, leaving the property at risk of repossession.

2.88 Our data shows that interest-only mortgages are more likely to fall into arrears. Our 2023 research found 2.2% of the total number of interest-only and part-and-part mortgages (22,000) were not repaid at the end of the stated mortgage term.

2.89 Ahead of the MMR, we introduced non-handbook Guidance in 2013 (FG13/7) for dealing fairly with interest-only mortgage borrowers. In CP25/11 we set out proposals to retire FG13/7 because the Consumer Duty's standards and existing, applicable rules in MCOB provide clearer, up-to-date standards. CP25/11 also proposed a new rule and accompanying guidance to require firms to deal fairly with customers whose mortgage terms have expired.

What could change?

2.90 We would like views on whether our rules could better support more interest-only mortgages. In particular, if we should further support part interest-only and part capital repayment mortgages (part and part) and the potential benefits of doing so. This could be around the requirement to have a repayment vehicle in place in certain circumstances, for example, where the LTV or interest-only element of the loan is below a defined threshold.

2.91 This would reduce monthly repayments which could help some first-time buyers meet affordability requirements. However, it would not help those who do not have a sufficient deposit. An affordability assessment would be required if the borrower subsequently moved to a repayment mortgage. Given the trend for longer terms, we are interested to hear how material the benefits would be in practice.

2.92 We could explore revising our expectation that firms ensure the sale of a property will leave borrowers sufficient funds to not just repay the mortgage but also to buy a cheaper property. This could mean the sale of the property would qualify as a credible repayment strategy if it was highly likely to repay the total mortgage amount without having to consider any sums left over or future housing need.

2.93 We welcome views on increasing short-term flexibility for borrowers within certain defined limits. We could, for example, explore circumstances in which borrowers could more easily shift between repayment and interest-only during the mortgage term without having to set up a repayment vehicle. For example, if the product design included a switch from interest-only to a repayment mortgage at a certain point during the term, or if the contractual monthly repayment was fixed for a period, but the interest rate was variable.

Question 9: **Do you think changes to interest-only provisions would help first-time buyers? If so, what aspects of our regulation would need to change? In your response, explain any risks that may need to be mitigated/addressed in any regulatory change.**

Simplifying our rules to support vulnerable customers

Economic abuse & coercion

2.94 The misuse of joint mortgages is a form of economic abuse which can have a devastating impact on the lives of victim-survivors. Perpetrators can use a joint mortgage to force victims into arrears and refuse to pay their agreed share, agree to better mortgage terms, or sell the property.

2.95 In a recent report by the charity, Surviving Economic Abuse, over three-quarters (78%) of women who experienced joint mortgage-based abuse surveyed said the perpetrator's joint mortgage abuse prevented them from leaving an unsafe living arrangement or their current or ex-partner.

2.96 We are keen to explore options in this paper to improve outcomes – both within our regulation and wider change.

Our ability to support victims of joint mortgage abuse is limited

2.97 Having a joint mortgage means all parties are jointly and separately responsible for paying the whole debt. This liability does not change if someone stops living in the property.

2.98 One party can withhold their consent from permitting contract variations such as a formal rate switch, a term extension or a temporary switch to interest-only under the mortgage charter. These complexities limit the options that financial services firms have to support victim-survivors in these circumstances. Despite this, many firms have processes in place to support those who have suffered economic abuse.

Our current rules

2.99 We expect firms to consider the removal of a borrower's name on a mortgage as being material to affordability (MCOB 11.6.4E(1)(c)) and undertake an affordability assessment.

2.100 Where a joint borrower, such as the victim-survivor, wants to keep the property in their sole name and has shown they can pay the mortgage on their own, it may be deemed to be affordable. However, there may be instances where a Court orders the abuser to transfer their share in the property to the other party, but it is not affordable for the victim-survivor to take over the mortgage.

2.101 Where borrowers experience financial difficulty, they should approach their lender to discuss ways in which they can be supported. It may be possible for a borrower to agree with their lender to pay a reduced amount for a period of time. This type of help can be agreed without the consent of both parties. While this may have benefits, this type of assistance can mean borrowers accrue arrears over time which could damage their credit rating.

2.102 We received feedback in the CfI that our rules do not always support those facing financial control or financial abuse. Respondents asked for greater clarity on when affordability assessments are necessary, especially where there is a material impact.

2.103 Some respondents suggested streamlining the rules and adopting a principles-based approach to affordability would improve customer outcomes and reduce barriers in cases such as economic abuse, where a payment shock is unavoidable.

Question 10: Are there innovative approaches that are being used or could be used to do more to support victim-survivors of joint mortgage abuse? In your response, set out potential regulatory interventions, if any, that can support victim-survivors.

Bridging Loans

2.104 Within this section on affordable lending, we also want to explore feedback we received in the CfI on bridging loans.

2.105 Designed to be a short-term solution, they are also used more widely by consumers to fund home renovation or building projects (MCOB 11.6.58R(4)).

2.106 We want to explore how revising our rules could potentially support wider economic growth. Enabling homeowners to access more finance to improve their homes or self-build could contribute to economic growth through building and construction works.

Current Rules

2.107 The term of a regulated bridging loan must be 12 months or less and lenders can vary the loan contract into an interest roll-up mortgage (MCOB 11.6.58R(2)) although in some circumstances this can be extended (MCOB 11.6.55R).

2.108 With interest roll-up mortgages, nothing needs to be paid by the borrower until the end of the loan period. An escalating balance due to compounding interest can quickly erode the equity in the property, putting the borrower at a higher risk. So, the 12-month limit protects consumers.

What could change

2.109 Feedback to our consultation was that the 12-month bridging loan limit can create negative outcomes for consumers where they use it to fund a development or a large refurbishment that takes longer to complete.

2.110 Respondents suggested we should allow wider use of bridging loans and interest rollup to fund a self-build development or home refurbishment. If borrowers expect to be able to refinance when the work is completed, they may be likely to get a higher valuation which would also repay the bridging loan or interest roll-up mortgage.

2.111 We could adjust the term limit on bridging loans. However, this would also increase the total amount of their borrowing through more interest accruing on the loan.

2.112 We could introduce more flexibility into our rules to recognise self-build, development and refurbishments as standalone loans eligible for interest roll-up mortgages. This would clarify our rules and support access to short-term finance for those specific purposes.

Question 11: **How can we introduce more flexibility into our rules for non-mainstream products without compromising protections for consumers?**

Implications of climate change

2.113 Climate change presents a range of challenges for the financial services sector and its customers. Earlier this year, the Environment Agency published updates to its national flood and coastal erosion risk information, reporting as many as 6.3mn properties in England are in areas at risk of flooding. Climate change could contribute to that figure rising to 8mn by the middle of the century. Bayes Business School research in 2023 found that residential properties in England that were at flood risk sold at a discount of 8.14% – rising to 31.3% for properties at very high risk.

2.114 Lenders have sound commercial reasons for taking account of flood and other climate-related risks, such as wildfires and subsidence, in their underwriting. Their risk appetite is a legitimate business consideration, given the impact on their balance sheets. Lenders also typically refuse to provide mortgages for properties that cannot be insured. Properties built before 2009 can be protected by the Flood Re scheme, but the scheme is scheduled to end in 2039 with no alternative solution yet agreed. This may influence lenders' decisions, given the long duration of most mortgages.

2.115 For home-buyers – and particularly first-time buyers – firms' lending criteria may make it harder to find an affordable, mortgageable property. Existing homeowners may also find it difficult to switch mortgage provider if their property has been affected by climate-related events or becomes uninsurable.

Question 12: Are there any regulatory interventions to the mortgage market that could support approaches that aim to help address climate change challenges? In your response explain the context of the specific climate change challenge and potential implications for borrowers and lenders.

Chapter 3

Later life lending

Summary

3.1 Mortgage products targeted at older borrowers, whether lifetime, retirement interest-only (RIO) or other forms of mortgage, are increasingly mainstream. Meanwhile, the average age of first-time buyers is rising, and the average term length increasing. If we create more opportunities for responsible risk-taking, this trend could accelerate. For many, the costs of retirement are unlikely to be met by savings alone, and there could be greater demand for homeowners to access the equity in their homes. There is around £9tn in UK housing stock, and some of this could support a more comfortable retirement.

3.2 Any problems in the later life lending market are likely to get worse if not tackled now. And if we fail to capitalise on opportunities for responsible innovation, we risk the market being unable to cope with the needs of future generations of mortgage borrowers.

Context

Long-term borrowers

3.3 Mortgage terms have been increasing, with first-time buyers seeking to reduce their monthly payments (or increase their borrowing) in response to affordability pressures and higher interest rates. Meanwhile, lenders are offering longer terms as standard. In 2024, 68% of first-time buyers borrowed for terms of 30 years or longer, while 45% borrowed for 35 years or longer. According to government data, the average age of first-time buyers has also increased from 31 to 34 since 2004.

3.4 Our rules do not restrict term length, apart from requiring that firms verify income throughout the whole term, including in retirement. Given the inherent difficulties in assessing income over such a long period, Handbook Guidance allows firms to take a 'prudent and proportionate' (MCOB 11.6.15G) approach to this stating that, where retirement is many years away, it may be sufficient to confirm pension provision, such as a pension statement.

3.5 Many lenders will now accept earned income up to the age of 75 in their affordability assessments. As a result, we can expect to see more mortgages maturing after borrowers reach state pension age, or after they have retired.

3.6 Long-term borrowers with standard mortgages will make lower capital repayments each month than those with shorter terms. To understand the implications of this, it is helpful to compare 2 mortgages which are identical apart from their term. For example, 2 customers of the same age each borrowing £250,000 at 4.5% interest, one with a 25 year term and the other with a 35 year term. Each will pay around £938 in interest in the first month. The customer with the 25 year term will pay an additional c. £452 against the loan principal, making their total monthly payment around £1,390. The customer with the 35 year term will pay around £245 against the principal, c. £1,183 a month total. Because they will pay around £207 less a month, the longer-term borrower may be able to afford a home they consider more suitable or desirable, which they otherwise would not be able to afford. They may also have additional flexibility in their household budget to manage unforeseen costs, to spend or to save.

3.7 However, there are potential risks of longer-term borrowing which make this trade-off more complicated. The long-term borrower will still be making payments later in life, potentially after they have stopped or reduced work. Assuming the rates remain constant throughout the term, the monthly payment of £1,183 will be equivalent in real terms to around £592 at the end of the 35 years, assuming a 2% yearly inflation rate. The alternative (eg renting) may not be cheaper: while we cannot predict the market in 35 years' time, it is likely that rents will rise. Further, the borrower with the 25-year term will pay around £80,045 less interest over the term of the mortgage and, after only the first 5 years, will have repaid around £14,180 more capital.

Table 1

	Borrower 1	Borrower 2
Mortgage term	25 years	35 years
Size of mortgage	£250,000	£250,000
Rate of interest	4.50%	4.50%
Monthly interest payment	£938	£938
Monthly capital repayment	£452	£245
Total monthly repayment	£1,390	£1,183
Additional interest paid by borrower 2 over term of mortgage compared to borrower 1		£80,045
Additional capital repaid by borrower 1 over first five years compared to borrower 2	£14,180	

3.8 Since borrowers with longer terms pay off capital more slowly, their equity will be lower should they need to sell their home. This could cause significant problems, including for a future purchase, if, for example, they have eroded their equity through arrears, or are in the middle of a house price downturn. They will also have fewer options for accessing equity release.

3.9 Additionally, where mortgages are issued for periods already at the maximum duration lenders are comfortable with, then borrowers will have less flexibility to extend terms in response to a future interest rate increase or income shock, or to move to a more expensive property by extending their term.

Older borrowers

3.10 The financial context for older borrowers is increasingly challenging. Defined benefit (DB) pensions have increasingly been replaced in the private sector by defined contribution (DC) schemes.

3.11 Currently, low contribution rates risk leaving large numbers of people unable to afford essential living costs, even if they have paid off their mortgages and own their homes outright. Around 38% of working age people are estimated to be under-saving for retirement, while the cost of living in retirement is increasing.

3.12 Older people who continue to work may face life events which unexpectedly limit their ability to earn. This makes it harder for them to return to a stable financial position than younger borrowers. The 2024 Financial Lives Survey found that 19% of mortgage borrowers aged 55 or over either did not think they would be able to afford their mortgage in retirement, or weren't sure. Excluding borrowers who plan to pay off their mortgage in full before retirement, that figure becomes 42%. While borrowers aged 66 or over have historically been less likely than the overall population to experience payment shortfall, this has reversed in the last year, which could become a trend.

3.13 Products tailored to older borrowers, particularly lifetime mortgages and RIOs, are generally more expensive than standard mortgages. We know most lifetime products are funded by the insurance sector, particularly annuity funds. We want to understand more about why other funding models (for example through deposits) have not been taken up, especially where this could reduce costs.

3.14 Older people may not know about the full range of options available to them as they approach retirement, as noted in a recent report from Fairer Finance. 22% of non-retirees feel unprepared for retirement because they don't understand their options (up from 21% in 2022). It could be that older borrowers need more effective, holistic advice to overcome this lack of awareness.

3.15 Our previous supervisory work has found weaknesses in the quality of advice given by lifetime mortgage advisers. This advice tends to focus on the initial area of inquiry (eg mortgages) rather than considering the customer's broader financial options.

3.16 Even where borrowers use later life lending options, they are rarely doing so to support their retirement. Only 18% of borrowers with lifetime mortgages took it out for this reason – the same percentage did so to buy a car or a holiday.

What could change

3.17 Current and future retirees will need to use a range of financial tools to maximise their chances of a comfortable retirement. In June 2025 we will consult on rules to allow firms to provide a new form of support for pensions and investments called targeted support. For some, however, savings and investments are unlikely to be enough to fund the costs of retirement. Access to housing equity could help support their spending needs.

3.18 There is around £9.1tn in the UK's housing stock, £2.6tn of which is owned by people over 65. If older homeowners are able to access some of this wealth, they may be able to secure a more comfortable retirement. They will need the right options and support to access them.

3.19 We think our rules may need to change to enable more holistic advice. The following chapter deals with our advice regime as a whole, but there are specific challenges in the later life sector which we think could be addressed.

3.20 The industry is already focusing on later life lending as an area of growth in an otherwise flat market, suggesting that firms will look to innovate. Recent developments in hybrid lifetime products (where borrowers make payments for a given time, usually interest-only to maintain their equity, before transitioning to a lifetime arrangement) indicate that this is a reasonable expectation.

3.21 We want to help ensure our rules are not creating a barrier to innovation, and that firms feel confident when launching new offerings. These offerings could be targeted at either older or long-term borrowers. For example, equity release products that allow borrowers to draw down on a monthly basis, rather than in a lump sum, could be a cost-effective option for those who don't have a reliable income in retirement. Meanwhile, low-start mortgages could enable potential long-term borrowers to reduce their initial payments without some of the risks of an extended term. Neither of these products is widely available. This may be due to low consumer demand, but if our rules are a barrier to supply we want to understand why.

3.22 We also know that certain aspects of the Handbook may be barriers to some later life products. For example, MCOB 11.6.15G (4) states that firms should consider the ability of a single borrower to continue making the required payments if the other dies when assessing affordability for a RIO mortgage. Some firms have interpreted this in a way which potentially unduly restricts RIO lending.

Question 13: Should more borrowers look to the later life lending sector to access housing wealth and support their retirement?

Question 14: How can our rules support product innovation in later life lending?

Question 15: Should it be easier to access products like RIOs and lifetime mortgages? What is holding back demand for these products?

Question 16: How effective and holistic is advice on later life lending? How can our rules support borrowers to access more effective information or advice to support their needs?

Chapter 4

Customer understanding, information needs and innovation

Summary

4.1 We want consumers to get and understand the information they need to make informed decisions about mortgage products and services. New technologies have the potential to allow firms to support their customers in new and innovative ways, and we do not want our rules to act as barriers to helpful innovation.

4.2 In this chapter, we consider how our rules on advice, selling standards and information disclosure can help ensure better customer journeys and enable innovation. We also ask for views on how we can support innovation in the mortgage market more broadly.

Advising and selling standards

Introduction

4.3 Mortgage advice is a foundational pillar of mortgage regulation. Effective advice is key to ensuring consumers that need advice are informed, get suitable products and achieve good outcomes.

4.4 Changes to our advice rules following the MMR have resulted in most mortgage sales now being advised. In CP25/11, we proposed removing the interaction trigger at MCOB 4.8A.7R (3), and associated rules and Guidance, which could enable more 'non-advised' (execution-only) sales, as seen before the MMR.

4.5 We would like views on whether there are other rules that are hindering beneficial innovation in the mortgage advice and sales process. More widely, we want to open a discussion on whether our rules are still fit for purpose following market developments since the MMR, and if they are likely to be so in the future.

Context

Mortgage Market Review 2014

4.6 Since the introduction of mortgage regulation in 2004, our advice rules have always set out that firms must give suitable advice.

4.7 The MMR changes to our advice rules aimed to remedy poor borrowing decisions caused by consumers' inadequate understanding or knowledge, understandably guided by lower monthly repayments.

4.8 The MMR also had a clearly stated aim of moving customers away from short-term decisions based on the initial monthly repayment towards understanding the consequences of a long-term borrowing commitment.

Mortgage Market Study 2019

4.9 Our 2019 Mortgage Market Study found that the MMR and subsequent rule changes had changed the landscape for advice, with almost all new sales of mortgages involving advice.

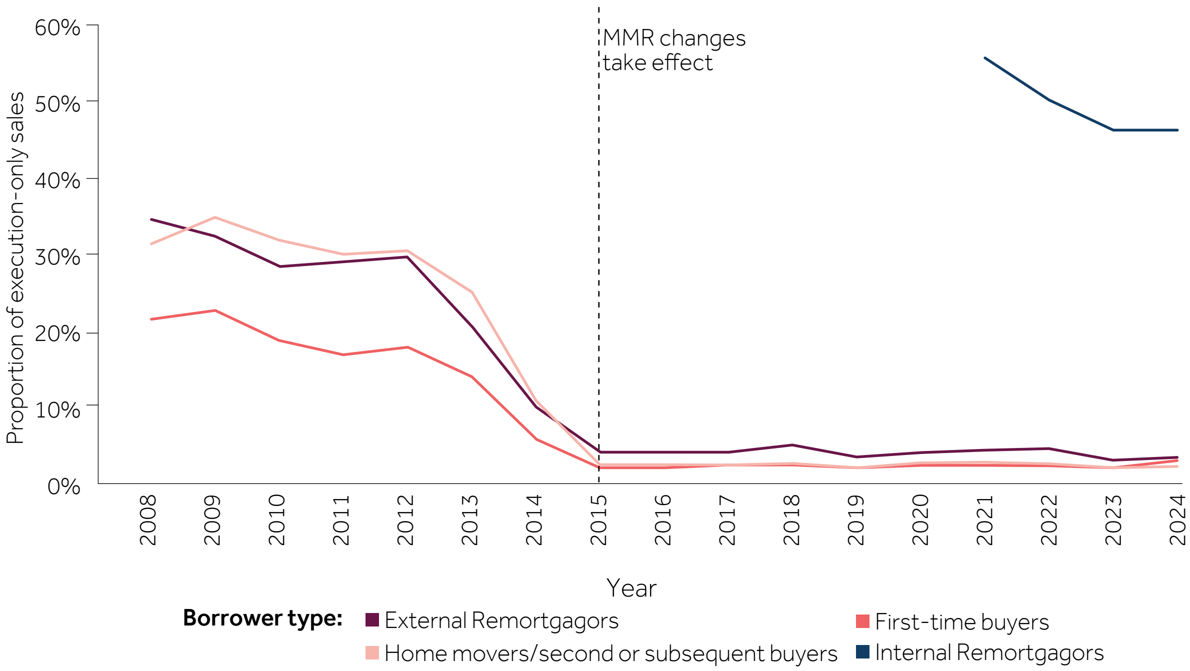
4.10 Feedback from firms during the Study suggested the biggest barrier to technological innovation was the interaction trigger.

4.11 The Study found that one of the main barriers to consumers making effective mortgage decisions was finding it easy to know what products they qualified for or the likelihood of acceptance, making it difficult to narrow down the range of products genuinely available to them.

The current state of the market

4.12 Since the MMR, the proportion of new sales that are 'non-advised (execution-only) has remained consistently below 5% (see Figure 4). Firms continue to report low confidence in dealing with customers outside an advised process due to perceived regulatory risk.

Figure 4: Proportion of execution-only sales over time, by borrower type



Source: PSD001

4.13 In our 2024 Financial Lives Survey, mortgage brokers were the second best financial services provider in terms of customer satisfaction with a mean score of 8.3 out of 10.

4.14 The proportion of advised new sales, and satisfaction with mortgage brokers and mortgage products working as expected, suggests the important role that mortgage advice continues to play in meeting consumer information needs. However, we want a regulatory framework that is fit for purpose based on market developments since the MMR, and on future potential market developments.

What could change?

Innovation

4.15 CP25/11 is consulting on, among other things, the removal of the interaction trigger from our Handbook. Firms have told us they want to innovate with AI-assisted advice and sales, implying our rules are preventing that. We have also heard anecdotal concerns about the risks of moving towards automated, AI-assisted advice and sales.

4.16 We also want borrowers and intermediaries to easily know what products the borrower is eligible for and how likely they would be to meet the lender's criteria.

Question 17: Can regulation do more to enable innovation, both in terms of AI-assisted sales and in the tools available to consumers and intermediaries to assess product eligibility and the likelihood of acceptance?

Question 18: What are the risks of AI-assisted advice, and how could the role of intermediaries evolve if more of these sales are enabled?

Making sure we have the right suitability standards

4.17 In the current framework, some advisers' professionalism means their advice goes further than the rules require, for example recommending the product that is most suitable rather than simply 'suitable' (MCOB 4.7A.2), without further cost to the customer.

4.18 We know there have not been a significant number of complaints about the suitability of first-charge mortgages since the MMR. Our view is that this is likely due to the higher lending standards implemented around that time. However, our supervisory work has found evidence of poor practice in niche areas such as lifetime mortgages and in record-keeping.

4.19 We also consider that the 'cheapest option' rule at MCOB 4.7A.23AR may not be the best way to achieve its objective of ensuring the borrower understands why they are being recommended a certain product that is not the cheapest product for their needs.

Question 19: Are the records we require a firm to keep that document the consumer's circumstances at the time of the recommendation, and the suitability of the product the firm has recommended, in the right place?

Question 20: **Are our current suitability standards, including the cheapest option rule, in the right place and fit for purpose?**

Enhanced advice

4.20 Given that, in many cases, advisers are giving a level of advice to a higher standard than our rules require, we want to explore whether our rules should require that level of 'enhanced advice' in certain circumstances. For instance, where a consumer wants to use the equity in their home eg debt-consolidation, or for certain cohorts of consumers, products or repayment type.

4.21 One way of considering this is by examining cohorts of consumers, products, or repayment type where there are higher rates of arrears greater than 6 months. Our data shows that these accounts are less likely to get back on track, and these borrowers could have potentially had a better outcome if they had been given a higher standard of advice.

4.22 Our regulatory data shows that in H2 2024, despite interest-only repayment mortgages only making up 8.6% of total mortgages, almost 30% of borrowers in long-term arrears were on an interest-only repayment type. Advice on interest-only products is also more complex than on capital repayment mortgages. So, with the potential exemption of high-net-worth borrowers, enhanced advice could result in better outcomes for consumers taking out interest-only mortgages.

4.23 When thinking about whether first-time buyers should receive an enhanced standard of advice, we have considered arrears by borrower type. The number of first-time buyers in long-term arrears is proportionate to their share of the market, which suggests that there may not be a pressing need to require 'enhanced advice' for first-time buyers.

4.24 Looking at the same period for LTV bands, almost one third of borrowers in long-term arrears are at over 85% LTV. This high proportion suggests that enhanced advice could be required for lending in this band and the data suggests enhanced advice would not be required for high LTI lending.

4.25 Lastly, despite consumers with a credit impaired indicator making up just 1.1% of the total, they represent almost 12% of the consumers in long-term arrears. This would support the requirement for enhanced advice where the consumer is credit impaired.

4.26 In their 2024 Specialist Lending Study, Pepper UK found that 8.38 million people in the UK have experienced adverse credit in the last 3 years, and 64% of those with adverse credit want to own a home. The number of people with adverse credit is increasing.

4.27 Mortgage products primarily designed to enable consumers to consolidate debts, such as second charge mortgages, may be the right solution for some consumers to help them get on a more sustainable footing. But a consumer needs to make more complex decisions when consolidating debts into a mortgage to be sure this is the right solution. For example, the trade-offs involved in reducing the interest rate and monthly outgoings, compared with the costs of spreading repayments over a longer term, and the risk involved in securing more debt against their home. The risks for borrowers are also more acute when the fees charged are relatively high compared to first-charge lending.

4.28 There may also be a range of other potential solutions, such as renegotiating with the existing creditor, or taking some other form of debt solution. A consumer in debt may also be financially vulnerable and so require additional support. Therefore, there could be a case for an enhanced standard of advice, beyond current requirements, that has a different focus to a mainstream mortgage taken to buy a home.

4.29 Our framework could also require additional controls to justify repeat business in the debt-consolidation market, as the need for reconsolidating debt would demonstrate it did not achieve a good outcome for the borrower the first time.

4.30 To enable enhanced advice, the level 4 mortgage advice qualification could be updated with all advisers required to pass it to give advice in certain scenarios. Alternatively, all advisers could be required to achieve the level 3 equity release qualification on top of the standard level 3 mortgage advice qualification. Borrowers could also be required to get more holistic financial advice before proceeding with mortgage advice.

Question 21: **What are the benefits and risks of requiring an enhanced level of advice for certain cohorts of borrowers or products? Is there a better way to do this than based on credit impairment, debt-consolidation or the proportion of borrowers in long-term arrears?**

Question 22: **Is there a better way to achieve an enhanced level of advice than through changes to the required qualification?**

The value of disclosure

4.31 Effective disclosure can give consumers the information they need to make informed, effective decisions. This can be particularly important for execution-only transactions, where consumers do not get advice before taking out a mortgage. While these have consistently made up less than 5% of all transactions since the MMR, this number could grow if the interactive dialogue trigger is removed, as we proposed in CP25/11.

4.32 The Consumer Duty places the onus on firms to ensure that consumers are empowered to understand products on offer, to help them make informed decisions on what is appropriate for them.

4.33 However, in many areas our current mortgage disclosure rules require firms to take a one-size-fits-all approach which relies on prescriptive requirements. This does not give firms the flexibility to tailor their communications to their customers.

4.34 Firms can provide additional or supplementary information alongside prescribed disclosures. However, not all firms will do so, as standardised disclosures can be easily automated. Even where they do so, an overload of information could risk hindering consumer decision-making.

4.35 So we think there is a risk this standardised approach could be delivering poorer customer outcomes, by requiring firms to communicate to customers in way that obscures the information most important to them.

4.36 We want to understand what consumers need from a modern disclosure regime, particularly where mortgage sales and transactions happen across multiple channels, with varied customer journeys, and whether a shift to a more outcomes-based framework underpinned by the Consumer Duty could deliver better customer outcomes.

The existing disclosure regime

4.37 Large parts of the current disclosure regime were introduced because they were required under the EU Mortgage Credit Directive (MCD), which established a common European framework of conduct rules for firms selling mortgages.

4.38 We now have the flexibility to update these rules if we think different disclosure requirements would deliver better outcomes. We want to understand how useful the MCD disclosure requirements remain today.

4.39 These disclosure requirements are very prescriptive. In some cases, they require firms to give consumers information in specified formats, using prescribed language and content. This includes the European Standardised Information Sheet (ESIS). While our rules allow firms to provide supplementary information, not all firms will take advantage of this as ESIS disclosure can be automated, and any supplementary information must be provided in a separate document.

4.40 Stakeholders have also told us that the ESIS is excessively long and complex. For example, one measure firms are required to provide is the Annual Percentage Rate of Charge (APRC). This is a complex calculation which will often fail to reflect real-world mortgage behaviour. For example, it assumes the borrower will make no changes to their repayment plans when, in reality, most borrowers will remortgage during their loan term.

4.41 These rules also set no expectation that firms test consumer understanding or tailor their communications. Some stakeholders have told us both firms and consumers now often view compliance with these disclosure requirements as more of a regulatory necessity than a help to decision-making. Consumers may, in practice, be engaging with only a fraction of the information they are given. For example, our 2015 research, shows that borrowers' main reference point when choosing a mortgage is the initial monthly repayment.

4.42 We want to better understand what drives consumers' decisions, and how often they use disclosure documents to shop around before taking out a mortgage. We also want to understand how useful standardisation is for product comparison.

Question 23: How do mortgage borrowers use disclosure documents to shop around before taking out a mortgage? What information is most useful? Is standardisation and prescription important for product comparison and competition?

4.43 There are also mortgage products which fell outside the scope of the MCD, and so are subject to different disclosure requirements. These are also largely prescriptive, and predate the MCD. These products include lifetime mortgages, bridging loans, credit union mortgages, and overdrafts secured against property lasting less than 1 month.

4.44 While keeping pre-MCD disclosure requirements for these products was intended to avoid imposing new rules on lending outside the scope of the MCD, it means different kinds of lending are covered by different disclosure requirements – duplicative in some areas, contradictory in others – at each stage of the customer journey.

4.45 We want to understand what benefits there would be to streamlining both disclosure regimes into a single unified approach. We also want to understand whether there are any product types which should continue to be subject to different disclosure requirements.

Question 24: Would a single set of disclosure requirements for all regulated mortgage contracts be preferable? Are there any product types that should be subject to different disclosure requirements?

What could change?

4.46 Consumer research shows people are more likely to pay attention to information presented in a novel, simple and accessible way. So it is important that consumers are given the information they need, at the right time, and presented in a way they can fully understand and act on.

4.47 The Consumer Duty's Consumer Understanding outcome aims to reframe the role of disclosure for consumer protection with this in mind. It sets the expectation that firms tailor their communication and disclosure to customers and consider whether they are understood, not simply delivered.

4.48 We have heard from some firms that our current MCOB requirements – both pre- and post-MCD – can conflict with this. In some places they are inflexible (in timing, content, and language), and often costly too.

4.49 Firms have also told us that prescriptive disclosure requirements could be barriers to adopting new technologies, including AI-supported solutions, which could allow firms to deliver better outcomes for consumers through more personalised and tailored disclosures.

4.50 We know the existing disclosure requirements have been in place for some time, that firms have invested heavily in designing their systems around our current rules and that any changes could require further investment. Firms can currently buy 'off the shelf' disclosure systems, and changes to our rules could make this more difficult. This is particularly the case if those changes reduced the level of prescription and firms were expected to tailor more of their disclosures to customers, and be able to demonstrate their approach delivers good outcomes.

4.51 However, we think changes to the disclosure regime could also bring benefits to firms. Streamlining and simplifying disclosure requirements, where they are needlessly complex and duplicative, could lower barriers to market entry and reduce costs in the longer term. Closer alignment between the rules in MCOB and our Consumer Duty could help firms streamline their compliance processes. Simpler, principles-based rules could potentially also be more flexible and future-proof.

4.52 One option would be to move to a more outcomes-based disclosure regime, underpinned by the Consumer Duty. This could potentially be supplemented with a selection of event-driven disclosure requirements, to ensure all consumers get specific information at specific milestones. Another would be to retain some form of simplified standardised disclosure template.

4.53 Given the wider discussion in this paper on advice and selling standards, we are also interested in views on how far disclosure requirements should vary according to the advice consumers have received.

Question 25: **Where could we rely on the Consumer Duty to help meet consumers' information needs? Where could more flexibility support innovation and to what extent is standardisation helpful?**

Question 26: **What information do all consumers need to receive, and when? Should there be different requirements for those who have received advice or 'enhanced' advice?**

Innovation

4.54 Supporting sustained economic growth, including by enabling innovation, is one of the 4 priorities in our new strategy.

4.55 Elsewhere in this paper we set out some of the ways we have heard our responsible lending, later life, advice and disclosure rules could be inhibiting innovation, and preventing firms from providing products and services that could help consumers achieve their financial goals.

4.56 Relevant to responsible and later life lending, in 2023-24, 31 per cent of first-time buyers received deposit help from friends or family, and a further nine per cent used money from an inheritance. Meanwhile, housing equity in the UK is estimated to be around £9.1 trillion, with about one third of the UK housing stock mortgaged. This means a substantial portion of the nation's wealth is tied up in equity. We want to understand whether regulation can play a part in unlocking this for the benefit of all involved and the wider economy.

Question 27: **Can we play a part in unlocking housing equity for the benefit of first-time buyers, those in later life, and the economy?**

4.57 We would also appreciate views on innovation in the mortgage market more broadly.

4.58 Across financial services, innovation is happening in Open Banking, distributed ledger technology, and digitisation of activities. We want to know where the mortgage market can make best use of these, and other innovations, to support better outcomes for consumers and the market. We want to understand where else you think there is room for firms to innovate, and how you think our rules could be amended to support innovation that furthers our objectives on consumer protection and growth.

4.59 In February, the government announced plans to make homebuying and selling quicker and cheaper, particularly focusing on digitisation and joining up across the sector.

Question 28: **Can conduct regulation play a part in feeding into the wider debate about the digitisation of the house buying and selling processes?**

Question 29: **Are there any other areas where you would like to see innovation in the mortgage market and how do you feel our regulation can better support this? Are there areas we should prioritise for TechSprints and/or Sandboxes that would help foster greater innovation?**

Chapter 5

Rebalancing risk appetite in the mortgage market

Summary

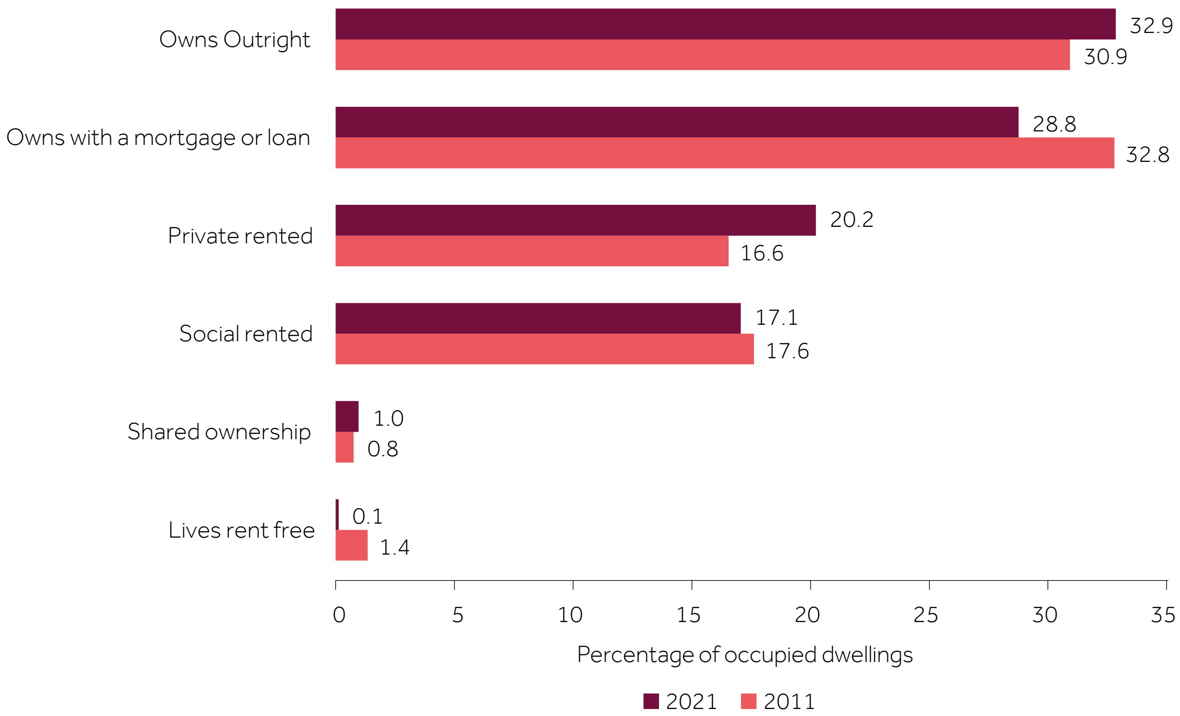
5.1 Current risk appetite may now be too cautious for the future in some areas, particularly if the aim is to increase access, encourage innovation and support homeownership and financial resilience. In other areas, specific concerns may give rise to a more differentiated approach to future standards.

5.2 This chapter considers the wider argument for rebalancing the collective risk appetite, across FCA, firms, consumers and government, in the UK mortgage market. It then explores in more detail some of the trade-offs that need to be considered if the collective risk appetite were to shift, including between increased mortgage access, possible house price inflation and the potential for greater defaults. We also consider the trade-offs involved for consumers in renting or buying.

The decline in owning a home with a mortgage

5.3 There has been a decline in home ownership since the 2001 census with the latest census (2021) showing that 61.7% households (15.5 million) owned their accommodation in 2021, compared with 63.7% (15 million) in 2011. The decline has been particularly great in owners with a mortgage as Figure 5 below shows.

Figure 5: Change in the percentage split of tenure for occupied dwellings, England and Wales, 2011 to 2021



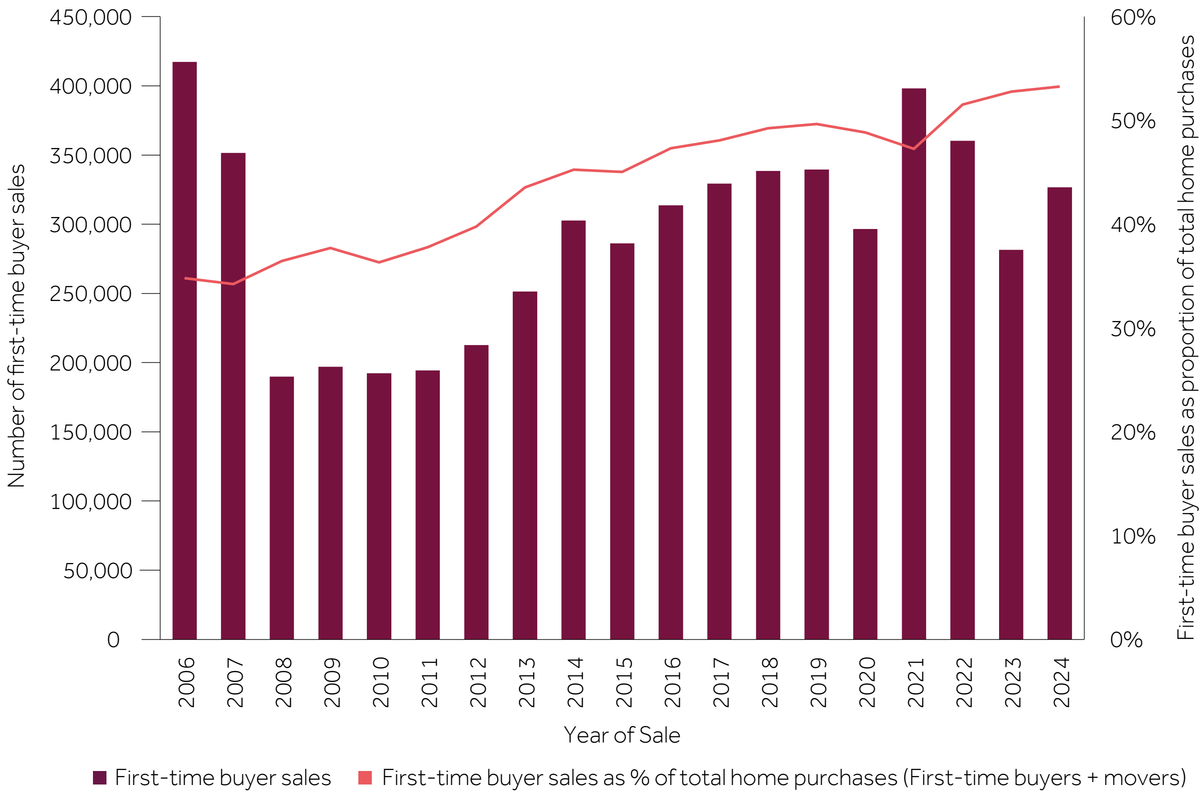
Source: Census 2011 and 2021, Office of National Statistics

5.4 This decline has been accompanied by 2 major trends: the growth in outright ownership and increases in private renting. Outright ownership is the most common tenure category. This reflects demographic trends of typically older consumers paying off their mortgage and moving to owning their home outright.

5.5 The increase has been particularly focused on specific areas, such as London, and on certain demographic groups. The Resolution Foundation found the proportion of young people (18-34 years old) renting privately more than tripled from 10% to 33% between 1990 and 2022-23. There has also been a rise in the proportion of people aged 25 to 34 living with their parents, from 13% in 2006 to 18% in 2024.

5.6 As Figure 6 illustrates, the number of first-time buyers decreased significantly after the financial crisis, from over 400,000 in 2006 and around 350,000 in 2007 to around 190,000 in 2008. It then began rising from 2012, with drops in 2020 and 2023, and was back up to around 327,000 in 2024.

Figure 6: Number and proportion of regulated mortgage sales to first-time buyers



Source: FCA Product Sales Data

5.7 There has been a change in the profile of first-time buyers since the financial crisis. Today's first-time buyers increasingly rely on family support for deposits, have longer mortgage terms to enable affordability and tend to have higher-than-average incomes.

5.8 While other groups are more likely to be renting including some ethnic minorities. The English Housing Survey shows White British households are the least likely group to rent privately (14%), while Black Other and Mixed White and Black African households are the most likely to rent (55% and 52% respectively). Other research has suggested self-employed young people are particularly likely to rent, with 34% of self-employed people under 40 renting.

5.9 Pensions Policy Institute (PPI) analysis suggests that if patterns of home ownership continue, the proportion of households who own their own home in retirement could fall from 78% to 63%. Similarly, the proportion privately renting could rise from 6% to 17%. The PPI notes that if fewer people buy a home and instead remain renting, there is a knock-on effect to essential housing costs in later life. It is estimated that those who expect to rent throughout their retirement could need an additional £391,000 in retirement savings compared to those who have paid off their mortgage (Standard Life).

Access to mortgages and economic growth

5.10 A potential opportunity from rebalancing risk appetite in the mortgage market is in economic growth. Sustainable economic growth ultimately improves the living standards of consumers and the ability of households to be financially resilient – a key element of the risk trade-offs in the mortgage market. The box below briefly summarises some of the key transmission mechanisms linking access to affordable mortgages and economic growth (with more detail in Annex 2).

Mortgage affordability and economic growth

The links between facilitating access to mortgages and GDP are complex. Predicting the impact of any future policy changes is difficult as mortgage finance is just one component within a complex housing ecosystem that includes construction, property exchange, planning regulations and rental markets. How firms react to rule changes and knock-on impacts can be unpredictable, making it challenging to estimate the magnitude of economic impacts. Regional variations in policy impacts are also a complicating factor.

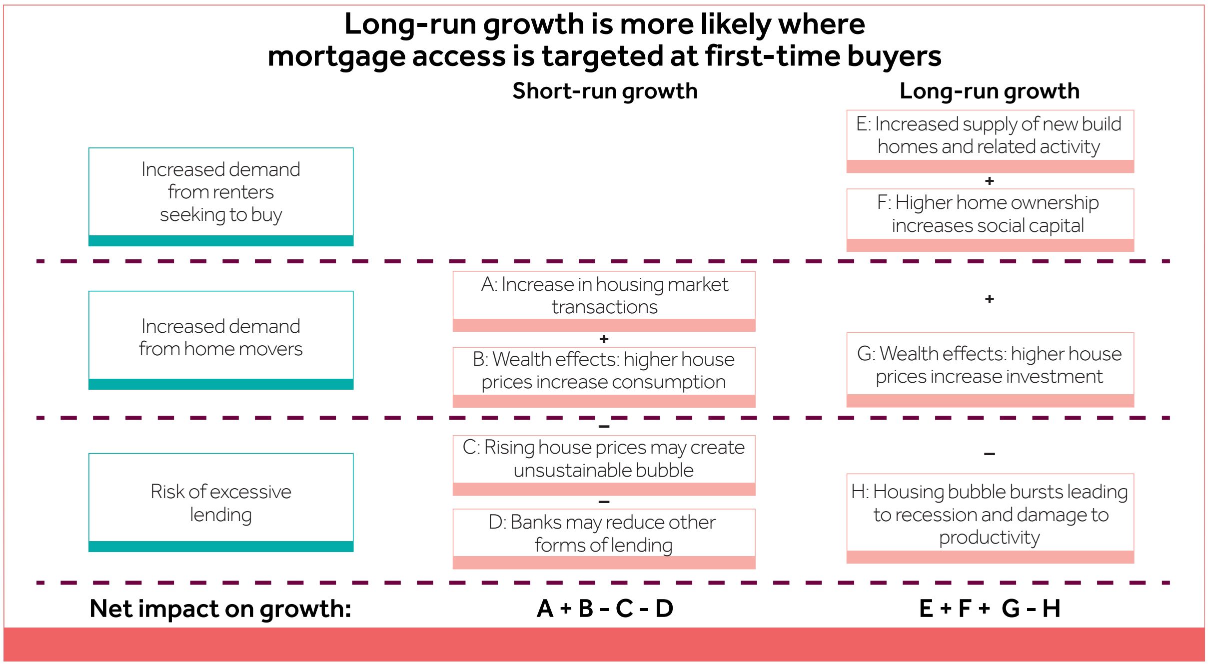
Overall, it is plausible that greater access to mortgages can lead to gross positive impacts on economic activity, especially when viewed alongside the Government's plan to increase the housing supply. As set out below in Figure 7, facilitating access to mortgages is likely to increase short-run house prices, particularly for first-time buyers. Higher house prices may stimulate economic activity from greater construction activity, making homeowners feel wealthier and increasing their household collateral, though potentially at the cost of undermining affordability for first-time buyers.

In the longer-term, some evidence suggests homeownership can enhance long-term productivity by encouraging those new homeowners to invest more in their skills, communities or children's education (eg Cross, 2020). Wider mortgage access may also be more likely to lead to economic growth where it is targeted at first-time buyers and alongside complementary supply-side housing policies.

However, some risks from the economic literature are worth noting. If increasing homeownership reduces people's willingness to move for better job opportunities this could reduce efficiency and productivity in the labour market. If banks were credit constrained, increased mortgage lending could come at the expense of commercial credit that might have generated higher economic returns. Similarly, excessive lending (which our rules will always aim to prevent), can increase the likelihood of financial instability, potentially harming long-term growth.

5.11 Figure 7 below illustrates a simplified system map of the key linkages between access to mortgages and long-run and short-run GDP.

Figure 7: Access to mortgages: impact on GDP growth



Trade-offs

5.12 There are trade-offs in terms of potential harms. We explore 2 of these key potential harms – risk of house price inflation and increased risk of arrears and repossessions – in more detail below. First, we consider the concept of 'tolerable harm', which could help us form a judgement about where potential downsides may be outweighed by potential upsides.

Metrics of tolerable harm

5.13 The Government has clearly indicated it would like regulators to allow more risk in the system, to support economic growth. While this could have growth and competition benefits, it could potentially mean more consumer harm.

5.14 To respond to this, we have said we need to understand the key risks and gather data to assess the degree of potential harm they could cause. We need to determine, in advance, what we judge to be 'tolerable' levels of harm.

5.15 Our written evidence to the House of Lords Regulation Committee set out some early examples of different types of metrics of 'tolerable harm' which might be considered if we amend our mortgage affordability rules. These included:

- The number of consumers in financial distress does not grow by more than x% year on year.
- The number of mortgage arrears and repossessions does not grow more than x% year on year.

5.16 However, assessing harms in a timely way is challenging. Simple metrics may reflect many factors. For example, mortgage arrears rates reflect not only our affordability rules and lending practices, but also wider economic conditions. Many metrics may indicate harm with a time lag, creating a risk of harm in the intermediate period. And some risks, especially systemic risks, are harder to capture in this way.

5.17 Depending on future changes to our mortgage rules, our approach to assessing tolerable harm will need to consider these challenges, while recognising inherent limitations. For instance, we will consider early warning signals and leading indicators, even for risks not directly within our control. We also need to understand who the winners and losers could be from any subsequent rule changes.

Question 30: What are your views on our approach to 'tolerable harm'? Do you have suggestions for potential mortgage market metrics that could be helpful?

House price inflation risk

5.18 Rebalancing risk appetite in the mortgage market and any potential changes to our responsible lending rules could potentially have an impact on house prices. Greater mortgage access could increase house prices if there is no corresponding increase in housing supply. This could push home ownership further out of the reach for some borrowers. Although we regulate mortgage lending, house prices and housing policy are influenced by wider economic factors.

5.19 The Government milestone, as set out in their Plan for Change, is to build 1.5 million new homes in England over the 5 year parliamentary term. We are working with the Government to ensure we understand the relationship between any potential regulatory changes and the Government's housing supply policy. If we later consult on any changes to our responsible lending rules, we will consider the possible impact on house prices in our cost benefit analysis.

Analysis: Impact of greater access to mortgages and homeownership

The link between any changes to our rules on mortgage affordability criteria and home ownership depends on a number of factors.

On the demand side, while we set the framework and rules for responsible mortgage lending, volumes will also reflect other constraints and lending appetite among firms. For example, as set out in Annex 4, lenders face constraints in offering higher LTV loans under prudential regulatory requirements, and may also maintain additional buffers to stay safely below regulatory limits. So how lenders would react to greater flexibility on affordability, given other constraints, remains uncertain. Additionally, prospective first-time buyers' ability to save for a deposit currently acts as a limit on the number of new households that can get mortgages.

On the supply side, the impact of greater access to mortgages on home ownership is partly determined by the increase in housing supply.

If greater access to mortgages did increase demand, this would likely increase the price of typical first-time buyer residential properties in the short term. The greater the responsiveness of housing supply, the more this would be expected to benefit homeownership. However, the amount of new housing added per year depends on a range of factors, including laws affecting the cost of construction and the availability of developable land. Recent Institute for Fiscal Studies research suggests the average responsiveness of housing supply in UK neighbourhoods is low compared to that of other countries. Any impact on housing supply and house prices will also most likely differ between local areas depending on demand and on supply constraints.

A fuller discussion of the evidence on these factors can be found in Annex 4.

Increased arrears and repossessions risk

5.20 Where consumers with lower financial resilience can get mortgages, they are more likely to have difficulties with repayment when faced with adverse life events or wider economic shocks.

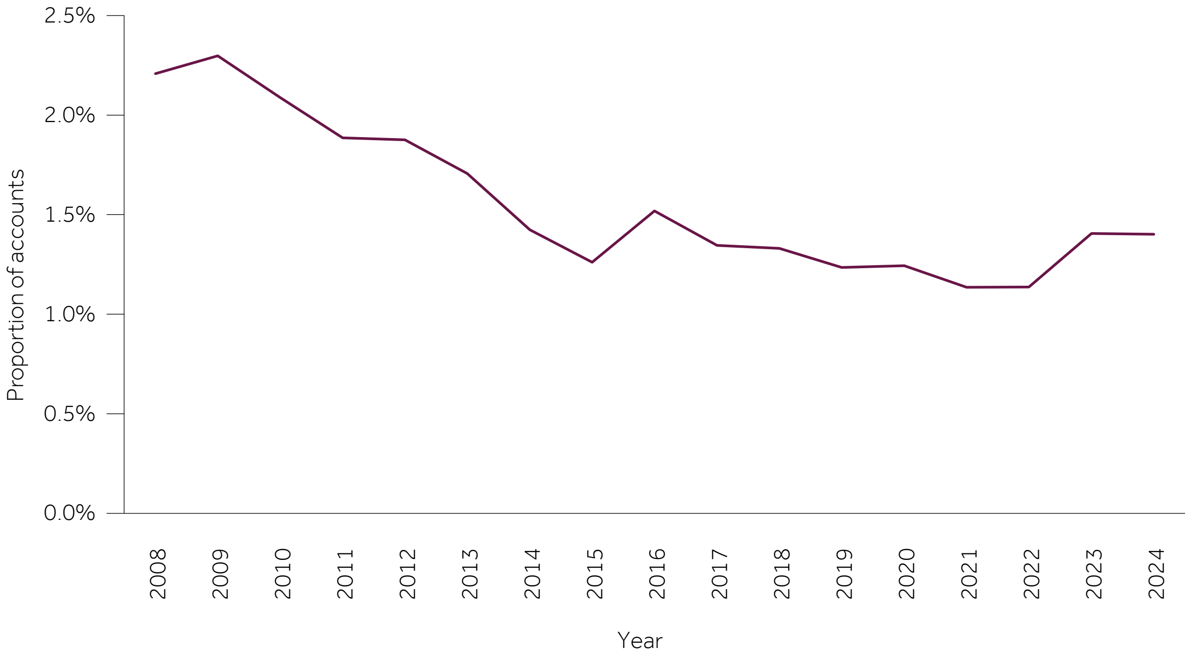
5.21 This could mean some households have to make difficult choices about their finances, stress and mental ill-health, increased payment shortfalls and arrears, and, in extreme cases, more repossessions. Where there is a significant increase in mortgage arrears, this could lead to losses for lenders which in turn could lead to lenders restricting access to mortgages or other types of lending.

5.22 Since the financial crisis, firms' lending practices and their approaches to supporting borrowers in payment difficulties have improved. The mortgage market and borrowers have also proved resilient to several economic shocks.

5.23 The sub-prime mortgage sector, where we saw some of the worst lending standards pre-2008, has decreased significantly. The securitisation-backed sub-prime segment of the market is no longer a major feature of the UK market, and changes to risk appetite need to be considered in that context.

5.24 Even as interest rates and the cost of living have risen, fewer borrowers have faced payment difficulties than at the post-crisis peak:

Figure 8: Proportion of regulated mortgage accounts in arrears of 1.5% or more of outstanding balance



Note: All data points as of Q4 each year
Source: FCA Mortgage Lenders and Administrators Return (MLAR)

5.25 Levels of arrears are low but vary quite considerably across the market depending on lenders' risk appetite and type of consumers they serve. Rebalancing risk appetite, specifically updating our responsible lending rules to support greater home ownership, may affect arrears and repossession levels.

Question 31: **What is your view on the impact rebalancing risk appetite could have on arrears and repossessions levels?**

Arrears: areas of concern

5.26 Although there are relatively low arrears and repossession levels across mortgages as a whole, some areas are showing different trends.

Second charge mortgages

5.27 Second charge mortgages have higher levels of arrears. In 2024, Product Sales Data (PSD) shows that 6.88% of second charge mortgages were in arrears (of 1.5% or more of outstanding balance) compared with 1.34% of first charge mortgages. Most borrowers take second charge mortgages to consolidate existing, generally unsecured, debts and so may have different characteristics and needs compared with consumers taking a mortgage to buy a property.

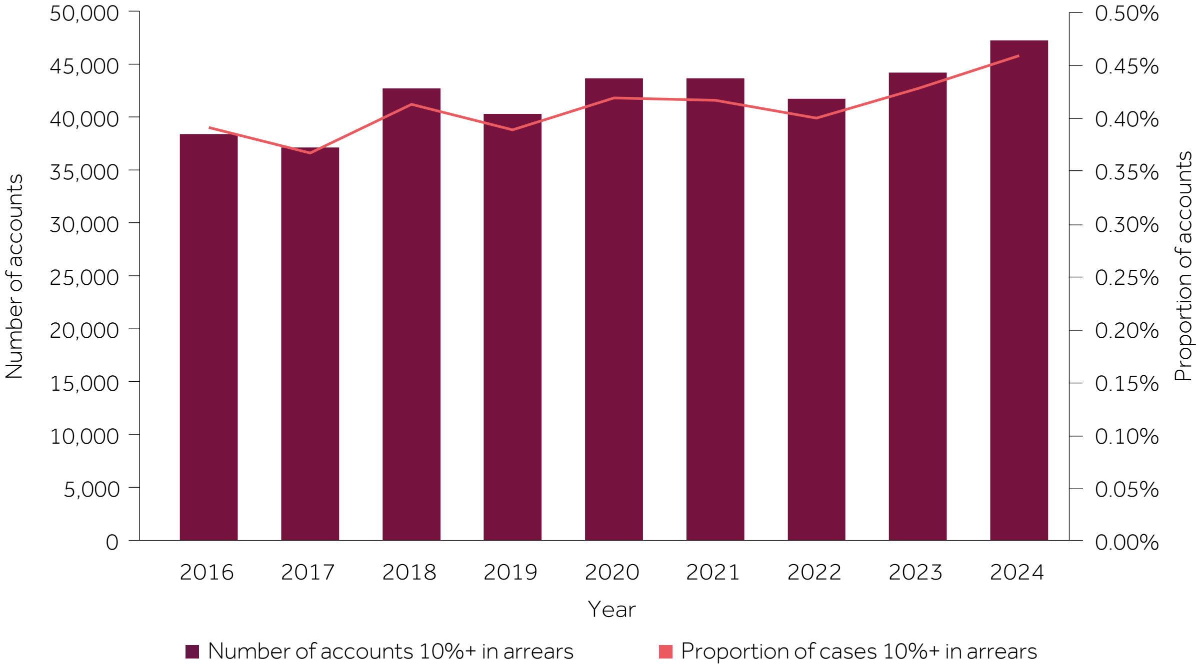
5.28 Our discussion about rebalancing risk appetite has focused on improving access to mortgages to buy a property. We could take a differentiated approach to risk appetite for second charge and similar mortgages, given the different purpose they serve and the higher payment shortfall levels in this market.

Question 32: **What are your views on taking a differentiated approach for mortgages taken out for a purpose other than buying a property (this could include second charge mortgages, or remortgages to consolidate debt)? Are there any other product types where we should take a differentiated approach?**

Accounts in serious arrears

5.29 There has also been a recent significant increase in the number of accounts in serious arrears (by 10% or more of the mortgage balance) across all mortgages (both first and second charge). This has grown from just under 42,000 at the end of 2022 to over 47,000 at the end of 2024.

Figure 9: Number and proportion of regulated mortgage accounts in arrears of 10% or more of outstanding balance



Note: All data points as of Q4 each year
Source: FCA Mortgage Lenders and Administrators Return (MLAR)

5.30 This upward trend in serious arrears balances may be driven by recent higher interest rates. Greater levels of longer-term forbearance offered compared to higher repossession levels post-crisis are also likely to be a factor.

5.31 Balances can increase where mortgages remain in arrears for long periods, making it more difficult for borrowers to recover within the remaining term of their mortgage. This can have serious financial consequences for borrowers, eroding equity, their options to meet future housing needs and damaging their credit score over a longer period.

5.32 Our rules are clear that repossession should only take place when all other reasonable attempts to resolve the position have failed. In some cases, though, earlier repossession action or earlier support to sell the property may result in better outcomes for the customer.

5.33 If a change in risk appetite could lead to an overall increase in arrears, we would need to consider the potential impacts on both consumers and firms and what could be done to reduce the negative effects of repossessions. Any increases would also place additional costs on lenders and the wider market, potentially weakening future lending capacity.

5.34 We would be interested in hearing how regulatory, mortgage market and associated practices could be updated to deliver fairer outcomes for customers whose mortgages have become unsustainable, and if there are any barriers firms face to achieving this.

Question 33: **What are your views on the management of unsustainable mortgages? Do firms experience barriers in taking action that would provide fairer outcomes?**

What loans and borrower types are more likely to end up in arrears?

5.35 A key question for mortgage risk appetite is whether certain loan characteristics are reliably predictive of arrears. If so, regulatory policy could play a significant role in improving financial resilience by setting guidelines for lenders on the treatment of loans showing some of these characteristics. Annex 3 reviews the economic literature on this topic.

5.36 Adverse life events, especially unemployment and economic shocks, are significant factors leading to mortgage arrears, as our recent research shows. Alongside job loss, certain loan characteristics and certain borrower profiles do seem to be associated with higher arrears risk. In particular, indicators of leverage, such as monthly repayments as a fraction of income, may indicate lower levels of financial resilience and greater risk of having repayment difficulties.

5.37 Annex 3 also sets out some descriptive analysis on which types of loans and borrowers are more likely to enter arrears, based on mortgages PSD. The analysis reveals that certain borrower profiles are more vulnerable to falling into payment difficulties, including single borrowers (who are roughly twice as likely to fall behind compared to joint borrowers), younger borrowers aged 18-24, and self-employed individuals. Supporting the empirical literature, the loan characteristic with the strongest correlation with arrears appears to be the repayment-to-income ratio.

Question 34: **Have we identified the right trade-offs (consideration of risks and opportunities) that should be considered in relation to a rebalancing of collective risk appetite in the mortgage market? Are there any others we should consider?**

Mortgage vs renting costs

5.38 Renting and homeownership involve different consumer costs and benefits which make it complicated to compare prices directly.

5.39 Our analysis below compares estimated mortgage repayments and rents. It shows the differential between renting and paying a mortgage can change over time. It does not consider other costs of buying and renting.

5.40 This unpredictability in the relative cost of renting and buying is difficult for both firms and consumers to understand and navigate. It is not a given that renting is more expensive in the short term, and depends on many factors. However, this in itself is not a reason to limit people's ability to buy as an alternative to renting.

5.41 It also suggests that meeting rent costs alone is not likely to be a reliable indicator of mortgage affordability (discussed in Chapter 2). Therefore, ensuring that borrowers can afford mortgage repayments remains key.

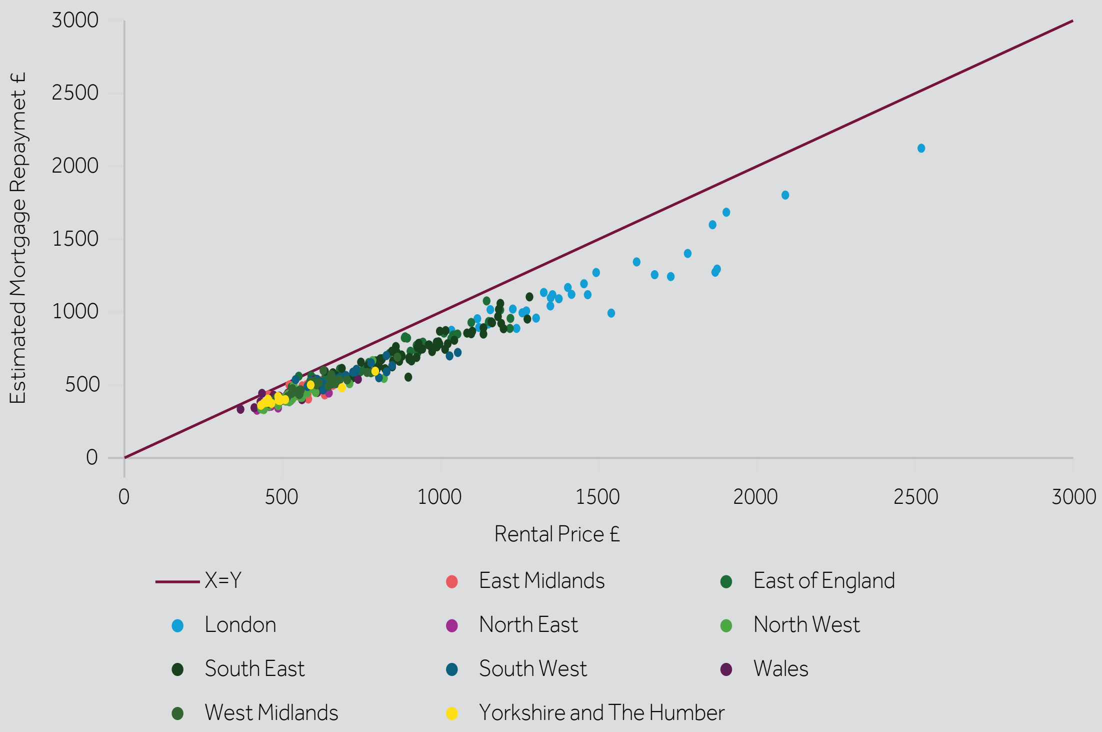
Analysis: Mortgage Affordability vs Rents

Changes over time

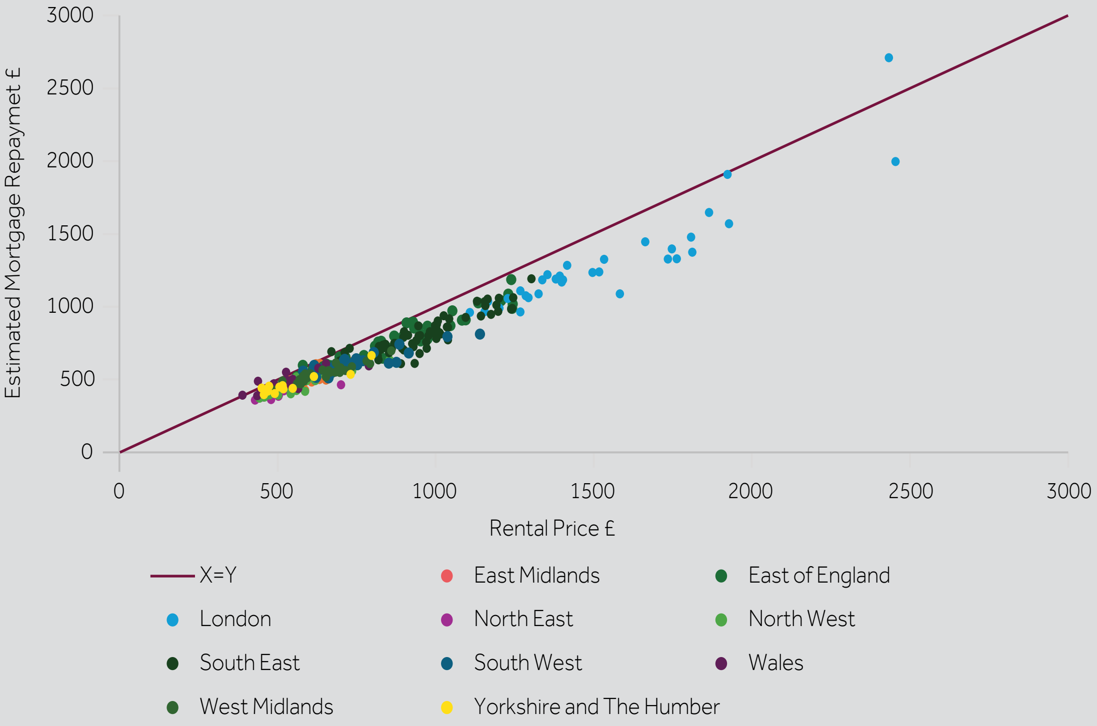
We found in 2019 it was more affordable to have a mortgage relative to renting. However, by 2023 the relationship had shifted, with estimated mortgage repayments tending to be higher than rental prices for similar properties.

Figure 10: Two Bed Rent Price and Estimated Mortgage Repayments

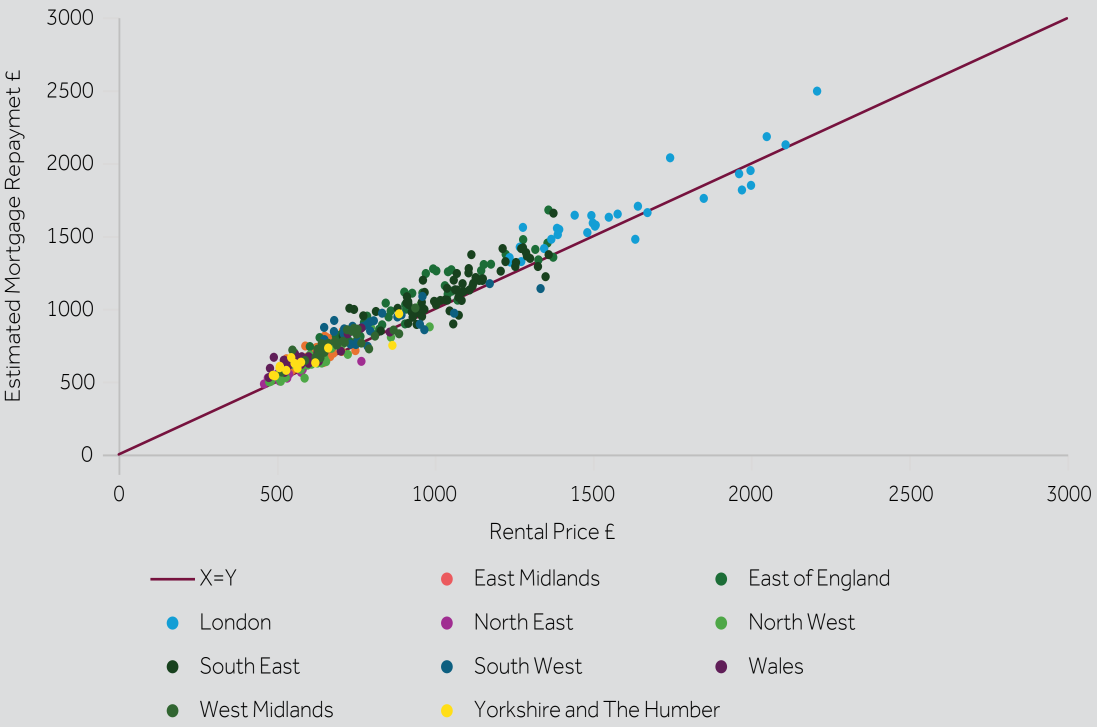
Two Bed Rent vs Mortgage Repayment 2019



Two Bed Rent vs Mortgage Repayment 2021



Two Bed Rent vs Mortgage Repayment 2023



This shift could be a result of rising interest rates. A recent Bank of England working paper found that house prices respond more strongly to increases in interest rates compared to rents. However, both markets may take a number of years to adjust to interest rate shocks as it takes time for homeowners to remortgage, and for landlords to sell their properties. So it is unclear if this relationship will hold in the long run, or if we could expect mortgages to become relatively cheaper than renting again.

Consumer aspirations to buy a home and long-term asset growth

5.42 Our analysis suggests owning a home is not always the best financial option compared with renting, in the short-term at least. But many people's aspirations to own their own home are not based solely on short-term costs. Other considerations include the value consumers place on the long-term security of owning and building up equity in a property as an asset, which can later contribute to later life costs, rather than paying a landlord.

5.43 Many people who are currently renting want to own their own home. The English Housing Survey finds that 57% of private renters, about 2.6 million households, eventually expect to buy a home in the UK.

5.44 However, it is increasingly hard for lower income consumers and those without family support to get a mortgage. Rebalancing risk appetite in the mortgage market to widen access may be needed to help these groups achieve their financial goals. However, any potential regulatory changes to widen access to mortgages alone will not necessarily lead to wider home ownership. We cover the wide range of other influences in Chapter 2.

Question 35: **Is rebalancing risk appetite in the mortgage market the right objective? What are the key regulatory, firm or other practices that determine or constrain risk appetite, and will need to be amended if rebalancing of risk is sought?**

Chapter 6

Conclusion and next steps

6.1 The UK residential mortgage market is substantial, involving a wide range of firms and business models. It also plays an important role in the UK economy, and in consumers' lives.

6.2 This DP aims to launch a public discussion on its future. The ideas in it have been shaped by our engagements with stakeholders, as well as our statutory objectives, including our secondary objective on international growth and competitiveness. It considers what the market may need to deliver for different consumers at different stages of their lives, the role of regulation within that and sets out a discussion on the potential trade-offs and risks of changing our rules.

6.3 We are seeking feedback from a wide range of stakeholders, including consumers and consumer groups, on the right way forward. Alongside this DP, we will continue to engage with key stakeholders through forums, roundtables and individual meetings.

6.4 The feedback we receive will inform our next steps. Where we receive feedback on issues that go beyond our powers, we will share it with the Government and other relevant stakeholders. Where we think there is a case for making changes to our rules and guidance, we will consult on any proposed changes in the usual way.

6.5 Where we identify a need for change, we will aim to move quickly. But implementing regulatory change takes time and carries costs so it is important we make any changes in a way that manages any new or heightened risks. It is also important we consider where existing requirements under the Consumer Duty can help deliver the outcomes we are seeking.

6.6 In making any changes to our rules and guidance, we will prioritise those areas that address immediate priorities for the UK and consumers, while taking into account the industry's ability to absorb and implement change effectively.

6.7 To ensure we do this effectively, we are also seeking views on what we should prioritise.

Question 36: **What potential changes to our rules and guidance should we prioritise? In your response please set out which changes could have the greatest impact and/or could be implemented quickly.**

Question 37: **Are there any other areas where we could rely on the Consumer Duty and its focus on outcomes to help meet consumers' needs?**

Annex 1

List of questions

Question 1: Do you agree that these are the groups we should focus on? Are there any other groups that may not be effectively served by the market?

Question 2: What further changes are needed within the mortgage market to support access for those who are self-employed or with volatile income to mortgage finance, both for home purchase and later in life?

Question 3: Should the stress test be changed? In response set out any changes you believe are needed.

Question 4: Should we intervene to support take up of long-term fixed-rate mortgages? If so, what action should we take?

Question 5: Can a rent-based affordability assessment be a responsible basis on which to assess a consumer's ability to repay a prospective mortgage? If so, what key features or requirements would this test need?

Question 6: Should we decide not to prescribe an approach on rent affordability: leaving firms to decide on an appropriate approach, with the Consumer Duty helping to establish a clear consumer outcome focus?

Question 7: What regulatory incentives and/or barriers could be amended to increase appetite for innovation for mortgage products that support different employment types? In your response, please explain the targeted employment type.

Question 8: How well do our rules currently support Shared Ownership? In your response identify potential barriers, if any, to Shared Ownership lending that regulatory intervention could help address.

Question 9: Do you think changes to interest-only provisions would help first-time buyers? If so, what aspects of our regulation would need to change? In your response, explain any risks that may need to be mitigated/addressed in any regulatory change.

Question 10: Are there innovative approaches that are being used or could be used to do more to support victim-survivors of joint mortgage abuse? In your response, set out potential regulatory interventions, if any, that can support victim-survivors.

Question 11: How can we introduce more flexibility into our rules for non-mainstream products without compromising protections for consumers?

Question 12: Are there any regulatory interventions to the mortgage market that could support approaches that aim to help address climate change challenges? In your response explain the context of the specific climate change challenge and potential implications for borrowers and lenders.

Question 13: Should more borrowers look to the later life lending sector to access housing wealth and support their retirement?

Question 14: How can our rules support product innovation in later life lending?

Question 15: Should it be easier to access products like RIOs and lifetime mortgages? What is holding back demand for these products?

Question 16: How effective and holistic is advice on later life lending? How can our rules support borrowers to access more effective information or advice to support their needs?

Question 17: Can regulation do more to enable innovation, both in terms of AI-assisted sales and in the tools available to consumers and intermediaries to assess product eligibility and the likelihood of acceptance?

Question 18: What are the risks of AI-assisted advice, and how could the role of intermediaries evolve if more of these sales are enabled?

Question 19: Are the records we require a firm to keep that document the consumer's circumstances at the time of the recommendation, and the suitability of the product the firm has recommended, in the right place?

Question 20: Are our current suitability standards, including the cheapest option rule, in the right place and fit for purpose?

Question 21: What are the benefits and risks of requiring an enhanced level of advice for certain cohorts of borrowers or products? Is there a better way to do this than based on credit impairment, debt-consolidation or the proportion of borrowers in long-term arrears?

Question 22: Is there a better way to achieve an enhanced level of advice than through changes to the required qualification?

Question 23: How do mortgage borrowers use disclosure documents to shop around before taking out a mortgage? What information is most useful? Is standardisation and prescription important for product comparison and competition?

Question 24: Would a single set of disclosure requirements for all regulated mortgage contracts be preferable? Are there any product types that should be subject to different disclosure requirements?

Question 25: Where could we rely on the Consumer Duty to help meet consumers' information needs? Where could more flexibility support innovation?

Question 26: What information do all consumers need to receive, and when? Should there be different requirements for those who have received advice or 'enhanced' advice?

Question 27: Can we play a part in unlocking housing equity for the benefit of first-time buyers, those in later life, and the economy?

Question 28: Can conduct regulation play a part in feeding into the wider debate about the digitisation of the house buying and selling processes?

Question 29: Are there any other areas where you would like to see innovation in the mortgage market and how do you feel our regulation can better support this? Are there areas we should prioritise for TechSprints and/or Sandboxes that would help foster greater innovation?

Question 30: What are your views on our approach to 'tolerable harm'? Do you have suggestions for potential mortgage market metrics that could be helpful?

Question 31: What is your view on the impact rebalancing risk appetite could have on arrears and repossessions levels?

Question 32: What are your views on taking a differentiated approach for mortgages taken out for a purpose other than buying a property (this could include second charge mortgages, or remortgages to consolidate debt)? Are there any other product types where we should take a differentiated approach?

Question 33: What are your views on the management of unsustainable mortgages? Do firms experience barriers in taking action that would provide fairer outcomes?

Question 34: Have we identified the right trade-offs (consideration of risks and opportunities) that should be considered in relation to a rebalancing of collective risk appetite in the mortgage market? Are there any others we should consider?

Question 35: Is rebalancing risk appetite in the mortgage market the right objective? What are the key regulatory, firm or other practices that determine or constrain risk appetite, and will need to be amended if rebalancing of risk is sought?

Question 36: What potential changes to our rules and guidance should we prioritise? In your response please set out which changes could have the greatest impact and/or could be implemented quickly.

Question 37: Are there any other areas where we could rely on the Consumer Duty and its focus on outcomes to help meet consumers' needs?

Annex 2

Mortgage affordability and economic growth

1. This annex gives more detail on the possible links between mortgage affordability and economic growth.

Housing market dynamics

2. Changes to affordability criteria could allow potential buyers who do not meet current standards to obtain a mortgage, and for others to borrow more than they currently could. This would increase the effective demand for housing, particularly the type and location of properties favoured by first-time buyers and credit constrained borrowers. As short-term housing supply in the UK is relatively fixed (see Annex 4), this would likely raise house prices in the short term.

3. While in the medium to long term an expansion in construction could stimulate potentially significant investment, supply-side housing rigidities may limit the scale of this mechanism. Construction directly accounts for a significant fraction of economic activity, accounting for around 6% of Gross Valued Added in 2022 (ONS Blue Book, 2024).However, planning regulations, public opposition, land-use restrictions or strategic use of land and labour shortages may all currently limit the magnitude of supply response, and these factors will vary by UK region. Coupling relaxed mortgage affordability criteria with contemporaneous supply-side housing reforms would reduce the chance that mortgage affordability changes are mostly inflationary and be more conducive to greater home ownership. An impact on homeownership also appears more likely if mortgage access changes are targeted towards households who are marginal between rental and buying, rather than existing property owners or speculative investors.

Household level

4. At the household level, housing transactions can create economic activity in secondary markets through using services such as solicitors and removal companies (Scanlon et al, 2021). Homeownership may also incentivise people to spend more on their homes. These effects must, however, be weighed against the loss of economic activity associated with renting.

5. Increases in house prices can also lead to greater consumption via wealth effects among homeowners (Barrell et al, 2015). While wealth effects often shift consumption between time periods, so may only have a transitory effect on GDP, housing equity can also be used as collateral for additional borrowing. This may allow households to smooth consumption across time and so cushion them from income shocks. Similarly, since mortgage servicing costs typically decline over time relative to earnings, mortgages

can improve household financial resilience and consumption capacity. Housing equity can potentially encourage wealth accumulation via greater financial portfolio risk-taking (Sodini et al, 2023). Finally, the preferential tax treatment of owner-occupied housing may also influence household portfolio decisions, though the implications for economic activity are unclear.

6. Relaxing mortgage affordability criteria could allow purchases with lower deposits, depending on the reaction of house prices, though greater household mortgage holdings could limit future consumption. Prospective buyers would also be affected by any impacts on the rental market, which may be complex (see Meen & Whitehead, 2020).

Productive capacity and investment

7. Any impacts of mortgage access on long-term GDP are likely to come from changes to the economy's productive capacity, for which there is evidence for both positive and negative impacts.

8. Greater access to housing in high-productivity locations can improve the quality of labour market matching (Glaeser and Gyourko, 2018), boost knowledge sharing and spillovers – (Duranton & Puga, 2020), or make certain areas more viable for business investment. Property price appreciation may also encourage investment among business-owning homeowners (Bahaj et al, 2020) or facilitate entrepreneurship when used as collateral (Reuschke and Houston, 2016).

9. A less studied factor is how homeownership may affect social connections or other household investments. Homeownership may affect people's propensity to invest in their community (Coulson & Li, 2013), skills, or children's education (Cross, 2020). It is also associated with health and non-financial benefits (Lindblad and Quercia, 2015) that may affect productivity. However, robust econometric evidence of these differences actually being caused by housing tenure is limited (Maclennan & Long, 2023). Improved access to homeownership can also lead to welfare gains such as improved wellbeing.

10. However, there are offsetting risks to productive capacity. Given that banks operate under regulatory and capital constraints, increased mortgage lending may come at the expense of other forms of credit, particularly commercial lending (Chakraborty et al, 2018). The overall economic impact would depend on whether the redirected lending would have been more productive if used elsewhere. While mortgage lending can deliver important welfare gains, commercial lending often supports investment, R&D or business expansion which could generate higher economic returns.

11. Homeownership has also been associated with lower labour market mobility compared to renting (Blanchflower & Oswald, 2013), which could reduce efficiency in the labour market, though the gap may be falling over time (Judge, 2019). Property and rent inflation can reduce productivity by displacing workers to more remote locations (Maclennan et al, 2019). Although longer-term mortgages may increase labour market participation for older workers, higher house price growth has also been associated with lower female participation in some contexts (Atalay et al, 2016).

12. At a national or regional level, there is evidence that expectations of large price increases or house price 'booms' can fuel speculative behaviour at the expense of other investments. Rising property prices may also reallocate capital and labour towards inefficient property-owning firms, damaging overall industry productivity (Doerr, 2020; Basco et al, 2025). Relaxed mortgage affordability criteria could also reduce the average household's ability to withstand economic shocks. This may marginally increase the risk of financial market instability, which can have long-term 'scarring' effects on productivity.

Annex 3

Causes of arrears and possessions

1. Mortgage default in the form of arrears (missed payments) or, eventually, possession or foreclosure represents a significant risk in mortgage markets. Arrears and possession can lead to social costs (see, for example, Diamond et al, 2020), less capital available for lending and, at sufficient scale, can contribute to macroeconomic disruptions. Mortgage affordability criteria involve, broadly, balancing the costs of arrears against the benefits of facilitating household access to credit. This Annex contains a review of the literature on the causes of arrears and possessions, as well as descriptive analysis based on Product Sales Data.

Causes of mortgage default

2. Mortgage arrears typically occur when borrowers face unexpected financial difficulties or disruptions to their income, often stemming from two main sources:

- **Adverse life events** like a job loss, reduced income, illness, divorce or a sudden increase in expenses. Becoming unemployed, especially, is strongly predictive of entering arrears (Gyourko & Tracy, 2014).
- **Economic shocks** that affect a whole region or country. These can lead to higher structural arrears from many borrowers facing redundancy or income loss at the same time, or rapid increases in interest rates that make repayments higher for borrowers on variable rate mortgages.

3. Since mortgage monthly repayments comprise a significant fraction of household expenditure, the impact of these affordability shocks on the likelihood of a borrower entering arrears will depend on household financial resilience – eg the ability to temporarily draw on savings or other sources of income, or to reduce other expenditure commitments.

4. The 'double trigger' hypothesis, used widely in economic research, suggests an additional factor is involved in mortgage default (Foote & Willen, 2018). This theory suggests that, while an initial shock to income or circumstances can cause arrears, a second trigger – negative equity – can determine whether arrears lead to full default on the loan (possession). This is because borrowers with positive equity can, in theory, sell the property or refinance. The significance of the role of negative equity is debated in recent literature (see below).

What role do loan and borrower characteristics have on arrears rates?

5. Previous empirical studies across a range of countries have found evidence that several mortgage and borrower characteristics are associated with a higher propensity for loans to enter arrears. This is important as it suggests that mortgage policy may affect financial resilience through mortgage affordability guidelines.

6. The main mechanism by which loan characteristics affect arrears seems to be via consumers' ability to absorb and respond to income shocks. But other mechanisms might include a correlation with a borrower's likelihood of facing an adverse life event, or link with the likelihood of facing negative equity in the event of a fall in house prices. However, distinguishing whether lending criteria or adverse life events predominantly cause arrears is challenging due to the close link between these factors.

7. Borrowers with higher leverage tend to be at a higher risk of falling into arrears. Leverage reduces borrowers' ability to build up savings buffers in response to income shocks. A number of studies find that higher levels of traditional measures of mortgage leverage such as loan-to-income ratio (LTI) and LTV are associated with higher arrears rates (eg Bank of England, 2018; Gaudêncio et al, 2019).

8. However, some recent literature has shown another measure of leverage, the ratio of monthly mortgage payments to pre-tax income (the debt servicing ratio, DSR) is a stronger predictor of arrears. For example, Aron & Muellbauer (2010) model aggregate UK arrears from 1983-2009 and find the debt service ratio to be one the key drivers of arrears at the aggregate level. This finding is supported by recent Bank of England (2024) research, by US data by Campbell & Cocco (2011), and in Ireland by Kelly & McCann (2015) who find changes in the DSR are more predictive of long-term mortgage arrears than the absolute size of the DSR.

9. In terms of other loan characteristics, there is some evidence that variable-rate loans (Stanga et al, 2020), buy-to-let mortgages (Bank of England, 2018) and single-borrower mortgages (Bergmann, 2020) are associated with higher default rates. (Having multiple earners can act as insurance against one borrower facing an adverse life event.) However, there appears to be mixed evidence on whether longer mortgage terms increase or reduce arrears risk. In addition, some borrower characteristics have been associated with a higher risk of arrears in previous literature, including self-employment (Reserve Bank of Australia, 2019), and younger age (Aarland & Santiago, 2023).

Possessions

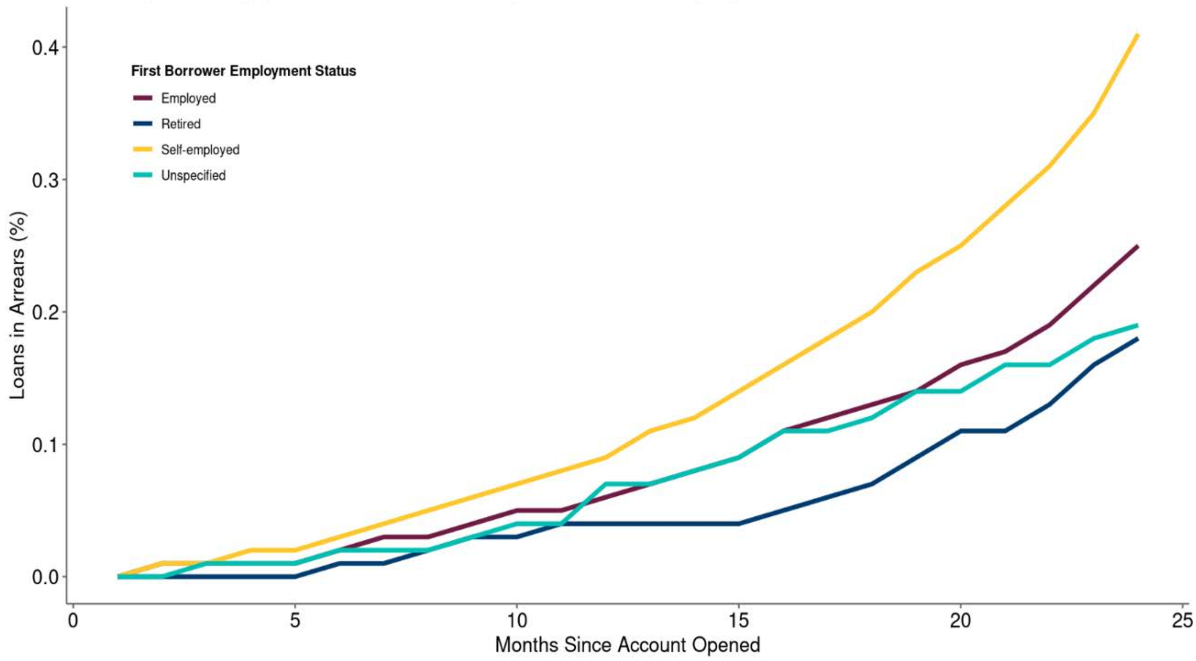
10. Research on the causes of mortgage possessions has tended to focus on the additional role played by negative equity. Some recent studies in the US (eg Low, 2022; Ganong & Noel, 2020) suggest ability-to-pay factors are a more important driver of possessions than previously estimated, and considerably more important than negative equity. However, the relevance of negative equity varies greatly depending on the country and period studied. Our analysis of UK House Price Index data suggests negative equity

has been very rare at the neighbourhood level since the financial crisis. In terms of loan characteristics, the loan-to-value (LTV) ratio is the characteristic most closely linked with negative equity, as high LTVs offer little buffer against house price falls. Negative equity is also far more likely in a mortgage's early years when the loan balance remains high Campbell & Cocco (2011).

Loan and borrower characteristics associated with arrears in the UK mortgage market today

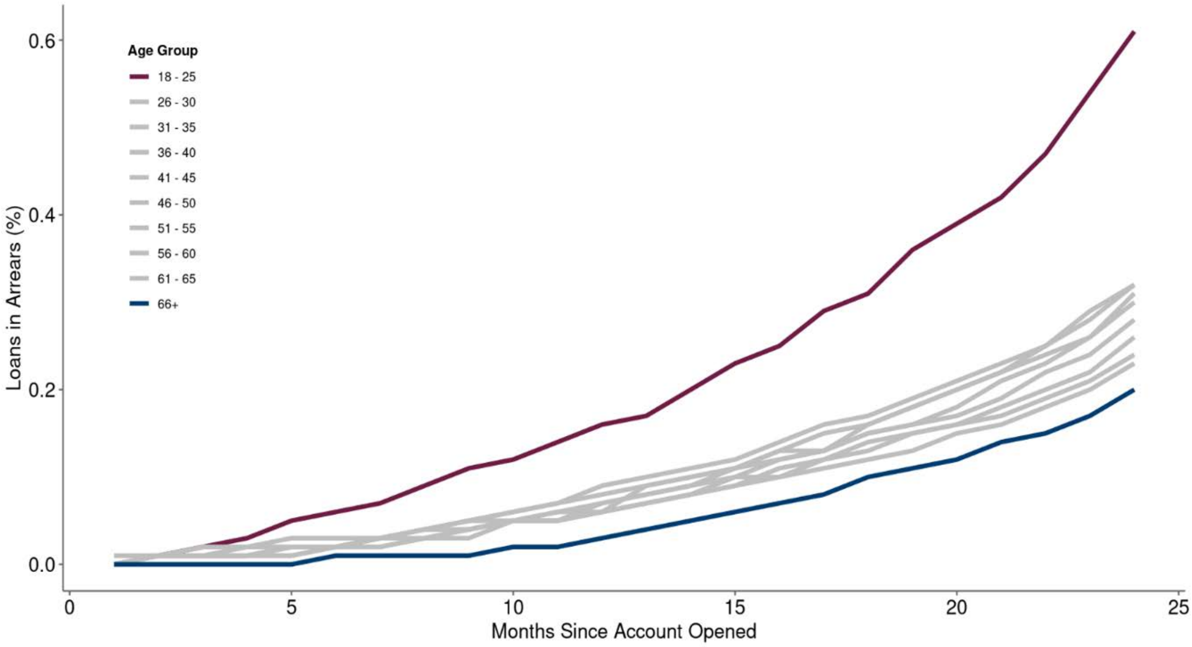
11. Our descriptive analysis of mortgage arrears aligns with the findings of previous literature. Based on PSD, the fraction of mortgages in arrears (where a borrower has a shortfall equivalent to 2 or more monthly payments) 3 years after origination is around twice as high for single borrowers compared to when there is a record of a second employed borrower. In terms of employment status, discussed in Chapter 2, borrowers in full-time employment are less likely to fall into arrears than those who are self-employed or whose employment status is unspecified (Figure 1). Building on the discussion of later life lending in Chapter 3, age also seems to affect arrears rates. Younger borrowers in the 18 to 24 age brackets have the largest share of mortgages in arrears compared to older cohorts (Figure 2). Those in the most senior age group (66+ years old) display the lowest share of arrears, likely due to smaller loan balance sizes as mortgages approach maturity. However, both these cohorts of borrowers are smaller than other age groups.

Figure 1: share of mortgages in arrears over time by first borrower employment status



Note: We calculate the share of loans entering arrears by the employment status of the first borrower. We do not account for mortgages exiting arrears.

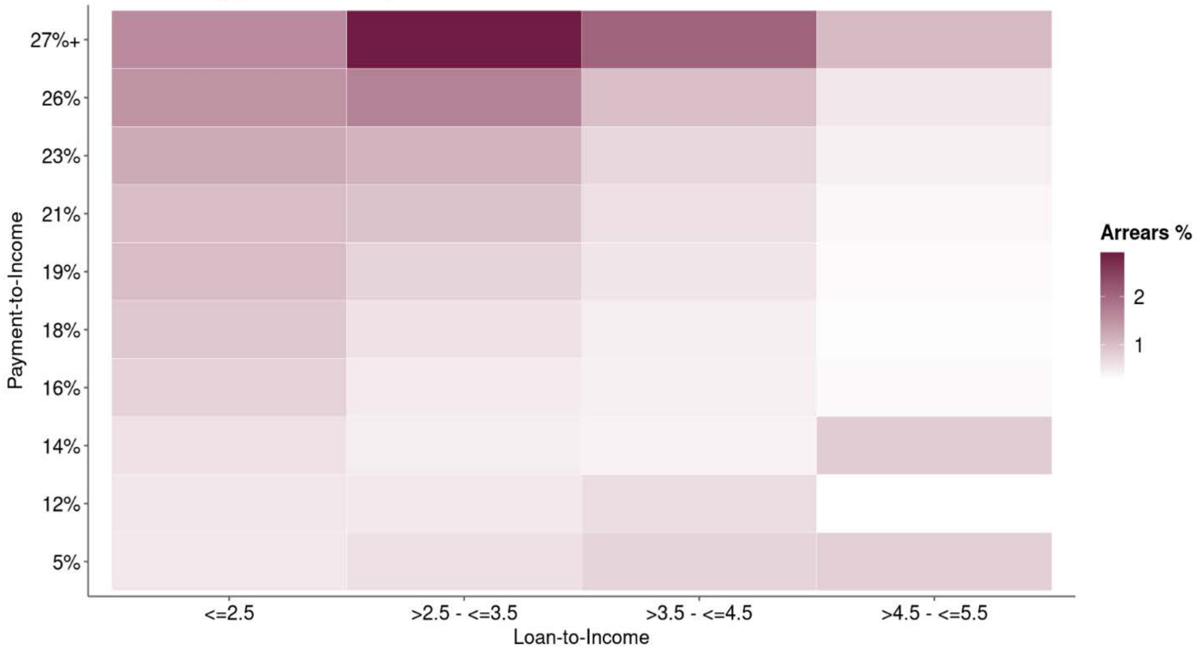
Figure 2: share of mortgages in arrears by age group over time



Note: We calculate the share of loans entering arrears by the employment status of the first borrower. We do not account for mortgages exiting arrears.

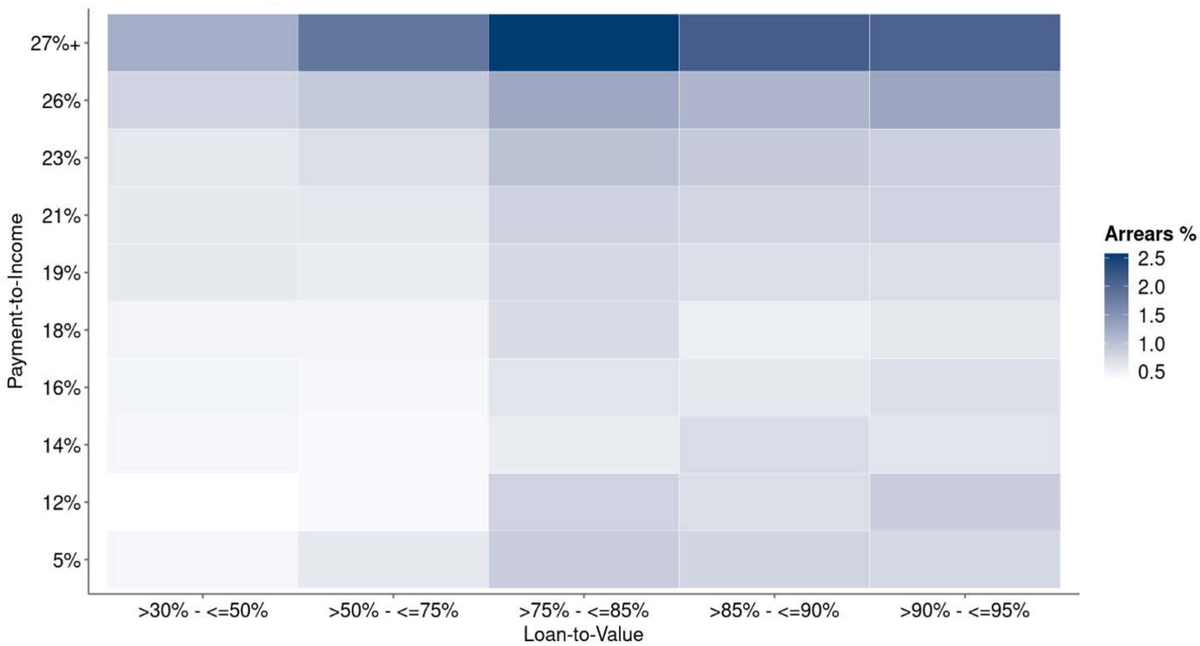
12. Consistent with our literature review, higher levels of mortgage loan leverage appears to correlate with higher rates of arrears suggesting more highly leveraged households are more likely to face payment difficulties when faced with income shocks. Figure 3 shows that a higher payment-to-income ratio (PTI) is strongly linked to a larger share of mortgages in arrears: mortgages in the top decile, with a PTI ratio above 27%, have roughly twice the chance of falling into arrears than the median loan. In addition, mortgages with an LTV ratio above 75% experience consistently more arrears at all PTI deciles compared to those below that level (Figure 4). By contrast, LTI seems to be a less important factor in mortgages arrears, with more loans in arrears in the 2.5 to 3.5 LTI bracket compared to the 3.5 to 4.5 and 4.5+ LTI brackets. This counterintuitive finding may reflect stronger lender scrutiny of high LTI loans, though other loan differences could also explain the pattern.

Figure 3: share of mortgages in arrears by Loan-to-Income and Payment-to-Income bands



Note: We computed the payment-to-income ratio (PTI) as the estimated monthly mortgage repayment (based on loan size, term and initial interest rate) divided by the total household gross income. We report the share of mortgages entering arrears for each decile of this variable grouped at different mortgage loan-to-income (LTI) levels.

Figure 4: share of mortgages in arrears by LTV and Payment-to-Income bands



Note: We computed the payment-to-income ratio (PTI) as the estimated monthly mortgage repayment (based on loan size, term and initial interest rate) divided by the total household gross income. We report the share of mortgages entering arrears for each decile of this variable grouped at different mortgage LTV levels.

13. We also find a positive relationship between rates of unemployment and rates of mortgage arrears at a local authority level. While this supports the theory that adverse life events and local economic conditions contribute to rates of mortgage arrears, it is important to note that unemployment rates reflects the situation of all residents of a local authority, not just mortgage holders.

14. Finally, in terms of the characteristics of the small minority of mortgages that enter possession within the first 5 years of the loan, our analysis shows that in recent years those that have entered possession demonstrate a similar loan-to-income ratio (at origination) to other mortgages but have a higher payment-to-income ratio and a higher LTV ratio than mortgages in arrears. This mirrors some of the findings in the literature review above, particularly the role of leverage in mortgage default.

Annex 4

Impacts of affordability rules on housing access

1. In this section we present contextual evidence on factors that are likely to affect the degree to which changing mortgage affordability criteria affect access to housing.

Potential constraints to lending if affordability criteria relaxed

2. The extent to which current affordability criteria constrain mortgage lending is important, as any changes will have less impact if other factors could or already limit lending.

Deposit requirements

3. Despite government and regulatory policies to help borrowers access homeownership, deposit requirements can provide a barrier.

4. The FPC noted in 2021 and 2024) that raising a deposit remains a key challenge for first time buyers. Bank of England analysis in 2021 concluded that 75% of renters were constrained by a lack of savings to meet deposit requirements, ie they would have passed affordability tests at a 5% deposit for the median first-time buyer property in their area. A 2022 FPC paper concluded that 83% of renters were not able to afford a 5% deposit. In addition, the FPC concluded that only 6% of renters would be able to raise a deposit but still pass an affordability assessment under MCOB. (This statistic assumed they would buy the median-valued FTB home in their area, but borrowers could choose cheaper or smaller properties, or those located in different areas). Constraints faced by first-time buyers, especially, are very relevant to the question of housing access since this group account for a higher share of households taking out a mortgage.

The loan-to-income (LTI) flow limit

5. The FPC's LTI flow limit is in place to guard against a material and unsustainable increase in household indebtedness and in the share of highly indebted households. In aggregate the share of UK mortgage lending at high loan to income ratios is below the FPC's flow limit. The aggregate share of lending at income multiples of more than 4.5 was at 7.8% in Q4 2024 (Bank of England Financial Policy Committee Record – April 2025). Across lenders there has been a wide range of utilisation. Banks' lending decisions may reflect internal decisions within firms, for instance to maintain a buffer below regulatory limits or to manage the flow of mortgages over rolling 12-month periods.

6. The FPC concluded in 2021 that around 1 to 2% of prospective first-time buyers were prevented from buying the median-priced first-time buyer property in their region due to the FPC's recommendations, though concluded that effect was primarily due to the FPC's affordability test, which has since been removed. In 2024 the FPC concluded again that the LTI has not significantly reduced mortgage access for first-time buyers.

Business practices/risk appetite

7. Understanding how mortgage affordability rules interact with bank risk assessment and capital requirements is important as it determines the extent to which rules influence access to homeownership. Our recent review found that the approach to risk management and its rigour differs between non-bank mortgage lenders (2024).

8. Lenders' business practices relating to mortgages will also be affected by rules on capital requirements. Under current regulations, firms use the standardised approach (SA) and can apply for permission to use the internal ratings based (IRB) approach to determine capital requirements , including those relating to mortgages. Risk weighted assets under both the SA and the IRB approach are correlated strongly with LTV. In the IRB approach risk-weighted assets at origination are correlated with LTI and other affordability criteria. Our rules for lenders other than banks and building societies specify a risk-weight of 75% for the part of a mortgage that exceeds 80% LTV, and 35% for the part below 80% LTV (MIPRU 4.2 F). So mortgages which score better on affordability criteria will generally require less regulatory capital, which reduces costs for the lender. Bardoscia et al. (2024) calibrate an agent-based model to assess the impact of changes to capital requirements on mortgage lending. They find that an increase in capital requirements from 18% to 25% leads to a sharp decline in mortgage approvals to both owner-occupiers and buy-to-let investors. In this case the number of transactions decreases, but the house price to income ratio broadly stays the same.

Conclusion on lending constraints

9. Overall, this evidence suggests that changing mortgage affordability criteria may translate into relatively modest impacts on borrowing for first-time buyers. Deposits, especially, remain an important constraint that prevents prospective first-time buyers from entering the housing market, although the impact on home-movers or remortgagors is less clear. The impact of changed affordability criteria would also be mitigated if lenders' credit risk standards remained more stringent than required under regulation, as the current non-binding nature of the LTI flow limit could imply.

Factors impacting the supply of new housing

10. New housing supply is affected by government policies, land availability, developer profit expectations and economic uncertainty – all factors that ultimately affect access to homeownership beyond mortgage affordability checks.

Government policies

- *Mortgage support,* such as Help to Buy and government guarantees, which tend to increase demand for residential property for sale. Carozzi et al (2024) find that the UK Help to Buy equity-loan scheme increased demand in the Greater London area and near the English/Welsh border. But in London, higher prices did not lead to greater construction volumes. By contrast, near the English/Welsh border, where supply restrictions were much lower, the increased demand from Help to Buy did stimulate housing supply. Similarly, Tracey and van Horen (2022) find that the relaxation of the deposit constraint implied by Help to Buy increased home sales and led to a marginal increase in house prices, except in London (consistent with an increase in supply outside London).
- *Laws affecting build costs* may reduce the supply of housing. Recent policies that may fit in this category include: the building safety levy from autumn 2026, which is expected by some to increase build costs by £33 to £100 per square meter; and taxes on large residential property developers. Recent changes in the national minimum wage and national insurance contribution may also increase build costs.
- *Immigration law and visa rules* may impact the availability and cost of skilled labour for the construction industry.
- *Laws affecting the availability of developable land:* Hilber and Vermeulen (2010) find that planning restrictions are a key driver of house prices. In southern England outside the Greater London Authority planning constraints are more important than availability of developable land. In line with this, the government announced a major reform of planning laws in England to support additional housing in November 2024.

Physical constraints on developable land

11. Some research shows physical land availability may be a less important barrier to housing supply and affordability than regulatory planning constraints. Hilber and Vermeulen (2010), for example, find that physical constraints are only binding in the most urbanised places, especially London. In addition, Levell et al. (2025) find that housing supply responds more strongly to price in areas where more land is available for development, where there is lower historical population density and where local authorities had a lower tendency to reject new developments.

Developers' profit expectations and business models

12. The behaviour of property developers and construction firms may also affect the responsiveness of housing supply to greater mortgage access. Developers may respond to lower demand, reflected in a lower transaction volume, by slowing the delivery of new residential properties to keep new build prices and valuations steady. A 2024 report by the Joseph Rowntree Foundation suggests that the end of the Help to Buy scheme may have contributed to falling home completions as developers are incentivised to avoid downward pressure on prices on headline sales.

Broader economic uncertainty

13. Economic uncertainty from recent policy changes and geopolitical tensions may reduce both housing supply and demand. This uncertainty can delay developer investment decisions and reduce buyer confidence, limiting how quickly housing supply can respond to any increased demand from relaxed mortgage criteria.

Conclusion on factors impacting the supply of new housing

14. The supply of new housing in the UK is a critical factor influencing house prices and access to owner-occupied housing alongside potential changes to our mortgage affordability rules. The extent to which house prices would rise following changes in mortgage affordability criteria depends partly on how quickly housing supply responds to increased demand.

Annex 5

Abbreviations used in this paper

Abbreviation	Description
APRC	Annual Percentage Rate of Charge
CfI	Call for Input
DB	Defined benefit
DC	Defined contribution
DP	Discussion Paper
ESIS	European Standardised Information Sheet
FCA	Financial Conduct Authority
FLS	Financial Lives Survey
FPC	Financial Policy Committee
FSA	Financial Services Authority (predecessor to the FCA)
FSMA	Financial Services and Markets Act 2000
IRB	Internal rating based
LTFR	Long-term fixed-rate mortgage
LTI	Loan-to-income ratio
LTV	Loan-to-value
MCD	Mortgage Credit Directive
MCOB	Mortgages and Home Finance: Conduct of Business sourcebook
MMR	Mortgage Market Review
MMS	Mortgage Market Study
MRR	Mortgage Rule Review
PRA	Prudential Regulation Authority
RIO	Retirement interest-only mortgage

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