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10 March 2021

FCA consultation on updated mortgages tailored support guidance

Dear Consumer Credit team

I am writing in response to the updated draft FCA guidance on tailored support for mortgage firms to support consumers in financial difficulty as a result of coronavirus.

Which? supports the continuation of the tailored support guidance in place of the payment deferral guidance from 1 April 2021

Which? welcomes the FCA's continued interventions to support consumers who are impacted by the coronavirus pandemic. We agree with the FCA that payment deferrals are not always in a consumer's best interest. While they were a necessary option to support the millions of consumers affected financially by the coronavirus pandemic over the past year, more tailored support is likely to be required for a smaller group of consumers now and in the future.

Which?'s consumer insight tracker continues to see much higher rates of missed payments among those people who have been furloughed or lost hours because of the crisis compared to those working as usual, and among those in low income households (under £21,000). The continued high rates among these groups could yet point to difficulties ahead if, as forecast, the unemployment rate increases in the coming months.

The FCA's tailored support guidance places higher expectations on firms in terms of how they meet their customer's needs and suggests a wider range of potential options. We believe this is more appropriate to meet the developing needs of mortgage customers. We therefore support the ending of access to payment deferrals under the FCA's payment deferral guidance on 31 March 2021.

The FCA should, nonetheless, continue to monitor firms' ability to meet the scale of the need among their customers on a more tailored basis. It should intervene swiftly to address any shortfalls in the support required, by taking steps to ensure consumers are not disadvantaged by poor customer service. The guidance should also be kept under review in light of the changing impact of the pandemic, and it should be amended where necessary.

The ban on repossessions for mortgages should be extended beyond March 2021

Which? does not support the FCA's proposal to end the ban on repossessions for mortgages at the end

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of March 2021. We propose instead that the ban on repossessions should continue while major coronavirus restrictions remain in place and/or while the furlough scheme remains in place. Given the government's most recent announcements at the Budget, this would mean extending the ban on repossessions to 30 September 2021.

Repossessions could cause significant harm to mortgage customers due to the ongoing impact of the pandemic on people's ability to find suitable housing and to move home. At the current time, the housing market is not currently operating as it would normally due to the impact of the pandemic. We therefore think that it would be unfair to enforce repossessions given the current circumstances. Not only would taking someone's home from them during a pandemic cause significant distress, it could also impact a person's credit rating and their ability to find other accommodation in the future.

The labour market has also been significantly affected by the pandemic and is not operating properly. Some people's finances may therefore have the potential to improve once the temporary impact of coronavirus restrictions and the furlough scheme end. Repossessing their home before then may not be in their best interests.

Given the scale of the potential harm to consumers from home repossessions, Which? does not believe that the FCA has outlined sufficient evidence to justify its proposal to end the ban on repossessions in a few weeks' time. The two main issues that the FCA cites are that delaying repossessions can lead to poor outcomes due to increased balances and equity erosion. While we appreciate the speed at which the FCA is working to support consumers, we would have expected some accompanying analysis of these issues in order to justify the proposal.

Furthermore, the issues of increased balances and equity erosion can already be addressed under the existing guidance, which permits exceptional circumstances for firms to enforce repossessions. This includes that the customer may request that the proceedings continue. The guidance also sets out that firms should ensure that they keep their customers fully informed, and discuss with them the potential consequences of suspending any steps to enforce repossession. This includes the potential effect of remaining in the property on the customer's remaining equity if the amount owed is increasing or the value of the property subsequently falls. We are unclear what assessment the FCA has made as to why these existing provisions are not already sufficient.

Given the challenges in assessing the emerging evidence and forecasting the potential impact on consumers, we would urge the FCA to be more cautious in making such a major change to the existing guidance. We welcome the FCA's commitment to publish the findings of its initial supervisory work with regards to how firms are implementing the existing guidance by the end of March. These findings will be extremely valuable in helping to determine how the guidance should evolve in the coming months.

The FCA should reinstate the ban on repossessions for unsecured credit

In addition to the FCA's existing proposals, Which? has also previously called for the ban on

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repossessions for unsecured credit products to be aligned with mortgages. This would help to provide greater consistency for consumers and to avoid the wider harm caused, for example, by someone losing access to a car that they rely on to provide an income. We therefore call on the FCA to reconsider whether this ban should be reinstated and aligned with our proposed extended deadline for mortgages.

We would welcome any questions or further discussions on the points raised here.

Yours sincerely

Alastair Reed
Principal Policy Adviser, Money