

christians
against
poverty

CAP

***Guidance for firms supporting their
existing mortgage borrowers
impacted by the rising cost of living***

***CAP's written response to the Financial Conduct
Authority's (FCA) draft guidance***

December 2022

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CAP's official response to the FCA's consultation on their draft guidance for mortgage lenders

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Summary

Christians Against Poverty (CAP) has more than 25 years of experience in delivering debt help. CAP supports over 8,000 people on their journey out of debt each year and has specialist in-house teams to support vulnerable individuals. Through this experience, CAP has developed insight into the varied and complex needs of vulnerable consumers and their relationships with creditors.

CAP strongly welcomes the Financial Conduct Authority's (FCA) efforts to issue clarifying guidance to ensure adequate support is being provided to mortgage borrowers in difficulty at a time when so many are facing financial strain. CAP supports the aim of issuing new guidance so that firms can act more quickly when borrowers approach them for help or the firm identifies a customer is likely to be experiencing difficulties.

Providing forbearance

It is particularly welcome that the guidance explicitly instructs that not only borrowers who have already missed payments should be offered help, but also those who 'reasonably expect to experience payment difficulties'. This is important to ensure support is also available for those who have juggled bills, are cutting back on essential household needs or used credit to prioritise mortgage payments, but are and will experience wider detriment if steps are not taken to reduce or maintain mortgage payments.

It is of concern that the guidance states that 'some firms will not be able to offer contract variations'. Clarification should be given as to why some firms cannot do so. The steps set out in the guidance seem entirely reasonable, and the consumer protections should be universally available across the sector so that all borrowers can access support regardless of their lender. If there are legitimate reasons why some lenders cannot provide contract variations, a more detailed list of circumstances should be provided to mitigate the risk that lenders do not take the expectation to offer contract variations seriously because of this line.

Providing guidance at scale

The guidance is useful in presenting expectations on how forbearance can, and should, be offered at scale and that, where this is by digital means, alternatives should be offered. Further clarification would be useful where the guidance states that firms should offer customers a range of options the firm has identified as appropriate for their circumstances. We would also like to see the FCA explicitly state that firms should still consider any requests made by the customer for alternative forbearance options, even if not originally identified by the firm. This is especially where the customer provides additional information about their circumstances that the firm was not already aware of.

Contract variations for the purpose of forbearance

It is valuable that firms have the flexibility to offer contract variations, including extending the mortgage term into retirement, without assessing affordability where it supports customers experiencing difficulty. However, there are risks associated with making these changes which need to be carefully considered, and these should be

understood whether or not the customer is in payment difficulty. As such, content should be added to the guidance in this section to also clarify that firms should be satisfied that consumers understanding the consequences of moving to interest-only and not having a repayment strategy in place, as well as the current content in the section titled 'customers not requiring forbearance - but wanting to reduce their monthly payments (contract variations)'.

Where contract variations are used to assist customers in difficulty, especially when extending the mortgage term into retirement, there should be a review point agreed for the firm to reconsider if circumstances have changed sufficiently that the term can be reduced. It is a concern that customers may not have knowledge of their income once they reach retirement, and may find payments unaffordable and themselves in further difficulty at this point. While it is important forbearance can be offered quickly, there should then be safeguards to reconsider the customer's position once circumstances have stabilised to mitigate the risk that the customer has unaffordable mortgage payments on a fixed pension income.

Customers not requiring forbearance - but wanting to reduce their monthly payments (contract variations)

It is welcome that contract variations can be offered without affordability assessment in circumstances where the consumer will be materially better off under a new fixed deal than the standard variable rate. This is especially important to support 'mortgage prisoners' which has been a long standing problem, but increases in importance in a higher interest rate environment.

Exceptions to requirements to provide advice

The risk to the customer when varying contracts should be irrelevant to the decision making process where the customer is experiencing payment difficulty, especially where there are long-term implications from variations made in the short-term. The guidance should be clear that providing all options to the customer may not be sufficient to ensure customers can make informed decisions, and what is in the best interests of the customer should be at the heart of the firm's decision making, inline with the proposed Consumer Duty.

About Christians Against Poverty (CAP)

With a vision to see transformed lives, thriving churches and an end to UK poverty, Christians Against Poverty (CAP UK) is a national charity that equips local churches to deliver a range of services.

CAP Debt Help provides holistic support for families and individuals facing problem debt with a free face-to-face service – tackling both the financial conundrum and the wider emotional impact. CAP tackles the causes and consequences of UK poverty through free community groups, also run through local churches. This includes Job Clubs, Life Skills groups and the CAP Money course.

All CAP's services are free of charge and available to everyone, regardless of age, gender, faith and background. To find out more, visit capuk.org.

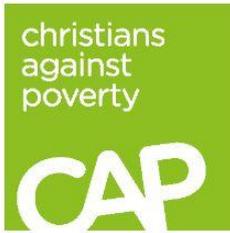
Requests for further information

This response has been written by Rachel Gregory, Senior External Affairs Manager for Christians Against Poverty (CAP), with contributions from:

Katie Toghill-Murphy, Policy and Research Officer
Ruth Maybank, Policy and Research Officer
Emma Hide, Policy and Public Affairs Officer

Please send requests for further information to:

External Affairs
Jubilee Mill
North Street
Bradford
BD1 4EW
externalaffairs@capuk.org



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