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Response to the FCA Mortgage Rule Review DP25/2

About the Building Societies Association

The Building Societies Association (BSA) represents all 42 UK building societies, as well as 2 mutual – owned banks and 7 credit unions. Building societies and mutual – owned banks have total assets of almost £650 billion. They hold residential mortgages of over £485 billion, 29% of the total outstanding in the UK. They are also helping over 23 million people build their financial resilience, holding over £485 billion of retail savings, accounting for 23% of all cash savings in the UK. With all their headquarters outside London, building societies employ around 52,300 full and part-time staff. In addition to digital services they operate approximately 1,300 branches, holding a 30% share of branches across the UK.

Executive summary

The FCA's Discussion Paper 25/2 sets out proposals to review and potentially reform the mortgage regulatory framework, with a primary objective of supporting sustainable growth in the mortgage market. Alongside this, it explores how regulation can enable more diverse lending, particularly for underserved customer groups, while maintaining good outcomes and consumer protection.

We welcome the FCA's proactive approach and agree this is a timely and necessary review, particularly as the market navigates shifting economic conditions, changing customer demographics, and increasing demand for tailored lending solutions. It is now a requirement since the Financial Services and Markets Act 2023 was updated for regulators to review its rules and this paper is a welcome response.

We also acknowledge that many of the challenges posed in the discussion paper cannot be solved by regulatory intervention, they rely on changing lender risk appetite, or other engaged parties in the housing system such as government, the Prudential Regulation Authority, and those in the legal system.

Key Themes and Insights:

- **Growth and Innovation:** We strongly support the FCA's goal of ensuring the regulatory framework is fit for purpose and supports innovation, competition, and market growth. This includes revisiting legacy rules that may inhibit innovation, streamlining customer journeys, and enabling greater use of technology such as AI, open data, and automation.
- **Sales and Advice Frameworks:** We believe that the current advice/execution-only split could benefit from greater flexibility. Options that allow more tailored support for digitally confident consumers and for scenarios where full advice may be disproportionate or unwanted are welcome.
- **Disclosure and Documentation:** While we support the principle of clear consumer disclosure, there is limited appetite for major changes to existing documents like the ESIS. Instead, improving how and when information is delivered, particularly for non-standard scenarios such as debt consolidation or interest-only lending is preferable. We believe that changes that support

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the growth agenda and enable more consumers to access home ownership in a sustainable way should be prioritised

- **Access and Inclusion:** Improving access to home ownership remains an important theme. There is potential to do more for customer groups with irregular income, limited credit history, or low deposits, but this must be balanced with responsible lending. Rebalancing risk appetite can support inclusion, but expectations under Consumer Duty must be carefully managed. Also, we recommend a review of property taxation to support those who wish to 'right size' in favour of supporting older borrowers. For shared ownership, the main barrier is not always affordability but high service charges and repair costs, particularly for flats, with notable differences in how the London and non-London markets operate and are perceived.
- **Digitisation of the Home Buying and Selling Journey:** We support the FCA's interest in improving the house buying and selling process but note that large-scale digitisation would require cross-sector collaboration and possibly government leadership. Areas such as standardisation of legal processes, use of digital ID, and better regulation of conveyancing could all improve borrower outcomes and support market efficiency.
- **Managing Risk and Tolerable Harm:** The concept of "tolerable harm" was broadly supported, with calls for clearer definition and a more practical framework for measuring and monitoring this across the market. There is some tension between enabling access and managing risk, particularly under Consumer Duty, and supported the idea of market-wide indicators.
- **Unsustainable Mortgages and Forbearance:** There are operational and systemic barriers to managing unsustainable mortgages, including outdated systems, legal challenges, and limited external support such as social housing or SMI. Greater regulatory flexibility and judicial consistency were seen as essential to reducing long-term harm.
- **Rebalancing Risk Appetite:** We agree with the FCA's assessment of the key trade-offs involved and support efforts to enable a more balanced approach to risk. We welcome the FCA taking a broader view of comparing the customer outcome of home ownership vs remaining in rental property, often at greater cost, and missing the opportunity to create property wealth. While this may result in increases in arrears and possessions, these have been very low through the COVID period and cost of living crisis. The risk now feels inappropriately calibrated vs the function of enabling greater access to home ownership. We also acknowledge the risk of layering and compounding risk, and that monitoring consumer outcomes will be important to prevent foreseeable harm.
- **Regulatory Priorities:** The FCA is encouraged to prioritise changes that could deliver the greatest benefit to market growth and operational efficiency. These included:
    - Reviewing affordability rules to support greater access to home ownership especially for first-time buyers

- Later life lending and how we support more consumers with retirement planning
- Reforming interest-only rules to allow for clearer stepping stones to ownership
- Reviewing barriers for products like shared ownership

Overall, we support the FCA's ambition to ensure that mortgage regulation enables a dynamic, growing and inclusive market. We urge a balanced and phased approach, allowing the recent changes to fully bed in before committing to any future changes. It's essential to prioritise changes that deliver the greatest market impact while protecting customer outcomes and ensuring alignment with broader policy objectives.

We would welcome the publication of a Consultation Paper, providing a permissive framework and an opportunity for stakeholders to offer feedback. We also consider that collective engagement with the various trade bodies in the mortgage market can help shape how future regulation develops.

FCA Discussion Paper 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?

Yes, first-time buyers, self-employed people, and those with variable incomes can often find it more challenging to access homeownership. We have focused on first-time buyers and some additional groups below and will cover self-employed and those with variable incomes in question two.

First-time Buyers

First-time buyers an important part of the housing market, not just because they represent a big chunk of demand, but because helping someone onto the ladder for the first time can have a lasting impact on their financial future. They're often navigating a lot of new information and challenges, so making things clearer and more accessible really matters.

Today's first-time buyers face a double affordability challenge, an almost record-high cost of buying a home and the end of record-low mortgage rates. As a result, repayments as a proportion of income for new first-time buyers has increased by around 30% (22% of income) since its low in 2020 (18% of income).

Recently mortgage rates have started to ease, and further Bank Rate cuts, while unlikely, this year, could help improve repayment affordability. However, in the BSA's [April 2025 Property Tracker](), first-time buyers are still ranking mortgage affordability as the biggest barrier to buying a home, with two-thirds (65%) selecting this. Raising a deposit was also highlighted as a significant obstacle to homeownership, with 62% of would be homebuyers citing this.

Many successful first-time buyers are stretching themselves to get on the property ladder, with many using higher loan-to-income (LTI) and higher loan-to-value (LTV) mortgages to mitigate the challenge of raising a higher deposit. Choosing to have a higher monthly repayment, over a longer mortgage term, supported in part by wage growth, is likely to be the biggest factor that has enabled successful first-time buyers to achieve home ownership.

The biggest challenge to increasing first-time buyer numbers is enabling younger and lower income borrowers, particularly those without access to family support to have an opportunity to buy their own home. From our latest **July 2025 Property Tracker** some renters remain optimistic, with around a third (31%) of 25–44-year-olds thinking they will be able to buy a home within the next five years, a similar number (33%) want to buy their own home but don't think they will ever be able to achieve this. Many are currently stuck in the private rented sector, where rental repayments as a proportion of income are significantly higher than mortgage repayments, even when the recent rise in mortgage rates has been considered. This severely limits the ability of those renting to save for a deposit.

Higher LTV mortgages can help more private renters to buy their first home, but not all. Whilst some 95% and higher LTV loans can be found today, their availability has been more limited since the financial crisis. Also, they are not a one-stop solution for all potential first-time buyers. The BSA's report, First-Time Buyers: Age Old Problems, Modern Solutions shows that with a 95% loan-to-value mortgage, just one in five (19%) private renters could afford to buy a £100,000 home.

The increased growth in house prices relative to incomes is the major underlying issue preventing first-time buyers from getting on the property ladder. There are however several government and regulatory policy actions which could help to address this.

A clear government long-term strategy aimed at supporting not only today's first-time buyers but also the prospects for future generations, is required. Working collaboratively with lenders, the wider housing industry, and the public, the focus needs to be firmly on making homes more affordable, more available, and more appropriate to the needs of those living in them. We will continue to work with the government and look forward to seeing its long-term housing strategy later this year. To ensure that any regulatory changes are sustainable these need to be balanced with supply-side intervention from government.

Government must continue to build on its actions to support the housing market as the changes announced so far will take time to filter through. Additional house building is also likely to fall short of the ambitious target which has been set.

Last year we highlighted how since the financial crisis the pendulum had swung too far towards a stricter regulatory environment rather than towards the societal benefits of higher rates of home ownership. Therefore, this discussion paper is welcome. More flexibility to allow lenders to support first-time buyers is needed, such as an increase in the availability of 95% LTV mortgages. We welcome the recent LTI change to enable more lending to first-time buyers and some lenders have acted quickly to this change. We also welcome the recent announcement of the mortgage guarantee scheme to support higher LTV lending. It is worth noting that no building societies have chosen to participate in the government mortgage guarantee scheme, mainly because they already operate private guarantee-backed offerings tailored to their members' risk profiles and needs. This approach allows them to manage risk efficiently. Nevertheless, addressing regulatory obstacles, such as the PRA's capital requirements would unlock further potential.

Nationwide is already making the most of the recent change in LTI rules to better support first-time buyers. It has lowered the income thresholds for its *Helping Hand* mortgage, which enables eligible buyers to borrow up to six times their income. Now, a single applicant earning £30,000 (previously £35,000) or a joint income of £50,000 (previously £55,000) can apply, opening the door to an estimated 10,000 more first-time buyers each year. It's a great example of how lenders can adapt to policy changes to meet the needs of today's buyers and help more people onto the ladder.

Yorkshire Building Society is another example of a lender taking action to support more buyers following the recent LTI rule changes. It has lowered the minimum income needed to access higher LTI mortgages from £75,000 to £50,000 and extended its *Boost LTI* product (which offers borrowing up to 5.5 times income) to first-time buyers with just a 5% deposit. It's a move that could make a real difference for creditworthy buyers who've previously been locked out of the market. Yorkshire's message is clear: lots of people *can* afford more than 4.5x their income, and arbitrary lending rules shouldn't hold them back.

Other potential focus groups.

a) Single applicants following a life event e.g. divorce/death
b) Older borrowers
c) Long-term renters
d) Foreign Currency
e) Credit Impaired

Single applicants following a life event

One additional consideration is borrowers navigating mortgage arrangements following a change in circumstances which now results in them becoming a sole applicant for mortgage purposes. While these individuals may not fall within the scope of joint mortgage abuse, they can face very similar affordability and structural barriers, for example, where one party seeks to retain the home, assume full responsibility for the mortgage, or refinance in their sole name but fails to meet affordability standards, despite a consistent repayment history.

This group has historically been considered under the umbrella of transitional arrangements, but in practice, many still face constraints that the existing rules do not fully accommodate. Linked to this, there is merit in the FCA revisiting the transitional arrangements more broadly, not only to ensure they are still fit for purpose in the current mortgage environment, but also to explore whether an updated or more flexible framework could better support borrowers in these types of life transitions. The original context for transitional arrangements was post-financial crisis; a review now could better reflect today's challenges, including affordability volatility, changing household structures, and increased consumer vulnerability.

We recognise that this is an underserved cohort of customers, but there isn't anything from a regulatory perspective that needs changing. It is for firms to decide within their internal risk appetite and product propositions, where there is anything, home they can do to serve these customers, like first-time buyers to help with affordability. Deposit often isn't the issue, but having access to an increased level of affordability is.

Older Borrowers

Older borrowers are another group who can struggle to get onto the property ladder or even move within it, despite often having stable finances or significant savings. Whether they're buying for the first time later in life, separating after a long-term relationship, or simply looking to downsize or relocate, they can find that traditional lending criteria just aren't set up with them in mind. Age caps, shorter mortgage terms, and assumptions about retirement income can all limit what they're able to borrow, even when they could comfortably afford the repayments. As people live and work for longer, there's a growing need for more flexible lending options that reflect the reality of modern life. That might mean longer terms, better use of pension income, or simply a shift in how lenders assess affordability later in life.

Giving older borrowers more viable routes into homeownership isn't just fair, it's essential for a housing market that works for everyone, at every stage. As people live and work longer, the mortgage market must evolve to support borrowing into retirement. Current product offerings and affordability assessments often do not always align with the financial realities of older consumers. We will explore this further in the later life lending questions of the discussion paper.

Long-term Renters

Long-term renters, especially those living in high-cost areas face some of the toughest barriers when it comes to homeownership. Many are paying rent that's equal to, or greater than a mortgage payment, but that doesn't always translate into being able to borrow what they need. In places like London and the South-east, even with a good income, saving for a deposit while keeping up with high rent can feel almost impossible. It's frustrating for would-be buyers who are clearly managing their finances well but can't get over that first hurdle. We recognise that consistent rental payment history could be a valuable step forward and we'll discuss further in the response.

Foreign Currency

Foreign currency mortgages are still needed by a niche but important group of borrowers, typically people who live or work in the UK but earn all or part of their income in another currency. This could include ex-pats returning to the UK, cross-border workers, or those paid in euros, dollars, or other currencies. Before Brexit, it was a simpler for lenders to offer these products, especially for EU-based incomes, but things have tightened since. Regulatory changes and currency risk rules have made some lenders step back from offering these mortgages altogether. For consumers, that's meant fewer options and more hoops to jump through, even when their income is stable and they can clearly afford the repayments.

Some lenders do lend to those receiving foreign income, but it is restricted to certain currencies. Partly because of countries under financial crime guidance as high risk, and partly because they must provide exchange rate disclosures and operationally this is a complex requirement. Under MCOB 2A.4 (for Consumer Duty) and MCOB 7.6 (disclosure at offer stage), if a regulated mortgage contract is a foreign currency loan (i.e. repayable in a currency other than the borrower's income or the UK pound), firms must give clear disclosures of the exchange rate risk.

From a new lending perspective, key barriers include the requirement at contract stage to offer borrowers a future option to switch currency or otherwise limit exchange rate risk (e.g. via a cap or risk warning, though the adequacy of warnings is subjective). In terms of responsible lending, firms would also need to evidence that customers could withstand currency fluctuations, potentially by building this into affordability assessments or applying a haircut of around 20%.

This can be operationally difficult, and we would welcome a review of the rules to support lending to those receiving foreign income.

Credit Impaired Consumers

Credit-impaired consumers, those with missed payments, defaults, or past financial difficulties often face a tough time getting a mortgage, even when they've turned things around. Life happens, and for many, a poor credit history doesn't reflect their current ability to manage money or make regular repayments. The challenge is that mainstream lenders can be cautious, and specialist options aren't always well-known or easy to access.

For first-time buyers or those trying to rebuild after a rough patch, this can feel like a closed door. There's an opportunity here for lenders and brokers to take a more balanced view, looking beyond just the credit file and considering the bigger picture. Clearer guidance, better use of data, and more transparent product options could help credit-impaired borrowers feel less excluded and more empowered to get back on track and into a home of their own.

The current definition of 'credit impaired' may also warrant review. For example, the six-year threshold for County Court Judgments (CCJs) can be a blunt instrument that excludes individuals who have since demonstrated financial resilience. A more nuanced approach could help more people access finance without compromising responsible lending.

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?

The mortgage market has come a long way in supporting self-employed borrowers, but there's still more that can be done.

More people are working for themselves, juggling multiple jobs, or earning in ways that don't fit the traditional nine-to-five mould. It's a trend that's not going away and it reflects the way modern life and work have changed. But the mortgage process hasn't always kept pace. Too often, people with perfectly healthy finances get tripped up just because their income looks a bit different on paper. Supporting these customers means rethinking how we assess affordability and risk and making sure we're not unintentionally shutting out people who deserve the same opportunities as everyone else. It's about fairness, but it's also about recognising the reality of how people live and work now, not how they did 20 years ago.

One of the biggest challenges self-employed customers face is that affordability assessments are often based on rigid criteria designed for salaried workers. This can lead to situations where someone is perfectly creditworthy but gets declined because their income doesn't 'fit the system.' A customer might get a Decision in Principle based on declared earnings, only to be turned away at application stage because the system can't process their irregular income or use of retained profits. This causes frustration and undermines trust in the process.

We support a more holistic approach to affordability. That could mean assessing multiple years of trading history, using verified contracts, HMRC records, or even real-time income feeds through Open Banking or accounting software integrations. Many self-employed borrowers demonstrate long-term financial resilience, it's just that their income doesn't arrive in neat monthly payslips. Some members would like to explore flexible mortgage structures that better reflect cash flow patterns, like allowing for overpayments or missed payments over a three-month period, rather than expecting fixed monthly payments. This kind of innovation could be especially useful for zero-hours workers or those with multiple income streams and having regulation to allow such innovation.

Across the sector, different building societies take slightly different approaches when it comes to assessing self-employed income, which can be both a strength and a source of confusion for borrowers. Some lenders will look at net profit only, while others take a more flexible view and include retained profits or dividends, especially for limited company directors. A few even consider gross profit or salary plus dividends, depending on the business structure. While this variety allows for tailored assessments, it can also lead to inconsistency and uncertainty for brokers and customers alike. There's room for more transparency and standardisation, especially as more people move into self-employment or run small businesses.

Technology has a big role to play, but it's not without its challenges. Many firms are still working with legacy systems that struggle to handle complex income modelling. Investment in automation and data integration, like using Open Banking and accounting integration could help overcome this, but it needs regulatory confidence and support to justify the cost. Without that backing, there's a risk that innovation gets stalled before it can deliver real change.

There's also interest in introducing standardised documents for recording self-employed income and expenditure. This would help lenders and brokers interpret data more consistently and could reduce the burden on customers. At the same time, it's crucial to remember that even with better data, risk still needs to be managed. One member noted that while their portfolio over-indexes in self-employed borrowers and shows slightly higher arrears in that group, their overall arrears levels remain well below the market average. That shows it can be done responsibly with the right controls in place.

Another group in need of better support are professional contractors and those newly self-employed. Many of these customers have strong earning potential but can't meet the usual criteria because they haven't been trading long enough. Giving lenders the freedom to use their discretion, backed by clear guidance and stronger data, could unlock access for these customers earlier in their self-employed journey without compromising prudence.

Capital requirements and risk appetite also matter. Even when affordability is proven, the capital treatment of higher-risk or non-standard loans can act as a barrier to innovation. Members noted that proportional treatment based on better data and evidence would make it easier to design products for these borrowers without excessive capital penalties.

Looking further ahead, some members are exploring how emerging technologies like AI could play a role in affordability assessments. Used carefully, AI could help spot behavioural patterns like spending stability or financial resilience that go beyond traditional credit scoring. Of course, any use of AI needs to be transparent and fair, but the potential is there for a more nuanced view of risk.

And finally, it's important to recognise the added complexity that comes with later-life lending. Affordability models don't always reflect the reality of retirement income, part-time work, or the need for more flexible repayment structures like interest-only or roll-up mortgages. Regulatory flexibility would be welcome here too, especially where transitioning between products could help customers remain in their homes or avoid negative outcomes.

In summary, members are aligned on the need for a smarter, fairer approach to supporting self-employed and non-standard income borrowers. With clearer guidance, better data tools, and a regulatory environment that encourages flexibility while managing risk, the sector is ready to meet this challenge and help more people into homeownership in a way that reflects how we earn and live today.

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

Stress testing remains a vital part of ensuring borrowers are protected from future interest rate shocks and overall, the current framework does not require fundamental change.

We strongly oppose a single, centralised stress rate. This would remove the ability for lenders to tailor affordability assessments based on their own risk appetite and business models and could risk creating an anti-competitive environment. Each lender has a different customer base, pricing strategy and level of risk tolerance, so enforcing a one-size-fits-all approach just doesn't make sense in practice.

There are also a few practical clarifications that members would find useful. For example, product durations that don't quite hit the 5-year mark, such as those lasting 4 years and 10 months due to time-to-complete can create uncertainty in how the stress test should be applied. We would welcome a change in the rulebook to accommodate these product terms and to be treated as fulfilling the 5-year horizon, which is clearly the intent at the point of advice and selection.

We would suggest the 5-year timeframe to be maintained as is, as extending this to a longer term would be counterproductive to the aims of stimulating the market.

Regarding stress anchors, members noted the FCA's recent clarification that lenders don't need to link their stress test to the Standard Variable Rate (SVR) but can instead use the rate the customer is most likely to move onto. While helpful, there's still a bit of a grey area here, particularly around whether that 'likely rate' should be based on the LTV at origination or the projected LTV at the end of the fixed term. More clarity on this would help lenders apply the rule more confidently and consistently.

There's also a broader question around what level of consumer harm is considered tolerable when lenders choose to stress against likely product transfer rates rather than SVR, especially knowing that some customers will still revert to SVR, either by choice or because of other circumstances. Again, members would welcome clearer guidance here to ensure that assessments are fair and in line with regulatory expectations.

In terms of the current interest stress test buffer, they support the idea of more flexibility, particularly when rates are high or falling. For instance, reducing the standard +1% buffer to +0.75% in certain market conditions could make a meaningful difference, improving accept rates by 1–1.5% without materially increasing risk, based on internal modelling. A fixed buffer doesn't always reflect the true direction of travel in the market, so a more principles-led approach that allows buffers to flex with economic conditions could be a better fit going forward.

Any changes to the stress testing regime should, however, be viewed in the wider context of affordability and creditworthiness requirements. Making isolated adjustments even with good intent can lead to knock-on effects elsewhere in the customer journey.

Ultimately, the goal should be to retain a strong and effective stress testing framework, one that protects consumers and market stability, while allowing the right amount of flexibility to reflect real-world lending conditions.

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

Long-term fixed rate mortgages have been part of the policy conversation for years, often seen to give borrowers more certainty over their repayments and reduce exposure to interest rate volatility. While these products are available in the UK, take-up has remained consistently low, the regulator should not be supporting one product over another. It depends on the circumstances and appetite of the borrower.

To date, there hasn't been strong customer demand for longer term fixed rates. Many borrowers prefer the flexibility that comes with shorter-term deals particularly 2- and 5-year fixes and are wary of locking themselves into a product for 10 years or more. Changing life circumstances, job moves, family changes, or the possibility of moving home all create uncertainty, and long-term fixed rates don't always offer the portability or flexibility that borrowers want. This makes them harder to recommend in advice conversations, especially when there's a risk of future misalignment between the product and the borrower's needs.

Where lenders do offer longer-term fixed products, uptake tends to be limited, even when the pricing is competitive. That's partly because of the way these products are perceived, but also due to practical challenges in how they're sold. From a conduct and risk perspective, it is important to ensure customers fully understand what they're signing up for. Under Consumer Duty, it's essential that these products represent fair value not just at the point of sale, but over time. That means being confident the borrower won't feel trapped in a product that no longer suits them a few years down the line. Members are also limited under the current Supervisory Statement (SS) 20/15 on hedging instruments and tenures. This will be removed once the sourcebook is retired, and then it will be down to lender risk appetite.

There are also structural issues on the funding side. Long-term fixed rate lending requires long-term funding, which isn't always easy to source in the UK market. Unlike some international models that rely on government-backed bond structures or guarantee schemes, the UK lacks a long-term savings system that naturally supports this kind of lending. If there is a desire to grow this part of the market, government-backed initiatives or targeted funding schemes might be necessary to make it viable for more lenders to participate.

That said, there is potential for long-term fixed products to support certain customer groups, particularly first-time buyers or long-term renters looking for more certainty in a rising rate environment. If desired, these products are already readily available on the market. But unlocking that potential requires more than just making the products available. It means rethinking how they're designed, how they're funded, and how they're communicated to customers with a greater focus on balancing security with flexibility.

The market is best placed to respond to demand where it exists, and that any growth in long-term fixes should be led by consumer behaviour, not regulatory mandates or policy pressure. Forcing growth in this space could lead to poor outcomes, especially if it pushes customers into products that don't truly meet their needs.

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?

Helping renters transition into homeownership is one of the most pressing challenges in the market today. For many, the experience of paying high monthly rents often exceeding equivalent mortgage costs leads to a simple but powerful question: *"If I can afford my rent, why can't I get a mortgage?"* We understand this frustration. It is a fair challenge and reflects a genuine disconnect between current affordability frameworks and the lived experiences of many aspiring homeowners.

Rental history can serve as a valuable signal of financial discipline, a consistent record of rental payments demonstrates both intent and capability, and in many cases, could be an important indicator of mortgage affordability. However, we believe that rent-based assessments should be used to complement, not replace traditional income and expenditure-based affordability checks.

There is clear support for exploring how rental payment history could play a larger role in lending decisions, particularly for first-time buyers and long-term renters in high-cost areas. In fact, some lenders already incorporate rental history in certain cases.

Skipton Building Society's Track Record Mortgage is a leading example of how rent-based affordability can be applied responsibly within a traditional lending framework. Aimed specifically at renters who are unable to save for a deposit but can demonstrate a strong history of rental payments, the product enables eligible applicants to access 100% LTV mortgages, without the need for a guarantor or gifted deposit. However, crucially, the Track Record Mortgage does not rely solely on rental history. It incorporates standard affordability checks, including income verification, credit history, and stress testing, ensuring the applicant can manage the full costs of homeownership over time. By blending behavioural indicators (e.g. 12 months of verified rental payments) with conventional affordability criteria, Skipton has shown how the sector can innovate to meet emerging consumer needs while upholding high standards of responsible lending. The approach is a strong demonstration of what building societies can do when regulation allows room for pragmatism, proportionality, and innovation.

There are practical and regulatory limitations to relying on rental payments alone. Homeownership brings costs and responsibilities, such as maintenance and repairs, that are not present in rental agreements. Simply matching rental costs to mortgage costs does not account for these future obligations, nor does it test resilience over time. Past rent payments do not always predict future financial stability, especially if the applicant's income or expenses have changed.

There are also risks around potential manipulation. For example, a consumer may provide evidence of rent payments made to a family member or landlord under less-than-market conditions, especially if the tenancy was recently created. Without consistent, third-party verifiable data, such as bank statements or Open Banking insights, it becomes difficult for lenders to rely solely on rental data with full confidence.

In addition:

- Affordability must remain income led. Excluding income from assessments would undermine responsible lending principles and create difficulty in demonstrating compliance with Consumer Duty and Know Your Customer (KYC) requirements.
- There is no centralised or standardised system for recording rental payment data. Any rent-based model would need consistent and verifiable data sources to be reliable and fair.
- The behavioural risk profile of renters using this method may differ from standard applicants. This doesn't mean they should be excluded, but it does mean the approach must be tailored, not diluted.

Ultimately, we are supportive of using rent-based affordability within the broader affordability criteria, and consumer duty framework, as it is used today by some of our societies. We are not supportive of using rent-based affordability on its own because of the risks outlined. Therefore, we do not propose a change to the MCOB rules.

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?

While we recognise the importance of improving mortgage access for renters and support the exploration of rent-based affordability assessments, the preference remains for a flexible, principles-based approach underpinned by the Consumer Duty, rather than the introduction of prescriptive rules.

Lender autonomy is important as firms will manage their own risk appetites and maintain the integrity of their books, while still meeting the obligations of Consumer Duty to deliver good outcomes. The current regulatory framework already allows for rental payment history to be used as a proxy for affordability; however, the challenge lies in accessing consistent, verifiable data in a usable format. Standardising this data collection would support wider adoption while maintaining appropriate controls.

While a more prescriptive approach could support consistency, it may also introduce unintended consequences and limit firms' ability to tailor their assessments to individual circumstances. Ultimately, the best approach is a flexible one: allowing firms to adopt rent-based affordability tools where appropriate, while maintaining proportionality, flexibility, and a clear focus on delivering fair and sustainable outcomes for customers.

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.

There is significant opportunity for innovation in mortgage products tailored to consumers with non-traditional employment types, including the self-employed, contractors, gig economy workers, and those with variable or portfolio incomes. However, several regulatory and practical barriers limit the appetite for innovation in this space, and careful consideration is needed to ensure these products support access while maintaining responsible lending standards.

Capital Treatment and Risk Modelling

One of the primary barriers cited is the capital treatment of innovative products under current Prudential Regulation Authority (PRA) rules. New or niche mortgage products, especially those designed for borrowers with complex income profiles can attract higher capital charges due to their perceived risk or because internal ratings-based (IRB) models are not appropriate or available. Examples such as specialist lending for later life lending, self-employed and contractors, and shared ownership. Much of the underlying risk modelling is based on historic, pre-GFC data, which no longer reflects the current regulatory environment or borrower behaviour.

For example, lending to self-employed borrowers may result in higher capital charges due to an increased arrears risk observed in historical data. Many models still rely on pre-financial crisis data, which does not reflect the current regulatory regime or borrower behaviour, limiting the scope for innovation.

We would welcome a review of more proportionate capital treatment for pilot products or limited temporary reliefs to enable innovation without excessive cost during the test-and-learn phase. This would allow lenders to better understand and manage risks based on real-world data.

Safe Innovation through Sandbox Testing

The FCA's sandbox approach would be a valuable tool to provide a safe, supportive environment to test alternative products and schemes. This could be particularly helpful for testing new affordability models that reflect the realities of modern work, such as:

- Dynamic income tracking
- Open banking-based assessments
- Quarterly repayment models for the self-employed

An expanded or more targeted sandbox framework aligned to open finance developments could create a practical path to trial innovation without the need for full capital and compliance exposure upfront.

Income Flexibility and Alternative Employment Models

While many firms support innovation in affordability modelling, innovation must not compromise responsible lending. Over-reliance on assumed future income, especially in sectors with high volatility, introduces systemic risk. Any approach that dilutes current income verification standards, which have strengthened borrower protection since the financial crisis should be treated with caution.

However, in defined, lower-risk scenarios such as structured public sector pay bands or formalised career progression there may be scope to adapt affordability models in a proportionate and evidence-based way.

There are also opportunities to innovate in product design, such as:

- Low-start mortgage products, with interest-only periods transitioning to capital-and-interest repayment
- Quarterly repayment structures for self-employed customers with seasonal or uneven income streams

These innovations, when designed with robust affordability checks at origination and transparent terms, may offer a progressive route to support borrowers than softening income criteria.

Preference for Principles-Based Approach and Industry Learning

We would recommend a flexible, principles-based approach, rather than prescriptive regulatory intervention. Under the Consumer Duty, firms should retain discretion to tailor affordability models to their risk appetite, while still delivering good outcomes.

There is also value in sharing industry learnings, including anonymised data on the long-term performance of employment-type-based products. This could help build collective understanding and promote safe innovation across the market.

Opportunities for Targeted Support

To enable innovation while maintaining consumer protection, the following enablers should be considered:

- Proportionate capital relief or incentives for new/emerging product designs

- Expansion of sandbox or pilot frameworks for employment-specific affordability approaches
- Adaptation of government guarantee schemes (e.g. Freedom to Buy) for use with non-traditional income borrowers
- Ultimately, innovation in this area must be:
- Optional and complementary to existing affordability rules
- Grounded in objective, verifiable income data
- Aligned to clear regulatory principles and outcomes monitoring

Innovation is important to meet the needs of an evolving workforce, but this must be done responsibly and proportionately, with appropriate safeguards in place to avoid recreating historic risks.

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.

Shared ownership (SO) remains a crucial route to homeownership, particularly for those who cannot afford full-market properties or large deposits. By enabling buyers to purchase between 25% and 75% of a home and pay rent on the remaining share, shared ownership lowers entry barriers and broadens access, especially for lower- and single-income households. Building societies have been at the forefront of providing mortgage products for SO purchasers for over 20 years, using their expertise to support thousands of buyers each year with tailored solutions that reflect the scheme's complexities.

Independent research commissioned by Leeds Building Society forecasts that shared ownership will be more affordable than private renting across many local authorities in England over the next decade. This highlights the financial merits of the scheme and underscores the importance of continued government commitment to expanding shared ownership as part of the wider affordable housing strategy.

However, SO is often misunderstood and presents challenges that can impact affordability and long-term security. Buyers frequently face complex leasehold arrangements, unclear or high service charges, and confusing processes around staircasing, where they increase their ownership stake. These factors can add unexpected financial burdens and discourage buyers from fully benefiting from the scheme. In recent years we have seen a 'perfect storm' of pressures, with high inflation, rising living costs, elevated mortgage rates, and ongoing cladding challenges post-Grenfell.

While the FCA's current rules broadly support SO lending, there are practical and structural barriers which limit the scheme's effectiveness and scalability as a route to homeownership. These barriers span regulatory, operational, and cultural factors, and in many cases, regulatory support could play a role in facilitating better outcomes.

Affordability and Staircasing Constraints

Affordability checks for staircasing can be complex, even where borrowers have demonstrated strong financial performance. Consumers frequently report frustration at being unable to staircase despite clear affordability. Simplifying or standardising the approach to staircasing affordability assessments could offer a more consistent path to financial progression and full ownership. There have been improvements in this area through more generous affordability models from firms and Housing Associations to help alleviate some of the affordability challenges.

Hidden Costs and Risk Management Issues

There are concerns about the additional financial pressures of SO, including rent, service charges, and maintenance obligations which can make SO more expensive than traditional ownership, especially when not fully understood at the outset. These costs are often based on 100% of the property's value, not the owned share. While SO is often presented as an affordable route to homeownership, costs can escalate in unpredictable ways. Rent on the unsold share typically increases annually in line with inflation (e.g. RPI + 0.5–2%), which can rise significantly in high-inflation periods. Buyers are also responsible for 100% of service charges and maintenance costs, which can spike due to major works or insurance changes costs they have little control over. Staircasing becomes more expensive if property values rise, and selling can be complex and delayed due to housing association rules.

In 2021, as part of new grant-funded SO leases (linked to the Affordable Homes Programme), the landlord/housing association rather than the leaseholder took on responsibility for paying for external and structural repairs (e.g. roofs, walls, foundations) for the first 10 years of the lease. This shift was introduced to make shared ownership more attractive and affordable for buyers, because previously leaseholders could face big, unexpected bills for major repairs. The obligation is tied to the government grant funding that supports delivery of new affordable housing, meaning it only applies to those new grant-funded leases, not to older ones.

While helpful for new leases, thousands of older leases have different terms, and leaseholders still bear 100% of costs, which can be manageable for houses but far more challenging for flats.

From a credit risk perspective, uncertainty around future rent increases and exposure to service charge defaults can undermine confidence in underwriting and risk management. In some cases, if a borrower fails to pay service charges, the lender may become liable, and this can result in forfeiture of the lease, a significant risk to both the lender and borrower.

Additionally, the need to stress-test future rent increases add complexity to affordability calculations and can prevent otherwise suitable borrowers from accessing SO products.

We would welcome enhanced regulation of Housing Associations, particularly around consumer protection such as communication, transparency with lenders and service standards.

Lease Structures and Legal Considerations

Technical elements of SO leases, particularly in multi-occupancy developments, pose difficulties for lenders. These include a lack of clarity around Section 106 arrangements and inflexibility around the use of income multiples, which are often capped in a way that doesn't reflect rising house prices or wage progression. Members would welcome clearer guidance on lease structures and a framework that enables greater discretion when applying multiples in a responsible and risk-aware manner.

The capital treatment of SO mortgages needs to be reviewed as the value of the Mortgagee Protection Clause (MPC) is not considered, and lenders treat these loans as high loan to share i.e. 90% or 95% in any capital treatment.

Opportunities for Regulatory and Policy Reform

Improving the experience and outcomes of SO will require a collective effort. While many of the challenges sit outside the FCA's direct remit, regulatory support can help address:

- Facilitate enhanced cooperation and communication with Housing Associations.
- Greater flexibility in affordability assessments, particularly for staircasing and remortgaging.
- Encouragement of more consistent communication and data sharing between Housing Associations and lenders.
- A review of the 'maximum share' requirement, enabling more realistic and tailored ownership journeys.

We welcomed the creation of the Shared Ownership Council and the Homes Communities and Local Government Committee (HCLG) inquiry into first-time buyer affordability. This provides a further opportunity to consider the role of SO in the broader housing market.

Ultimately, while SO makes a positive contribution to the housing mix, structural improvements, more proportionate regulation, and increased coordination across the sector will be key to unlocking its full potential.

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.

There is a recognition that interest-only (IO) mortgages have historically raised concerns, being described as a "ticking time bomb" in the years following the financial crisis due to poor customer understanding and a lack of credible repayment strategies. However, in today's market context, there is a renewed opportunity to explore IO as part of a broader solution to the increasing affordability barriers faced by first-time buyers.

While IO lending today is typically reserved for high-net-worth borrowers, and those with large equity reserves, there is a case for more flexible, time-bound, and transitional IO product structures to support FTBs in accessing homeownership. This could include part-and-part structures, or IO starter mortgages with the option to switch to repayment after a defined period.

This is particularly relevant for FTBs, and other consumers, including:

- facing high upfront costs
- on a single income (e.g. following divorce or separation)
- entering professions with strong future earning potential
- older FTBs who face restricted terms and therefore affordability challenges
- or navigating long mortgage terms into retirement

A short-term IO period, for example the first 2–5 years of a 40-year term, could ease affordability pressures without compromising long-term outcomes particularly if the loan reverts to capital and interest and is assessed on part and part from the outset.

While many borrowers currently use sale of mortgaged property (SOMP) as a repayment strategy, existing MCOB 11.6.46 rule require lenders to check that the borrower is likely to have sufficient equity to purchase another property. This limits innovation and restricts access. Greater flexibility in this area would allow lenders to consider IO as part of a responsible product strategy, underpinned by robust affordability and risk oversight.

There are clear risks that would need to be mitigated such as layering risk when combined with other non-mainstream product features, such as high LTV or shared ownership. There would need to be strong safeguards in place including clear communications, regular reviews, and robust repayment planning.

Key risks and considerations include:

- Many firms currently stress IO products on a capital and interest basis, despite the customer paying IO.

- If IO is to play a more prominent role for FTBs, it will not become a workaround for poor affordability. Responsible product design, transparency and borrower understanding is required under Consumer Duty.
- The introduction of flexible IO options could work well where customers have a defined pathway to repayment, for example, professional progression, inheritance planning, or clearly expected salary increases.
- Short-term IO products (e.g. up to 10 years) or interest-only elements within part-and-part products could allow borrowers to build equity over time while maintaining flexibility.

We believe that the market should offer solutions that meet a diverse set of customer needs, particularly those struggling to buy a home outright, but reiterated that any expansion of IO must be carefully designed, closely monitored, and not introduce systemic risks.

Ultimately, there is a place for IO as a targeted, time-bound affordability tool. As proposed in the discussion paper, a part and part IO mortgage is viable with no repayment strategy.

Example: Mr and Mrs Thompson, South-east England

Mr and Mrs Thompson are a working couple with two young children, currently renting long term in the South-east. Their children are settled in the local primary school, and the family has deep roots in the community, friends, extended family, and access to reliable transport links for commuting to work. They are keen to stay in their area, but local house prices and rising monthly mortgage repayments mean they are unable to buy their first home outright, despite both being in steady employment.

A full capital repayment mortgage is simply unaffordable based on their income and existing outgoings. However, with a more flexible product, such as a 10% deposit, 25% interest-only, and 65% capital repayment mortgage they would be able to buy a modest family home locally, avoid disruptive relocation, and begin building equity over time. They would not need a repayment vehicle for the interest-only portion but would be reducing the debt gradually through the capital repayment portion.

According to historical trends, UK house prices have doubled on average every 10–15 years (ONS data), meaning the property is likely to appreciate significantly over the 25-year mortgage term. Even in a worst-case scenario where house prices remain flat, the Thompsons would still be better off than if they had continued renting for 25 years, as they would have repaid a large portion of the mortgage and built-up equity rather than paying rent with no return.

This type of product could offer a safe and sustainable route to homeownership for families like the Thompsons meeting their housing needs, supporting community stability, and reflecting realistic affordability.

We are keen to explore how further regulatory consideration of time-limited IO could be incorporated responsibly within the current framework. This could include greater flexibility under MCOB, clear regulations on repayment strategy expectations, and opportunities for innovation around repayment transition mechanisms. An example of a new rule;

Proposed New MCOB Rule: MCOB 11.6A – Flexible Part-and-Part Mortgage Provision

MCOB 11.6A – Introduction of Regulated Part-and-Part Mortgages Without Repayment Vehicle

Purpose:
To enable access to sustainable homeownership by allowing consumers to take out regulated mortgage contracts that combine capital repayment and interest-only elements without requiring a formal repayment vehicle for the interest-only element, provided certain conditions are met.

MCOB 11.6A.1 – Eligibility Criteria

A firm may offer a regulated mortgage contract structured as part capital repayment and part interest-only without a repayment vehicle for the interest-only portion, provided the following conditions are met:

1. The interest-only portion does not exceed 30% of the total loan amount.
2. The borrower places a minimum 10% deposit from their own funds (excluding gifted deposits).
3. The loan is for the purchase of a primary residential property (not for buy-to-let or second homes).
4. The term of the mortgage does not exceed 40 years.

MCOB 11.6A.2 – Affordability Assessment

In assessing affordability, the firm must:

1. Conduct standard stress testing on the repayment portion of the mortgage.
2. Ensure the borrower can demonstrate they could afford a full repayment mortgage on a property valued at 75% of the current purchase price (i.e. to model downside risk).
3. Provide the customer with a clear and realistic projection of outstanding capital at term-end on the interest-only portion.

MCOB 11.6A.3 – Disclosure and Consumer Protection

1. Firms must provide enhanced disclosures, including:
    a. Clear statements about the lack of repayment vehicle

    b. Potential consequences at the end of term (e.g. sale of the property or remortgaging)
    c. A comparison with full repayment and full interest-only options
2. Customers must receive annual reminders about their expected repayment position and be encouraged to review their ability to repay the interest-only portion.

MCOB 11.6A.4 – End-of-Term Treatment

1. At least 5 years before the end of term, the lender must contact the borrower with repayment options, including:
    a. Voluntary sale of the property
    b. Term extension (subject to affordability)
    c. Partial lump sum repayment
    d. Conversion to full repayment mortgage (where eligible)
2. Lenders must develop fair treatment protocols for borrowers reaching term without a repayment strategy, in line with the FCA's Consumer Duty.

Rationale

This rule would:

- Support first-time buyers, families trapped in long-term renting and single borrowers
- Reflect evolving affordability challenges, especially in high-cost areas
- Allow consumers to access homeownership while gradually building equity
- Offer a responsible middle ground between full repayment and full interest-only lending.

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.

We strongly support the principle that victim-survivors of joint mortgage abuse, a form of economic abuse should receive appropriate and compassionate support from lenders. However, while the current regulatory framework (particularly Consumer Duty) offers some flexibility, legal, procedural, and operational barriers significantly constrain what can be done in practice. A cross-sector response is needed to enable a meaningful and coordinated approach to supporting these consumers.

Example: How Legal and Procedural Barriers Limit Support

Emma is a victim-survivor of economic abuse from her ex-partner, with whom she holds a joint mortgage. She has fled the home for her safety but remains legally liable for the mortgage debt. Her ex-partner, who remains in the property, has stopped making payments and refuses to engage with the lender. Emma contacts the lender to request removal from the mortgage or to take over full responsibility, but she is told that without her ex-partner's consent, the mortgage contract cannot be altered.

Despite Emma's willingness and potential ability to take on the debt alone, the lender is constrained by legal and regulatory requirements. Under the Law of Property Act and the terms of the mortgage contract, changes cannot be made without joint agreement. The lender also cannot force a sale unless repossession proceedings are initiated, which is often inappropriate and traumatic in abuse cases. Even if Emma wants to take over the mortgage, she may not pass affordability assessments under MCOB rules further limiting options. As a result, she remains financially entangled with her abuser, her credit file deteriorates, and she is unable to rebuild her life independently.

Why a Cross-Sector Response Is Essential

Cases like Emma's illustrate how the current regulatory flexibility under Consumer Duty is not enough when legal and procedural barriers remain. Mortgage lenders alone cannot resolve these situations. A cross-sector response is needed, bringing together financial services, the legal system, regulators, housing providers, and domestic abuse specialists. This could include legal reform to allow for safe disengagement from joint mortgage contracts in abuse cases, regulatory adaptations for affordability assessments, and formal referral pathways to holistic support. Without coordinated action, victim-survivors will continue to face avoidable harm, trapped by systems that fail to reflect the realities of economic abuse.

We welcome the focus on this issue and recognise that while the number of joint mortgage abuse cases may be relatively small, the impacts are often highly distressing and complex with long-term consequences for financial security, housing stability, and mental wellbeing.

Consent and Control

A key issue is that existing mortgage rules require the consent of both parties for any contractual changes, including product switches or removing a borrower from the mortgage. In abusive situations, this can result in coercive control, where the abuser refuses to cooperate or uses the property as leverage. In many such cases, the co-operative party is fully willing and able to maintain the mortgage, yet is unable to proceed, leaving lenders unable to support them. This leaves all parties in a 'stalemate', with repossession sometimes the only outcome even when entirely avoidable.

There is strong support for the FCA to explicitly confirm that flexibility is permissible in these circumstances, particularly considering paragraph 2.98 of the Discussion Paper. A clear regulatory endorsement would empower firms to act with greater confidence in applying discretion and prioritising good outcomes, particularly for the party seeking safety, security, and control.

While a clear and explicit endorsement from the FCA would be extremely valuable particularly confirming that flexibility is permissible under Consumer Duty (as highlighted in paragraph 2.98 of the Discussion Paper) regulatory clarity alone cannot overcome existing legal constraints.

The core issue in joint mortgage abuse cases is that lenders are bound by the legal structure of joint mortgage contracts, which typically require the consent of both parties for changes such as removal from the loan, transfer of equity, or sale of the property. These are obligations under property and contract law, not just regulation. As such, lenders may be willing, but legally unable, to act in the survivor's best interests, especially when the abusive party refuses to cooperate.

Therefore, while we strongly support the FCA providing regulatory clarity to empower firms to prioritise good outcomes and apply discretion with confidence, this must be accompanied by legal reform. For example, a targeted amendment to property law could introduce a legal mechanism for courts or designated authorities to sever or amend joint mortgage obligations in cases of proven abuse, without requiring the abuser's consent.

Potential Regulatory Interventions

While regulation alone will not solve this issue, there are several areas where regulatory intervention could facilitate better outcomes:

- Regulatory flexibility to restructure the mortgage in the name of the co-operative party (without requiring consent from the abusive party), where appropriate safeguards are in place.
- These safeguards could look like;
    - Affordability Assessment of the Sole Applicant: The lender must be satisfied that the co-operative party can afford the mortgage alone, using standard MCOB affordability checks (or adapted rules under exceptional circumstances). This ensures the mortgage remains sustainable and does not increase credit risk.
    - Independent Legal or Specialist Verification: A qualified third party (e.g. domestic abuse advocate, solicitor, or court order) must confirm that:
        - Economic abuse has occurred

    - It is in the victim-survivor's best interest to assume sole liability
     This prevents misuse and protects the lender from disputes over the validity of the claim.

- Property Title Review & Transfer of Equity: Before the mortgage is restructured, a formal transfer of equity must take place to ensure the co-operative party becomes the sole legal owner of the property. This eliminates the risk of future ownership disputes.

- Regulatory Cover from the FCA: FCA guidance or rule changes should explicitly state that restructuring in these circumstances, where safeguards are met will not breach regulatory obligations (e.g. around treating customers fairly, affordability, or vulnerable customer treatment).

- Optional Indemnity Scheme or Risk-Sharing Framework: Government or industry-led schemes could provide lenders with partial protection or recourse if restructuring leads to unforeseen losses, like how government mortgage guarantee schemes operate.

- Judicial or Third-Party Approval Pathway: In high-risk or disputed cases, lenders could be permitted (or required) to seek a court decision or a designated independent authority's approval, to avoid unilateral liability.

Why These Safeguards Matter

- These checks balance the need to protect the victim-survivor with the lender's need to maintain prudent lending standards, avoid legal disputes, and ensure loan performance. By embedding them into regulatory guidance or future legal reform, lenders can confidently act in the customer's best interest without exposing themselves to undue risk.

Could there be an indicator on a customer's credit file to note that they have been a victim of economic abuse. While this would require careful implementation and consent, it could help prevent further harm when consumers move between lenders.

Safe Disclosure and Proactive Support

We recognise the importance of safe, supported disclosure. In many cases, survivors do not disclose abuse until well after the relationship has broken down or arrears have accrued. Creating clearer frameworks for disclosure and ensuring frontline staff are trained to respond appropriately could enable earlier and more effective interventions.

This important issue is much wider than just the mortgage industry. A cross-sector working group, bringing together lenders, regulators, legal professionals, housing providers, and domestic abuse experts, should explore:

- How best to address joint mortgage abuse across different stages of the mortgage journey.
- Where law, process, or data access needs to change.
- How to improve industry-wide understanding and capability.

Legal and Structural Barriers

Several legal and structural issues were flagged:

- No current obligation exists for both parties on a joint mortgage to maintain payments, but each retains 50% of the property unless formally removed, creating both risk and imbalance.
- If one party disappears or disengages, lenders must still treat them as an equal borrower, even where the other party is demonstrably maintaining the mortgage.
- In multi-party mortgages, lack of clarity around ownership rights, debt recovery, and liabilities can complicate recovery and risk assessment, particularly when dealing with arrears or forbearance.

These are not just regulatory issues, but challenges that also span property law, family law, and data protection frameworks.

Principles-Based Approach and Next Steps

There is scope for a more principles-based approach in cases of economic abuse, backed by targeted regulatory guidance. This would allow lenders to exercise discretion and adapt to the nuances of each case, while still ensuring fair outcomes under Consumer Duty.

In addition to potential regulatory changes, there should be:

- Clearer signposting of customer rights and responsibilities around joint mortgages.
- Improved education at the point of sale to help customers understand the implications of joint and several liability.
- Flexibility in how lenders assess risk and affordability when the relationship has broken down and only one party remains engaged.

We remain committed to working with the FCA and wider stakeholders to identify solutions that protect victim-survivors and uphold good customer outcomes, but regulatory support, legal reform, and cross-industry collaboration will all be essential to driving meaningful change.

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

Some members offer regulated bridging products. Extending the term on development bridging would support better consumer outcomes, as 12 months is rarely sufficient given the scale of works and reliance on sales as an exit. In practice, many bridging cases are for part-completed developments that could not be finished or sold within 12 months; extending terms to 18 months would likely reduce these failed bridge scenarios.

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.

We recognise the need to better integrate climate resilience into the housing and mortgage markets, but regulatory intervention alone will be insufficient without government action to support borrowers, lenders, and insurers in adapting to a changing climate.

A key concern is the potential expiry of the Flood Re scheme in 2039. While Flood Re has helped maintain affordability and availability of home insurance for properties at risk of flooding, failure to extend or adapt the scheme could result in parts of the UK housing stock becoming uninsurable, un-mortgageable, and ultimately unsellable. In the absence of a viable alternative, this could create a new class of mortgage prisoners, borrowers trapped in homes that cannot be sold or refinanced due to climate-related risk. Extending the scheme or introducing a successor mechanism would be a significant step to maintaining resilience in the mortgage market and broader housing sector.

In addition to flood risk, wider physical risks from climate change, include surface water flooding, wildfires, overheating and subsidence. These are expected to become more common as weather patterns shift. Without government-backed insurance or support for affected borrowers, lenders may face greater credit risk exposure and consumers could face exclusion from homeownership. One proposal is to develop a shared insurance scheme between borrowers and government, for example, a 50/50 model to insure against climate risk on existing properties. Another is to provide government guarantees on mortgage-backed lending for properties at risk, tapering over time as balances reduce, to give lenders greater confidence in underwriting these loans.

From a transition risk perspective, we do not believe that lenders should be solely responsible for delivering the retrofit agenda. The current reliance on lenders and consumers to finance home upgrades is unsustainable. Without targeted government funding or fiscal incentives, the pace of retrofit activity will fall short of national net zero ambitions. Most UK homes do not have a mortgage so the impact that mortgage lenders can have in this area is limited.

There should be consideration of fiscal interventions to support greener homes, including:

- Stamp duty relief for homes with EPC A ratings or for properties being retrofitted to improve energy efficiency.

Transition plan requirements may also result in unintended consequences. Firstly, the requirement to align to a 1.5 pathway when a lender has limited control over home improvements could result in some lenders only offering mortgages to homes with a high EPC (A & B) to meet their target. This could result in negative social impacts through the creation of a two-tier housing system, which conflicts with the principles of a mutual to not leave people behind. We also need to move the focus away from EPC ratings alone and towards measuring and reducing actual carbon output. Without this shift, there is a risk of creating 'property prisoners', where homeowners are trapped because their properties cannot be upgraded to meet EPC requirements, for example, in cases of older or listed buildings which could restrict their ability to sell, remortgage, or maintain property value.

The challenge for mutual lenders whose purpose is to support people to have a home will be more significant when the whole market shifts and property values are impacted. This could result in the need to hold more capital reducing the amount of available mortgage funding.

Secondly, we are already on a pathway to overshoot 1.5-degrees and making forward looking inaccurate commitments considering this knowledge leaves financial institutions open to legal action.

The UK Governments commitment to the Warm Homes plan in the Mansion House speech was welcomed and we look forward to receiving more details later this year. It's hoped the plan will provide more education to homeowners on the steps they need to take and include a review of the electricity prices to incentivise the transition to electrified heating.

With one of the objectives being to support sustainable home ownership, is giving a first-time buyer finance on a G rated property which would cost £30k+ to retrofit up to a C a sustainable approach?

As lenders, it would be helpful to understand how the FCA will be taking action to protect against negative pricing driven by less energy efficient homes, which could drive a wedge further into the affordability gap for potential borrowers.

We believe there should be a more prominent focus on how to encourage and support more mortgage borrowers to improve their homes, not just to de-risk the asset in the round, and potentially reap lower running cost benefits, but also from the fundamental position of needing to send stronger market signals which incentivise lenders to offer 'transition finance' (i.e. to fund retrofit) rather than being silent on this and leaving it to the market to choose to prioritise this.

There is also a need for enhanced policy alignment, consumer education and infrastructure investment to support the green transition. Without these, the effectiveness of regulatory change alone will be limited.

While regulatory support (e.g., within the PRA/FCA approach to climate risk or mortgage affordability) is welcome, the wider message from members is that cross-sector collaboration, including meaningful government action is essential to addressing the scale and complexity of climate-related challenges in the mortgage market.

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

This is not a simple question. It is not a case of whether more borrowers should look to the later life lending sector, it is a case of whether they wish to or could access housing wealth to support their retirement. There are mainstream solutions as well as later life solutions and which is more appropriate will depend on the borrower's circumstances.

We recognise that while later life lending may be suitable for some, it is not a solution for all. The sector has clear potential to support borrowers with changing needs in later life, but decisions must be rooted in individual circumstances, supported by appropriate advice, and informed by an understanding of long-term financial wellbeing.

The fragmented advice landscape currently presents a barrier to good outcomes. Later life lending often requires input from financial advisers, mortgage brokers, and legal professionals, yet these handoffs can be disjointed, leading to incomplete or inconsistent customer journeys. There may be a case for expanding adviser qualifications or enhancing signposting to ensure customers can access holistic advice, particularly where family members are involved in the decision-making process.

This signposting is vital. The lifetime mortgage sector provides valuable finance for people in retirement, but it is not always the appropriate solution at a younger age. Interest roll-up products can significantly increase the size of the debt over time and erode equity, particularly in a high-interest rate environment. While these products can provide critical liquidity to asset-rich, income-poor customers, they must be recommended with care and caution and should not be seen as the only route for later life borrowers. While FCA recognises that later life lending is moving from a niche to a norm it is important that the mortgage industry continues to innovate to provide borrowers with the right products for their needs.

Retirement Interest-Only (RIO) products can provide a viable alternative for borrowers who can continue to make interest payments but do not want or cannot afford full repayment. There are cases where borrowers are effectively in informal

RIO arrangements due to forbearance, particularly at the end of interest-only mortgage terms. However, these cases often fall outside formal product structures due to regulatory complexity. Allowing greater flexibility for lenders to offer structured solutions for these borrowers, particularly where repossession would not result in a better outcome could help avoid litigation and distress, especially where the borrower is vulnerable or in ill health.

Example: Informal RIO in Practice — Mrs Ahmed, Age 72

Mrs Ahmed is a 72-year-old widow who has lived in her home for over 30 years. She took out an interest-only mortgage in the early 2000s, which has now reached the end of its term. Due to a combination of life events and financial shocks, she was unable to repay the capital lump sum at term-end and has no formal repayment vehicle in place.

Her lender, recognising that repossession would cause significant hardship, has applied forbearance, allowing her to continue making interest-only payments informally, month-to-month. Mrs Ahmed is otherwise managing well: she receives a stable pension income, pays her interest reliably, and has no dependents or desire to move. However, because this arrangement sits outside a formal RIO product, both she and the lender are in a precarious position:

- Mrs Ahmed has no long-term certainty and lives with the stress of potential repossession.
- The lender is carrying the mortgage under a non-standard arrangement, with limited regulatory clarity or protections.
- The arrangement isn't recorded as a formal RIO, so it isn't covered by tailored consumer safeguards or monitoring.

What a Better Solution Would Look Like

Under a more flexible regulatory framework, the lender could offer Mrs Ahmed a formalised RIO mortgage that:

- Converts her existing loan into a structured, regulated RIO product
- Enables her to continue paying interest for life (or until she moves into care or passes away)
- Removes the threat of repossession while aligning with Consumer Duty principles on good outcomes
- Provides regulatory clarity for the lender and consistent treatment across its back book.

This would avoid the distress, legal cost, and reputational risk of a potential court action, while ensuring that a vulnerable, low-risk customer remains in her home safely and sustainably.

Affordability and vulnerability risks were also key themes. Some lenders are reluctant to offer mortgages into later life due to:

- uncertainty over retirement income and affordability,
- risks of first borrower death, and
- difficulty in forecasting care needs, especially where mental health or dementia becomes relevant.

From a consumer demand and outcome perspective, being forced into renting later in life, particularly where a borrower could otherwise remain in their home with appropriate mortgage support may not represent a good outcome. However, more data and analysis on longer-term outcomes is needed to understand how customers fare after taking later life lending products.

There are also cultural and emotional barriers. For many, the idea of carrying debt into later life is seen as undesirable. Family dynamics can add further complexity, particularly where adult children expect to inherit. There is also limited consumer awareness of the full range of options available, which further underscores the need for better education and responsible product innovation.

In summary, we know that there will be a growing relevance in the later life lending space due to demographic trends, but stress that product suitability, advice quality, and borrower protection must remain central. The FCA should review lending into retirement based upon current pension income, accepting that on joint mortgages death of one borrower typically prompts a wider review of housing arrangements and that lender risk appetite will ensure that the surviving account holder has a range of options going forward. Later life lending should be one of many tools available, not the only option with clear safeguards, proper support, and flexibility to deliver good outcomes.

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

Product innovation in later life lending is needed to better serve a growing demographic, but current regulatory structures, particularly around RIO mortgages, may be creating unintended barriers. For example, guidance such as MCOB 11.6.15G can be interpreted restrictively, which may discourage lenders from entering or expanding in this space.

We support the development of more flexible later-life lending products, including RIO mortgages, to meet the needs of an ageing population. However, current regulatory structures, particularly the interpretation of MCOB 11.6.15G may be acting as a barrier to innovation and expansion in this market. While the rule is intended to allow repayment through property sale in RIO cases, lenders often interpret the accompanying guidance conservatively, resulting in overly rigid affordability assessments. This can discourage lending to borrowers who:

- Have sufficient but non-traditional or fluctuating income (e.g. part-time work, self-employment, or variable pensions);
- Cannot demonstrate income for the full expected term, despite manageable interest payments; or
- Are older or vulnerable and would benefit most from the long-term stability that RIO products can provide.

This regulatory uncertainty can deter especially smaller lenders from entering the RIO market, limiting consumer choice and preventing potentially good outcomes for older borrowers. A clearer regulatory position explicitly recognising the role of flexibility in affordability assessments for RIOs would help to unlock safe, sustainable innovation in this space.

A recurring theme was the need for clearer expectations and more flexibility in affordability assessments. The current framework tends to focus on income at the outset of the mortgage rather than accommodating changing life stages or evolving financial circumstances. Enabling lifetime affordability 'checkpoints' and allowing optionality in repayment methods could give both lenders and borrowers more viable paths forward.

Innovation could also be supported by exploring new models of lending. For example, intergenerational mortgage structures, as seen in countries like Japan, could offer new options for families looking to share financial responsibilities. However, cultural attitudes toward intergenerational living and property ownership may affect how such products are received in the UK. Nevertheless, regulation should not preclude these models from being explored, particularly where family support could enhance affordability or reduce risk.

The general view is that less prescriptive regulation would enable more tailored and innovative product development. Simplifying the current rules, particularly around later life products could open space for lenders to explore new ideas, such as using multiple properties to unlock capital for intergenerational support or retirement planning. However, any regulatory easing must be balanced with appropriate consumer protections to avoid exposing vulnerable customers to unnecessary risk.

Consumer Duty remains central to this conversation. All innovation must be aligned with the principle of avoiding foreseeable harm. As borrowers age, their needs evolve, potentially in unpredictable ways, so products must be not only innovative, but also flexible, transparent, and designed with long-term sustainability in mind.

More tailored underwriting based on a broader understanding of customer assets, intentions, and support networks could enable better outcomes, if it is accompanied by strong advice and safeguards.

In summary, we support a regulatory environment that encourages innovation while ensuring later life borrowers are properly protected. Rules that are principles-based, proportionate, and reflective of the unique needs of older borrowers will support new product development without compromising good outcomes.

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

Take-up of RIO mortgages remain low, with a key barrier being the requirement for sole survivor affordability assessments. Many suggested the industry could explore softening this criterion to improve accessibility. One potential opportunity identified is for borrowers transitioning from interest-only mortgages to move onto RIOs, potentially even opening pathways for first-time buyers in the future.

There was discussion about the role of intergenerational wealth transfer, RIO products could be used alongside inheritance tax planning to help younger generations access the housing market.

The biggest constraint remains the current affordability rules, particularly the requirement to assess how affordable the loan would be after the highest-earning borrower passes away. We think the affordability assessment changes could be more radical, such as scrapping the sole survivor assessment entirely and instead applying standard affordability tests, justifying this on the basis that if affordability becomes an issue after the first death, borrowers could then consider equity release (ER) products. This approach could allow borrowers to remain in mainstream lending longer with lower interest rates, delaying the need for more expensive ER options and preserving equity.

The Discussion Paper highlights concerns that some firms interpret MCOB 11.6.15G very strictly, potentially restricting RIO lending unnecessarily. However, it remains unclear how widespread this interpretation is or why the FCA believes it is overly cautious, as the current rules leave little room for flexibility.

Proposed New Rule: MCOB 11.6.15A – Flexibility in Affordability Assessment for RIO Mortgages

MCOB 11.6.15A – Retirement Interest-Only Mortgage Affordability Principles

Purpose:
To clarify the expectations for affordability assessments for Retirement Interest-Only (RIO) mortgages and ensure firms are empowered to support good outcomes for older borrowers where long-term repayment is via the sale of the property.

MCOB 11.6.15A.R – Rule

A firm may consider a Retirement Interest-Only (RIO) mortgage affordable where:

1. The borrower can demonstrate they are reasonably able to make interest payments over the expected duration of the loan, considering retirement income, pensions, savings, or other verifiable sources of income;

2. The capital is expected to be repaid through the eventual sale of the mortgaged property following a specified life event (e.g. death or entry into long-term care); and
3. The borrower's personal circumstances (including age, health, and support needs) do not indicate a high likelihood of short-term default.

MCOB 11.6.15A.G – Guidance

1. A firm should apply proportionality and judgement in assessing income sustainability for RIO borrowers, recognising that income in retirement may fluctuate or come from non-traditional sources.
2. It is not necessary to require income certainty for the full life of the loan, provided there is reasonable evidence the borrower can meet interest payments for the foreseeable future.
3. Firms may accept partial, irregular, or mixed income types, including:
    a. State and private pensions
    b. Investment income or annuities
    c. Part-time or flexible employment
    d. Income from lodgers or family support (where reliable)
4. Where interest payments are low and well within the borrower's means, firms should be encouraged to document rationale for flexibility rather than defaulting to refusal.

Optional Add-On: FCA Statement of Intent

"The FCA recognises that overly rigid interpretations of affordability for RIO mortgages may prevent suitable outcomes for older borrowers. This rule is intended to enable responsible lending decisions that reflect the specific characteristics of later-life lending, while ensuring ongoing protection for consumers."

Benefits

- Provides a clearer framework to support lenders in exercising flexibility without fear of regulatory reprisal;
- Aligns with Consumer Duty by promoting good outcomes for older borrowers;
- Encourages broader participation in the RIO market and enables product innovation.

The consensus is that low demand for these products is due to multiple factors. Higher interest rates have increased the cost of RIOs and lifetime mortgages. Additionally, there is a general lack of consumer awareness about the availability of these products and where to seek advice. Members suggested that better information and clearer communication could help improve understanding and engagement, and we would expect brokers to be having this conversation.

Market sentiment also plays a role. Some lenders are cautious about offering RIO and ER products, due to historical negative media coverage and a resulting poor reputation, limiting market availability.

We agree it should be easier to access these products but emphasised that they should be positioned as later options in a customer’s overall financial plan. Access should improve once other more suitable options have been explored.

There is a clear role for RIOs and lifetime mortgages in later life financial planning, but demand and accessibility are limited by product complexity, fragmented advice frameworks, and market structure.

Many of these products are offered mainly by insurance-backed providers rather than mainstream lenders, reducing their visibility and consumer access. Some mainstream lenders have adjusted their mortgage criteria, for example, by extending terms or increasing loan-to-value ratios to meet some later life lending needs without using RIO products.

The complexity of advice is another hurdle. Later life lending intersects with mortgage advice, pensions, tax, and benefits, creating a challenging environment for both consumers and advisers. This complexity can discourage engagement and make it difficult to navigate options effectively.

Lastly, affordability and income assessment challenges remain significant. Assessments that focus narrowly on single incomes or state benefits often underestimate the borrowing potential of later life customers, limiting the practical usefulness of RIOs and lifetime mortgages.

In summary, while easier access to these products is supported in principle, removing barriers will require regulatory flexibility, improved consumer education, streamlined advice pathways, and efforts to address affordability assessment constraints.

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?

The current advice landscape for later life lending is fragmented and not sufficiently holistic to support consistently good customer outcomes. One of the key challenges is the split between mortgage brokers and ER advisers, with limited crossover in qualifications or permissions. For example, a customer seeking ER advice may be referred to a specialist adviser who is unable to consider RIO mortgages due to regulatory permissions, even if a RIO product may be more appropriate for their needs.

This separation of advice pathways creates a risk that consumers do not receive the most suitable or optimal solution for their individual circumstances. Members stressed the need for more integrated advice that looks beyond products to encompass broader financial planning considerations, including pensions, care needs, and estate planning.

There is also a level of apprehension among mortgage brokers around engaging in later life lending due to the enhanced regulatory requirements and the perceived complexity of the advice. In addition, requirements for independent legal advice in relation to ER products are seen as adding further friction and barriers to access, which may deter both advisers and consumers.

We feel the current system does not adequately support holistic decision-making. Advice in this space needs to be capable of spanning the full range of later life lending solutions, which in turn requires advisers to either hold multiple qualifications or operate within multi-disciplinary advice models. However, requiring mortgage advisers to also gain equity release permissions (or vice versa) would be a major shift, bringing with it operational and cost implications for firms. Therefore, while qualification requirements may help improve standards, they alone are unlikely to lead to significantly better outcomes unless the underlying fragmentation in advice is addressed.

Some members proposed improved signposting as a partial solution helping customers navigate towards the right type of advice or adviser. However, it was recognised that signposting on its own is insufficient unless it leads to meaningful customer engagement and clearer access to support.

One suggestion from the Industry Later Life Lending roundtables is the development of a centralised information hub or public-facing guidance service, modelled on the Pensions Advice Service. This could offer impartial, high-quality guidance on the range of later life lending options, helping customers better understand their choices before engaging with product-specific advice.

4.17 raises the point: 'In the current framework, 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.' The interpretation of the existing rules is that advisers must be recommending the most suitable product based on customers holistic circumstances, regardless of their 'professionalism'. While cost is a factor, it is not the sole driver.

Accessibility was also highlighted as a concern. Many later life borrowers may struggle with digital channels due to exclusion or accessibility needs. Members agreed that regulatory expectations must support multiple advice pathways, including non-digital options, to ensure that all consumers can engage effectively and fairly with later life lending products.

In summary, while current advice frameworks offer some support, they are not yet fit for purpose in providing truly holistic, accessible advice across the later life lending landscape. Addressing the segmentation of advice, enhancing adviser capability, and improving access to impartial guidance are all key steps towards supporting better consumer outcomes.

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 recognise that there is significant potential for AI to enhance the mortgage journey for consumers, intermediaries, and lenders. AI should act as an enabler, supporting faster, more accurate decision-making and improving operational efficiencies rather than replacing human interaction entirely. Members highlighted several key areas where AI could be particularly beneficial.

AI could play a meaningful role at the early stages of the customer journey, such as in pre-qualification, ID&V checks, and triaging enquiries to the appropriate channels or advisers based on customer needs. This has the potential to deliver cost savings and reduce friction for both firms and customers. In the execution-only space, AI tools could also support consumers in navigating the process independently, without compromising on consumer protection.

There is opportunity for AI to support rate switch processes, especially where customers are looking to compare options and make an informed decision quickly. Similarly, lender-driven AI tools could support affordability assessments or eligibility pre-checks by surfacing relevant product criteria, helping intermediaries match customers to suitable options more efficiently.

That said, there was a clear consensus that any move towards increased automation should not come at the expense of trust or customer understanding. AI must be deployed in a way that ensures transparency, particularly in terms of how decisions are made and what options are available to customers. Communications generated by AI should include checks for understanding to support informed choices and mitigate risks of mis-selling or consumer harm.

Some members questioned whether additional regulation was needed in this space, particularly given the pace of innovation already underway. There was a view that the current regulatory framework already provides a level of flexibility that allows firms to explore and implement AI solutions, if Consumer Duty and data protection obligations are met.

However, we acknowledge that for more advanced uses of AI, particularly those that move beyond pre-qualification into areas like advice or full application decisioning greater scrutiny and safeguards may be appropriate. For example, there may be a need to ensure that decisions involving declines or complex customer scenarios are escalated to human assessment rather than being left to AI alone. This is especially important for higher-value or longer-term loans where a more nuanced understanding of financial circumstances is required.

Limitations on how AI tools can be applied, such as setting thresholds on loan size or complexity could be considered within the regulatory perimeter to ensure that the technology is used responsibly. Members stressed that AI should augment rather than replace regulated advice, particularly where consumers are vulnerable or making life-changing financial decisions.

There are potential consumer concerns around data privacy and trust in AI tools. Any regulatory framework must support high standards in data governance, and ensure consumers are confident that their data is being used appropriately and securely.

In conclusion, while there may not currently be a pressing need for additional regulation to support AI innovation, members agreed that clear guidance and oversight will be necessary to ensure AI is used in a way that supports good customer outcomes, maintains trust, and complements, not replaces the value of human advice.

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

We acknowledge that while AI has the potential to enhance advice journeys, its use in delivering regulated advice presents several important risks and considerations. AI should not be seen as a replacement for human advisers but rather as a tool to support and enhance the advice process.

Trust remains a major barrier. Consumers may be uncomfortable receiving advice from a non-human source, particularly for significant or emotionally charged decisions such as taking out a mortgage. The lack of a named, regulated individual further complicates this trust dynamic, as there is currently no clear regulatory framework for how AI could be held accountable for the advice it gives.

There remain concerns about AI's ability to fully understand and adapt to a consumer's unique circumstances. Unlike experienced advisers who can probe deeper and consider soft facts or nuances in a borrower's financial journey, AI often relies on binary inputs and may not identify edge cases or situations that fall outside standard criteria. This raises the risk of consumers being funnelled into less appropriate or more expensive products, particularly if their application does not meet mainstream criteria but could be considered with manual discretion.

Consumers may not know what questions to ask or what information is relevant. AI tools would need to be highly sophisticated to guide customers through this without leading them into poor outcomes. There is a concern that AI-assisted journeys without an intermediary could result in customers selecting unsuitable products or failing to understand long-term implications, particularly for later life borrowing or more complex needs.

Data protection and consent causes additional risks. The use of personal financial data in AI models must be carefully governed to avoid misuse or breaches of privacy.

From a Consumer Duty perspective, any AI-assisted advice process must demonstrate consistently good outcomes and avoid foreseeable harm. This places a significant onus on firms to implement strong governance, conduct regular post-implementation reviews, and maintain clear accountability for outcomes, even when decisions are AI-assisted.

Looking to the future, we believe that the role of intermediaries will evolve rather than disappear. Intermediaries may increasingly act as interpreters of AI outputs, helping customers understand the rationale behind decisions and contextualising recommendations. Their expertise will be particularly valuable in complex, high-stakes, or emotionally sensitive scenarios, such as vulnerable customer cases or major life transitions.

Intermediaries may also become more responsible for verifying the fairness and accuracy of the AI tools they use, ensuring these systems operate within regulatory expectations and serve customers' best interests. There is also potential for intermediaries to offer more personalised, concierge-style services that blend the efficiency of AI with the reassurance of human engagement.

AI-assisted advice may be best suited to lower-risk, straightforward mortgage scenarios, such as simple remortgages or rate switches provided there are clear drop-out points where customers can speak to a human adviser if needed. This flexibility is essential to ensure that AI enhances, rather than diminishes, consumer confidence and outcomes.

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?

We agree that the current record-keeping requirements are largely in the right place, but felt there is scope to improve clarity, coherence, and alignment with Consumer Duty expectations. Rather than requiring new rules, there was a strong case for reframing and consolidating existing guidance to better support firms in delivering and evidencing good outcomes, particularly for products with long-term implications such as later life lending or complex mortgage journeys.

While the structural location of the rules spread across MCOB, SYSC, PROD, and Consumer Duty guidance is familiar to firms, their fragmentation creates challenges. Firms may struggle to interpret what records need to be kept, at what depth, and for how long. This is especially relevant where harm may emerge over time or where product suitability can only be assessed in hindsight. A more consistent and clearly signposted approach to record-keeping would give firms confidence that they are both meeting regulatory expectations and supporting customers effectively.

Record-keeping should not be viewed purely as a retrospective compliance obligation but as a proactive control that can help avoid harm and enable meaningful future review. For instance, recording a customer's long-term expectations, future plans, and risk appetite at the point of recommendation could support periodic reassessments of product suitability. This approach may be especially relevant for lifetime mortgage products, or products with opt-in/opt-out stages over time.

There was also a perceived inconsistency in the current framework. For example, MCOB requires firms to record and retain calls relating to arrears and payment difficulties, yet there is no equivalent requirement to record or retain advice conversations at the point of recommendation. Given the long-term impact of these decisions on a customer's financial wellbeing, members felt this gap warrants reconsideration. A risk-based framework for documenting such discussions, especially where the advice is complex or may diverge from initial preferences could support accountability and customer confidence.

Overall, we support the idea of reframing existing expectations rather than layering on new obligations. The emphasis should be on helping firms understand how record-keeping underpins good decision-making and long-term suitability, aligned with the Duty's outcome-based lens. A more centralised and coherent approach to guidance could enable more consistent implementation across the industry without adding unnecessary burden.

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

We acknowledge the original intent behind the cheapest suitable option rule namely, to safeguard customers from being recommended unnecessarily expensive products. They recognised that this rule has helped anchor advice in objective, measurable factors and maintain a focus on cost as a key component of suitability. However, we feel that the rule now feels outdated and increasingly misaligned with the current regulatory environment, particularly the overarching outcomes-focused framework introduced by Consumer Duty.

While cost remains a central factor in product selection, the cheapest product is not always the most appropriate or best value for a customer over time. Features such as early repayment charges, product flexibility, or longer-term financial stability may make a slightly more expensive product better aligned with a customer's goals, preferences, or risk appetite. In this context, the emphasis should be on the most suitable or most appropriate option, rather than the cheapest.

Good advisers already follow this approach recommending the most appropriate product rather than simply the least expensive. However, compliance teams within some networks continue to emphasise the cheapest option rule, sometimes at odds with good customer outcomes or adviser judgement. This tension risks discouraging a more holistic, outcomes-based approach to advice.

We feel the current language used to describe the cheapest suitable option rule feels outdated and in need of review. The rule predates Consumer Duty and does not align with the current regulatory focus on fair value and good customer outcomes. Replacing or re-framing this standard to reflect suitability and appropriateness, rather than short-term cost, would better reflect both the complexity of advice and the longer-term nature of many mortgage and later life lending decisions.

Furthermore, we welcome the idea of further clarity from the FCA on how cheapest should be interpreted, whether it refers solely to upfront rates and fees, or if it should incorporate wider factors such as total cost of ownership, borrower circumstances, or expected behaviour over the term.

Suitability standards remain broadly fit for purpose but would benefit from an updated articulation that allows advisers to exercise sound professional judgement, focus on longer-term outcomes, and tailor their recommendations to the customer's full set of needs and circumstances, rather than defaulting to a simplistic view of cost.

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 feel there should be a consistent standard of advice across all customer types and all advisers should already be trained to deliver appropriate, high-quality advice regardless of the customer's circumstances or level of vulnerability. There was concern that introducing a formal enhanced advice tier could inadvertently create a two-tier system, leading to confusion for customers and unnecessary complexity for firms.

Enhanced advice journeys are already in place for certain product types, particularly debt consolidation and that further formalisation may add limited value. There was also concern about how enhanced advice would be triggered in practice, with advisers often unable to determine at first interaction whether a customer falls into a cohort that would require an enhanced process.

From an operational and consumer journey perspective, the introduction of enhanced advice could create friction, including the risk of having to transfer customers between advisers or delay the application process. Members noted that requiring enhanced advice could lead to customers being incorrectly categorised or placed into advice pathways that don't reflect their needs, reducing flexibility and possibly undermining consumer outcomes.

A more helpful approach would be to ensure advice remains flexible and adaptive throughout the customer lifecycle, rather than placing greater emphasis at the point of initial transaction. For instance, more could be done to identify and respond to key life events post-sale, such as changes in employment, retirement plans, or financial vulnerability where timely advice could support long-term outcomes. One member referenced the removal of interaction triggers (e.g. retirement age disclosure) in recent regulation, noting that customer plans evolve, and advice needs to evolve alongside them.

There was cautious support for targeted enhanced advice in specific circumstances, such as complex debt restructuring or second charge mortgages, but members were broadly opposed to expanding this to wider groups such as first-time buyers. This would risk overgeneralising assumptions about customer knowledge or capability and could act as a barrier to market access.

Risks identified:

- Operational complexity: Requiring enhanced advice could lead to adviser handovers or delays, particularly if advisers are not universally qualified to handle all types of transactions.
- Access barriers: Execution-only routes could be effectively removed for some customers, limiting choice.
- Misaligned segmentation: It may be difficult to define which cohorts should receive enhanced advice, particularly in areas such as vulnerability which exist on a spectrum.
- Inconsistent experience: Enhanced advice for some groups may unintentionally create poorer outcomes or reduced access for others.
- Regulatory misalignment: The idea of enhanced advice may conflict with the wider regulatory agenda to simplify the mortgage market and reduce unnecessary barriers.

Benefits identified:

- Improved customer understanding: For genuinely complex or high-risk cases, additional advice could help ensure suitability and informed decision-making.
- Better product matching: Customers could be introduced to a wider range of appropriate solutions with the support of more detailed conversations.
- Support for complex needs: Groups such as the credit impaired or recently financially vulnerable may benefit from enhanced support in navigating their options.

We support a move towards greater adaptability and flexibility in advice post-sale, rather than more prescriptive advice at inception. We also encourage the FCA to focus on ensuring advice quality and adviser capability across the board, rather than introducing formal tiers. As previously mentioned, enhanced advice journeys are already in place for certain product types, and therefore any future enhancements should be proportionate, risk-based, and aligned with Consumer Duty principles, ensuring advice remains a tool to enable, not restrict, good customer outcomes.

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

We agree that while a consistent qualification baseline is important, changes to the formal qualification requirement are not the most effective or proportionate way to improve the quality of advice. Most felt that alternative approaches, rooted in practical development, experience, and structured support would be more impactful in driving better customer outcomes.

Several members suggested that enhanced advice capability could be evidenced through a combination of factors including length of time advising, consistently strong QA results, internal training, and assessments of competency and integrity. These approaches recognise that good advice is often shaped by how well an adviser can navigate real-life, nuanced customer scenarios, something that often develops through experience rather than classroom-based learning.

There was also recognition that a structured enhanced advice pathway could support adviser development and career progression, with some members seeing this as an opportunity to upskill advisers over time in areas of increasing complexity such as later life lending, shared ownership, or vulnerability support.

However, practical considerations for advisers in smaller firms or sole trader/self-employed brokers, who may not have access to structured internal frameworks. For these individuals, gaining a formal qualification may remain the most straightforward route to demonstrating competency. Any future regulatory change would need to strike a balance between flexible upskilling and accessible, proportionate requirements across different firm sizes and business models.

Importantly, a qualification alone does not guarantee high-quality advice or customer understanding. Many highlighted the complex real-time decisions advisers face, particularly in telephone-based advice environments where identifying and responding to vulnerability can be particularly challenging. These judgement-based skills are best developed through experience, supported by meaningful coaching and oversight, rather than additional qualifications.

There was also interest in the potential for more fluid, modular adviser development. This could include interactive, FCA-recognised CPD modules or case-based learning aligned with emerging themes, particularly in complex areas such as shared ownership, vulnerable customer support, and changing borrower demographics. This kind of targeted, scenario-based upskilling was seen as a valuable next step that could strengthen adviser capability while reinforcing existing internal frameworks.

We support the FCA to work more collaboratively with firms to share insights and develop structured industry learning, with greater visibility of mortgage-specific case studies. This would help advisers build confidence and resilience in areas of growing regulatory and customer focus.

In summary, while a consistent qualification foundation remains important, we do not support a regulatory requirement to raise qualification thresholds to deliver enhanced advice. Instead, we favour a more holistic approach focused on practical, scenario-based learning, structured CPD, and the use of internal QA and coaching to build and evidence adviser competency in line with Consumer Duty and evolving market needs.

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?

We believe that formal disclosure documents such as the ESIS or KFI are not typically used by borrowers as a primary tool for shopping around. Instead, most customers rely on intermediaries, comparison websites, or direct engagement with their existing lender in the early stages of the mortgage journey.

Advisers reported little to no evidence of customers proactively using ESIS documents to compare different lenders. In practice, most customers base decisions on headline features such as monthly payments, initial rate, and advice received, rather than interrogating detailed documentation. Key information that customers tend to focus on includes:

- Monthly repayment amounts (as a proxy for affordability),
- Initial interest rate and whether it's fixed or variable,
- Fees (particularly whether added to the loan or paid upfront),
- Early repayment charges (ERCs) and how long they apply,
- What happens after the deal period ends (e.g. revert to SVR).

While some members acknowledged that standardisation helps facilitate like-for-like comparisons across lenders, there was concern that current documents may be overly long, complex, and overly technical, limiting customers' ability to extract relevant information and make informed choices. There is a risk that excessive detail could obscure, rather than clarify, the features that matter most.

There may be value in revisiting the purpose and format of documents like the ESIS. If they are not actively used to support shopping around, there is a strong case for simplifying them or replacing them with tools more aligned with real customer behaviour.

There was also recognition that while standardised disclosures support transparency and regulatory consistency, a smarter form of standardisation could be beneficial. This would retain consistent core metrics (e.g. ERCs, etc.) but allow flexibility in how information is structured and presented to enhance customer comprehension.

Several members questioned whether it is proportionate or effective for each firm to conduct extensive behavioural testing on disclosure comprehension to meet Consumer Duty obligations. A more efficient approach could be for the FCA to:

1. Commission centralised behavioural testing on how consumers interpret and use core mortgage disclosure information;
2. Publish insights and expectations around what must be disclosed and understood;
3. Allow firms to focus their testing on delivery within specific customer journeys and segments.

In summary, while standardisation adds some value for comparability, we believe there is a need for simplification and reform of current disclosure practices. These documents often serve more as confirmation tools than active decision aids. To support better outcomes, members favour approaches that prioritise clarity, relevance, and customer comprehension, potentially supported by technology or more personalised communication.

While there is a clear need for simplification and improved clarity in disclosure documents to support better consumer understanding and decision-making, we recognise that changes to these documents alone are unlikely to drive growth in the mortgage market, the primary objective of this Discussion Paper. Given the significant resource constraints and ongoing challenges faced by members, including large-scale IT transformation projects, mergers, and operational pressures, there is a strong preference to avoid imposing further regulatory changes to the ESIS or similar disclosure documents at this time. Any reform should carefully consider the balance between improving customer outcomes and the practical impacts on firms' systems and processes.

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?

While we see value in greater consistency across disclosure requirements, we do not believe a single, standardised framework for all mortgage products would be helpful for consumers. Mortgage types such as bridging loans, lifetime mortgages, and credit union products are structurally very different from mainstream lending, and trying to force them into one disclosure template could risk confusion rather than clarity.

A more effective approach would be to establish a core disclosure framework covering standard features such as interest rate, fees, term, monthly repayment, and early repayment charges, while allowing for tailored, product-specific disclosures where necessary. For example:

- *Shared ownership* – rent obligations, staircasing options, and implications of partial ownership.
- *Interest-only mortgages* – repayment strategies, non-repayment risks, and affordability stress testing.
- *Later life lending* – longevity risk, inheritance implications, and equity drawdown.
- *Second charge lending* – unique legal and financial implications.

This modular approach would deliver the benefits of consistency and operational efficiency, while ensuring that disclosures remain relevant, clear, and proportionate to each product. Importantly, it also aligns with the Consumer Duty by supporting customer understanding and avoiding foreseeable harm.

We would caution that any new framework must avoid undue complexity or operational burden, with sufficient clarity and time for firms to adapt their processes. Disclosures should remain simple and accessible, so that borrowers can make informed decisions without being overwhelmed.

25. Where could we rely on the Consumer Duty to help meet consumers' information needs? Where could more flexibility support innovation and to what extent is standardisation helpful?

We support relying on the Consumer Duty as a foundational framework to help meet consumers' information needs, particularly in improving the clarity and accessibility of mortgage product communications. We see the Consumer Duty as a sound, principles-led approach that can guide firms in delivering information that is clear, fair, and not misleading, while also encouraging firms to focus on customer outcomes and understanding. All products have been subject to fair value assessments with target markets and customers in mind, and Consumer Duty can build on this to ensure ongoing consumer protection.

A key area identified for innovation and flexibility is the use of AI and digital tools to personalise and enhance communications throughout the customer journey. Specific ideas include:

- Employing AI to identify when and what specific information customers need, making access to relevant content easier and timelier.

- Using digital tools to provide layered content, visuals, and interactive elements that help explain complex topics such as early repayment charges or the trade-offs between product fees and rates.
- Enhancing pre-application stages with real-time eligibility prompts and narrowing product choices based on customer suitability.
- Supporting post-offer communications with timely reminders or summaries to reinforce customer understanding, particularly when there is a delay between offer and completion.

We welcome flexibility in communication format and delivery to reflect differing business models, operational capacities, and customer bases, there is strong support for the FCA setting clear minimum expectations and behavioural insight baselines. This would help define what effective communication looks like across the industry, striking a balance between fostering innovation and maintaining consistent consumer protection and market integrity.

Members also highlight challenges around testing consumer understanding when communications become highly tailored rather than standardised, and the need for firms to ensure AI-produced communications comply with internal standards such as tone of voice guides, to maintain clarity and avoid misleading information.

To improve consistency and reduce costs, especially for smaller or less digitally mature firms, we suggest exploring centralised tools or educational platforms, potentially hosted by the FCA, MoneyHelper, or an independent body. Such platforms could provide impartial, standardised explanations of key product features and trade-offs, supporting customer understanding without requiring each firm to invest heavily in their own infrastructure. This could also help ensure a consistent interpretation of regulatory expectations under the Consumer Duty, particularly for complex products or nuanced trade-offs. A central, authoritative source of information would reduce confusion, enhance comparability, and help all consumers access reliable, impartial information regardless of their lender or product choice.

We see clear benefits in leveraging the Consumer Duty and embracing innovation such as AI-driven personalised communications and centralised educational tools, they also recognise the practical constraints firms face. Many members are currently managing significant challenges related to large-scale IT transformations, mergers, and ongoing resource pressures. Given these factors, any changes particularly to established disclosure processes like the ESIS, should be approached cautiously to avoid placing additional burdens on firms. Simplification and improved customer outcomes are important goals, but members emphasise that these should not come at the cost of operational stability or create disproportionate demands on technology and resource capacity. Therefore, while there is appetite for flexibility and innovation, we would prefer to avoid major changes to disclosure documentation without clear evidence that such changes will meaningfully support market growth, which is the core objective of this paper.

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?

All consumers should receive information that is relevant and appropriate to their individual circumstances, making a strict division between standard and enhanced advice less meaningful. The emphasis should be on providing simple, clear, and accessible information that helps customers understand their options and make informed decisions.

There was broad consensus that the timing of information delivery is crucial, consumers need key details early enough in their mortgage journey to facilitate meaningful consideration, with additional information provided as required throughout the process. However, members felt that there should not be fundamentally different disclosure requirements based on whether a consumer has received standard or enhanced advice. Instead, consistency in core information across all customers is important to maintain transparency and trust.

While standardisation is valuable, certain product types such as debt consolidation or interest-only mortgages, additional targeted disclosures are important to address the specific risks and features associated with these products. These supplementary disclosures ensure customers fully understand the implications of their choices, without compromising the overall clarity and simplicity of the information provided.

A simple, clear presentation of information, potentially supported by example comparisons, was highlighted as a more effective approach than differentiating requirements by advice type. Ensuring clarity and relevance is more valuable to consumers than complex segmentation of disclosure obligations. This approach supports better consumer understanding without overcomplicating the process for firms or borrowers.

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

Unlocking housing equity to benefit FTBs, those in later life, and the wider economy is a complex challenge that cannot be addressed by regulation alone. There are multiple intertwined factors such as housing supply, stamp duty, affordability rules, and broader economic pressures like the cost of living that impact this issue. While the FCA can influence some elements, it is not a complete solution on its own.

Several ideas were highlighted as potential contributors to unlocking housing equity, including:

- Removing or reducing stamp duty (SDLT) for customers who are downsizing, to enable them to free up equity and help increase the availability of larger homes for others.
- Encouraging the building of appropriate housing stock tailored for downsizers and those seeking to right-size.
- Relaxing capital requirements for lenders, particularly to support high LTV products, which could help FTBs overcome deposit hurdles.
- Supporting product innovation such as part capital & interest / part IO mortgages up to 95% LTV to improve affordability for FTBs.
- Considering regulatory or incentive changes to facilitate intergenerational transfers, including gifted deposits, which currently face tax and legal complexities.
- Exploring intergenerational lending models (e.g., joint borrower, guarantor-backed) to allow family wealth to be used flexibly to support home ownership.

Capital treatment is a key barrier, while it is primarily within the PRA remit, relaxing capital rules could materially increase lender appetite and improve pricing for equity-backed or innovative mortgage products.

Affordability assessments, currently quite rigid, do not always reflect the nuances of intergenerational or equity-based lending. There is a case for more flexibility in line with the Consumer Duty to better accommodate individual circumstances.

However, there are important counterpoints, such as the risk that unlocking equity may reduce housing market churn if older homeowners stay put longer by releasing equity or borrowing against their homes, potentially exacerbating the shortage of available properties for younger buyers.

Overall, unlocking housing equity will require a combination of regulatory flexibility, capital reforms, targeted product innovation, and broader policy changes including housing supply and tax frameworks. The FCA's role is important but necessarily part of a wider coordinated effort across government, regulators, and industry to effectively support FTBs, later life borrowers, and the economy.

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

Conduct regulation can play a supportive role in the wider debate about digitising the house buying and selling processes, but large-scale digitisation would likely require government mandate and significant industry collaboration to become a reality. The scale of such a transformation would demand most lenders pause or limit other change initiatives to allocate resources effectively, which could have market-wide implications and potentially slow activity in the short term.

Digitisation may be more feasible for larger firms within the housing sector that have the infrastructure and capacity to adapt, whereas many conveyancing providers are small firms or sole practitioners who may lack the resources or capability to transition to digital processes rapidly. This disparity presents a key challenge for widespread adoption.

There are several areas where regulatory influence and digitisation could improve the customer experience and market outcomes:

- The standardisation and digitalisation of mortgage deeds could simplify processes such as remortgaging, reducing friction and improving efficiency. We're currently working on a proof of concept with HMLR, some members and conveyancers to test out a standardised digital mortgage deed.
- Conveyancing is identified as a major pain point for borrowers. Improvements here, potentially supported or encouraged by FCA influence on standardisation, could deliver significant benefits.
- There is a need for stronger regulation and oversight of conveyancers to improve accountability, behaviour, and outcomes for consumers. Members questioned whether the FCA could support or influence these improvements given current gaps in regulation.
- The Scottish system's approach to the 'commitment point' in the buying process was noted as an example worth considering for potential benefits in improving customer outcomes.

In addition, we see promise in leveraging AI technologies to streamline affordability assessments using access to bank and credit card data to enable AI-driven insights into spending patterns and risk. AI could also help integrate processes such as alignment with the land registry, enabling a more automated and seamless customer journey.

Creating a level playing field for firms to access customer current account data and other relevant context is critical, and members acknowledge ongoing work in this area. This access would underpin more effective AI decisioning and support digitisation efforts.

The BSA is also represented at the Digital Property Market Steering Group (DPMSG) alongside other industry representatives, chaired by MHCLG and attendance from HMLR, the groups' objective is to consider ways digitise and streamline the homebuying and selling process. DPMSG is actively working on initiatives to support digitisation in the housing market. One key outcome is the development of the Digital Property Information Protocol, a centralised hub that aggregates information from across all sectors involved in the home buying and selling process. Currently intended for industry use, it will eventually be accessible to consumers, providing clear guidance on the process, timelines, requirements, and each stage involved. Other ongoing initiatives include reviewing data standards, assessing search providers, and advancing digital identity solutions to further streamline and secure transactions.

In summary, while conduct regulation alone cannot drive full digitisation of the house buying and selling journey, it can contribute meaningfully by promoting standardisation, accountability, and consumer protections. Achieving large-scale digital transformation will require government mandate, cross-industry cooperation, and thoughtful consideration of the resource and capability constraints faced by smaller market participants.

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?

Innovation could be beneficial in the mortgage market, alongside suggestions for how regulation might better support these developments. One common theme was the value of gaining deeper insight directly from customers and frontline staff. This could be achieved through customer forums and practical walkthrough demonstrations of the mortgage process with lenders to clearly illustrate the real-world challenges faced by consumers and advisers. There was also interest in establishing working groups as part of the ongoing review to foster collaboration and idea-sharing.

Innovation priorities raised include developing products that better serve customers with lower or irregular incomes, such as those emerging from education with student loans or those affected by AI-driven changes in career pathways. Additionally, addressing the needs of customers with limited pension provision or low pension schemes was noted, particularly for later-life affordability and ensuring sustainable living standards.

Technological advancements like AI-powered fully automated advice and systems enabling automatic mortgage approvals were also cited as promising areas. Moreover, integrating mortgages more closely with other financial products could offer consumers a more holistic financial planning experience. Specific innovations mentioned include removing the requirement for wet signatures by adopting alternative technologies and creating mortgage products designed to grow alongside a customer's lifetime earnings potential.

Despite these opportunities, members observed that significant innovation is already underway in many areas, suggesting that further FCA intervention may not always be necessary. Instead, a focus on standardising key processes could unlock greater innovation potential. Examples include harmonising identification requirements, streamlining the conveyancing process, and standardising legal declarations. Currently, the wide variation in approaches across lenders acts as a barrier to efficient innovation and customer experience improvements.

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

We welcome the FCA's exploration of *tolerable harm* as a concept and recognised its importance in the context of a more inclusive mortgage market. However, we noted that the current Discussion Paper presents a relatively narrow view of the potential metrics that could be used to assess tolerable harm and that further clarity would be beneficial, particularly around the definition, application, and interaction with other regulatory frameworks such as Consumer Duty and capital requirements.

There was broad agreement that the principle of tolerable harm reflects the reality that some degree of risk is inherent in any lending activity. We feel that this must be acknowledged openly, especially when considering proposals to widen access to homeownership for groups who may not traditionally meet standard affordability or credit criteria. There is a natural tension between enabling access and avoiding foreseeable harm under Consumer Duty, and members emphasised the need for regulatory clarity on where this balance lies.

A significant proportion of arrears cases are triggered by life events, often unforeseeable, such as job loss, illness, or relationship breakdown. As a result, using arrears levels in isolation as a proxy for harm may risk oversimplifying or mischaracterising the cause of financial distress. Around half of all arrear's cases stem from these external life events, which makes it difficult to set definitive tolerances or thresholds that fairly reflect lender practices or risk management. It is to be expected that with lengthening mortgage terms more borrowers will face financial difficulty at some point.

There was also recognition that an increase in arrears could be an expected and acceptable consequence of rebalancing risk appetite to serve more underserved consumers. Members were clear that this should not automatically be viewed as a failure of regulation or firm conduct, provided that the risk was transparently communicated, properly assessed, and managed throughout the life of the loan.

There is importance of aligning any monitoring of tolerable harm with existing supervisory frameworks and data returns, to avoid duplication and ensure feasibility for all firms. While no alternative metrics were definitively proposed at this stage, members expressed interest in working with the FCA to explore this further, including the use of broader market indicators to reflect affordability stress, life event prevalence, or consumer resilience.

There remain concerns that the concept of 'tolerable harm' appears at odds with the Consumer Duty, which requires firms to avoid foreseeable harm. If a harm is already identified at the point of application, it is difficult to see how it could be considered 'tolerable' rather than foreseeable.

To support this area, outcomes monitoring and cross-sector insight would be valuable. Trend analysis, combined with the sharing of management information with industry bodies, could help to generate meaningful data for the sector. This would allow emerging risks or pressure points to be identified early, and for proactive adjustments to be made before risks crystallise.

Overall, the concept of tolerable harm was supported in principle, but members strongly encouraged further regulatory dialogue to co-create a shared understanding of how it will be implemented and assessed. This would help ensure firms can act with confidence while maintaining alignment with Consumer Duty and delivering sustainable access to homeownership.

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

We support the principle of rebalancing risk appetite to help stimulate the mortgage market, recognising it as a necessary step to support innovation and access. We also welcome the more holistic approach of balancing the risk of arrears and possessions vs the outcome of the consumer continuing to rent.

There is recognition that rebalancing risk could increase access to homeownership, particularly for underserved groups, and we therefore welcome the FCA renewing its calibration of requirements. For building societies in particular, arrears levels have remained low throughout the COVID period and cost of living crisis, and prudential regulations require societies to hold multiple layers of capital for unexpected losses, stress scenarios, and buffers over and above expected credit losses. Naturally our members also emphasise that this may increase the likelihood of borrower default, particularly if life events, wider economic shocks, or affordability pressures occur post-completion, but we believe this is well within tolerable levels of harm when compared with the alternative of continuing to deny many credible customers access to mortgages.

Lenders are keen to ensure that any shift in regulatory stance is accompanied by appropriate consideration of arrears and collections capabilities. Members suggested that lenders could be encouraged or supported to take a more proactive approach in identifying and engaging customers who may be at risk of falling into difficulty, for example, through early intervention communications triggered by life events or transactional data. However, this would likely require significant investment in resourcing, systems, and training.

Several members noted that recruiting and retaining skilled colleagues in arrears and collections roles is already challenging, with high workloads and complex customer needs contributing to attrition. To address this, members suggested that the development of an industry-recognised qualification could help to professionalise and elevate these roles, attracting new talent, improving service quality, and supporting firms' ability to meet any increase in demand arising from a more risk-tolerant lending environment.

In summary, we support a review and rebalancing of the FCA's risk appetite. However, we believe the recent clarification of the stress test rule and relaxation of LTI flow limits are likely to have the greatest immediate impact. We recommend assessing their effects before making any further adjustments to rules. In addition, we strongly advocate for a whole-journey approach, one that considers the infrastructure, expertise, and customer engagement models necessary to protect borrowers throughout the lifecycle of the mortgage, particularly when things go wrong.

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?

We support the principle of a differentiated regulatory approach for mortgages taken out for purposes other than purchasing a property, such as second charge mortgages and remortgages used for debt consolidation. There was consensus that these products often serve distinct customer segments, present different risk profiles, and should not necessarily be regulated in the same way as traditional home purchase loans.

The Discussion Paper correctly identifies that second charge mortgages tend to exhibit higher arrears levels, but members noted that comparable data is not provided for first charge remortgages used for debt consolidation. This makes it difficult to draw evidence-based conclusions about where regulatory differentiation should be applied. Members emphasised the importance of clearly distinguishing between first and second charge lending, given the differences in customer intent, legal structure, and affordability risks.

Several members cautioned against an overly prescriptive regulatory stance, particularly for debt consolidation via first charge remortgages. While there are potential risks, such as overextension of credit or the masking of financial distress, most lenders already take a prudent, risk-based approach in these cases. A prescriptive framework could inadvertently penalise customers who are using consolidation responsibly and would otherwise benefit from lower monthly payments and improved financial stability.

There was strong support for the FCA considering a differentiated approach where there is a demonstrable risk of harm and clear divergence in borrower profile or product purpose. For example, considering the recent *OneSavings Bank v Waller* case, members agreed that second charge lending may warrant more tailored protections or disclosure to reflect its specific risks.

Other product types where differentiation could be valuable include later life lending, due to the higher incidence of vulnerability and the need for carefully tailored advice, and intergenerational products that involve equity release or parental financial support. These models introduce unique consumer dynamics and may require enhanced guidance, disclosures, or advice frameworks to ensure good outcomes.

Overall, we are open to differentiated approaches where justified but stressed that any changes must be grounded in evidence, maintain proportionality, and avoid unnecessarily restricting access for borrowers who are able to sustain their repayments. Flexibility, not rigidity, was seen as key to achieving good consumer outcomes across an increasingly diverse mortgage landscape.

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

We welcome the FCA's focus on the issue of unsustainable mortgages and agreed that it is a critical area in delivering good consumer outcomes. There was consensus that while forbearance tools are broadly available and well-understood, several barriers, both systemic and regulatory can hinder lenders from delivering fair, timely, and effective solutions in practice.

From a lender's perspective, an unsustainable mortgage is one that is no longer affordable for the customer either in practice or principle, and where repayment is unlikely to resume on a sustainable basis. In these cases, early resolution is often in the best interest of both customer and lender. However, such resolutions are frequently delayed, resulting in greater financial and emotional harm for customers and higher losses for firms.

Several operational barriers were highlighted, including legacy systems that limit flexibility in arrears management and resource constraints in specialist teams. These challenges are compounded by external factors such as long legal timelines, limitations in Support for Mortgage Interest (SMI) policies, and the availability of suitable social housing.

A recurring issue where current rules may unintentionally enable repeated arrears behaviour without recourse. For example, if a customer repays their arrears and subsequently falls behind again, the regulatory process effectively resets, limiting the lender's ability to address persistent non-payment patterns. Greater flexibility in managing such scenarios, particularly where there is a clear and repeated inability to sustain payments, was seen as necessary.

The interaction with wider support frameworks was also raised as a concern. Mental health-related "breathing space" protections, while important, can sometimes delay effective resolution where there is no long-term ability to recover the mortgage. SMI, while a useful tool, is limited in its scope and application. Members suggested that allowing the SMI equitable charge to cover a greater proportion of the property value, potentially up to 100% could help address the imbalance between remaining in unaffordable homeownership versus transitioning to rented or supported accommodation.

Judicial decision-making was also cited as a barrier. Members shared experiences of suspended possession orders (SPOs) being granted on unaffordable terms, which only serve to prolong the issue and increase costs. Additionally, discrepancies in local housing policy mean that customers who voluntarily surrender their home, rather than undergoing repossession may receive less support in accessing social housing. This disincentivises what could otherwise be a less harmful and more constructive path for the customer.

Overall, we support a holistic review of how unsustainable mortgages are identified and managed. This should include consideration of legal frameworks, housing policy, support mechanisms like SMI, and the potential for more outcome-focused regulatory flexibility. Members encouraged the FCA to work closely with government and other regulators to address the wider ecosystem barriers that currently hinder fair and timely resolution.

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?

We agree that the Discussion Paper has identified the right trade-offs to consider in the context of rebalancing collective risk appetite in the mortgage market. The core tensions between access, affordability, consumer protection, and financial stability were seen as appropriately framed. We welcome the more holistic approach of considering the customer outcomes relative to remaining in the rental market compared to purchasing a home. However, members highlighted additional considerations that could further inform the debate and strengthen the framework for evaluating risk and opportunity.

One important theme raised was the timing and duration of borrower distress. Many customers who have trouble meeting their mortgage commitments due to temporary life events such as job loss, illness, or relationship breakdown. In many cases, these issues are resolved within 12–24 months. Members suggested that the current regulatory framework could better recognise this reality by supporting temporary flexibility or tailored solutions that avoid unnecessary harm or foreclosure for customers in short-term distress.

In this context, we propose that a state-backed guarantee scheme, such as a mortgage, equity release, or insurance-style guarantee, could be explored to help de-risk lending to consumers with higher perceived short-term risk. Such a mechanism could help lenders to offer products to underserved segments (e.g. those with limited credit history, younger borrowers, or customers with non-standard incomes) without being disproportionately exposed to long-term balance sheet risk.

Members encouraged the FCA to continue working with other government departments and regulators, particularly the PRA and HM Treasury to ensure that the overall regulatory and policy environment enables sustainable innovation, appropriate risk treatment, and the long-term resilience of the mortgage market.

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?

We strongly agree that rebalancing risk appetite in the mortgage market is a relevant and timely objective, particularly given the focus on improving access to homeownership and supporting underserved consumer segments. We want the focus to be on removing constraints that currently limit firms' ability to manage their own risk appetite in a proportionate and flexible way.

A common theme across responses was that risk appetite should ultimately remain a decision for individual lenders, reflecting their business models, customer base, and capital position. Members felt that loosening some aspects of the current regulatory framework, particularly around affordability assessments, capital treatment, and product design, should support a wider range of risk appetites in the market, and that this is a welcome shift away from the prescriptive direction from the regulator.

A key barrier raised by building societies was the treatment of certain types of lending under PRA rules, which was seen as a major constraint to offering higher LTV or more innovative products. Members suggested that any meaningful rebalancing of market-wide risk appetite would require coordination with the PRA, to ensure that capital requirements do not continue to disincentivise certain forms of lending, particularly those that could support first-time buyers or non-standard income borrowers.

For example, the PRA has determined that mortgage guarantee schemes should be treated as if they were a securitisation. This amounts to implementing significant infrastructure and reporting which is not proportionate to the risks posed by mortgage guarantee schemes, so the PRA's somewhat purist legal interpretation is stifling innovation and growth in this area. Another example is the overall layering of capital requirements through the capital stack – pillar 1, pillar 2a, stress testing, buffers, leverage ratio, leverage ratio buffers and MREL – which is particularly penal to the low-risk monoline mortgage model for building societies.

In summary, we support a review of rebalancing of risk appetite. The delivery would depend on a combination of regulatory change, capital reform, and clear expectations under Consumer Duty, rather than a shift in principles alone.

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.

There should be a strong emphasis on practical reforms that would support innovation, improve customer outcomes, and reflect the evolving market and regulatory landscape. The following areas were highlighted as having the greatest potential impact and/or being capable of near-term implementation:

Interest-Only: Sale of Property Strategy
Interest-only mortgages have historically raised concerns around repayment strategies, but in today's market they could play a constructive role in easing affordability pressures and supporting wider homeownership, particularly for first-time buyers. Flexible, time-bound IO products, for example, short initial IO periods or part-and-part structures could help groups such as single-income households, older FTBs, and those with strong future earning potential. A part and part plan within a long-term mortgage could make homeownership more accessible by reducing upfront costs, while still being assessed on long-term repayment ability. To be viable, IO must not become a workaround for poor affordability; safeguards such as clear communication, robust affordability checks, and structured repayment planning would be essential. With careful design, IO could be a responsible, targeted tool that broadens access to homeownership, improves consumer choice, and supports better outcomes under Consumer Duty

Affordability
Affordability should be a priority because too many creditworthy borrowers, particularly the self-employed or those with non-standard incomes are still shut out of homeownership by rigid criteria designed for traditional salaried workers. Modern work patterns mean more people earn through multiple jobs, contracting, or small businesses, yet the mortgage process has not kept pace. A smarter, fairer approach to affordability, using tools like Open Banking, HMRC records, or flexible product structures, would better reflect genuine financial resilience. Greater consistency and transparency across lenders would reduce uncertainty, while regulatory support could unlock innovation without compromising prudence. By addressing these gaps, the market can expand access to homeownership in a way that reflects how people live and work today.

Later Life Lending

Later life lending is becoming increasingly important as more people need access to housing wealth or flexible mortgage options to support retirement. Current products like Retirement Interest-Only (RIO) and lifetime mortgages can provide stability, but regulatory barriers and fragmented advice often prevent borrowers from accessing the right solutions. A more flexible framework, with clear safeguards and holistic advice, would enable innovation while protecting vulnerable customers. Supporting this market could prevent older borrowers from being forced into renting or repossession, helping them remain in their homes securely. With an ageing population, prioritising later life lending is essential to expanding sustainable homeownership and delivering good outcomes in retirement.

Shared Ownership
Shared ownership remains a vital route into homeownership, especially for those unable to afford full-market prices or large deposits, by lowering entry barriers for first-time and single-income buyers. Building societies have long supported this sector, helping thousands access homes that would otherwise be out of reach. With research showing shared ownership is forecast to be more affordable than private renting across much of England in the next decade, it offers a meaningful pathway to long-term ownership. However, challenges such as complex leaseholds, rising rents, and barriers to staircasing risk undermining affordability and consumer confidence. Prioritising reform and regulatory support would unlock greater access, improve outcomes, and help shared ownership deliver on its potential to boost sustainable homeownership in the UK.

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

At this stage, there are no additional areas we would specifically call out beyond those already considered in the Discussion Paper. However, we see clear value in the FCA continuing to frame future work on mortgage market reforms through the lens of Consumer Duty, particularly in ensuring good outcomes and avoiding foreseeable harm. The principles of Consumer Duty provide a strong foundation for assessing where regulatory interventions are proportionate and genuinely improve consumer understanding, choice, and long-term financial resilience. We are keen to work closely with the FCA on this, and we would welcome the opportunity to provide more detailed feedback through upcoming Consultation Papers, where we can respond more directly to proposals and highlight practical considerations from a lender and consumer perspective.