

FCA targets mortgage lenders' support for borrowers

AT A GLANCE

December 2022

Contacts

William Stevens
Partner

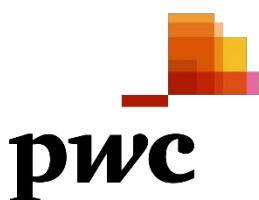
T: +44 (0)7841 567045
E: william.stevens@pwc.com

Sarah Collins
Senior Manager

T: +44 (0) 7483 457030
E: sarah.j.collins@pwc.com

Rory Davis
Manager

T: +44 (0) 7483 326478
E: rory.davis@pwc.com



What's new?

- The FCA issued [draft guidance](#) on 7 December 2022, reminding lenders of the options available to support customers manage their mortgage repayments.
- The FCA seeks to clarify the effect of existing rules and principles, rather than introduce new expectations or requirements, and highlights the flexibility mortgage lenders have to tailor their support to struggling customers, particularly as a result of the rising cost of living.
- In conjunction with the draft guidance, the FCA also issued [additional information for borrowers](#) explaining the support available and encouraged borrowers to contact their lenders as soon as possible if they are in mortgage repayment difficulty.

What does this mean?

- The draft guidance builds on existing regulatory work, clarifying the rules and expectations as set out in the [Mortgage Conduct of Business Sourcebook \(MCOB\)](#), as well as the FCA's [Tailored Support Guidance](#) published in 2020, its [June 2022 Dear CEO letter](#), and recent findings from its review into the [treatment of borrowers in financial difficulty](#).
- The guidance focuses on three circumstances highlighting where firms could have a range of options available to them in order to support their customers. These are: (1) forbearance; (2) reduction in monthly payments; and (3) exceptions to providing advice.
- In relation to forbearance, the FCA reminds firms that if a customer indicates they are experiencing, or reasonably expects to experience, payment difficulties as a result of the cost of living, firms should offer prospective forbearance to enable them to avoid, reduce or manage any payment shortfall.
- The FCA notes that any forbearance option should be appropriate to a customer's individual circumstances and firms should be able to justify the decision to offer any particular forbearance option.
- In order to meet the operational demands of supporting many customers at the same time, the guidance highlights that firms can utilise automation or digital tools in order to ask borrowers for information on their circumstances or offer forbearance options, for example. Firms can also offer a group of customers with similar needs a range of forbearance options appropriate for their circumstances.
- The guidance reminds lenders to offer to engage with customers in different ways, including through a range of channels, as well as ensure policies, procedures and controls are in place to avoid agreeing inappropriate forbearance options with customers who may have more complex needs or those with characteristics of vulnerability.
- The FCA clarifies that firms may offer contract variations without assessing affordability when doing so solely for forbearance purposes.
- Firms are also reminded they may vary a contract to accept payment on an interest-only basis without evidence of a clearly understood and credible repayment strategy, provided this is only for a temporary period.

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- In relation to customers wanting to reduce monthly payments, firms are reminded that they may offer contract variations regardless of whether the customer is facing payment difficulties. Where customers are up to date with payments, firms may offer interest rate switches without an affordability test, provided there are no other contract changes and there is no material change to affordability.
- Lenders are reminded that for term extensions up to the customer's expected retirement age, affordability assessments are not generally required if there are no other changes to the terms of the mortgage.
- Firms may also agree to a switch to an interest-only mortgage if it has evidence the customer will have in place a clearly understood and credible repayment strategy. In this case, an affordability assessment is necessary.
- Across all of these support options, the FCA is clear that firms must clearly explain in a timely manner the implications of forbearance or contract variations, including on the customer's credit file.
- Finally, the guidance outlines exceptions from the requirement to provide advice when varying a contract. This includes where variations are made solely for the purposes of forbearance or where there is no additional borrowing. This should enable firms to provide forbearance or offer borrowers options using different channels to meet request for support in volume.

What do firms need to do?

- The draft guidance comes in the context of increased focus from Government and regulators on the support available for consumers as the cost of living increases and the measures firms are putting in place to protect consumers from harm.
- Lenders should ensure they are prepared to support customers now - and into the future - as cost of living challenges intensify through proactive support and early engagement with customers.
- Government and the FCA are encouraging customers to contact their lenders if they are, or potentially could be, struggling with mortgage repayments. Firms should ensure their operations can withstand additional stress from rising customer contact and ensure staff are appropriately trained to recognise and offer tailored support.
- The FCA's Consumer Duty rules come into force at the end of July 2023 for existing products. The Duty will intensify regulatory scrutiny on firms' treatment of their customers and it is vital that firms are able to monitor and evidence the outcomes their customers are receiving and take action to mitigate any foreseeable harm.

Next steps

Comments on the draft guidance are requested by **21 December 2022**. The FCA will continue to engage with firms to monitor how they are providing support to borrowers, as well as consider if any further steps are needed.

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