Association of Mortgage Intermediaries' response to FCA CP20/13: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI) and the Association of Finance Brokers (AFB). AMI is the trade association representing over 80% of UK mortgage intermediaries. AFB sits within AMI and represents second charge (formerly secured loan) brokers.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product to meet the individual consumer's mortgage requirements. AMI members also provide access to associated protection products. AFB members also provide access to unsecured products.

Our members are authorised and regulated by the Financial Conduct Authority (FCA) to carry out mortgage, insurance mediation and consumer credit activities. Firms range from sole traders through to national firms and networks, with thousands of advisers.

Response

We welcome the FCA's proposal to help mitigate the adverse economic conditions caused by coronavirus.

The temporary guidance for maturing interest-only and part and part mortgages will provide welcome relief to customers in the current uncertainty, some of whom may be vulnerable. At the time that this consultation was written, the recovery of the housing market would have been uncertain and as stated in the consultation it was felt that properties would be selling faster towards the expiry of the proposed guidance. However, the housing market has picked up more quickly than predicted with reports from Rightmove that the number of houses selling within a week of coming to the market has reached a ten-year high. There is a possibility that customers who take advantage of the proposed guidance to delay the sale of their property may miss the post-pandemic demand and instead be subject to falling house prices once the SDLT reduction finishes and any tax changes or new austerity measures take effect. Whilst the allowance to defer any sale is sensible, customers should be encouraged to take advice and still have a workable current plan to settle the borrowing.

The proposal to amend the responsible lending rules to allow lenders to choose not to undertake affordability tests where the borrower is switching within a group from a closed to an active book seems sensible and will potentially offer an additional solution for mortgage prisoners. This seems a reasonable approach in advance of the work that will be done by the lender and broker community to help this cohort of borrowers this year. We hope that lenders will make use of this rule change but understand that this will be a commercial decision.

Questions

Q1: Do you agree with this timeline for when our proposed rule change on 'intra-group switching' would come into force?

We agree.

Q2: Do you agree with this timeline for when our proposed guidance on maturing interest-only and part-and-part mortgages would come into force?

We agree.

Q3: Do you agree with our proposal to extend our rules, that do not require a standard affordability assessment for borrowers switching with their existing lender, to include borrowers in closed books looking to switch with a lender within the same group as their closed book?

We broadly support the proposal but would request an alteration to MCOB 11.6.3R (2) to allow any broker fee to be added to the loan in addition to any product or arrangement fee. We believe in a level playing field between market participants; this omission would place the intermediary sector at a disadvantage in comparison to a lender transacting directly with the consumer. Furthermore, it may present a barrier to customers seeking mortgage advice and following this advice opting to switch mortgage to an active lender within the same group. This is particularly important for the 'mortgage prisoner' cohort where the information on the Money and Pensions Service's website will direct them to a mortgage broker in the first instance.

We are concerned that amending the term of the mortgage (when this does not extend into retirement) would not be treated as material to affordability and would not, therefore, require advice. We are concerned that if executed on a non-advised basis as a product transfer, customers who want to reduce the monthly cost of a mortgage may not fully understand the implications of a term extension on the total amount payable over the full term of the mortgage and that, whilst it would be cheaper in the short term, in the long term it could cost much more.

Q4: Do you agree with the guidance we are proposing on interest-only and part-and-part mortgages?

We support this guidance.

Q5: Do you agree that the guidance should only apply to those up-to-date with payments at maturity and who maintain interest payments thereafter?

Yes, we agree.

Q6: Do you agree that the guidance on interest-only and part-and-part mortgages should be in place for 12 months?

Yes, we agree but ask that the FCA should keep the situation under review and look to provide more guidance for firms and support to consumers if required before the expiry date.

Q7: Do you have any comments on our cost benefit analysis on the proposed rule changes on intra-group switching?

No comment.

Q8: Do you have any comments on our cost benefit analysis on the proposed guidance on interest-only and part and-part mortgages?

The CBA suggests that the FCA would expect properties to sell faster after the guidance has expired as market trends will become clearer over time and consumer confidence returns. However, the housing market has picked up much more quickly than had been predicted, ESIS volumes have returned to pre-pandemic levels and many areas of the country have seen a reduction in the average amount of time it takes to agree a sale. There is a possibility that customers who take advantage of the proposed guidance to delay the sale of their property may miss the post-pandemic demand and instead be subject to falling house prices once the SDLT reduction finishes and any tax changes or new austerity measures take effect.