Association of Mortgage Intermediaries' response to FCA CP17/32
Quarterly Consultation Chapter 9 – Retirement interest-only mortgages

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI). AMI is the trade association representing over 80% of UK mortgage intermediaries.

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. Our members also provide access to associated protection products.

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

Questions

Q9.1. Do you agree with our proposed approach to retirement interest-only mortgages?

We support the concept to allow the sale of the property as a reasonable repayment strategy for older borrowers with an interest-only mortgage.

We disagree with the FCA's belief that there is not a case for making advice compulsory in all cases for retirement interest-only mortgages, and we have a particular issue with the FCA's opinion that this "would unnecessarily raise costs for consumers and potentially limit access to them" which appears to reflect a skewed view of how "competition" should reign at all costs, even if it means compromising consumer protection. We would welcome an explanation into this new regulatory stance, in particular the basis on which this narrow statement has been made, given that:

- remuneration models across firms differ
- there is no gap in the market to indicate that consumers are disadvantaged by receiving advice. Mortgages are not utility products;
- the work carried out as part of the Mortgage Market Review introduced the value of advice and the need for consumers to obtain it;
- the protections afforded to consumers, where advice has been given, by the Financial Ombudsman Service and the Financial Services Compensation Scheme are tangible benefits;
- we understood the FCA to be neutral around distribution channels.

Considering the likely circumstances that an individual would have for a retirement interest-only mortgage to be suitable, we believe that advice should be compulsory. As this product is intended to meet the needs of: those with maturing interest-only mortgages and no repayment vehicle and; those seeking to release equity from their homes without the cost of interest roll-up, it is likely that affordability is an issue and consumers will see this product as their only option, therefore the safeguard of advice should be in place.

Whilst not all older consumers are vulnerable, as part of the FCA's work on the ageing population, the Big Window research on the ageing mind identified that older consumers are more likely to become vulnerable as the ageing process is likely to affect consumers' abilities to make financial decisions. The review found that as longer-term products are often those that consumers manage on an infrequent basis, they are both complex and unfamiliar, suggesting that "older consumers' decision-making and outcomes are vulnerable in the domain of longer-term financial products and services". It also outlines that with consumers over 50 typically making a number of complex and unfamiliar financial decisions, "such as how to utilise equity in property or funding long-term care [which] are decisions that are not only complex but are also unlikely to have been faced before and are, therefore unfamiliar to the ageing consumer: both conditions which makes their decision-making more vulnerable and less optimised." We therefore believe it is crucial that this product, which is not the same as a mainstream residential mortgage and is more complex, should not be sold on an execution-only basis.

Similarly the recently published FCA Financial Lives survey indicates the range of vulnerability which would, in our opinion, mean that this category of consumer who may need to consider the wider impacts of using other assets or equity release, all usually advised sales, leads to a desirability for advice. The need to ensure adequate consumer protection should be the starting point here.

This also extends to other areas of the proposed rules. We would not want to see any different affordability requirements being applied, and we welcome clarification that retirement interest-only mortgages are classified as a new contract therefore there cannot be any automatic roll-over from a mainstream residential mortgage.

Although we are pleased to see the requirement to carry out a suitability assessment to address tax and benefits implications, we do not understand why this is limited to only those drawing income (which is not defined) as both capital and income can affect benefit entitlement. We therefore believe this protection should be applied in all circumstances irrespective of the purpose of the retirement interest-only mortgage.

Q9.2. Do you agree with our approach to correcting the inadvertent partial disapplication of the age criterion in the lifetime mortgage definition?

Yes. It would be helpful however if the FCA specified a proposed minimum age for retirement interest-only mortgages.