Strengthening Protections for Borrowers in Financial Difficulty: Consumer Credit and Mortgages

CP 23/13 BSA response

Restricted
27 July 2023

Building Societies Association

Introduction

The BSA represents all 43 building societies, as well as 7 larger credit unions. Building societies serve almost 26 million consumers across the UK and have total assets of nearly £500 billion.

Together with their subsidiaries, they have helped over 3.6 million families and individuals to buy a home with mortgages totalling over £366 billion, representing 23% of total mortgage balances outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £342 billion of retail savings, accounting for 18% of all cash savings in the UK. With all of their headquarters outside London, building societies employ more than 51,500 full and part-time staff.

The BSA welcomes the opportunity to respond to this consultation on strengthening protections for borrowers in financial difficulty and thank the FCA for its continued collaborative approach when working with industry. Given that the primary business of the majority of our membership is mortgages and savings we have focused our response on the mortgage specific proposals in the consultation.

MCOB 13 has been embedded by mortgage lenders for many years, any changes to the handbook requires careful consideration from lenders. It is disappointing that the FCA has decided on a very short consultation period, we appreciate that on occasion FCA may be required to act quickly as at the height of the pandemic. However, given the Tailored Support Guidance (TSG) remains in place we find the shorter deadline unjustified and challenging to meet. FCA should maintain the traditional three month consultation window wherever possible to allow stakeholders to provide detailed evidence based responses.

Summary

The Mortgages TSG was introduced as borrowers were transitioned off payment deferrals on to more tailored forbearance. It was successful in ensuring borrowers received appropriate support during the height of the pandemic. The guidance was further utilised as we moved into a time of economic pressure caused by high inflation. Given that this guidance is temporary we are supportive of FCA's intent to embed relevant sections into the handbook.

The TSG enables firms to respond to borrowers in financial difficulty or at risk of financial difficulty without waiting for mortgage arrears to accrue to the formally recognised arrears level of 2 monthly missed payments.

Much of the TSG already mirrored industry best practice, the additional requirements such as a stronger focus on supporting customers at risk of payment shortfall were welcomed and are now embedded as business as usual. FCA should consider that in some instances guidance lends itself-better to tailored support rather than rules that can often be restrictive and create tension with the principles outlined in the Consumer Duty.

The Government introduced the Mortgage Charter[1] in July 2023, the majority of the mortgage market by market share have signed up to the agreement. The Charter is primarily aimed at borrowers who may struggle with increased payments when their existing product expires. FCA subsequently introduced PS23/8[2] to enable firms to reduce borrower's capital repayments (paying interest only) for up to 6 months and/or fully or partly reverse a term extension within

[1] Mortgage Charter HM Treasury July 2023

[2] PS23/8 Mortgage Charter; enabling provisions

6 months of extending the term. Lenders may now offer both these options without a new affordability assessment. These rules changes can be utilised by all firms including those not signed up to the Mortgage Charter.

This Charter builds on work our members are doing to proactively engage with borrowers early to help them avoid any mortgage shortfall.

FCA's press release[3] alongside publication of FG23/2 stated that;

"Lenders proactively contacted customers a combined total of 16.5 million times, across a range of channels, to offer support in the last year. Following conversations with the FCA, lenders have confirmed they expect to increase this to 20.5 million contacts over the next year.

Lenders supported over 2 million customers to manage their finances in the past year, including through budgeting tools, access to debt advice, and tailored mortgage forbearance."

This helps illustrate that lenders are engaging with their customers on a large scale early before any shortfall accrues.

Much of the rationale for these proposals and the harm described is taken from the Borrowers in Financial Difficulty report (BIFD), however this report is vague in identifying what type of firms caused the harm. The lines between Consumer Credit & Mortgage lenders are often blurred. FCA has not identified the type of lending undertaken by the firms who were sanctioned. It is important that if FCA plans to make amendments to the mortgages handbook that it is responding to harm by regulated mortgage lenders, noting that isolated pockets of non-compliance should be addressed via robust supervision.

Our members do not agree with some of the proposed changes outlined in this consultation;

- We strongly oppose the inclusion of the new forbearance measures in the handbook. Waiving capital or interest, reducing interest rates or applying simple interest are options firms may use in exceptional circumstances. It is inappropriate for these extreme measures to be included in the traditional forbearance toolkit which aim support borrowers to repay the secured debt in full.

  Our members would not consider waiving capital in normal circumstances. Given that the borrowing is secured against the property it is unclear why they would need to do so. Reducing interest charged and applying simple interest are again solutions not utilised by mortgage lenders. These types of solutions suggest the borrower can no longer sustain their borrowing and repossession is likely the outcome that would follow. It is unclear why FCA would want to encourage lenders to over-forbear to sustain unaffordable borrowing. In addition, introducing different methods of interest calculation would require system development which would be costly and time consuming and deliver little benefit to borrowers.

  The responsibility to repay secured borrowing should always remain with the borrower. FCA risks reducing this responsibility from the borrower leaving the lender exposed to losses. Credit losses cannot be ignored in provisioning and credit risk policy, and it ultimately impacts mortgage pricing. In the case of building societies any loss has a direct impact on the interest rates they can offer their savings members.

  Highlighting these measures creates a consumer expectation that their lender will always offer this type of forbearance. FCA use of phrases such as "*must consider*"

[3] https://www.fca.org.uk/news/press-releases/fca-confirms-help-mortgage-borrowers-struggling-payments

make it very difficult for a lender to justify any other measure that aims to recover the full shortfall. It is likely some borrowers will insist on these solutions which could lead to increased complaints to the Financial Ombudsman Service (FOS). Given that FCA proposes adding these measures to the handbook the FOS are likely to interpret them as tools that firms should utilise or "standard" industry practice.

It is worth reminding the FCA of the aims of forbearance outlined in FG11/15[4];

"*The primary aim of forbearance should be to enable the complete recovery of the mortgage through the full repayment of arrears.*

In circumstances where this primary aim cannot be achieved, the secondary aim would be to recover the customer into a sustainable terms position on their mortgage. Sustainable terms are defined as revised contractual terms where the mortgage can be fully serviced over its full life."

- These new proposals look to introduce "*payment shortfall*" into the scope of MCOB 13. Whilst we agree with the intent to support early/pre–arrears borrowers per the TSG, these proposals fail to recognise that not all payment shortfalls are a sign of financial difficulty. Rule change rather than guidance restricts a firm's ability to communicate with each individual customer at the right time in the right way. This will potentially affect the customer experience and outcome without reasonable justification.

  The new Consumer Duty comes into place on 31 July 2023, Consumer Support and Consumer Understanding form key elements of this new duty. Our members have been carefully reviewing their customer communications to ensure they meet the requirements of the Duty. Overlaying prescriptive rules for shortfall letters removes the flexibility for firms to be more nuanced in their approach in order to best serve their borrowers.

  Instead of introducing blanket letters for borrowers with any shortfall FCA should allow firms the flexibility to contact customers in the right way at the right time. The FCA proposals are a blunt approach which risk antagonising borrowers with formal letters and disrupting more nuanced approaches our members will take under the Consumer Duty.

  A more effective Consumer Duty friendly approach would be to ask firms to create a written policy/process on how they will deal with payment shortfall customers. This would enable firms to meet the objective of clearing the shortfall before the customer moves into formal arrears and has their credit file impacted. Firms may utilise this flexibility to set de-minimis levels of shortfall before letters are triggered. This is common practice currently and avoids antagonistic letters demanding a few pence. Firms may also be able to identify borrowers who have a shortfall but are not in any financial difficulty such as those who may have a long-term small shortfall or regularly late-pay due to the nature of their income.

  Whilst FCA has maintained the "*within 15 days*" wording for shortfall statements within MCOB 13.4.1 R which is helpful, the consultation is very much written to set expectations of letters being sent for any shortfall as soon as possible (allowing 5 days for admin errors). Given how direct debits operate it is likely most firms continue to send letters close to the 15 days, which may be inconsistent with FCA policy intent.

[4] FG11/15 Forbearance and impairment provisions - mortgages

The BACs scheme rules allow for firms to re-present a failed direct-debit within 30 days as the payer gives implicit authority in the direct-debit instruction. Generally firms will re-present the direct debit between 7 – 14 days later. This gives the borrower a grace period to ensure they have sufficient funds available to avoid a second attempt failing. This process is beneficial to borrowers as it avoids the need to make manual payments. If the FCA were to insist on shortfall letters after day 5, existing well established processes may not work. It would be replaced by a sub-optimal manual approach. It is unclear what benefit an additional shortfall letter provides given that customers will receive notification of the failed payment, which outlines the date of the second direct-debit attempt or signposts how the customer can clear the shortfall.

- Whilst we agree with transparency with borrowers, we do not think listing all forbearance solutions is helpful. Tailored forbearance is a collaborative effort between lender and borrower, lenders are required to consider and proceed with the most suitable option working with the customer. Providing a shopping list of forbearance tools is unhelpful and likely to result in borrowers wanting to self-select options that may not be suitable (many already expect this given their experiences during Covid, and also under the Mortgage Charter). This could result in constructive discussions becoming adversarial from the outset. Instead firms should be able to outline their forbearance process and talk about particular solutions generally. We do not believe that simply listing forbearance solutions will in anyway encourage borrowers to make contact with their lender. The key message remains that early engagement with your lender is beneficial and speaking to your lender will not impact your credit file.

Questions

Q1: Do you agree with our proposed changes to the scope of:

a. CONC 5 & 7?

b. MCOB 13?

Paragraph 3.6 references expanding MCOB 13.3.1R, it highlights three situations where the scope of MCOB 13 should be extended:

i) Customer has a payment shortfall
ii) The customer indicates to the firm that they are at risk of falling into payment shortfall
iii) The firm otherwise becomes aware that the customer may be at risk of falling into payment shortfall

FCA proposes replacing references to "*arrears*" and "*payment shortfall*" in the handbook with *payment difficulties* which is defined above.

We agree that any borrowers who falls into the above categories should be fully supported by their mortgage lenders with access to the full range of forbearance options. However, we do not feel it is necessary to add "*customer has a payment shortfall*". Adding this as a rule reduces firm's ability to deal with this cohort in a flexible manner, recognising that not all payment shortfalls equate to financial difficulty.

Our members tell us that they have been proactive (and successful) in this area precisely because they have NOT applied a formulaic, defensive, 'compliance led' approach. Rather, a human-centric approach that has not inferred financial difficulty, which can be taken as an insult/ criticism and immediately raise barriers to open conversations, has resulted in better outcomes.

It is our understanding that the formal arrears definition remains:

1. a) a shortfall (equivalent to two or more regular payments) in the accumulated total payments actually made by the *customer* measured against the accumulated total amount of payments due to be received from the *customer*; or
2. (b) remaining in breach, for more than one month, of an agreed borrowing limit or of an obligation to pay or repay where the loan or *home purchase plan* does not have a regular payment or repayment plan.

MLAR reporting not changed from a shortfall of 1.5% or more of the outstanding mortgage balance, it would be helpful if FCA confirm if it plans on collecting any further data on payment shortfall customers. These proposals create "conduct arrears" and "prudential arrears" whilst these new shortfalls do not trigger formal reporting they do trigger formal arrears process rules as outlined in the handbook and create unnecessary operational complexity for lenders.

Clearly when a borrower has a payment shortfall they should be supported by their mortgage lender, however, we are not supportive of any payment shortfall automatically triggering a formal arrears process. Instead lenders should have the flexibility to determine how to best support those borrowers. A payment shortfall does not automatically equate to financial difficulty, there are a number of reasons why you might see a mortgage shortfall including;

- Borrowers who do not pay by direct debit and instead use standing orders, cheques, cash in branch which lends itself to rounding/decimal errors in payment. These borrowers often do not account for daily interest calculations that impact the mortgage balance.
- Borrowers who are not paid monthly including those in receipt of benefit payments which are weekly or have a 13-month cycle and borrowers employed in industries where their salaries are paid on a weekly/fortnightly basis. Some of these scenarios create a short-term shortfall which is cleared on a cyclical basis.
- Self-employed borrowers who may make lump sum payments that adjust against outstanding balance, may dip in and out of payment shortfall over a year, but are not generally an indication of payment difficulty.
- Persistent late payers, who make their payment in the same calendar month but after the due date. Under these proposals a shortfall letter may be triggered, but be irrelevant by the time it is received.
- Where the direct debit bounces due to an administrative error or where the borrower may have forgotten to transfer funds to their main bank account. (5 days is not enough time to rectify this)

Where the customer indicates to the firm that they are at risk of falling into payment shortfall, it is quite right that firms help customers avoid this where possible. We also agree that where the firm otherwise becomes aware that the customer may be at risk of falling into payment shortfall firms should act appropriately. It is worth noting that engagement with debt advisors is fairly limited, in some cases they may contact on behalf of a borrower where they have a letter of authority, but this is rare. A lender is more likely to have engagement with a debt advisor when a borrower enters a breathing space or mental health breathing space. Although our members tell us they have found it very difficult to engage with debt advisors when they have needed to discuss particular breathing space cases.

Paragraph 3.7 explains that where firms have multiple products they should act if they see any shortfall across these products. We welcome FCA **not** proposing all firms proactively identify such customers and the limitations of information available. As FCA recognises that some firms have less access to borrower information than others.

Currently if a borrower clears any shortfall before the next monthly payment is due credit reference reporting is not impacted. If "any shortfall" is embedded in the handbook as an official trigger it is possible that this may feed into credit risk models and some of the above customer examples may find it more difficult to obtain credit.

MCOB 13.4.1 currently works well, it offers sufficient time for a firm to re-present a second direct debit payment. This is beneficial for those customers who make an administrative error which they quickly rectify and stops them receiving an official letter from their lender, which could be stressful. The rule does already give firms the flexibility to send the letters earlier than 15 working days, this can be utilised in relevant scenarios identified by the firm. We note paragraph 3.76 where FCA recognise instances of inadvertent payment errors, however given that the majority of mortgage holders pay by direct debit five working days is not sufficient time for a second direct debit to be presented. Currently when a direct debit is declined the lender would write to the customer advising them that the firm will make a second attempt at payment, this allows the borrower to ensure they have sufficient funds in their account and is preferable to the borrowers having to make a manual payment.

Research from Amplified & StepChange[5] outlines that;

"Organisations' frequent communications to customers in financial difficulty are not consistently delivering the intended policy purpose: that people take action to resolve their situation."

"40% of respondents saying creditor communications made them feel embarrassed"

"Nearly 90% of respondents said that creditor communications produced one or more negative feelings. Nearly three quarters said communications from creditors made them feel scared, anxious or depressed and over 40% said these communications left them feeling overwhelmed, embarrassed or helpless."

It is unclear what benefit these additional shortfall communications will offer borrowers, they are more likely to have a negative impact than a positive one. FCA has made assumptions based on very small sample sizes. Section 2.10 of the BIFD report[6] mentions that 32% of the sample of borrowers in financial difficulty do not recall any contact with their lenders. It would be interesting to understand how many of these borrowers are mortgage holders, we suspect this would be a very low number. As FCA is aware any customer with mortgage arrears would receive a statement within 15 working days as per MCOB rules, in addition as the majority of mortgage holders pay via direct-debit they would receive a notification of a failed direct-debit. We do not believe this is sufficient justification to wholesale changes to long-standing and effective process.

Q2: Do you agree with our proposals to include a new Handbook rule and associated Handbook guidance, covering the reviews of the effectiveness of policies and procedures:

a. in CONC 7?

b. in MCOB 13?

Yes, FCA has been fairly consistent with this message in recent publications. We agree that FCA should not be overly prescriptive with "*reviewing regularly*", as this could lead to tick-box reviews. Allowing firms to review the effectiveness of policies and procedures at appropriate

[5] Mixed Messages – Amplified Global & StepChange Debt Charity 2022

[6] BIFD report FCA November 2022

intervals is more likely to lead to an outcomes focused approach. FCA should provide some further insight into its expectations around the content of these reviews.

It would be unfortunate if some lenders spent dis-proportionate time and resource writing reports rather than dealing with customers. FCA should be very clear that its expectations are proportionate to the nature, size and complexity of individual firms.

Q3: Do you have any comments on our updated references to the fair treatment of vulnerable customers:

a. for CONC 7?

b. for MCOB 13?

We are supportive of FCA proposals. MCOB should be aligned to FG21/1.

Q4: Do you agree with our proposals to add to the existing list of forbearance options at:

a. CONC 7.3.5G & CONC 5D 3.3(4)G?

b. MCOB 13.3.4AR?

We strongly disagree with FCA proposals on adding to the list of forbearance options in MCOB 13.3.4AR. It is inappropriate for FCA to add these options to the handbook which could have significant unintended consequences and have not been considered in the FCA's cost benefit analysis (CBA). Any economic loss will have an impact on pricing both for mortgage rates and savings rates, nor can lenders ignore this from an accounting and provisioning perspective.

FCA underestimates the cost and complexity of introducing new ways of charging interest such as "simple interest". One of the major mortgage system providers has confirmed that introducing this new method of interest calculation is a major system change and could cost an individual firm anything up to half a million pounds. The FCA's CBA estimates the total industry IT costs at £778,000, we would suggest that even a ten-fold increase in this figure may be on the low side.

If FCA intends to add these new options we ask for clarity on how firms can justify other solutions which look to repay the outstanding debt in full. Clearly in the eyes of customers these other, perhaps more appropriate options, will be seen as "lesser" solutions. It is likely that consumer organisations and debt advice agencies will encourage debtors to press for these new solutions. Our members will not offer these solutions except in the most extreme circumstances. FCA should be careful not to create false expectations which could increase the workload of the FOS.

Q5: Do you agree with our proposals on the transparency and accessibility of forbearance options:

a. to CONC at CONC 7.3.13A, CONC 5D 3.9G and CONC 5D 3.3G(7)?

b. to MCOB 13.3.4C?

We agree that firms should offer to engage with customers through a range of channels, changing the channel if necessary to enable the customer to engage with the firm effectively. This should be business as usual for firms to ensure they meet FCA expectations under FG21/1, this will be further strengthened by Consumer Duty requirements on communications.

Whilst we agree lenders should be transparent on the range of forbearance options they can offer customers, this should remain at a high-level. Creating "*shopping lists*" of forbearance options leads borrowers to believe they can self-select. Our members report that many debtors already press for solutions pushed by their favourite non-regulated consumer champions. Interest-only tends to be the option most requested. Clearly our members have to determine suitability and only propose the solution that is most suitable to the individual circumstances of the customer. This often leads to adversarial conversations from the outset.

Parallels can be drawn with the introduction of wholesale mortgage advice via the Mortgage Market Review. Even to this day lenders do not always have mortgage rates in "prominent places" on their websites, the reason for this is customers often see a particular rate (lowest) and come in with the expectation that they take that product. The mortgage advisor would need to recommend the most suitable product based on the circumstances of the individual.

We are unclear as to the rationale for this proposal, does the FCA believe a list of forbearance options will make customers more likely to engage with their lender? We would disagree with this idea.

Q6: Do you agree with our proposals relating to effective customer engagement and communication around money guidance and debt advice:

a. in CONC 7.3.7A?

b. in MCOB 13.3.2AR?

Yes, it may be helpful if the FCA clarifies how firms quantify "*effectively communicating the potential benefits of money guidance and debt advice".* FCA should outline its expectations on how firms assess consumer understanding.

Not all mortgage lenders have debt counselling permissions, FCA should provide clarity on how firms stay within Perg boundaries whilst communicating the potential benefits of free debt advice.

Q7: Do you agree with our proposals to include further Handbook provisions on our expectations relating to customer engagement and communication:

a. in CONC 7.3.13A and CONC 5D?

b. in MCOB 13.3.4AR(2)?

FCA references firms making borrowers aware of the impact of forbearance on their credit file. It is impossible for a firm to know what the "impact" or "implications" of a particular forbearance solution will be. A credit file is simply a record of information, individual firms with different credit risk/business models will interpret this data and make a judgement whether the individual meets their criteria. We suggest FCA provides a general disclosure for firms to utilise, we would suggest something along the lines of;

"The forbearance measure you have agreed will be highlighted on your credit file and may impact your ability to obtain credit in the future."

FCA also propose a new provision to highlight the risk of not agreeing to an arrangement. Again we believe this lends itself to a standard disclosure;

"*by not agreeing to this arrangement, if you were to miss a payment this could impact your ability to obtain credit in the future"*

It is very difficult for firms to add more nuance than a very high-level disclosure as it is impossible for them to understand the exact impact.

In respect of providing customer information we would welcome clarity on FCA's expectations. 3.41 mentions provision of information outlining the impact on the overall balance and implications for the customer's credit file not being an exhaustive list of information that firms should provide. It is unclear what additional information FCA is expecting firms to provide. FCA has had extensive discussions with industry around the provision of customer information during the implementation of the Mortgage Charter and it is aware of some of the challenges in providing upfront information. We are happy to work with FCA to find a solution that meets policy objectives.

We do not see any benefit of a "cooling off period" as described in paragraph 3.42. Forbearance is not something you sell as a product, firms should be recommending the most suitable tailored solution. This risks delay and a worsening of the debtor's position.

Q8: Do you have any comments on these consequential amendments:

a. in CONC?

b. in MCOB?

As mentioned earlier we do not believe any payment shortfall should trigger formal MCOB process. FCA seems determined to introduce additional statements/letters, we remain unconvinced at the additional value these would add for the borrower. FCA has not made the case that these additional requirements will benefit borrowers or prevent harm. FCA should allow firms to deal with shortfall customers flexibly making reference to the relevant obligations under the Consumer Duty.

Q9: Do you agree with our proposals to introduce requirements on escalating balances where a firm has put in place a sustainable repayment arrangement as a forbearance measure and the customer is meeting the terms of that arrangement?

N/A

Q10: Do you agree with our proposals on introducing guidance to help firms determine necessary and reasonable charges?

N/A

Q11: Do you agree with our proposals on sustainable repayment arrangements?

N/A

Q12: Do you agree with our proposals requiring firms to take reasonable steps to ensure that forbearance measures remain appropriate?

N/A

Q13: Do you agree with our proposals for firms to objectively undertake income and expenditure assessments?

N/A

Q14: Do you agree with our proposed guidance for income and expenditure assessments on clear policies, assessing whether arrangements are appropriate and sustainable and making available to the customer a record of any income and expenditure assessment made to allow them to share with other lenders and debt advice providers?

N/A

Q15: Do you agree with our proposals on repossessions?

N/A

Q16: Do you agree with our proposals on voluntary termination?

N/A

Q17: Do you agree with our proposed amendment to CONC App 1.2?

N/A

Q18: Do you have any comments on the increasing balances proposals?

We agree with the FCA that firms should not ignore the effect of increasing balances on affordability and take into account the effect of any arrangements on the customer's overall balance and support the new requirement.

FCA states:

"*We are mindful of feedback that this issue may not be limited to second charge mortgages"*

FCA does not reference any evidence of this through their extensive supervision and BIFD work, it would be helpful if FCA elaborates on this feedback. Given that FCA will add a new rule to tackle this potential harm it is inappropriate for FCA to suggest firms apply simple interest calculations, this is a fundamental change for mortgage lenders which would come at considerable cost. FCA should be mindful of not creating incentives for borrowers to not pay their secured debt.

Q19: Do you agree with our proposal to change and extend the scope of the rules in MCOB 13.4.1R and MCOB 13.5.1R to ensure more timely disclosure of information on any payment shortfall?

As explained in detail earlier we are not supportive of the proposed changes to MCOB 13.4.1R. FCA needs to make the case as to why borrowers should be inundated with formal MCOB statements and how this is beneficial to them. Our members tell us that sending paper is of limited effectiveness. It is talking to people that has an impact. It is disappointing that FCA seems to favour statements which are easy to evidence compliance rather than easy to prove effective.

We are aware of the data collected by UK Finance which indicates that significant numbers of customers self-cure within 30 days, this data is consistent with anecdotal feedback from our members. FCA should factor in potential harm to these customers who will receive unnecessary lender communications.

FCA quotes Consumer Duty around providing timely information on financial position including the impact of any charges when in payment shortfall. We suggest rather than overlaying prescriptive blunt rules FCA allow firms to create policy/process to deal with shortfall customers within the spirit of the Consumer Duty. We expect many firms already have such policies in place.

The amendment to MCOB 13.5.1R is sensible, FCA may want to consider whether guidance would be more appropriate and offer firms more flexibility to be tailored in their communications, this would be validated by Consumer Duty process reviews.

Q20: Do you agree with our proposals to amend the guidance in MCOB 13.3.4DG?

Yes, these are sensible and balanced proposals.

Q21. Do you agree with the factors we propose a firm considers when determining whether capitalisation is appropriate?

Yes.

Q22: Do you have any comments relating to determining the affordability of future capitalised payments?

We agree that borrowers should be able to afford future capitalised payments and firms should have flexibility to determine how to assess this. As the FCA points out, if a customer has already demonstrated the ability to service a higher amount, a detailed income and expenditure assessment may not be appropriate.

Q23: Do you agree with our proposals for firms to ensure that forbearance arrangements remain appropriate?

Yes. There may be some circumstances where a firm is not made aware of any changes to customer circumstances either from the customer or a third party such as a debt advisor, FG11/15 states;

"Payment arrangements that are agreed with the customer should be reviewed regularly (e.g. every 3-6 months), with the aim of recovering the loan as soon as is reasonably possible"

Although we do not believe FCA needs to be overly prescriptive on when reviews should take place, the above does seem to set a minimum review period of 6 months.

Q24: Do you agree with our proposed guidance on what we consider to be reasonable steps?

Yes

Q25: Do you agree with our proposals to provide additional guidance at MCOB 13.3.4CG to include taking account of wider indebtedness?

Generally yes. FCA should confirm that a "*sufficient range of options*" does not need to include simple interest calculations, waiving interest or capital and reducing interest rates.

Taking account of wider indebtedness is standard industry practice, our members fully appreciate borrowers have other priority debts they must pay, and this would always be accounted for in any payment arrangement. FCA may want to consider being more specific in respect to priority debts, for example the borrower may have a buy-to-let mortgage alongside a residential mortgage. Where a firm identifies a borrower has difficulty meeting other credit commitments they would refer a borrower to a holistic debt advice provider, they would be best placed on advising on wider debts and prioritisation.

Q26: Do you agree with our proposal for firms to share income and expenditure assessments with customers where possible?

Yes, only where possible. The TSG goes slightly further in stating "*where possible, within their existing system capabilities*." We suggest FCA transpose this additional wording into the handbook. It is important that borrowers understand that other creditors will not forgo usual process on production of another firm's income & expenditure document.

Q27: Do you agree with our proposal to extend the rule in MCOB 13.3.9R to include customers who have or may have payment difficulties?

Yes.

Q28: Do you agree with our proposed clarification on recording video calls in MCOB 13.3.9R? Do you agree with our proposal not to extend this to those facing payment difficulties?

Yes, it is helpful to clarify the recording of video calls to align with existing call recording rules.

There may be a typo in the second part of the question.

Q29: Do you have any comments on the proposed amendments to MCOB 13.8?

No comment

Q30: Do you have any comments on the consequential impacts to:

a. MCOB 14? No further comment

b. MCOB 15? No comment

Next steps

FCA's proposed implementation date is too soon, given that longstanding rules are to be changed which will require some system updates/development we would suggest a minimum 12 months deadline from publication of final rules and policy statement. FCA proposes reviewing its Mortgage Charter enabling provisions 12 months from publication, we expect HM Treasury may also review the Charter. It would be sensible if FCA avoid publishing ahead of these reviews.

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The Building Societies Association (BSA) is the voice of the UK's building societies and also represents a number of credit unions.

We fulfil two key roles. We provide our members with information to help them run their businesses. We also represent their interests to audiences including the Financial Conduct Authority, Prudential Regulation Authority and other regulators, the Government and Parliament, the Bank of England, the media and other opinion formers, and the general public.

Our members have total assets of over £481 billion, and account for 23% of the UK mortgage market and 18% of the UK savings market.