The fair treatment of existing interest-only mortgage customers

Thematic Review

TR18/1

January 2018

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1 Executive summary

1.1 We identified the fair treatment of customers who have interest-only mortgages as a key risk in the FCA Business Plan 2017/18[1] and we wanted to examine how lenders are treating these customers since we last reviewed this area in 2013. We have now completed this work and are sharing the results.

1.2 There have been recent reductions in new interest-only mortgages but the numbers reaching maturity are increasing towards a peak in the next 10 to 14 years. Our review looked at how lenders are working to help customers avoid the potential harm of non-repayment at maturity.

1.3 We found that all the lenders in the sample have made progress in the fair treatment of interest-only mortgage customers. Strategies exist to contact customers with interest-only mortgages, understand their repayment plans and provide appropriate solutions where no suitable plan is in place.

1.4 From the information in the customer files we reviewed, we considered that the repayment options recommended were likely to be fair in almost all cases and that the potential harm caused by non-repayment at maturity was reduced. However, the processes customers had to follow were often time consuming.

1.5 All the lenders in the sample understand the value, volume and maturity profile of their interest-only mortgage book. A few also had detailed information about repayment plans and customer response rates, and had undertaken segmentation and analysis of the potential risks which could help shape communications.

1.6 All the lenders in the sample send letters at regular intervals during the term of the mortgage and some also use other communication methods to try and reach their customers.

1.7 We found that most lenders provided a wide range of options and adopted a flexible approach to help those customers who are unable to repay their mortgage at maturity.

1.8 In most cases, lenders had well trained and experienced teams who provided advice to customers whose mortgages had either matured or were close to maturity. Customers whose mortgages still had a number of years to maturity were often helped by new business teams.

1.9 Some lenders used staff without mortgage advice qualifications to act in a 'triage' function, to gather information and refer customers for advice. We found in some cases that having spoken with such staff, customers may have believed that their repayment plans were adequate when they could have benefitted from advice.

1.10 Customers who engaged with their lender earlier in the term of the mortgage and who did not have a suitable repayment plan had a wider range of affordable repayment options available than those who made contact later. Alongside this report we are

1 www.fca.org.uk/publication/business-plans/business-plan-2017-18.pdf

therefore publishing a customer communication called 'Interest-only mortgages: act now and talk to your lender' which sets out how customers might benefit from talking to their lender early.[2]

1.11 Many lenders in the review reported that customer engagement rates are low. While our review assessed the treatment of customers who had engaged with their lender, we also commissioned independent research to understand why many customers do not engage.[3]

1.12 Customers are responsible for the full repayment of the capital when the interest-only mortgage matures and we acknowledge that lenders aren't obliged to offer options to those who are unable to repay at maturity. However, we expect customers to be treated fairly as outlined in Principle 6 of the FCA's Principles for Businesses.

1.13 The guidance issued in FG13/7 set out some of the ways lenders could meet Principle 6 of the FCA's Principles for Businesses[4] stating that a lender 'must pay due regard to the interests of its customers and treat them fairly'. Firms aren't required to comply with the guidance and the findings in this review aren't intended to set new expectations or go beyond previously published rules and guidance.

1.14 We will continue to monitor this risk as part of our ongoing activity through regulatory data and other sources such as complaints and market intelligence.

1.15 All lenders who were included in the review will receive feedback on our findings and we will continue to review the implementation of their interest-only strategies through ongoing supervision.

2 www.fca.org.uk/publication/documents/interest-only-mortgages-act-now.pdf

3 www.fca.org.uk/publication/research/fair-treatment-existing-interest-only-mortgage-customers.pdf
www.fca.org.uk/publication/research/technical-report-fair-treatment-existing-interest-only-mortgage-customers.pdf

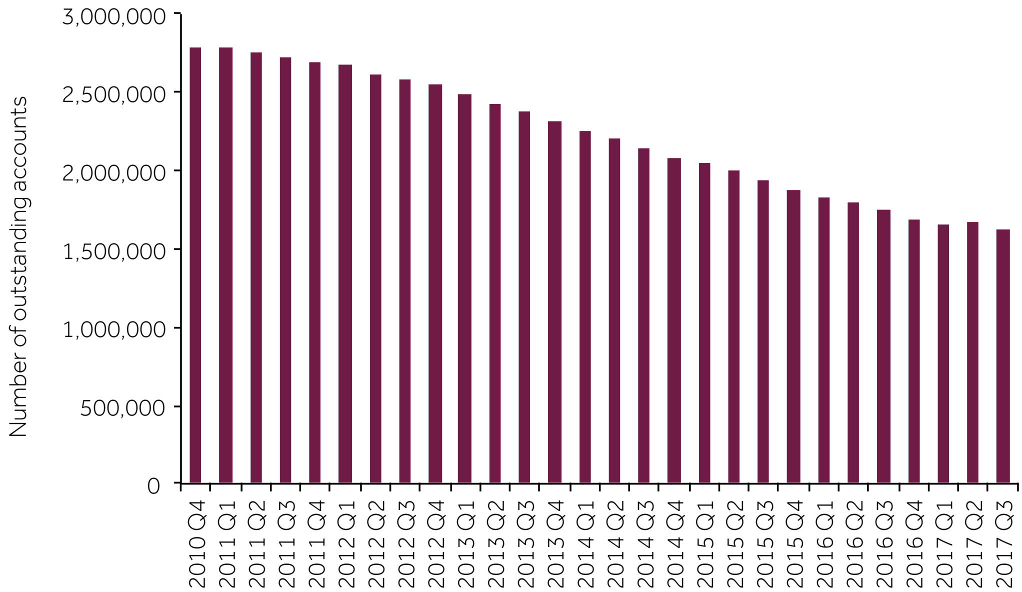
4 Principle 6 of the FCA's Principles for Businesses states that 'a firm must pay due regard to the interests of its customers and treat them fairly.

2 Background

2.1 Following the financial crisis, there has been considerable change in the UK residential mortgage market. By 2016 new interest-only lending had reduced with just 2.8%[5] of residential mortgages arranged on this basis.

2.2 The value and volume of existing interest-only and part capital repayment mortgages has also reduced from a peak in 2010.[6]

Trend in the number of outstanding interest-only and part capital repayment mortgage accounts



Source: MLAR

2.3 This recent reduction in interest-only and part capital repayment mortgages has largely come from customers with higher levels of income and equity in their homes. However, customers whose mortgages will mature in the future, especially from 2027 onwards, borrowed at higher income multiples, have less equity in their homes and are generally more highly indebted.[7]

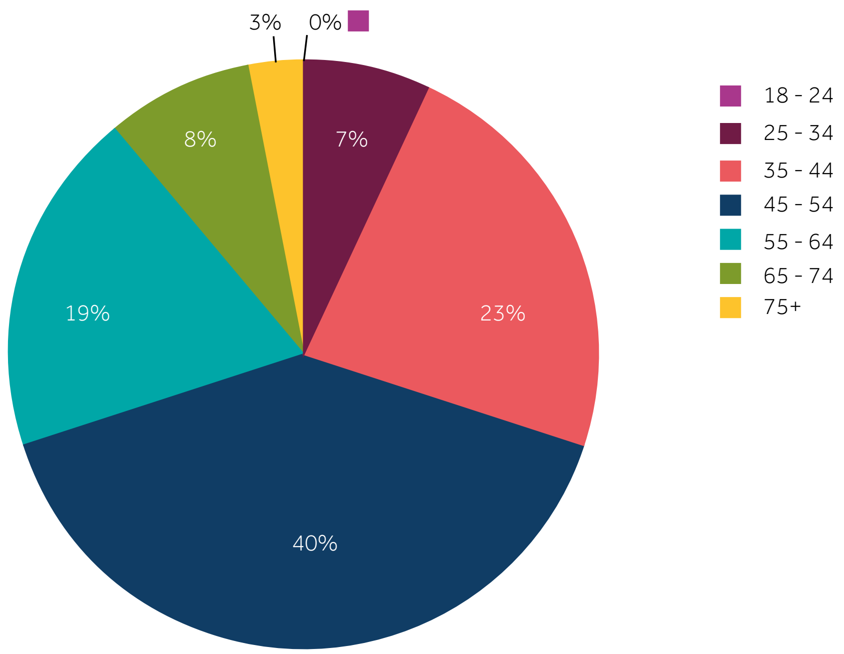
2.4 Further, our segmentation of interest-only and part capital repayment mortgages outstanding in H1 2017 identified that almost 26% of customers are from segments which have lower levels of disposable income.[8]

5 Product Sales Data (PSD) 001 2016 – excluding Lifetime mortgages
6 Mortgage Lenders and Administrators Data (MLAR) data on the numbers of regulated unsecuritised mortgage accounts Q4 2010 to Q3 2017
7 www.fca.org.uk/publication/research/fca-interest-only-mortgage-review.pdf (p.6)
8 Experian Financial Strategy Segments applied to PSD007 H1 2017

2.5 In 2013, we issued guidance which set out some ways that lenders could:

- help ensure the fair treatment of interest-only customers who are unable to repay the capital sum at the end of the term
- minimise the risk of non-repayment through early and effective engagement with customers over the mortgage term

2.6 In 2013, we identified that significant numbers of the interest-only mortgages which were due to mature each year between 2017 and 2032 are held by customers who will be past 65 when the mortgage reaches the end of term.[9] More recent findings from our Financial Lives Survey 2017 also identified that existing interest-only mortgages are held by an increasingly older customer population with 70% of all interest-only mortgages held by customers aged over 45.[10]



Base: All UK adults with a residential mortgage that is interest-only (u-w:133/w:469)

2.7 The number of accounts which are due to mature is starting to increase up to a peak in 2032 and the early gains made by lenders in helping customers repay their mortgages at maturity may prove harder to sustain.[11]

9 www.fca.org.uk/publication/research/fca-interest-only-mortgage-review.pdf (p.7)
10 www.fca.org.uk/publication/research/financial-lives-survey-2017.pdf
11 www.fca.org.uk/publication/research/fca-interest-only-mortgage-review.pdf (p.6)

3 Approach

3.1 Our Thematic Review covered 10 lenders who represent approximately 60% of the UK interest-only residential mortgage market (excluding buy-to-let mortgages).[12] This sample included large retail banks, smaller banks, building societies and closed book lenders[13] and covered 23 brands.

3.2 We wanted to understand the extent to which lenders had chosen to review their own arrangements since we issued our guidance in 2013.[14] To achieve this we completed 3 activities:

- **Desk based reviews** to assess lenders' strategies for managing their existing interest-only mortgage book including policies, communications to customers, operations, adviser training and Management Information (MI).
- **File reviews** to assess both the customer's experience when they engage with their lender about their maturing interest-only mortgage and the repayment options they are offered.
- **Visits to lenders** to meet with senior leaders, managers and advisers to assess their understanding and implementation of their strategies.

3.3 Throughout the review we considered the risk of harm to which interest-only customers may be exposed both through lenders' policies and processes, and through the actions of customers themselves.

3.4 The Council of Mortgage Lenders (CML) reported in 2014 that approximately 30% of customers who had been contacted about their maturing interest-only mortgage had responded to letters.[15] Due to the large number of customers who continue not to engage with their lender, we were keen to undertake research to try and find out the reasons behind this behaviour and if there are opportunities to increase engagement.

3.5 While our Thematic Review focused on assessing the treatment of customers who are engaging with their lenders, the customer research attempted to understand why some customers don't engage.

12 PSD 007 H1 2017
13 Closed book lenders are lenders who do not accept new mortgage business.
14 www.fca.org.uk/publication/finalised-guidance/fg13-07.pdf
15 www.cml.org.uk/news/press-releases/3935/

4 Findings

Strategy

4.1 We found that all the lenders in the review have interest-only mortgage strategies which are based on engaging with their customers at regular intervals before the mortgage matures and, if it remains unpaid, after maturity.

4.2 The progress made with their strategies varied between lenders. One firm had launched its strategy in 2012 while another told us it had only started its contact activity in 2016.

4.3 Lenders have a variety of objectives for these strategies which include:

- reminding customers that they have an interest-only mortgage and that they are responsible for repaying it by maturity
- gathering information from customers about how they will repay the mortgage at maturity
- identifying customers at risk of a shortfall and/or non-repayment
- offering advice to customers with regards to the repayment of their mortgage

4.4 The degree to which the strategies have achieved their objectives is unclear at some lenders as MI was not readily available.

4.5 A small number of lenders had completed some analysis and segmentation of their interest-only mortgage book to identify customers at a higher risk of non-repayment. The possible indicators of higher risk we saw being used included:

- loan to value (LTV) greater than 75%
- customer aged 65+ at maturity
- annual income of less than £20,000 at application

4.6 One lender had applied a customer segmentation model to its interest-only mortgage book to help build a better understanding of its customers and create a contact strategy based on the potential risk of non-repayment. This has resulted in contact being made at differing times during the term of the mortgage and sending letters with information more relevant to the customer's circumstances.

Case study – customer analysis & segmentation to shape strategy

The lender had achieved a 39% response rate with its initial interest-only mailing but completed a segmentation exercise to identify higher risk groups within the remaining customers who still hadn't made contact. This led to additional contact methods being introduced for a second campaign. A 57% response rate was achieved within this group.

The lender then applied a consumer segmentation model to the remaining customers who hadn't engaged. The aim of this additional analysis was to try and create a communication strategy that would appeal to this hard to reach group and encourage them to make contact. From the additional insight gained, a range of leaflets were created that showed the benefits of making contact with the lender and the range of options available. These were sent with personalised letters and supported by outbound calls. At the time of our review, 32% of this group had responded to the firm.

Through such ongoing analysis and risk based segmentation the lender has established the repayment plans of 59% of its interest-only mortgage customers.

We feel that this is an example of good practice.

Communicating with customers

4.7 Lenders are writing to customers at specific intervals prior to the mortgage maturing, for example at 20, 15 and 10 years. All lenders increase the frequency of contact as the maturity date approaches and some use additional methods to try and reach customers.

4.8 Although letters remain the primary method of contact some lenders also use outbound calls to attempt to reach their customers. However, while some lenders use calls as a follow up to all letters, others do not start until just before maturity. We found 1 firm doesn't make calls until 3 months after maturity.

4.9 Many of the letters we reviewed contained no details of the customer's mortgage. Our independent consumer research identified that a lack of clarity and purpose within letters was a factor which led to some customers not understanding the importance of the communication or that they were expected to take action.

4.10 Because engagement rates remain low, in addition to outbound calls, some lenders have adopted additional strategies to try and encourage customers to discuss their mortgage. These include:

- Home visits, which are commonly employed once a mortgage has passed maturity. They are used by 1 firm in the 6 months prior to the mortgage maturing, where no engagement has taken place.
- Information leaflets, which explain the service provided by the lender's interest-only team, the options available to the customer and case studies of customers in a similar situation are sent by 1 lender together with a personalised letter.

4.11 Lenders also use other opportunities to communicate with customers regarding their interest-only mortgage at other points during the term of the mortgage including annual statements, additional borrowing applications and when there are changes to interest rates.

Customer research

4.12 Many interest-only borrowers don't engage with their lender. To understand why, we employed an independent research agency – Kantar Public – to undertake a series of in-depth, qualitative interviews with customers who haven't engaged with their lender about their interest-only mortgage.[16]

4.13 Kantar Public identified a wide range of reasons why customers may not engage with their lender. They included rational reasons as well as subconscious, moral and emotional reasons:

- **Rational drivers:** reflective and conscious reasons for lack of engagement, including: no perceived benefit to engaging, lack of personal capacity, and low trust in lenders.
- **Subconscious drivers:** automatic and unconscious reasons for lack of engagement, including: assumptions about lack of need to respond and uncertainty about how to respond.
- **Moral drivers:** unconscious perceptions of who is to blame underpinning lack of engagement, specifically: blaming others for being sold an interest-only mortgage.
- **Emotional drivers:** the emotions underpinning lack of engagement, specifically: negative emotional reactions in response to lender communications.

The research identified that a key distinction amongst all the non-engaging customers was how they felt about their repayment circumstances. These were categorised as:

- **Confident customers** who tended to have multiple options for repaying the balance of their interest-only mortgage and felt confident about their repayment plans. They tended not to engage with their lender because they couldn't see a need or benefit for themselves.
- **Constrained customers** who had unappealing or uncertain repayment options and felt their repayment options were constrained. These customers tended not to engage with their lender to retain flexibility or avoid facing poor options.
- **Insecure customers** who felt they had no options for repaying the balance of their interest-only mortgage and felt insecure about their repayment plans. These customers tended not to engage with their lender because they didn't want to confront their situation.

4.14 We hope that the research will assist lenders in building a greater understanding of why customers may not be making contact and so be of use in developing future contact strategies.

16 www.fca.org.uk/publication/research/fair-treatment-existing-interest-only-mortgage-customers.pdf
www.fca.org.uk/publication/research/technical-report-fair-treatment-existing-interest-only-mortgage-customers.pdf

Options for Customers

4.15 Most lenders have chosen to provide a wide range of options to help customers repay their interest-only mortgage. These options sometimes varied as to whether the mortgage term had ended – post-maturity - or was in its original term – pre-maturity.

4.16 Independent research confirmed that customers want information from their lender regarding the options available during both the pre-maturity and post-maturity term. We found that lenders have chosen to provide that information in a variety of ways.

4.17 Customers can be helped either by qualified mortgage advisers who can discuss and recommend available options or by staff who act in a 'triage' or 'gateway' capacity. The 'triage' staff are used to collect details of customers' repayment plans, provide information to customers who require it and, when necessary, refer customers to qualified mortgage advisers. Although the customer is engaged with the lender there is a risk that where a customer requires information this may not be provided due to concerns about unqualified staff providing advice.[17]

Case study – triage staff

The customer made contact with the lender's triage staff member to discuss the repayment of the mortgage as there was no suitable strategy in place. In addition, the customer wanted a 'ball-park figure' for the monthly costs of the mortgage if it were converted to Capital & Interest (C&I) repayment method.

The staff member said she was unable to provide information but that the customer could obtain it via the lender's website. Despite the customer explaining that he couldn't access this, the staff member didn't provide the cost or offer alternatives such as referring the customer to a qualified mortgage adviser. The customer didn't continue his discussions with the lender.

We identified a number of risks in this case:

- by not making an appointment with the mortgage adviser, the customer isn't aware that the lender may offer other repayment options
- when the lender writes at the next scheduled anniversary, the customer's personal financial circumstances may not allow a change of repayment method and/or new options may be more costly to ensure full repayment
- the customer may not respond to future contact from the lender as he may see no benefit having not achieved his requirements at this time
- the lender has missed an opportunity to learn how the mortgage will be repaid at maturity

We feel that this is an example of poor practice.

4.18 We found that post-maturity options were clearly stated in lenders' interest-only policies with clear guidance provided to the advisers who deal with customers. However, pre-maturity options weren't always as clearly set out.

17 www.fca.org.uk/publication/thematic-reviews/tr15-09.pdf

4.19 Most lenders were often flexible and would consider repayment options outside their stated range. In addition, where the customer's personal or financial situation prevented a change to the repayment method, exceptions were considered.

Case study – policy exceptions

The customers, age 70 and 54, had no strategy to repay the mortgage at maturity. The lender's post–maturity policy wouldn't allow a mortgage to extend beyond the age of 75 which severely restricted the options available to ensure repayment in full. Although the customers had been making overpayments they failed the lender's affordability assessment for switching to a repayment mortgage as the longest term available was 5 years.

The customers owned their business and didn't foresee a change to their financial circumstances. They were certain that overpayments of up to £2000 per month were affordable for longer than 5 years. The lender agreed to an informal arrangement which allowed the customers to demonstrate their ability to make the higher payments.

The arrangement was maintained for 6 months at which point the adviser reviewed the case again and referred it as an exception for a full conversion to C&I repayment for 9.5 years as the adviser was satisfied affordability had been demonstrated.

The adviser was able to find an affordable option which should ensure full repayment of the mortgage.

We feel that this is an example of good practice.

4.20 Possession proceedings are considered as a last resort, either when customers have avoided all attempts at engagement or when all other repayment options have been exhausted. We found only 1 example of possession taking place as a result of non-repayment of the mortgage and, based on the individual circumstances of the case, considered that to be a fair outcome. However, in principle it remains an option open to all lenders and when highlighted in communications with customers, does encourage some to make contact.

4.21 Many lenders in the review reported that some customers continue to avoid any contact with them after the mortgage has matured. Where the monthly payment continued to be met we found that some lenders remind these customers of their obligations to repay the mortgage and the options which exist to ensure the mortgage is repaid, which includes proceeding with repossession action. One lender reported that, having written to a group of these customers, engagement rates increased significantly and 25% of the mortgages were fully repaid.

4.22 We found that many of the lenders provide forbearance to customers who make contact and who have no repayment strategy but are making their monthly payments. The length of time that this is given varied between lenders, with some offering it for an extended period providing the customer remained in contact and regular reviews took place.

Case study – forbearance

The customers, age 74 and 82, were contacted by phone to discuss the final repayment of their mortgage 14 months before maturity. They had previously been written to but hadn't responded.

Due to financial and medical reasons the customers were unable to either sell the property or to afford an increase to the monthly payments. One customer was acting as a full time carer for the other who was in poor health and the property was in negative equity.

The lender was a closed book lender so couldn't provide new mortgage lending and had a maximum borrower age of 75, but as the customers had demonstrated the ability to maintain the mortgage, it agreed an exception to extend the mortgage term for 7 years to allow the customer to remain in the property.

Through this act of forbearance, the harm which would have been caused by the customers having to sell and move out of their home was avoided.

We feel that this is an example of good practice.

(Original application details were not available and the circumstances behind the mortgage and specifically the age of the second customer at application are unknown.)

4.23 When lenders extended the mortgage on an interest-only basis, we found in some cases that it wasn't made clear during the discussions that the extension was temporary and that the final repayment of the mortgage was still required.

Customer Journey

4.24 We considered the fair treatment of interest-only customers by reviewing 164 files where discussions had taken place between lenders and customers. We looked at the steps the customer had to take as well as the repayment option recommended by the lender. This was done for both pre-maturity and post-maturity mortgages.

4.25 All the lenders completed affordability assessments when making contract changes to enable a new repayment option to start. In addition, we found that only a few firms used the transitional rules introduced following the Mortgage Market Review (MMR).[18]

4.26 We found that when assessing affordability, many lenders recommend converting the mortgage to C&I repayment method over the shortest term possible.

18 www.handbook.fca.org.uk/handbook/MCOB/11/7.html

Case study – recommending the shortest term

The customer contacted the lender 12 months before maturity to convert part of the mortgage which wouldn't be repaid due to a shortfall in the value of the repayment plan.

Following an affordability assessment, the customer was recommended to increase the monthly payments by £1600 per month to ensure that the mortgage was repaid within the original repayment term. Although the customer understood there was a need to increase payments they felt that such a large increase would impact on their standard of living.

We feel that this is an example of poor practice.

Further discussions established that the customer would be employed for a further 4 years and the term was extended to ensure repayment by retirement which reduced the new C&I payment to a more comfortable level.

While repaying the mortgage over the shortest term possible may be in the customer's best interest, other potential risks may arise. These include:

- customers may feel that they have to accept the shortest possible term to satisfy their lender, even if this severely impacts on their quality of life by reducing their disposable income
- when interest rates rise the customer may be unable to afford the increase in payments, leading to arrears
- customers may have to make significant changes to their lifestyle to afford any increase in payments.[19]

4.27 The recommended repayment options appeared appropriate in the majority of the cases we reviewed. The most common options arranged were:

- term extension and conversion to full or partial C&I repayment
- term extension to allow the sale of the property or encashment of investments
- term extension on an interest-only basis for more than 12 months

4.28 Engagement between lender and customer earlier in the mortgage term, when the customer is younger, is likely to provide more opportunity to achieve a fair and affordable repayment option. However, in many cases, customers didn't respond to lenders' attempts to engage with them until less than 2 years before maturity or until after the mortgage term had ended, severely limiting the options available.

19 www.fca.org.uk/publication/thematic-reviews/tr15-09.pdf Assessing suitability 5.11.

Case study – early engagement

The customer contacted the lender 10 years before maturity to discuss their plans for the mortgage as they had no repayment strategy.

As the customer was 42 at the time of contact and was planning to work to age 65 the mortgage adviser had plenty of scope to recommend changing the mortgage to C&I repayment with an affordable monthly payment. The benefits of repaying the mortgage over a shorter term were discussed but the customer wanted to retain more of their income to maintain their lifestyle.

The mortgage was converted to full C&I over a term of 22.5 years which ensured repayment would be achieved prior to retirement.

Through this early engagement, the customer was able to address their lack of repayment strategy in an affordable way.

We feel that this is an example of the benefits of early engagement.

4.29 The average (median) age of the customers within the files we reviewed was 63 and although many lenders would explore the option of converting the mortgage to a C&I repayment method over the existing term, this was often assessed as being unaffordable. In such circumstances, 1 option may be to extend the term and we have highlighted the issue of later life lending in our occasional paper published September 2017.[20]

4.30 All lenders in the review confirm the recommended options in writing and allow sufficient time for customers to make changes to their mortgage. However, we identified that operational issues led, in some cases, to delays in the successful conversion of customers' interest-only mortgages. There are a number of potential harms which may arise from this.

20 www.fca.org.uk/publication/occasional-papers/occasional-paper-31.pdf Ch. 5; Later life lending

Case study: customer experience post-maturity

The customer contacted their lender 12 months prior to the maturity of the mortgage to discuss alternative repayment options. As the lender didn't make outbound calls, the customer had to make 5 calls before a full interview and recommendation were completed.

During the time that the customer was attempting to make an appointment to receive advice, the lender issued 3 further letters concerning the maturity of the mortgage, requesting the customer make contact to discuss repayment.

After the customer accepted the recommended option, additional information was required to confirm affordability. The customer sent the information to the firm, which asked that he make fortnightly calls to check progress on the case. The customer made a further 12 calls before the mortgage was updated.

During this time and despite the customer being engaged in the process, litigation procedures started and a home visit was booked. This was identified and cancelled by an adviser.

The total time between customer contact and the final options being set was 1 year and 5 months.

We identified a number of potential harms in this case:

- the delay in reaching a solution resulted in the mortgage term continuing for a longer period, causing more interest to be charged
- the customer could have been subject to additional costs due to litigation being started
- the customer's credit record could have been negatively impacted by the commencement of litigation
- the customer incurred a considerable cost in time through having to make repeated phone calls

We feel that this is an example of poor practice.

We were pleased to see that the lender has changed the delivery of its interest-only strategy in 2017 having identified through an internal review that the process was not delivering a good customer experience.

Oversight of the strategy

4.31 Lenders have comprehensive MI relating to the value, volume and maturity profile for their interest-only books.

4.32 However, MI relating to more specific aspects of their strategies, such as repayment methods, response rates to contact campaigns and oversight of customer outcomes, was more limited.

4.33 Lenders have identified that the management of the existing interest-only mortgage book is a higher risk area and as such they stated that additional Quality Assurance (QA) is undertaken.

4.34 Lenders completed checks on several aspects of their existing interest-only operations. This includes the advice and recommendations provided by advisers and the lending decisions agreed by mortgage underwriting teams. These assessments are undertaken by team managers and the independent QA functions.

4.35 However, in some lenders we were unable to identify specific maturing interest-only MI within QA reports produced for senior managers, as reporting was insufficiently detailed.

4.36 Although the reported number of complaints received regarding maturing interest-only mortgages was low in many lenders, we found that a detailed understanding of the issues was limited.[21]

4.37 Compliance and audit oversight of lender's interest-only policies and processes varied in depth and frequency. Some lenders have recently had audits which have led to changes being made to operational aspects of their strategy. In addition, 3 lenders have recently completed reviews of how they delivery their strategy which has led to changes being made.

4.38 The training and ongoing development of those staff who provide advice to interest-only customers was generally good. However, the training and guidance provided to the unqualified staff who act in the 'triage' capacity, was unclear.

21 DISP 1.3.3R

5 Conclusion

5.1 All the lenders in the review have made progress with their strategies for the treatment of interest-only mortgage customers but there remain large numbers of interest-only customers whose repayment plans are unknown.

5.2 Although lenders have detailed knowledge of the value, volume and maturity profile of their interest-only mortgage book, limited analysis of the risks means that most strategies are based on writing to customers at specific times before maturity only.

5.3 Segmentation of customers to create contact strategies which are personal and relevant to different types of customer has led to increased engagement at some lenders.

5.4 The independent research found that customers may become more engaged with their lenders if communications are personal, relevant and highlight the benefit of making contact.

5.5 Customers are responsible for ensuring that the mortgage is repaid in full at maturity. Engaging early in the life of the mortgage provides both lenders and customers more opportunity to agree affordable repayment plans. Our customer communication 'Interest-only mortgages: act now and talk to your lender' shows customers the potential benefits in making contact early in the life of the mortgage and the possible impact of delay.[22]

5.6 When customers do make contact with their lenders to discuss their repayment plans we found that the potential harm of possession was reduced. Lenders aim to treat their customers fairly and find repayment solutions which reduce the risk of harm.

5.7 How some lenders' implemented their strategies led to difficulties for customers who do make contact. These included:

- not following up communications, which may result in customers attaching a lack of importance to future engagement
- expecting customers to make repeated calls to chase the progress of an application, which may discourage customers from continuing to participate in the process
- customers believing that their plans for repayment are adequate when they have provided information to front line staff but haven't had the opportunity to discuss these plans and other options in more detail

22 www.fca.org.uk/publication/documents/interest-only-mortgages-act-now.pdf

6 Next steps

6.1 With the volume of interest-only maturities increasing, we will continue to monitor this risk as part of our ongoing activity (through regulatory data and other sources such as complaints and market intelligence).

6.2 All lenders who were included in the review will receive feedback on our findings. We will continue to review the implementation of the interest-only strategies of the larger lenders through our ongoing supervision.

6.3 We encourage all lenders to consider the findings of the independent customer research to help them build better understanding of why some customers don't make contact to discuss their interest-only mortgages.

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