Association of Mortgage Intermediaries' response to DP 25/2 Mortgage Rule Review: the future of the mortgage market

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.

AMI view

Introduction

AMI welcomes the opportunity to have early input into the FCA's work on the future of the mortgage market. Focus from both the FCA and government highlights the sector's vital role in supporting the wider economy. However, any changes must avoid undermining consumer access to advice. The UK mortgage market is already well-functioning, with low levels of customer complaints and inertia, alongside strong competition and consumer choice. The intermediary distribution model has been central to creating and maintaining this environment.

It is important for the FCA to remain mindful of its remit and statutory objectives. Certain language in the Discussion Paper, such as 'intervene,' appears to extend beyond the role of a regulator. Striking the right balance between implementing regulatory change and maintaining market dynamics is key.

We ask the FCA considers our views in this introduction alongside our response to the Discussion Paper questions.

We are supportive of certain ideas and concepts in the Discussion Paper and look forward to working with the FCA on the details as this work progresses. However, we have concerns regarding:

- The concept of enhanced advice. Most borrowers have a layer of complexity in their circumstances and advisers already tailor their advice accordingly. Introducing two-tiers of advice is in our view unnecessary, complicated and risks restricting choice and access for mortgage borrowers. We do not see any benefits; in fact, there is a risk of causing foreseeable harm to consumers. We therefore strongly disagree with the need to create a separate enhanced advice category.
- AI assisted advice. There is clear potential for AI to play a supportive role in improving sales processes, product eligibility assessments, consumer understanding and fraud detection. However, AI should be treated as a tool rather than a solution in itself and not as a replacement for advice. AI assisted advice comes with a significant risk of causing consumer harm. We strongly disagree with the implementation of AI-assisted advice for mortgages.
- Lack of acknowledgement around the role of mortgage advisers in supporting other areas of FCA policy work, such as its Pure Protection Market Study. The Market Study Terms of Reference[1] demonstrates awareness around the protection gap in the UK (the gap between consumers that could benefit from protection products and those that hold them). Mortgage advisers play an important role in not only providing access to products but improving consumer understanding on the importance of financial resilience and helping consumers understand the different product options.

We provide further detail on our views in response to the Discussion Paper questions.

Beyond regulatory measures

Throughout our response, we have highlighted the importance of the wider housing ecosystem. While many elements fall outside the FCA's remit, it is essential that they form part of the broader debate, particularly at government level. Sustainable progress requires coordinated attention across all segments - including social housing, the private rental sector, first-time buyers, and home ownership into later life lending. Currently none of these segments are operating effectively.

Increasing support for first-time buyers, without a corresponding uplift in housing supply, risks further distorting demand, inflating house prices, and ultimately undermining the benefits of product innovation and affordability reform.

It is important to acknowledge that housing alone cannot resolve challenges around insufficient retirement provision. While the FCA notes that around £9tn in housing stock could help provide greater financial security, many borrowers may not have sufficient equity to rely on for retirement planning, as this is heavily influenced by where they live in the UK. For example, whilst not strictly black and white, borrowers in the South are likely to have more equity than those in the North. Accessing housing wealth as a strategy to fund retirement will not be a solution for all. As the FCA highlights in its paper, if patterns of home ownership continue, the proportion of households who own their own home will fall from 78% to 63%.

[1] https://www.fca.org.uk/publication/market-studies/ms24-1-2.pdf

Next steps

We encourage the FCA to adopt a measured approach, as implementing too many changes at once could lead to unintended consequences. We support an iterative process, guided by a clear roadmap of proposed changes to allow stakeholders to plan effectively.

We recommend the FCA convenes trade body roundtables or workshops on specific topics to enable deeper discussion and provide an opportunity to share high-level thinking prior to issuing more detailed technical consultations. Given the likely depth of feedback and the range of proposals in future consultation papers, we consider separate consultations - focused on specific areas, for example later life lending proposals, customer information needs and disclosures – to be a sensible approach.

The concepts and ideas set out in Chapter 5 of the Discussion Paper ('Rebalancing risk appetite in the mortgage market') intersect with the other chapters and therefore in our view should form part of each consultation paper. Given the macro level issues involved, we encourage the FCA to work closely with the PRA on this area.

Questions

1. **Do you agree that these are the groups we should focus on? Are there any other groups that may not be effectively served by the market?**

Although we recognise the importance of supporting first-time buyers and addressing the struggles they face when accessing home ownership[2], its vital we continue to support the home ownership goals of all cohorts of customers who may be facing challenges stepping onto or moving up the property ladder. By narrowing focus to just one segment of the market there is potential to cause detriment to others.

Advice has a crucial role to play in supporting different customer cohorts to obtain a mortgage. From an advice perspective, we do not agree that first-time buyers, consumers with variable incomes, and self-employed individuals are underserved, as many mortgage intermediary firms regularly support these customer groups rather than treating them as niche segments.

Some mortgage intermediary firms carve out specialisms in certain areas, such as self-employed. We have also seen a rise in specialist lenders, providing solutions that often are only available through intermediaries. This demonstrates the important role of advice in providing consumer access to a diverse market.

The issue is often not the availability of advice but accessibility and awareness. It is important consumers understand their options and can make informed decisions on the best route to market for their individual circumstances. This includes relevant signposting, for example where lenders believe advice on suitability may be required to avoid causing foreseeable harm to a consumer. There are customers that likely can afford a mortgage but aren't aware or haven't explored their options. AMI suggests a government, FCA and industry backed campaign to help consumers 'get mortgage ready'. We are keen to share our thoughts on this further.

[2] Government calls in banks to tell them to make FTBs 'top priority' – Mortgage Strategy

We believe the cohorts identified by the FCA may be underserved in other parts of the mortgage journey. For example, greater innovation is needed to ensure that home ownership does not become a privilege reserved only for those whose parents or grandparents can provide the necessary deposit. We share our views on specific areas we feel should be improved as part of our response.

It is important the FCA takes a broad approach to its work. To boost home ownership the market must be considered holistically, as changes made in one area may impact others. For example, changes made to the later life sector – such as those which increase demand - could result in capital flow into the first-time buyer market in the form of deposits. Whilst this would be welcomed for the first time buyers it supports an increase in demand, which without sufficient supply, could cause higher house price inflation.

On a more macro level, it is important for the FCA to consider all parts of the housing and mortgage ecosystem. Whilst there are areas outside the FCA's remit, we believe the following should be considered:

- The types of housing being built (e.g. are we building enough homes suitable for first time buyers in their local area; how can we encourage movement in the second-hand property market; how do we address the undersupply of suitable housing for older homeowners).
- New housing developments must not be viewed in isolation. Too many large developments are constructed without adequate investment in local infrastructure, including schools, GP surgeries, public transport, and green spaces. This lack of supporting amenities makes such areas less desirable and places strain on existing services in neighbouring communities. For housing growth to be sustainable and inclusive, it must be paired with comprehensive planning reform that requires and facilitates the development of essential amenities alongside new homes.
- Ensuring a vibrant Private Rental Sector – it is important to consider the impact of the Renters Rights Bill.
- How 'friction points' in other parts of the home buying journey can be eased, for example conveyancing. We are aware this is being explored as part of government and wider industry work on digitising the home buying and selling process.

These are examples of areas that need to form part of joined-up thinking if we are to effect meaningful change. We provide further examples in our response to the Housing, Communities and Local Government Committee inquiry into the affordability of home ownership.

2. What further changes are needed within the mortgage market to support access for those who are self-employed or with volatile income to mortgage finance, both for home purchase and later in life?

In our view, it is important the FCA does not limit its focus on access to self-employed customers or those with volatile incomes. Improving access to all borrowers – whether prospective or existing - helps create movement in the property market, which plays an important role in government's growth agenda.

Supporting access to mortgage finance goes hand in hand with advice – customers need help navigating their options, even more so if there are complexities in their circumstances (which for many customers is the case, particularly following Covid and the rising cost of living). Specialist lenders offer a range of solutions for customers only distributed via intermediaries.

Given the fundamental role of advice, it is important the FCA does not make changes that restrict access and consumer choice.

The FCA asks for views on both home purchase and later life. It is important to cross-reference feedback to specific discussion paper questions on later life and other areas such as AI and shared ownership, as they are closely connected.

We feel in recent years there has been healthy levels of competition and innovation in the mortgage market; this has helped support different cohorts of customers. However, there is a chance to develop further by reviewing historic products to:

- Understand whether they have a role to play today.
- Assess whether certain existing product features are hindering home ownership.

We encourage the FCA to look at other countries to consider other approaches, such as drawing on pension savings to use towards a deposit (such as Kiwi Saver in New Zealand). We believe there is opportunity for lenders to explore a product which uses pensions saving as a deposit guarantee, much like the family springboard mortgages which already exist within the market.

It is important for the FCA not to intervene too heavily within a market that is generally functioning well. However, we believe there is merit in the FCA reviewing its existing rules (in a similar approach to its stress testing flexibility announcement in March 2025) to see if they are impeding development and product innovation in some areas it is important for the FCA to work alongside the PRA, as PRA capital requirements could be hindering and restricting lender development.

Deposit and stamp duty

Raising a deposit remains a challenge that is not solely limited to first time buyers – those climbing the property ladder may also find it challenging, particularly where there is limited growth in a home's equity.

Although outside the FCA's remit, AMI supports calls to reform the Lifetime ISA (LISA). Current punitive restrictions may be discouraging take-up, and outdated property limits risk deterring prospective homebuyers from opening an account due to concerns that rising property prices will make them ineligible to use it.

Stamp duty costs also make up a considerable amount of a purchaser's overall cost. Again, whilst outside the FCA's remit, there is an opportunity to review which parts of the market could benefit from stamp duty reform. One argument is that stamp duty thresholds for property in excess of £1m should be reviewed to encourage movement at the top end, which will then feed through the chain.

Offset mortgages

Offset mortgages are often a solution for cash rich borrowers, who wish to offset their savings against their mortgage borrowing to achieve a lower rate. However, we feel they are underutilised within the market. Whilst outside AMI's remit and expertise, we understand certain PRA regulatory and capital requirements may restrict lender flexibility, innovation and product development in this area. We encourage the FCA to explore this further with the PRA.

Bank of Mum and Dad/Grandparents

If the Bank of Mum and Dad (BOMAD) were a lender, it would rank within the top ten – in 2023 parents provided gifts and loans for house purchase purposes totalling £9.4bn[3]. Whilst it is important that access to homeownership is not limited to those with financial support from family members, the role of BOMAD cannot be ignored. Product development which supports this area has remained niche. We feel it is useful for the FCA to explore with lenders whether any of its rules are restricting growth in this area.

3. Should the stress test be changed? In response set out any changes you believe are needed.

It is important to recognise that stress testing represents only one component within the broader context of a borrower's risk appetite, affordability considerations, and the lender's pricing models. In the last six months the FCA has clarified its rules on stress testing, resulting in boosted borrowing (as much as tens of thousands of pounds additional borrowing for some borrowers[4]). In addition, recent changes to the LTI flow limit has also had a positive impact on lender funding for first time buyers in particular[5].

These two developments have had a positive impact on consumer sentiment, helped by widespread coverage in the consumer press. Many mortgage advisers are seeing a noticeable uplift in consumer activity and demand for mortgages. While this cannot be attributed solely to these policy changes - given that the base rate and mortgage product pricing has also fallen during this period - the resulting boost in confidence can make a real difference.

For some consumers, it shifts home ownership from feeling out of reach to being a more realistic goal in the near future. Advisers play a vital role in developing these conversations and helping consumers see what may be possible. AMI believes it is important to allow sufficient time to assess the cumulative impact of recent market developments before introducing any further amendments to stress testing. That said, we recognise several of the FCA's proposed concepts merit further exploration. We would encourage the FCA to examine international examples where similar changes have been implemented to better understand their potential implications, such as the effect on house price inflation. This risk is particularly relevant in the UK, given the ongoing challenges around housing supply.

4. Should we intervene to support take up of long-term fixed-rate mortgages? If so, what action should we take?

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[3] https://www.savills.co.uk/insight-and-opinion/savills-news/365521/bank-of-mum-and-dad-to-pay-out-almost-%C2%A330-billion-over-the-next-three-years

[4] https://www.nationwidemediacentre.co.uk/news/boost-for-borrowers-as-nationwide-reduces-affordability-stress-rates

[5] https://www.mortgagefinancegazette.com/market-news/halifax-parent-lloyds-sets-aside-additional-4bn-for-high-lti-lending-17-07-2025/

AMI believes in the FCA supporting the mortgage industry to drive innovation and growth; however, we do not agree with the FCA 'intervening' - this should not be the role of the regulator.

We do not feel this is an area that requires regulatory change. Wider scale adoption of longer-term fixed rates would be a fundamental shift for consumers in the UK, and the unpredictability of current economic conditions means most consumers, after having discussions with an adviser regarding their current and future goals and, where relevant, are challenged on any preconceptions, are best aligned with a shorter-term solution. As the FCA has highlighted, there are solutions available for consumers that want a longer-term fixed rate. Also, there are often product features and pricing structures which make this a less attractive option to consumers.

Many lenders operating in this market have chosen to make their products available exclusively through intermediary channels[6], highlighting the importance of this distribution route and the valuable role advisers play. This reinforces AMI's broader message that policy changes must not undermine the volume of mortgages distributed through intermediaries, given the vital role they play in driving lender innovation and providing a route to market.

5. Can a rent-based affordability assessment be a responsible basis on which to assess a consumer's ability to repay a prospective mortgage? If so, what key features or requirements would this test need?

Solely relying on a rent-based affordability assessment would not provide lenders with the adequate information to fully assess a consumer's ability to make repayments.

A lender has set out a strong example and framework for using an applicant's history of maintaining rental payments when assessing their maximum borrowing capacity. This approach considers situations where the proposed mortgage repayment would be lower than the individual's current rent. Rental payment data is evaluated alongside standard affordability checks, credit assessments, and policy criteria to create a more complete picture for underwriting decisions.

While using a prospective buyer's record of paying rent on time as part of a mortgage application has the potential to improve mortgage access, particularly for renters who have proven they can manage monthly housing costs, it faces a few practical and systemic barriers that must be addressed before it can become standard practice.

One of the primary challenges is accessibility to relevant data. Currently, there is no centralised, standardised system for collecting and storing verified rental payment data. While some credit reference agencies are looking to incorporate rental information into credit files, the process is still inconsistent and fragmented across the sector. Ensuring that the data is secure, reliable, and fraud-resistant is critical. Questions remain around how tenants would grant consent to share their rental payment history, and who would be responsible for verifying that data: landlords, letting agents, banks, or third-party platforms.

[6] https://www.financialreporter.co.uk/perenna-launches-long-term-fixed-rate-mortgages-to-wider-broker-market.html

Open banking presents a more streamlined and secure route for verifying rental payments. This reduces the risk of fraud and eliminates the need for manual references, but it depends heavily on both consumer trust and lender systems being equipped to process and analyse that data effectively.

It is important to recognise that there are barriers for lender adoption. Alongside policy and criteria amendments, there would need to be changes to current affordability assessment calculators and even online application processes. These changes could require sizable IT requirements, budget and resource. Smaller lenders who operate a more manual underwriting process currently would be in a position to adopt these changes quickly.

6. Should we decide not to prescribe an approach on rent affordability: leaving firms to decide on an appropriate approach, with the Consumer Duty helping to establish a clear consumer outcome focus?

Lenders are already well placed to take the appropriate approach, working closely with intermediaries to innovate and develop products and propositions which meet the evolving needs of consumers.

This is where advisers play a crucial role. On the front line, they see firsthand how borrowers respond to affordability pressures and product changes. More importantly, they know which solutions truly work in practice – which is why AMI has held numerous working groups with advisers to gain this insight.

AMI feel presently there is room within the sector to innovate, with Consumer Duty providing overarching regulation which should ensure lenders meet regulatory requirements and ensure they are wary of any potential innovation causing foreseeable harm to their customers.

By using language such as ‘prescribe’ AMI believes this moves the regulator away from the core Consumer Duty principles and the emphasis placed, even within this Discussion Paper, on encouraging innovation and driving competition within the sector.

7. What regulatory incentives and/or barriers could be amended to increase appetite for innovation for mortgage products that support different employment types? In your response, please explain the targeted employment type.

As highlighted in response to Question 6, regulatory encouragement from the FCA will provide an important stimulus for lenders to innovate. Recent changes around LTI flow limits and the increased flexibility within affordability assessments represent a positive step forward, giving lenders greater scope to develop new and more tailored products for customers.

AMI believes that broad innovation may not be required; there is value in revisiting and considering if products and criteria that had been successful in the past had a place in today’s market.

With the progress made in technology, particularly in open banking and open finance, many products that were previously considered complex can now be delivered in a way that is far more accessible, efficient, and user-friendly.

As an example, Offset Mortgages, previously mentioned within question two, provide solutions for self-employed consumers who experience fluctuating earnings allowing them to deposit surplus income into a linked savings account whilst reducing interest on the mortgage balance but providing access to funds when cash flow is needed.

Another example is the assessment of certain 'professional' roles where there is an upward future trajectory of income with bespoke underwriting and affordability assessment (higher LTI).

While both product concepts are currently on the market, their distribution remains limited across lenders. Expanding availability would enhance competition driving improvements in both pricing and eligibility criteria.

8. How well do our rules currently support Shared Ownership? In your response identify potential barriers, if any, to Shared Ownership lending that regulatory intervention could help address.

In our view, Shared Ownership (SO) plays a vital role in expanding access to home ownership. It should not be regarded solely as a stepping stone onto the property ladder but recognised as a viable tenure in its own right. The lending market in this space is competitive, and from an advice perspective, we believe the FCA's rules generally support the SO model. However, there remain several areas that are perceived as potential barriers:

- The government aims to build 1.5 million homes[7], however we are concerned how many of these homes are going to be accessible via SO schemes
- Consumer awareness of the SO model still needs to be strengthened. While perceptions have improved, misconceptions remain - most notably the belief that it is the same as social housing. This leads some consumers to overlook SO as a genuine and viable route into home ownership.
- Advisers also have an important role to play in how Shared Ownership is positioned.
- In order to ensure advisers with less frequent exposure have a solid awareness of the scheme differentials, there is an opportunity to bolster SO content within existing level 3 qualifications. Shared Ownership can sometimes only be considered once all other options have been exhausted. By strengthening the exam content, it could help advisers signpost clients to other advisers where appropriate. A wider review of Level 3 mortgage qualification is proposed later within the discussion paper.
- Linked to the perception piece, the relatively low number of SO customers who staircase is often portrayed as a 'failure' of the scheme. We disagree. It is important not to become fixated on this single metric, as we do not apply the same level of scrutiny to the percentage of customers making overpayments on a standard mortgage.
- To address myths and misconceptions, we encourage the FCA, government, and industry to collaborate on a consumer awareness initiative. We are aware that a government endorsed 'Own Your Home' website previously showcased the different routes into home ownership, however it is now defunct. We believe there is a strong

[7] Our plan to build more homes - GOV.UK

case for developing a similar resource. It is crucial the advice sector is actively involved in shaping and supporting any such initiative.

- There is one aspect of the SO scheme criteria that creates a barrier for customers when assessing their eligibility for the scheme. As AMI have previously indicated, using data from the Financial Lives Survey[8] and Pepper Money's Specialist Lending Study[9], adverse credit is on the incline, as 8.38 million people (16%) have experienced adverse credit in the last 3 years alone. Each housing association has specific criteria for customers with adverse credit and some housing associations involved in the scheme can be reluctant to allow specialist lenders onto broker panels. Whilst AMI is not advocating for widening access for customers with a pertinacity to default, ensuring they have access to broad spectrum of criteria and lenders is essential to ensure all borrowing needs are catered for.
- It must also be noted the associated fees with rental and service charges should be reviewed in line with the SO scheme. There has been discourse regarding the annual increases for such charges and how they may be negatively impacting SO participants that are attempting to save a deposit for staircasing on their property.
- We believe reaching out to Homes England to discuss the Capital Funding Guide and the SO eligibility criteria would be a great step for opening the doors of the scheme and making it accessible to the customers who need to utilise SO the most.

Whilst currently shared ownership schemes are offered by local housing associations there is opportunity for further market development to support private shared ownership schemes. Schemes of this nature would not require government grants and eligibility, and criteria restrictions could be adapted based on the risk appetite of the scheme owner. Wider availability of affordable housing options, alongside raising consumer awareness, could support further first-time buyers' step into the property market.

We appreciate many of these areas are outside the FCA's remit, however it is important they form part of wider conversations at both regulator and government level.

9. Do you think changes to interest-only provisions would help first-time buyers? If so, what aspects of our regulation would need to change? In your response, explain any risks that may need to be mitigated/addressed in any regulatory change.

The DP does not fully reference the history of Interest Only (IO) mortgages within this sector. There has been significant, collaborative work undertaken industry-wide to educate consumers on their outstanding mortgage balances, the requirement to repay at the end of the mortgage term and the repayment strategy options available.

UK Finance data shows at the end of 2024, there were 541,000 pure interest-only homeowner mortgages and 174,000 part-and-part mortgages outstanding, representing year-on-year declines of 18.5% and 13.0% respectively. Overall, the total stock of interest-only mortgages

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[8] Financial Lives 2024: Key findings from the FCA's Financial Lives May 2024 survey

[9] Specialist-Lending-Study-2024.pdf

(including part-and-part) has fallen by 78% in number and 61% in value since 2012, when records began.

We understand the rationale behind exploring whether interest-only options could help first-time buyers and lower-income households by making mortgage payments more affordable. Such an approach may provide a potential pathway to support greater access to the property ladder. By offering pure interest only options there would be a concern past events could be become a reality.

AMI believes low-start interest only and part and part mortgages could be suitable solutions if a broader range of product propositions were available to first time buyers.

Currently there is a requirement to ensure sale proceeds would cover repayment of any outstanding mortgage debt and provide sufficient funds to purchase another property. Proposals put forward would qualify sale of property to cover the mortgage debt with no requirement to assess additional funds for future property. AMI's view is this would be potentially detrimental to customers with no consideration to future living arrangements, despite expectations of future house price growth.

We strongly advise against the FCA proposing changes to regulation to help first time buyers access interest-only products. However, if the FCA were to go ahead, further discussion would be needed around permissible repayment strategy options and how they are positioned with buyers in the new Consumer Duty environment, especially now there is a greater emphasis on avoiding causing foreseeable harm.

10. Are there innovative approaches that are being used or could be used to do more to support victim-survivors of joint mortgage abuse? In your response, set out potential regulatory interventions, if any, that can support victim-survivors

Joint-mortgage abuse remains, and will likely continue to be, a significant concern within the industry. To achieve the best outcomes for victim-survivors, it is vital that advice, regulation, and lender processes provide the right level of support.

When exploring innovative solutions, we must remain mindful that short-term fixes can sometimes create longer-term harm. Any new approaches should be carefully assessed to avoid unintended negative consequences.

Industry-wide training is essential to ensure that all relevant staff, including advisers, are equipped to identify potential abuse and provide appropriate support to victim-survivors. Charities such as Surviving Economic Abuse (SEA) are already collaborating with lenders, providers, and trade bodies to deliver training, raise awareness, and establish best practice guidance.

From an advice perspective, advisers play a key role in guiding and signposting potential victims towards their lender and specialist charities like SEA for further support.

As highlighted in the Discussion Paper, affordability is one of the main challenges for victim-survivors, particularly when seeking to take on a mortgage in their sole name. Lenders' forbearance processes need to offer flexibility, assessing each case individually, and the

Modified Affordability Assessment within MCOB provides a useful framework for consideration.

Additional options could include allowing consumers to switch products without incurring penalties, especially where alternative products offer more sustainable repayment, even if the account is already in arrears. Other potential measures, such as part-and-part mortgages or short-term interest-only arrangements, could also help improve affordability assessments.

Ultimately, lenders are best placed to provide a detailed view of where their current processes could be enhanced and where existing barriers may need to be addressed.

11. How can we introduce more flexibility into our rules for non-mainstream products without compromising protections for consumers?

Bridging loans with 12-month terms can present a risk to consumers if they require extension. While they are designed as short-term solutions, the limited timeframe can place significant pressure on borrowers to extend the original loan or refinance to a new bridging lender. The cost of extending a loan often comes with high fees and default rates and can escalate borrowing costs substantially.

There are two options when assessing bridging finance borrowing: retained and roll-up. Retained bridging finance is where interest is deducted upfront but reduces the initial borrowing and eliminates monthly payments. Roll-up bridging finance is where interest accrues over the term and is repaid at the end, increasing the balance owed. Bridging loans remain an expensive form of borrowing, so consumers require advice from mortgage intermediaries and specialist distributors to ensure a clear understanding of the implications dependent on the finance structure they proceed with.

Prudent lending is required, loan-to-values (LTVs) should remain capped at reasonable levels, c. 70% LTV, to ensure borrowing does not exceed property values, safeguarding both borrower and lender against market fluctuations. Clear exit strategies should be considered as part of initial applications, ensuring borrowers have a clear plan and achievable timeframe.

Simplifying the loan extension process and avoiding high fees and charges, such as high extension fees or increased default rates, should be considered to offer fair value to consumers. A grace period before default rates are applied could also ease short-term pressures while still protecting lenders' interests.

12. Are there any regulatory interventions to the mortgage market that could support approaches that aim to help address climate change challenges? In your response explain the context of the specific climate change challenge and potential implications for borrowers and lenders.

Yes, there are several potential regulatory interventions in the mortgage market that could help support efforts to address climate change challenges particularly in the areas of energy efficiency and climate resilience. These interventions are increasingly important given the growing pressure on both the housing stock and financial system to adapt to environmental risks.

One major area of concern is the energy performance of homes. The UK government has previously consulted on proposals to require all newly rented properties in the private rental sector to have an Energy Performance Certificate (EPC) rating of C or above. While the consultation aimed to drive improvements in energy efficiency, uncertainty around the regulatory requirements and relatively short implementation timeline (particularly following the delay and lack of clarity after the 2020 consultation) has created confusion for landlords, lenders, and borrowers alike. This regulatory ambiguity makes it difficult for lenders to assess long-term risks and opportunities in their portfolios and for landlords to plan and finance necessary upgrades. Clear, consistent policy signals are needed to support the development of green mortgage products and lending strategies that encourage energy-efficient home improvements.

Another key climate-related challenge is flood risk. With the increasing frequency and severity of extreme weather events due to climate change, homes in flood-prone areas are becoming riskier to insure and finance. The Flood Re scheme is currently set to end in 2039. Its eventual withdrawal poses significant implications for lenders and borrowers. Without a replacement scheme or mitigation strategy, properties in high-risk flood zones may become uninsurable or see a sharp increase in premiums, potentially reducing their mortgage ability and market value. This could leave borrowers financially exposed and lenders holding assets with declining collateral value.

It is important the FCA Handbook does not restrict innovation. We are already seeing market driven innovations, such as interest free loans to make green property improvements however it would be useful for the FCA to work with industry to understand if there are any barriers from a regulatory perspective.

13. Should more borrowers look to the later life lending sector to access housing wealth and support their retirement?

AMI agrees that where there is a need for consumers to borrow in later life, accessing their housing wealth may be a suitable solution for certain cohorts. Given the broader financial considerations and impacts on financial planning when utilising housing wealth in this way there is an even greater importance on 'later life' borrowers receiving advice. Please also refer to our response to section 21 on execution only parts of the Handbook relating to Equity Release.

Whilst there needs to be solutions for consumers entering later life now, preventive steps (where possible) need to be taken in parallel. Providing consumers wider access to pension awareness and guidance at earlier stages is imperative to ensure they are saving for retirement, alongside first-time buyer solutions (which this DP addresses) to support them accessing the property ladder at an earlier age and even with extended mortgage terms not reaching post-retirement.

Over previous years we have seen more consumers access lifetime mortgages at an earlier age with the minimum eligibility for some lenders now age fifty-five. Accessing products where interest compounds at too early a stage restricts the amount initially borrowed but also the ability to borrow further equity due to the longer-term impact of the compounded interest. However, this is the crucial role of advice when determining whether one of these products is suitable for the customer. This can only be achieved by encouraging customers to seek advice earlier in their mortgage journey.

Utilising wider later life lending products available via building societies or hybrid products could be a potential solution, however current siloes exist which mean it is dependent on the adviser you initially approach and the foundation of the advice you receive may change. Our response to question 15 provides a more in-depth answer to barrier of advice siloes.

The first part of this paper focuses on finding solutions for supporting first time buyers onto the property ladder. One proposal is to revisit the option of interest only as a repayment strategy. If there is concern that the use of property wealth will be required in the longer-term future the equity available would be compromised by the outstanding interest only debt. This should be a consideration when reviewing options for first-time buyers.

Whilst borrowing to release equity remains one option for older homeowners, downsizing from the larger family home presents an alternative solution.

However, it is not a silver bullet; decisions are shaped by emotive as well as financial considerations, with many reluctant to leave the home tied to family memories. Targeted incentives, such as reforms to capital gains tax and stamp duty, could help make this a more attractive choice.

Downsizing also has the potential to unlock property wealth, releasing funds that can be reinvested into the wider economy, but the effectiveness of this relies heavily on the availability of high-quality, age-appropriate housing. Without suitable options, older homeowners often remain in properties that no longer serve their needs, limiting market fluidity.

Encouraging more to ‘rightsize’ could not only improve quality of life for older people but also free up larger homes for families, thereby easing pressure on first-time buyers and homemovers. In this way, addressing the housing needs of older generations becomes key to rebalancing housing supply across the market and unlocking greater intergenerational benefits.

Though a number of consumers will have seen the benefits of increasing house price growth not all will have built equity within their current home at the levels required to either sufficiently support them in retirement or meet lenders criteria requirements.

This may be more evident when looking at the price differential between North & South properties. Whilst not strictly black and white borrowers with properties in the South will be more likely to be in a position to rely on their property wealth to fund retirement over borrowers in the North. Accessing housing wealth as a strategy to fund retirement will not be a solution for all.

One barrier to overcome is consumer awareness around equity release products, especially where there are misconceptions. Many consumers still hold outdated or inaccurate views of equity release. Common misconceptions include the loss of ownership, the ability to leave an inheritance, and the amount they ultimately owe exceeding the property value. Although specialist equity release advisers have worked to promote a clearer understanding of these products, broader awareness campaigns may be necessary if the intention is to encourage more borrowers to view equity release as a viable option. However, we maintain that this is an area of the market where all consumers should receive regulated advice.

14. How can our rules support product innovation in later life lending?

Though the sector has made great progress with product innovation the current MCOB rules do create siloes which is the biggest barrier to ensuring products developed become products utilised or sold.

As an initial first step, closing the gap within in the handbook between MCOB 4 and MCOB 8 would streamline both rules and guidance for lenders and advisers and provide clarity both sectors require. AMI would propose that MCOB 11.6.15 G needs to be reviewed, as we believe the 'first death stress test' will no longer be applicable.

Moving to a less prescriptive approach relying on the over-arching regulation within Consumer Duty would ensure all parties consider all four consumer outcomes when developing new product design.

It may be valuable to reconsider whether products and lending criteria that have worked well in the past could be adapted to meet the needs of today's market. For instance, the former Halifax Retirement Mortgage, which applied affordability assessments and delivered positive outcomes for a number of customers, could provide useful lessons for the development of future solutions.

As outlined in our response to question 13, releasing equity from property, whether through borrowing or sale of property, may require access to broader financial advice. Mortgage advisers are well positioned to direct consumers towards independent financial advisers who can provide guidance on wider investment, pension, and financial planning matters.

15. Should it be easier to access products like RIOs and lifetime mortgages? What is holding back demand for these products?

There is a growing debate around whether Retirement Interest-Only (RIO) mortgages and lifetime mortgages should be easier to access. On one hand, these products offer a valuable solution for an aging population that is increasingly asset-rich but cash-poor. With traditional pension income on the decline, many older homeowners could benefit from unlocking the wealth tied up in their homes to fund a more comfortable retirement. These products also allow people to remain in familiar surroundings, rather than being forced to downsize or make disruptive financial choices later in life.

Lifetime mortgages are complex financial products that carry long-term implications, especially in terms of inheritance and equity erosion. The demographic they serve (older borrowers) is also considered potentially more vulnerable, making them more susceptible to mis-selling or poor advice. While protections such as the "no negative equity guarantee" exist in most lifetime mortgages, the potential risks still make regulators and lenders cautious. In this context, simplifying access must be balanced with appropriate safeguards and quality financial advice.

A key challenge is improving consumer understanding of equity release, particularly where misconceptions persist. Many potential borrowers still rely on outdated assumptions - for example, fears about losing ownership of their home, being unable to leave an inheritance, or owing more than the property is worth.

There is also a cultural aversion to taking on debt in retirement; many homeowners who have paid off their mortgages are reluctant to borrow against their homes again, fearing the loss of control or a diminished inheritance for their children. Complexity is another hurdle. These products require regulated financial advice, which can be costly and confusing, especially for individuals unfamiliar with mortgage or investment products. Additionally, RIO mortgages come with affordability checks that may disqualify those relying solely on pension income, further limiting access.

One area of potential reform is the role of Independent Legal Advice (ILA) for older borrowers. Currently a requirement for lifetime mortgages, expanding this to cover all later life borrowing such as RIOs could enhance consumer protection.

With the removal of the interaction advice trigger in PS25/11 there is concern that consumers could access a RIO product on an execution only basis.

Navigating the options available to a later life borrower can be complex so it remains essential that anyone exploring this part of the market receives professional advice to ensure the product is appropriate for their individual needs.

AMI's proposal would be that any borrowing which takes a consumer past retirement age should be deemed 'later life', receive advice and be excluded from an execution only journey. As a wealth of wider product options open-up at age 55 (as has been noted in the paper) then we would suggest that the risk of execution only delivering poor outcomes greatly increases at this point and should not be allowed.

In recent times, demand and volume of lifetime mortgages has decreased and remains subdued. The product rates available have increased and consumer awareness has declined as specialist firms have limited promotion, which has decreased demand, though this is not an area the FCA has any influence over.

Despite these challenges, there are ways to increase appropriate uptake. Encouraging more mainstream lenders to enter the market could help improve consumer trust and availability. Wider education and awareness initiatives may be needed if equity release and later life lending products are to be considered a realistic option by more consumers.

16. How effective and holistic is advice on later life lending? How can our rules support borrowers to access more effective information or advice to support their needs?

Advice in this area is not currently holistic - it's fragmented and inconsistent. Whilst work is actively ongoing between trade bodies and key stakeholders to address these issues, there still barriers which need to be resolved.

It is uncommon to find an adviser who can provide a genuinely holistic perspective across mortgages, equity release, pensions, and broader financial planning. For many years, the sector has aspired to create a 'super' adviser with the qualifications, permissions, and expertise to meet the needs of all customer cohorts. In reality, such an adviser does not exist, and efforts would be better focused on developing alternative solutions. However, we do recognise that there will be firms who offer advice across all of these product areas.

In our response to question 14, AMI proposes to streamline handbook rules and guidance as a step to address the current advice gap.

The current framework creates a divide between mainstream and lifetime mortgage advice areas. Issues around scope of service, disclosure, and permissions can restrict advisers.

AMI recognises the need to review the Level 3 mortgage qualification, particularly to ensure advisers are equipped with practical, real-world knowledge. We also believe that including modules on later life lending and lifetime mortgages would provide advisers with the relevant knowledge to develop a broader understanding of later life lending solutions, to provide a better holistic approach to their advice models.

After consulting with our members, there are two potential options for consideration, to address any knowledge gaps around later life lending:

1) Review CeMAP/CII qualification, retire CeRER and mandate more CPD to enable advisers to enhance their knowledge of the later life market.

This approach would ensure that advisers develop a broader understanding of later life lending solutions. Importantly, this would not require every adviser to provide equity release advice. Those who do not wish to operate in this market could manage this through appropriate permissions and clear disclosure of their scope of service. It will be important to implement a grandfathering approach for existing advisers. There are various ways this could be achieved, for example Continuing Professional Development (CPD).

2) Review CeMAP/CII qualification and review the CeRER, making this a shorter and more of a supplementary exam – rather than a standalone qualification.

By taking this approach, it helps advisers ensure they have the required baseline knowledge on potential later life solutions and also encourages those who wish to advise on this area, to have the appropriate qualifications.

We would expect these options to be explored as part of a consultative process. Relevant trade bodies and examining bodies should be involved in the discussions. We also believe more emphasis should be placed on CPD more generally. Strengthening this requirement would better support mainstream advisers seeking to diversify into the equity release sector.

Borrowers need advisers who understand the interconnection between mortgage products, equity release, and retirement planning.

Advisers without equity release permissions should be required to signpost consumers to advisers who do hold such permissions if they've established equity release may be appropriate based on the borrower's individual needs. Conversely, equity release advisers should similarly signpost clients to mainstream mortgage specialists when equity release is not the most suitable option.

The creation of referral eco-systems, wider sector or at individual firm level, whilst raising adviser awareness of solutions available, could provide an effective solution.

More consistent consumer journeys are needed, supported by clearer signposting. Industry work is underway to address this, but without stronger alignment and established eco-systems as detailed above adopted will remain low.

Significant investment in technology solutions is required to support a more holistic approach. There is currently complexity in the comparison of different products with no mainstream sourcing system currently providing holistic product sourcing. Whilst demand for wide scale product sourcing development has been minimal, it's been limited to firm's own propriety systems. Changes proposed would provide the momentum required for wider demand with cross-sector work would be required to provide guidance for sourcing systems to develop appropriate tools.

17. Can regulation do more to enable innovation, both in terms of AI-assisted sales and in the tools available to consumers and intermediaries to assess product eligibility and the likelihood of acceptance?

We believe it is important to make the distinction between AI-assisted sales and AI-assisted advice (question 18).

AI-assisted sales tools have the potential to significantly improve adviser efficiency by streamlining administrative tasks - such as drafting recommendation letters and ensuring documentation and disclosure requirements are met.

AMI supports the integration of technology, including AI, to enhance the advice process and drive operational efficiencies and assist advisers in delivering compliant, high-quality advice.

Research indicates that around 90% of mortgage customers begin their journey with an online search, and 73% of UK adults used a financial comparison website in the past year. However, as noted previously, approximately 90% of mortgages continue to be arranged via intermediaries. The landscape of online search is also shifting, with consumers increasingly turning from traditional web search engines such as Google to AI tools such as ChatGPT or CoPilot. Given the depth of information now instantly accessible, it is essential that clear and prominent disclaimers on accuracy are provided to prevent consumers from making assumptions that could result in poor decisions or outcomes.

Innovation is not currently hindering the mortgage fintech sector. There is a vast array of digital tools available which advisers use to support the advice journey; the majority are now being developed and enhanced utilising AI. Provided robust security and data protection measures are in place, such as end-to-end encryption, secure data storage and adherence to GDPR, AI systems can be responsibly embedded within the advice process.

The current regulatory framework lacks sufficient clarity on the permissible scope of AI adoption, leaving firms uncertain about how far they can responsibly innovate. Clearer guidance on implementation guardrails is essential to unlock progress. We are aware other regulatory bodies, such as the SRA, are working on AI guidance for firms.

In the absence of such direction, many firms may hesitate to invest until there is a "green light" from the FCA. Meanwhile, those with greater resources, particularly existing large tech players, may forge ahead, creating a potential "pay-to-play" dynamic that risks distorting competition. A fragmented approach across the industry would ultimately disadvantage both firms and consumers.

While it's important to embrace emerging technologies and future-facing solutions, we must also be mindful of the pace and volume of change currently sweeping through the industry. A measured approach is essential to avoid unintended costs and impact on resources.

18. What are the risks of AI-assisted advice, and how could the role of intermediaries evolve if more of these sales are enabled?

AMI strongly disagree with the implementation of AI-assisted advice for mortgage advice. There is clear potential for AI to play a supportive role in improving sales processes, product eligibility assessments, consumer understanding and fraud detection. However, AI should be treated as a tool rather than a solution in itself and not as a replacement for advice. There is a client expectation that technology solutions will be utilised throughout the advice and mortgage application process, especially where this provides streamlined service driving efficiency gains. Whilst many consumers will be willing to accept the adoption of technology this will not be suitable for all and certain cohorts will still require more traditional engagement. Advisers are well-positioned to adapt the way they interact with a customer to ensure the service offered meets their individual requirements.

As detailed within question 17, utilising of technology solutions to streamline administrative tasks, support consumer education and enhance ongoing customer engagement are areas in which AI should be embraced. The ability to assess data collated throughout the advice and application journey will provide useful management information for firms, allowing them to better meet not just their Consumer Duty requirements but adapt their business model/processes based on customer trends.

AI systems learn from the information provided to them and are designed to deliver responses that align with the user's query, often without challenging inaccuracies. Research already shows that AI can deliver a high proportion of correct answers, but with a meaningful margin of error. If an AI system were to absorb incorrect information and subsequently base its advice on that error, the scale of impact could be significant. Unlike a human adviser, who can only serve a limited number of clients at a time, an AI system has the capacity to influence thousands simultaneously. The potential risks, and the resulting redress obligations if inaccurate advice were to cause foreseeable harm, could therefore be significant for the mortgage sector. Furthermore, if aware of this risk does this not breach the Consumer Duty principal of avoidance of causing foreseeable harm.

For regulation, the priority should be ensuring there are robust safeguards and guardrails identified and implemented. A question raised by members is whether such systems will also be held to regulation the way an adviser currently is. Currently, human advisers are required to have the correct qualifications and also complete at least 35 hours of CPD per year. This helps ensure professionalism and trust in the financial services sector. There is a risk that AI assisted advice could undermine this, particularly given the heightened potential for widespread poor consumer outcomes if incorrect advice were delivered at scale.

An important aspect of AI systems to consider is the reliance on regular updates and the frequency in which they would need to be applied if such systems are providing advice. An AI system is essentially 'crystallised' as its current version and requires manual updates to improve the system and how it operates. If systems requiring such regular and manual updates were to be implemented in the mortgage industry, it would be a huge cost across the sector. The mortgage market changes nearly daily, and implementing such systems would require a vast number of resources to make them reliable.

Technology solutions and professional advice should complement one another, rather than act as substitutes. When combined, technology can enhance adviser capability - streamlining processes, improving consumer understanding, and ensuring that high-quality advice continues to be delivered.

19. Are the records we require a firm to keep that document the consumer's circumstances at the time of the recommendation, and the suitability of the product the firm has recommended, in the right place?

There is a fine balance between ensuring consumers have a clear understanding with the volume of paperwork provided and the depth of messaging within the documentation content.

The FCA highlights that 'some advisers' professionalism means their advice goes further than the rules require, for example recommending the product that is most suitable rather than simply 'suitable' (MCOB 4.7A.2), without further cost to the customer.'

AMI believes the FCA's introduction of the cheapest rule – and the language used within the rule and associated guidance - could have driven this approach and behaviour. The cheapest rule places emphasis on finding the product that is right for the customer and where there is more than one that meets their needs and the cheapest is not selected, explaining the reason for this to the customer and documenting this on file.

Overall, we believe advisers should be able to provide advice that goes beyond the existing FCA rules should they so wish, however there are changes that in our view should be made to suitability requirements to improve consumer understanding.

Suitability reports or letters

We believe the FCA should explore whether it should become a regulatory requirement for a mortgage intermediary firm to provide a suitability report (or similar, such as a 'reasons why' letter) when making a personal recommendation to a retail client. This is already a requirement under COBS and the ICOBS applies a similar concept through the requirements to supply a 'demands and needs' statement. Streamlining the requirements across different financial products could mean customers receive more consistent formatting of information across different financial products.

AMI understands most mortgage intermediary firms already provide suitability reports or letters, given the value they provide to consumers and because they help firms meet FCA evidencing and record-keeping requirements. As a suitability document captures the circumstances of a customer, the adviser's recommendation and how it meets the needs of the customer, in our view could negate the need for FCA 'cheapest rule'. See our comments to question 20 for further views on the 'cheapest rule'.

We are keen for the FCA to explore this idea further, as part of a wider consultation on disclosures. We would expect any suitability requirement proposals in MCOB to be less onerous and prescriptive than COBS requirements, given the difference in the type of financial product and would want to work closely with the FCA on any draft rules and guidance.

20. Are our current suitability standards, including the cheapest option rule, in the right place and fit for purpose?

We agree that now is a sensible time for the FCA to review disclosure requirements, particularly those implemented following the Mortgage Credit Directive (MCD). It would be helpful for the FCA and wider stakeholders to consider what parts of the MCD relating to disclosures would not have been implemented by the UK, had it not been an EU member state at the time. Anecdotal evidence from AMI members supports FCA's assumption that consumers are only engaging with a fraction of the information they are given. In our view there are specific areas that could help improve engagement levels and aid overall consumer understanding.

Durable medium

In our view, the current disclosures regime does not reflect a modern consumer journey. The phrase 'durable medium' is at risk of becoming outdated due to technological developments. Some of our members are exploring ways to provide information to consumers in different formats, such as video. However, the FCA definition and rules around what constitutes 'durable medium' are in our view stifling innovation and technological developments. We feel there should be greater flexibility to allow firms to disclose information in mediums such as video or audio.

Cheapest rule

The underlying premise of the cheapest rule is well intentioned; however, its execution falls short. This is because the FCA calculation method does not include the likes of valuation fees and cashback. The result is that some firms complete two calculations: one to meet the FCA rule and the other to capture the 'true' cheapest deal. Some firms find themselves providing one recommendation to a customer, based on the FCA cheapest rule, and another to satisfy itself that it has recommended the 'true' cheapest deal. This can cause consumer confusion and risks undermining the advice given. It also often increases record keeping, as some firms complete two sets of sourcing and maintain both sets of sourcing evidence on the file.

As far as we are aware, in no other parts of the financial services industry is such a complex calculation required. In our view there are two options for the FCA to consider as part of a consultation:

1. Remove the cheapest rule (please refer to our response to question 19 where we highlight the role of suitability reports or letters).
2. Amend the calculation. For example, monthly payments x deal period in months, plus <u>all</u> set up fees from the lender, minus any applicable cash back from the lender.

Our preference is option one, as a suitability report or letter would explain the basis of an adviser's recommendation, how it meets the customer's needs and circumstances and can give clarity on how price has been taken account of as part of the recommendation. We therefore feel that if a suitability report or letter is made a regulatory requirement, there will no longer be a need for the cheapest rule although we recognise the need for a full consultation to consider all views and alternative options. It is important that the consultative process involves industry representatives from trade bodies and mortgage product sourcing systems (which most intermediaries use to conduct research).

21. What are the benefits and risks of requiring an enhanced level of advice for certain cohorts of borrowers or products? Is there a better way to do this than based on credit impairment, debt-consolidation or the proportion of borrowers in long-term arrears?

We do not consider there to be a need for an enhanced level of advice, whether targeted at specific cohorts of borrowers, particular products, or the advice market as a whole. The FCA appears to be sending mixed signals by removing the advice interaction trigger as part of the Mortgage Rule Review, while simultaneously exploring ways to strengthen advice standards

Most, if not all, mortgage advisers deal with a range of borrowing needs daily – adverse credit, debt consolidation and high LTV lending are certainly not 'niche' cases. The circumstances of individual customers apply another layer, for example a first-time buyer could be seen as a more 'straightforward' case however has vulnerable characteristics that require additional support. Furthermore, mortgage advisers are skilled in tailoring their advice to the individual customer, a practice that has been further reinforced by the Consumer Duty.

We disagree with the FCA's proposal. We see no benefits in formalising the concept of 'enhanced advice'; on the contrary, we believe it introduces significant risks:

- Risk of consumer harm. We believe all consumers should be able to make an informed decision on their route to market. This proposal risks pushing consumers e.g. those that do not fit the customer cohorts under 'enhanced advice', down an execution-only route.
- While a two-tier advice model may be appropriate for the investment sector (as considered by the FCA in CP25/17) to address the significant advice gap in that sector, it is not needed – nor well suited – to the mortgage sector. This is because the underlying premise is different: no such advice gap exists in the mortgage sector. In fact, there is a risk of inadvertently creating an advice gap in the future which puts consumer outcomes and the government objective of boosting home ownership at risk.
    - For example, if enhanced advice is implemented, mortgage intermediary firms may be forced to change their remuneration structure, moving towards fee-based models or charging higher fees to reflect potential additional costs attached to 'enhanced advice' (such as PII and qualifications). A move to fee-based models in the investment space (as a result of the Retail Distribution Review) has contributed to the advice gap in that sector, a challenge that CP25/18 seeks to address through exploration of a simplified advice regime. It is important we learn from regulatory history and not make the same mistakes in pursuit of growth.
- It undermines delivery of the price and value outcome under Consumer Duty.
    - Advisers often won't know the specifics of customers' circumstances until they start to explore through the fact find – creating a separate enhanced advice category would make applying charging structures difficult, if not impossible. It could also make fees and charges less transparent, given the adviser would not know at the outset whether the customer requires enhanced advice (as

customer needs and circumstances are discussed as part of the fact-finding stage), risking poor consumer outcomes.

Use of data

FCA states in section 4.21 of the discussion paper that 'our data shows that these accounts are less likely to get back on track, and these borrowers could have potentially had a better outcome if they had been given a higher standard of advice.' AMI does not believe consumer outcomes should be measured by arrears levels. A customer may have received a good outcome – for example, provided with a mortgage product that meets their needs – however circumstances outside of their control (and that of the adviser, in line with the obligation to 'avoid causing foreseeable harm') could still result in a borrower falling into arrears. For example, a borrower takes out a mortgage and unfortunately loses their job 12 months later which means they struggle to meet their mortgage payments.

Equity release – EO parts of the Handbook

Under current FCA rules, Equity Release (ER) customers have the right to reject advice and proceed on an execution-only basis (MCOB 4.2.1 G section F). We believe this part of the FCA Handbook should be reviewed. As the DP highlights, Demand for later life lending is expected to grow and the FCA is exploring the concept of holistic advice; allowing a customer to forego advice and transact on an EO basis feels inappropriate and risks poor consumer outcomes given this future lens. In addition, we know from the FCA's review that advisers play an important role in challenging consumer assumptions. It therefore seems prudent to prohibit EO sales on ER transactions.

The mortgage market, and in particular, mortgage advice is massively varied in terms of complexity of customers and borrowing criteria. Most, if not all, mortgage advisers deal with a range of borrowing needs daily. The range of borrowing needs can vary from credit impairment, debt-consolidation, later life, low-deposit, second charges and more. The idea proposed of 'enhanced advice' is already occurring throughout the industry on every case - without any need for prescriptive rules from the FCA. In the discussion paper, this is already alluded to:

''in many cases, advisers are giving a level of advice to a higher standard than our rules require[10]"

One perspective AMI believes to have understood from the paper is the proposal from the FCA for a two-tier structure would split advice into either being a first tier for easy and straightforward (or vanilla cases) where AI could assist or a second tier for 'enhanced' advice. We strongly disagree with this approach as it is an oversimplification of how advice works in practice for the reasons mentioned previously.

Firstly, advisers are some of the best performing participants within the industry with customer satisfaction levels surpassing almost all other parties in the property transaction journey. Cutting the 'critical friend' from these journey's would create more long-term consumer harm and contradict the Consumer Duty principle of 'avoid causing foreseeable harm'.

[10] DP25/2: Mortgage Rule Review: the future of the mortgage market

22. Is there a better way to achieve an enhanced level of advice than through changes to the required qualification?

Qualification level

We do not see a need to introduce higher qualification criteria for mortgage advisers. In our view, a level 3 qualification is sufficient to demonstrate a person's ability to absorb information – one important skill for a mortgage adviser. The skills required by advisers go beyond academic ability, ranging from soft skills such as building trust and problem solving to hard skills, such as product criteria knowledge and analytical ability. A level 4 qualification is equivalent to an undergraduate bachelor's degree or a Higher National Certificate (HNC) – this risks creating an unnecessary barrier to entry and feels inappropriate for the profession. The mortgage advice industry prides itself on the variety of people that are attracted to the profession. There is a risk this impacts the diversity and inclusivity of the mortgage sector.

As highlighted previously, it would be almost impossible for an advice firm to gauge which consumers may need 'enhanced advice' and therefore subsequently which advisers should sit a level 4 qualification. This could lead to a firm deciding to make all advisers within a firm sit the level 4 qualification – a significant cost in terms of money, times and resources. This is investment that could be better utilised in areas such as AI assisted sales, which we feel would help support FCA and government aims.

We do not see how requiring a level 4 qualification supports sustainable home ownership and economic growth. We therefore strongly encourage the FCA to refrain from pursuing the concept of enhanced advice within the mortgage sector.

Whilst we disagree with the need for a level 4 qualification, we do see a need to review the existing level 3 qualification framework. However, this is not to achieve enhanced levels of advice in the structured way the FCA has presented the concept but instead to equip aspiring advisers with a higher baseline level of knowledge, which they expand upon and achieve 'real world' application of as part of obtaining Competent Adviser Status (CAS). We feel this is an area the FCA should consult upon.

Equity release qualification

After consulting with our members, there are two options, for consideration, that may potentially address any knowledge gaps of later life lending:

1) Review CeMAP, retire CeRER and mandate more CPD to enable advisers to enhance their knowledge of the later life market.

This approach would ensure that advisers develop a broader understanding of later life lending solutions. Importantly, this would not require every adviser to provide equity release advice. Those who do not wish to operate in this market could manage this through appropriate permissions and clear disclosure of their scope of service. It will be important to implement a grandfathering approach for existing advisers. There are various ways this could be achieved, for example Continuing Professional Development (CPD).

2) Review CeMAP and review the CeRER, making this a shorter and more of a supplementary exam – rather than a standalone qualification.

By taking this approach, it stops any advisers that do not have the required knowledge to enter the later life lending market, and also encourages those who wish to do so, to have the appropriate qualifications.

We would expect these options to be explored as part of a consultative process. We also believe more emphasis should be placed on CPD more generally. Strengthening this requirement would better support mainstream advisers seeking to diversify into the equity release sector.

23. How do mortgage borrowers use disclosure documents to shop around before taking out a mortgage? What information is most useful? Is standardisation and prescription important for product comparison and competition?

In our view, it is uncommon for mortgage borrowers to use disclosure documents to shop around. The point at which a borrower receives an ESIS or KFI means they will already be heavily invested in the product recommended, particularly as other parts of the mortgage or home buying process will have also been engaged, such as conveyancing.

With respect to the ESIS, there appears to be a fragmented approach across the sector, which we believe stems from differing interpretations of the requirements. This is an area that could benefit from a 'back to basics' review: which elements of the ESIS would not have been implemented had the UK not been in the EU at the time of adoption, and where is there scope to clarify the underlying intention and practical application of the rules and guidance? We do not believe standardisation and prescription is important for product comparison and competition, however it is key to help consumer understanding.

Streamlining the ESIS

We do not believe the ESIS requires significant overhaul. However, certain elements of the ESIS do not, in our view, provide meaningful consumer value and instead often lead to confusion.

In particular, we believe the following parts of the ESIS should be reviewed as part of a consultation process:

- APRC. It is difficult to explain this concept to consumers in a coherent way. Furthermore, the APRC calculation reflects a situation where the customer doesn't review their mortgage at the end of the introductory deal and the lender's interest rate remains the same for the mortgage term – this is far removed from how mortgage products are typically used. The provision of this information so soon after an adviser typically explains that, at the end of the initial deal, they will either assist the customer in selecting a new product with the existing lender or in remortgaging to a new lender, often results in customer confusion.
- Start date. The ESIS defaults to the first day of the following month, which often causes confusion among customers. Many question why it differs from the actual mortgage

start date, and some are concerned it may result in a penalty charge. It may be better to not assume a start date and include the monthly payment that the customer will be paying each month, alongside a statement that the first payment may be higher depending on factors such as the day the mortgage completes.
- Total amount to be repaid. This often confuses consumers – it is often irrelevant as it assumes the customer will stay on the SVR for the entire term of the loan after the fixed rate, which almost never happens.
- Legal costs. This does not align with the legal quote a customer would have received and can be misconstrued as an additional charge being made by the lender (as it appears in the fees section) or, in some cases, customers think this figure represents the total cost of a solicitor to act. Instead, this section should confirm whether legal fees will/won't apply and revert the customer back to their legal representative (e.g. conveyancer) for confirmation of costs.

More generally, language in the ESIS could be simplified and sections amended to align more closely to the 'spirit' of Consumer Duty. For example, AMI believes the insurance section should be strengthened by including reference to not only buildings insurance but other insurances such as protection. Given the FCA acknowledges in its Pure Protection Market Study Terms of Reference there is a protection gap in the UK (demonstrated by the low percentage of UK adults that hold a protection product), this is one change that could ensure consumers make informed decisions and assist firms in ensuring they 'avoid causing foreseeable harm'.

Less prescription

We believe disclosure requirements should be less prescriptive. There is also an opportunity to review approaches in other regulated markets, such as General Insurance (GI). For example, the Insurance Product Information Document (IPID) displays information in a more consumer friendly way.

To streamline the regime and to align more closely with Consumer Duty, we believe the FCA Handbook should state minimum information requirements but give firms flexibility on how they present this information to consumers. This could be achieved by identifying 'key disclosure principles' which form part of the rules, moving more of the Handbook to guidance (G).

On a more general point, we believe there is a need to move towards documentation which includes key points upfront with an appendix including more detailed, technical information. We feel this will help increase consumer engagement and recall around the main points connected to the mortgage transaction.

Overall, it is important for the FCA to maintain an appropriate balance between driving meaningful change and acknowledging that substantial reforms impose costs on industry - resources which, in light of the aims of the Discussion Paper, might be more effectively directed towards areas such as product development.

24. Would a single set of disclosure requirements for all regulated mortgage contracts be preferable? Are there any product types that should be subject to different disclosure requirements?

In our view, the disclosures section of the FCA's discussion paper needs to go wider and deeper than it does at present. Consumer communications and disclosures are key parts of the mortgage journey and there is an opportunity to deliver meaningful change that supports both existing and future customers. We do not believe widespread change is required, however there are areas that warrant review. We believe the FCA should consult separately on disclosure requirements, and that this should be preceded by a trade body roundtable or workshop.

There is a balance between improving consumer understanding and ensure sufficient information is provided on what is a significant financial commitment. This underlines the important role of an adviser in helping consumers navigate the complexity. Often it is not a single document but the layering of documents that can cause consumer confusion and misunderstanding. Advisers help consumers see the bigger picture to recognise how the different documents piece together and provide a space for consumers to ask questions in an environment that fosters trust.

Single set of disclosure requirements

We do not consider it necessary to apply a single set of disclosure requirements to all regulated mortgage contracts, as in our view the associated costs outweigh the potential benefits. To illustrate, when the KFI was replaced with the ESIS, the industry incurred significant costs (circa £500m), predominantly relating to IT and infrastructure changes. There is a risk that if investment is diverted away from product development, it could undermine the FCA's objective to make home ownership more accessible.

It is also important for the sector to not revert to a 'Key Facts Document (KFD)' style approach, as seen in the pure protection sector. Protection KFDs often refer to products that customers could have, for example where there is the opportunity to package products together. Feedback from our members is that this causes consumer confusion on products held, particularly as these documents are referred to at point of claim.

Additional areas for consultation

We believe the FCA should review its requirements on financial promotions risk warnings. Whilst requirements under MCOB 3A are less prescriptive than previous Handbook iterations, we feel there should be a more proportionate application based on the type of financial promotion.

We believe risk warnings have a place on static promotions e.g. a poster displayed on the side of public transport, however we feel it is less relevant on social media, which is more fast paced, and content is not as easily accessible e.g. posts are generally seen for a shorter period of time, before they drop off a person's social media feed.

There is also the argument that this type of disclosure is less relevant for mortgages, compared to, for example, investments. With a mortgage there is a period between seeing a financial promotion and completing on a mortgage. It is different in the investment space, where someone could view a financial promotion inviting them to invest and later that day they act and invest.

The financial promotions disclosure regime should be more proportionate and tailored to different parts of the financial services sector. We feel it should be strengthened in some areas; for example, the FCA should require firms to display a risk warning statement in financial promotions used by firms that offer an execution only journey, given there are fewer friction points, but disapplied for advice firms. Or a more proportionate regime could be created, with a strengthened financial promotions warning for firms that offer an EO journey.

Communication mediums

Consumers are likely to receive information in different mediums. For example, they may receive an Initial Disclosure Document (IDD) sent in an email by their adviser but receive a copy of the mortgage offer and mortgage deed from their lender in the post. It can be hard for consumers to keep track of which documents they need to review and respond to. There is a link with FCA requirements on vulnerability, particularly around ensuring consumers support needs are met. In our view, consumers should be able to confirm whether they would like paper or digital based documents and for this to be applied consistently by those in the distribution chain e.g. lender, adviser. Without this flexibility, it is likely vulnerable customers will be the most affected. MENCAP[11,] a charity who supports vulnerable members of society, state digital services create an affordability barrier to accessing financial services. Not only this, current systems and portals are still not suitable for a number of these vulnerable customers, c.40 percent of the vulnerable customers MENCAP support state that current systems are too complex and cannot be adapted to their needs[12]. Although we support digitisation throughout the process, we must be mindful of creating silos of customers unable to access services they must use daily.

Consumer testing

We feel consumer testing plays an important role in helping the FCA shape rules that support good consumer outcomes. It would be helpful if the FCA conducted consumer testing before implementing new rules and guidance and used consumer focus groups to seek feedback on the structure and timings of disclosures in a mortgage journey. For example, a group of consumers could be shown an ESIS and KFI and asked to comment on its features. The intermediary sector is keen to support work in this area.

25. Where could we rely on the Consumer Duty to help meet consumers' information needs? Where could more flexibility support innovation?

Consumer Duty, and the Consumer Understanding outcome in particular, has provided a useful framework for firms and encouraged firms to think about how information is displayed and digested by consumers. However, the rules and guidance under PRIN2.A does not always align with other areas of the Handbook. For example, 2A.5.7 (G) of FCA Handbook PRIN 2.A talks about how firms can support consumer understanding through communications. This guidance gives firms flexibility on how they display information, however in our view it conflicts with the more prescriptive requirements under other parts of the FCA Handbook (for example, parts of MCOB). We would be happy to provide examples as part of an FCA trade body roundtable and as part of a formal FCA consultation process.

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[11] Learning Disability - Down syndrome - Williams syndrome | Mencap
[12] The Vulnerability Review: Findings and next steps - FCA Webinars

We feel it would be useful for the FCA to share mortgage specific case studies on changes that have been made to communications following Consumer Duty (based on real firms). This should help broaden thinking amongst firms and highlight areas where firms may have been unduly risk averse.

26. What information do all consumers need to receive, and when? Should there be different requirements for those who have received advice or 'enhanced' advice?

It is important to recognise that some customers require different levels of disclosure, and information, depending on where they are in their advice journey. Please refer to our response to question 23 on information that we believe should be removed or amended within the ESIS.

Timing of disclosures

Often consumers are presented with significant volumes of information at an early stage in the mortgage journey; this is a lot for most consumers to digest. It is important for consumers to be provided information in the right place and at the right time. We would like the FCA to explore whether there is an opportunity to amend its rules so that documents can be staggered and linked to specific events or milestones in the mortgage journey. We are therefore supportive of the FCA's concept of event driven disclosures (subject to further details and a consultative process).

Strengthening disclosures

We welcome the FCA's comments in PS25/11 that it will consider AMI's suggestions on strengthening disclosures as part of this Discussion Paper.

We believe disclosures should be strengthened in Execution Only (EO) journeys. This helps ensure consumers are equipped to make informed decisions, a key part of Consumer Duty.

We believe rules should be introduced into the FCA Handbook to:

- Prohibit the use of the title 'mortgage adviser' (or associated phrases such as 'specialist') by staff (whether engaging with a customer verbally or in writing) involved in an EO transaction. This is misleading, as consumers may believe they have received advice when they have not.
- Require EO customers to be provided with a statement if they have remained with the same lender for a certain number of years, explaining they may wish to shop around ("You have been with us a number of years. You may be able to get the mortgage you want at a better price if you shop around"). This echoes the statement required for GI renewals (a market that was heavily intermediated but since the early 2000's has seen growth in the EO space), helping ensure disclosure consistency between different financial products. There is a risk that without this statement the mortgage market could see price walking practices in the future.

We feel consideration of these changes, as part of a consultation process, demonstrates the FCA as a forward thinking and proactive regulator.

We believe MCOB 4.8A Execution-only sales, specifically MCOB 4.8A.14, should also be reviewed to require firms to consider the Consumer Duty, particularly the Consumer

Understanding outcome, when creating disclosures informing customers that the firm will not assess suitability and the customer will not benefit from associated protections. It is important that execution only firms are communicating these important parts in a way that is not only clear, fair and not misleading but in a way that a consumer is likely to understand. We also believe most consumers will not understand what is meant by the phrase 'execution only' and therefore firms should be required to explain that this means they do not receive advice. This should be reflected in the written rules in MCOB 4.8A.14. As we are not supportive of 'enhanced advice' as a concept, we do not believe there should be different requirements based on the advice received. However, please refer to our response to question 21 around removing the ability for EO customers to reject advice and transact on an EO basis.

As stated in the answer to the previous question 24, we do have some thoughts on a possible differentiated approach to disclosures depending on the customer advice journey as we need to recognise that some customers require different levels of disclosure, and information, depending on where they are in their advice journey.

The proposals, and ideas of, enhanced advice does not align with the current mortgage market. The current standard level of advice throughout the industry could be argued to be at an enhanced level. As previously stated by the FCA, mortgage advice standards are well above, and beyond, what is required of mortgage advisers to provide stipulated within the handbook[13]. However, after talking to our members, we began to see there may be value in making mortgage suitability reports or letters a regulatory requirement. Although this is not prescribed in MCOBS, the mortgage industry has taken it upon themselves to follow suit and provide customers the same level of disclosure IFAs and insurance advisers[14] would provide within their suitability reports. However, we would add that this should be consulted on fully and AMI would want to work closely with the FCA on draft rules and guidance.

27. Can we play a part in unlocking housing equity for the benefit of first-time buyers, those in later life, and the economy?

No comment.

28. Can conduct regulation play a part in feeding into the wider debate about the digitisation of the house buying and selling processes?

Research shows that the UK has one of the slowest property transaction processes in the developed world.

Data from Zoopla highlights the time between listing and completion in England and Wales currently stands at 185 days while highly digitised markets like Australia complete sales in 40 days. With a comparative analysis across 12 developed nations found that the UK averages 179 days from listing to completion which is 70% longer than in the US, where the same process takes just 53 days on average.

[13] DP25/2: Mortgage Rule Review: the future of the mortgage market
[14] COBS 9.4 Suitability reports - FCA Handbook

In 2024, c.30% of property transactions failed, compared to far lower failure rates in places like Australia, North America, and Sweden. These delays and failures are financially significant, costing the UK market roughly £8.6 billion in 2024.

These delays are driven by industry inefficiencies, fragmented systems and processes, outdated conveyancing and manual management of workloads (lack of digitisation).

Ongoing work by the Open Property Data Association (OPDA), HM Land Registry such as the Digital Registration Service and the rollout of digital ID checks, could significantly increase efficiency. By streamlining administrative steps and reducing duplication, these reforms have the potential to enable conveyancers to serve more customers, thereby lowering per-customer costs over time.

In parallel to the work to digitisation the Home Buying & Selling Council (a voluntary, cross-sector group comprising of professionals from the property, legal, financial, advice and related industries) is working closely with the Ministry of Housing, Communities and Local Government to reintroduce a reformed version of the Home Information Pack, with further information provided upfront to improve transparency for both buyers and sellers and reduce delays.

Conduct regulation has an important role to play in shaping and supporting the digitisation of the house buying and selling process. As the sector moves towards greater use of digitisation and technology solutions, regulation can provide the necessary guardrails to ensure that innovation enhances consumer outcomes.

With a significant amount of work already ongoing the FCA should ensure that they are aligned with relevant stakeholders so a regulatory lens can be applied early within thought processes rather than after a framework has been established.

29. Are there any other areas where you would like to see innovation in the mortgage market and how do you feel our regulation can better support this? Are there areas we should prioritise for TechSprints and/or Sandboxes that would help foster greater innovation?

TechSprints and Sandboxes are great strategies to drive innovation, industry conversation and collaboration. We understand the need to do so; however we would like more support from the FCA to be given to businesses already established within the sector, and who have contributed to our sector via regulatory fees, ensuring there is a balanced approach.

Consultations are an important part of the FCA's process regarding collating feedback on potential proposals. These provide an important opportunity for the industry to give their feedback on certain topics. TechSprints and sandboxes normally operate on a maximum capacity or invitation-only basis and therefore this limits scope of feedback and could result in missed opportunities for education. AMI feel it is important to continue utilising the consultation process, especially with several topics presented within this discussion paper. Consultations allow for responders to consider their feedback in more granular detail and provide in-depth application of their expertise. The FCA could consult on such topics, and if they feel a follow up is necessary before another CP or policy statement, then hold TechSprints or sandboxes with enough capacity to involve a representative of each responder to the consultation. This allows for responders to be rewarded with closer engagement with the FCA and enhances the level of information the FCA will receive on the consulted topic.

30. What are your views on our approach to 'tolerable harm'? Do you have suggestions for potential mortgage market metrics that could be helpful?

AMI understands the aim behind rebalancing risk within the industry and welcome discussions to enable easier access to homeownership. However, we feel this chapter should be a consultation paper in its own right. We also encourage the FCA to work collaboratively with the Prudential Regulation Authority when consulting on any ideas for the rebalancing risk across the sector.

The idea of 'tolerable harm' could differ wildly throughout the mortgage industry. What may be tolerable harm to a lender, may be viewed differently to a mortgage intermediary or customer. We feel it would be incredibly difficult to use the same metric to measure such harm industry-wide.

Arrears levels are mentioned frequently throughout the discussion paper. Arrears are commonly used as a measure of success (from an outcomes perspective) within the mortgage market, however, there needs to be consideration of the long low-interest rate period that provided a lower likelihood of arrears occurring. We feel by focusing on arrears only this could likely lead to long term negative impacts on the mortgage market and customers.

Arguably, once a customer is in arrears, they are already in significant financial difficulty and is therefore a metric that should not be used without wider context. Analysis of broader financial credit data, including the monitoring of default rates on personal finance products (particularly unsecured debt such as credit cards), should be considered, as these areas are typically the first to show arrears when consumers experience financial strain. By looking at the Financial Lives Survey[15], we can see that although mortgage arrears are at a historic low, unsecured debt, missed payments and overall adverse credit is steadily increasing with more customers having lower financial resilience.

Notably, since COVID, there has been a different borrowing landscape for mortgage customers. Throughout COVID mortgage 'payment holidays' were introduced and available on widespread basis, with limited eligibility criteria. Introduced in June 2023 the Mortgage Charter was developed to help customers facing financial difficulty against a backdrop of significantly increasing mortgage rates.

The recent Mortgage Charter data[16], shows an increase in customers securing deals 6 months before their deal ends. In our view this indicates how the current economic climate, and potential Government events, play a pivotal role in customers and their future financial security. This underlines the important role of advisers in helping customers navigate their mortgage options by discussing their current and future financial goals whilst making sure their mortgage product aligns with such plans.

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[15] Financial Lives 2024: Key findings from the FCA's Financial Lives May 2024 survey
[16] Mortgage Charter uptake data - September 2025 | FCA

31. What is your view on the impact rebalancing risk appetite could have on arrears and repossessions levels?

No comment.

32. What are your views on taking a differentiated approach for mortgages taken out for a purpose other than buying a property (this could include second charge mortgages, or remortgages to consolidate debt)? Are there any other product types where we should take a differentiated approach?

AMI believes taking a differentiated approach would not be necessary for mortgages (including second charges and debt consolidation). This needs to be considered and discussed as part of a wider consultation.

33. What are your views on the management of unsustainable mortgages? Do firms experience barriers in taking action that would provide fairer outcomes?

Mortgage intermediaries often retain their customers throughout the customer's mortgage lifetime.

After speaking with our members, there are opportunities to review current processes throughout the distribution chain to support how unsustainable mortgages are managed. Often, when a problem arises with a customer's mortgage it can be difficult for intermediaries to support, especially vulnerable customers, when reaching out to lenders on their behalf. Such customers are more likely to be vulnerable and require the additional support from their mortgage adviser but without the lender's additional support, it can create a negative cycle without providing any long-term resolution. Arguably, the lack of collaboration could be 'causing foreseeable harm', contradictory to Consumer Duty[17].

A FOS case decision in 2021[18] helps illustrate the repeated conversations around the lack of applying a differentiated approach to ensuring customers receive appropriate support and the best possible outcome. The customers in this case had issues meeting their mortgage payments due to being involved in a serious car accident. Shortly after, their fixed product expired and they moved to the lender's SVR. Because of the interest rate increase, and issues with income due to injuries from the car accidents, the customers fell behind on their payments. The lender refused to allow the customers to move to another lower rate product until the arrears had been cleared – even though by moving to the other lower rate product would have minimised the foreseeable harm.

Another FOS case that depicts similar circumstances[19] from 2023 displays a common-sense approach needs to be taken when customers have fallen into arrears and are unable to switch their mortgage product to decrease the monthly payment and accruable interest. AMI feels the

[17] FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty
[18] Decision Reference DRN-2704004
[19] Decision Reference DRN-4434071

industry needs to work together to overcome such barriers to ensure customers are sufficiently supported. AMI feel by having the FCA encourage lenders to speak openly to advisers on their customer's behalf may lower these barriers and support more vulnerable customer's whilst providing better long-term outcomes.

34. Have we identified the right trade-offs (consideration of risks and opportunities) that should be considered in relation to a rebalancing of collective risk appetite in the mortgage market? Are there any others we should consider?

After the recent removal of the advice interaction trigger in the FCA's Mortgage Rule Review Policy Statement[20], we need to be mindful of the effect this may have on competition and innovation within the UK mortgage market

Without the competition, growth and innovation driven by mortgage intermediaries, there is a concern that first-time buyers and vulnerable customers have the potential to find it challenging to access the market or home ownership.

35. Is rebalancing risk appetite in the mortgage market the right objective? What are the key regulatory, firm or other practices that determine or constrain risk appetite, and will need to be amended if rebalancing of risk is sought?

One concern that has been mentioned repeatedly throughout our discussions with our members is the potential long-term implications, for businesses and customers, as a result of a number of rapid changes without much prior consultation.

AMI are conscious of the amount of work the FCA are creating for themselves and firms. The regulatory burden may be reduced from data decommissions however, the FCA needs to be conscious of the pressure firms will be under to respond to all open consultations and other ongoing discussions.

Rebalancing risk appetite is a good starting point in terms of addressing accessibility for customers. However, AMI feels this needs to be done in conjunction with product innovation and affordability improvements.

One area of consideration is to ensure lenders reflect the benefits of mortgage related protection (life assurance, critical illness and income protection) in affordability calculations. Members have advised that some lenders deduct protection premiums as part of affordability calculations which negatively impact overall maximum borrowing potential. Given the positive impact having protection in place could have in times of financial distress, consideration should be given to ensuring a flexible approach to the treatment of these types of outgoings within affordability review.

We have already seen the benefits of the changes to the LTI flow limits[21] throughout the industry with lenders now able to broaden their product propositions and launch high LTV products or consistently have high-LTV rates available as part of their product range. The

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[20] PS25/11: Mortgage Rule Review: First steps to simplify our rules

[21] Prudential Regulation Authority announces review of the Loan to Income (LTI) flow limit rule and offers interim modification by consent | Bank of England

broadening of high-LTV products will be beneficial to both first time buyers and homemovers with limited equity. With the right changes, there is the potential for improvements to be made. However, we need to make sure we are taking the correct steps and not implementing change without prior significant consideration across the sector. Please review this answer alongside our answer to question 36.

36. What potential changes to our rules and guidance should we prioritise? In your response please set out which changes could have the greatest impact and/or could be implemented quickly.

We encourage the FCA to adopt a measured approach, as implementing too many changes at once could lead to unintended consequences. Speed to drive change and reform should be balanced against careful consideration of long-term risks connected with certain proposals.

We encourage the FCA to first review potential areas where a reminder about flexibility within its rules - or clarifying the intent behind rules – could help. This approach has proven effective on the lending side, where the FCA's reminder on flexibility in stress testing requirements led to lender adjustments that improved mortgage affordability for some consumers.

Overall, we support an iterative process, guided by a clear roadmap of proposed changes to allow stakeholders to plan effectively. Given the likely depth of feedback and the range of proposals in future consultation papers, we consider separate consultations - focused on specific areas, for example later life lending proposals, customer information needs and disclosures – to be a sensible approach.

The concepts and ideas set out in Chapter 5 of the Discussion Paper ('Rebalancing risk appetite in the mortgage market') intersect with the other chapters and therefore in our view should form part of each consultation paper. Given the macro level issues involved, we encourage the FCA to work closely with the PRA on this area.

37. Are there any other areas where we could rely on the Consumer Duty and its focus on outcomes to help meet consumers' needs?

The Consumer Duty provides a useful framework for firms; however, we feel additional Consumer Duty related case studies would be helpful from the FCA. This would help identify examples of changes made by firms, particularly across the four consumer outcomes, helping to encourage greater risk taking and wider thinking around what is possible. AMI is keen to work with the FCA on identifying areas to feature in case studies.

It is important that throughout its review of the future of the mortgage market the FCA embodies the outcomes driven approach of Consumer Duty. Too much prescription will, in our view, inhibit growth of the sector. As highlighted throughout our response, if the FCA can identify parts of its rules which may be a) misinterpreted by firms and/or b) conflict with the Consumer Duty, this will be a helpful starting point.