FINANCIAL CONDUCT AUTHORITY

Finalised Guidance

Guidance for firms supporting their existing mortgage borrowers impacted by the rising cost of living

FG 24/2

In force from 4 November 2024

1 Summary

1.1 Many mortgage borrowers face higher mortgage payments alongside the higher overall cost of living. Borrowers may approach lenders needing or wanting to reduce, or smooth increases in, their monthly payments.

1.2 In March 2023 we published finalised guidance which explains how firms can support their customers including through automated processes and digital channels. The guidance set out the flexibility firms have when providing forbearance to those who need it, and the scope firms have to vary contract terms for other borrowers who want to reduce their monthly payments. At the time we noted that this guidance was subject to change if we changed our Rules.

1.3 In PS 23/8 we confirmed changes to our rules, effective 30 June 2023, to enable firms to meet commitments in the Government's Mortgage Charter. This meant introducing changes to our Handbook to enable firms to allow most mortgage borrowers to:

- vary their mortgage contract to reduce their capital repayments (including to zero, and paying interest only) for up to 6 months
- fully or partly reverse a term extension within 6 months of extending the term without a firm having to assess affordability

1.4 In April 2024, we published our Policy Statement (PS 24/2) and final rules on strengthening protections for borrowers in financial difficulty. These rules incorporate aspects of our Tailored Support Guidance (TSG) into our Mortgages and Home Finance: Conduct of Business (MCOB) sourcebook. Simultaneously we confirmed that we would withdraw the TSG at the point the new rules come into force.

1.5 We are therefore updating this guidance to reflect these changes. This guidance does not impose new expectations or requirements on firms. The purpose of this guidance is to ensure firms are clear about the effect of our rules and the range of options they have to support their customers including those who are facing higher interest rates alongside the higher overall cost of living. This guidance will come into effect once our Handbook rules come into force and the TSG is withdrawn. This will take place on 4 November 2024.

1.6 The finalised guidance set out below, in Chapter 2, explains how firms can comply with our updated Rules, Guidance and Principles. The guidance is not temporary but is subject to change if we make further changes to our underlying Rules and Principles. Any further changes to our rules would be subject to consultation.

2 Guidance for firms supporting their existing mortgage borrowers impacted by the higher cost of living

2.1 This guidance explains how firms can support their customers including through automated processes and digital channels. It sets out the flexibility firms have when providing forbearance to those who need it, and the scope firms have to vary contract terms for other borrowers who want to reduce their monthly payments.

2.2 It should be read alongside the Mortgage Conduct of Business Sourcebook (MCOB), and our Guidance for firms on the fair treatment of vulnerable customers (VCG).

Providing forbearance

2.3 A firm must deal fairly with any customer who has or may have payment difficulties. This includes cases where a customer has a payment shortfall as well as where the customer indicates to the firm that they are at risk of falling into payment shortfall, or where the firm otherwise becomes aware that the customer may be at risk of payment shortfall (MCOB 13.3.1R). A customer requesting a contractual change is not, in and of itself, an indication by the customer that they are at risk of falling into payment shortfall.

2.4 There are many different types of forbearance which are not limited to the options set out in our rules (at MCOB 13.3.4AR). Firms may offer payment concessions where they agree to accept less than the contractual monthly instalment (resulting in a payment shortfall), but they may also offer contract variations such as term extensions and temporary switches to interest-only. Not all firms will be able to offer contract variations.

2.5 Firms must act honestly, fairly, and professionally in accordance with the best interests of their customers (MCOB 2.5A). Given this, Principle 6, and MCOB 13.3.4AR, any forbearance option(s) should be appropriate to a customer's individual circumstances.

2.6 The FCA would expect firms to be able to justify a decision to offer a particular forbearance option (MCOB 13.3.4CG, Principle 6).

Providing forbearance at scale

2.7 Firms have flexibility and scope to tailor their approach to meet the operational challenge of many customers needing help at the same time. MCOB 13 does not impose prescriptive requirements about how a firm collects information on a customer's individual financial circumstances or how it ensures any forbearance option proposed is appropriate for that customer given their individual circumstances. Firms can use automation or digital tools to:

- automate processes, such as asking borrowers to provide information on their circumstances, including their income and expenditure

- offer a customer a forbearance option the firm has identified as appropriate to the customer's individual circumstances, and seek the customer's agreement to it
- offer a customer a range of options that the firm has identified as appropriate to the customer's individual circumstances for the customer to choose from

2.8 In the context of the higher overall cost of living, a firm may be able to offer a group of customers with similar needs and circumstances a range of options that are appropriate to their circumstances.

2.9 Firms should have policies, procedures and controls in place to avoid agreeing inappropriate forbearance arrangements with customers who may have more complex needs, including those who may be in more vulnerable circumstances due to physical or mental illness, unemployment or other characteristics of vulnerability.

2.10 Information can be provided to customers digitally, although some may not have access to online channels or may find digital interactions difficult. Firms should therefore offer to engage with customers in different ways, including through a range of channels and, where necessary, give customers the ability to switch between them (MCOB 13.3.4CG(2) (b)).

Contract variations for the purposes of forbearance

2.11 Firms may vary a contract without assessing affordability (as set out in MCOB 11.6.2R) when doing so solely for the purposes of forbearance where the customer has a payment shortfall, or to prevent one occurring (MCOB 11.6.3R(3)(c)). This could include a contract variation which switches a repayment mortgage onto an interest-only basis for all or part of its term, or extends the mortgage term into (or further into) retirement.

2.12 When dealing with a customer who is in or at risk of payment shortfall, firms may, where appropriate, vary a contract to accept payment on an interest-only basis for a temporary period without evidence of a clearly understood and credible repayment strategy (MCOB 11.6.43R). A variation is unlikely to be considered appropriate and temporary if, after the temporary period is over, the customer is not obliged to make payments of interest and capital which are designed to repay the mortgage in full over the remaining term.

2.13 If permanently varying a contract to an interest-only mortgage, a firm would need to have evidence of a clearly understood and credible repayment strategy (MCOB 11.6.41R).

2.14 A firm would need to demonstrate that in offering a variation under forbearance it is acting fairly and in accordance with a customer's best interests (Principle 6, MCOB 2.5A), and that the change is appropriate to the customer's individual circumstances.

Implications of forbearance arrangements

2.15 Firms must give customers adequate information to enable them to understand the implications of any proposed arrangement, and of not agreeing an arrangement (MCOB 13.3.4AR (2)). This information must include the potential impact on the customer's overall balance and how it will be reported to the customer's credit file.

Customers not requiring forbearance – but wanting to reduce their monthly payments (contract variations)

2.16 Firms may offer a range of contract variations to support borrowers who would like to reduce their monthly payments, and our rules allow this regardless of whether customers are facing payment difficulties. Not all firms will be able to offer contract variations. A firm can vary or replace an existing contract without undertaking an affordability assessment provided there is no additional borrowing or change to its terms which is likely to be material to affordability (MCOB 11.6.3R).

2.17 Where a change is likely to be material to affordability, a firm may still be able to vary the terms of the mortgage to temporarily accept reduced payments for up to 6 months without having to assess affordability [See paragraph 1.3].

Interest rate switches

2.18 Firms may offer borrowers the ability to switch their interest rate. Where there are no other changes to the terms of their contract, and the interest rate change is not material to affordability, the requirement to undertake an affordability assessment will not apply (MCOB 11.6.3R).

2.19 A borrower may be switching from an expiring fixed (or otherwise incentivised) rate to a higher incentivised or fixed rate. To determine whether this change would be material to affordability (and therefore whether the requirement to undertake an affordability assessment will apply) firms can compare the proposed new rate to the rate the customer would pay if not for the change – such as any standard variable rate (SVR) that would apply once the current deal expires.

Term extensions

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

Reversing a term extension

2.21 A firm can vary a contract to reverse a term extension, in whole or in part, without assessing affordability, providing that it does so within 6 months of the extension taking effect and that it has not previously been varied in this way (MCOB 11.6.3R). This flexibility does not apply to bridging loans or second charge mortgages. An affordability assessment is required for other contract variations to reduce the term of a mortgage, including additional reversals of term extensions or where longer than 6 months has passed, where the change is likely to be material to affordability.

Reducing capital repayments for up to 6 months

2.22 A firm may agree to vary a contract to reduce (including to zero) the capital repayments required under a repayment mortgage for a period of no longer than 6 months. Providing that the contract is not a bridging loan or second charge mortgage contract, and that it has not been varied in this way before, neither evidence of a repayment strategy nor an affordability assessment are required (MCOB 11.6.3R and MCOB 11.6.41R).

Implications of contract variations

2.23 MCOB 7 sets out relevant disclosure requirements when making certain types of contract variations (see for example MCOB 7.6.28R when the variation would change the amount of each payment due). More generally, firms should give customers relevant and timely information to enable them to understand the implications of any variation of terms (Principles 6 and 7).

Exceptions to the requirement to provide advice

2.24 MCOB 4.1.4R(2) explains that MCOB 4 applies in relation to any form of variation of a regulated mortgage contract. These rules often require a firm to provide advice as part of an interactive sale (MCOB 4.8A), but there is greater flexibility when varying a contract. This flexibility includes:

- variations to the mortgage contract made solely for the purposes of forbearance (MCOB 4.8A.19R) and;
- variations not made for forbearance purposes, provided they do not involve additional borrowing and, where the change includes a rate switch, the customer is presented (via a non-interactive channel) with all products offered by the firm for which the customer is eligible (MCOB 4.8A.10R)

2.25 This means that, where appropriate, firms could provide forbearance or offer contract variations, such as rate switches, at scale on an execution-only basis via digital channels, for example to meet requests for support in volume.