FCA
Financial Services
Consumer Panel

Email: enquiries@fs-cp.org.uk

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By email: cp26-18@fca.org.uk

Dear FCA,

The Financial Services Consumer Panel (the Panel) welcomes the opportunity to respond to the FCA's proposals to expand mortgage access, particularly for first-time buyers, the self-employed, and consumers with irregular incomes. While we recognise the broader societal and financial benefits of homeownership, we caution that stimulating demand without a corresponding increase in housing supply risks inflating house prices, paradoxically pushing homeownership further out of reach for many consumers.

Fundamentally, the proposed changes represent a significant transfer of risk from firms to borrowers. As consumers are exposed to more flexible—and inherently riskier—mortgage products, it is imperative that they receive timely, clear, and comprehensible information to make informed decisions.

Firms must proactively prepare for a potentially higher incidence of arrears and defaults among these cohorts. We expect the FCA to heavily scrutinise firms' adherence to the Consumer Duty, ensuring that consumers facing financial difficulty receive appropriate forbearance and fair treatment. The rules governing arrears for non-monthly payment schedules require careful calibration to balance the equitable treatment of monthly versus non-monthly payers with the need to prevent consumers from accruing insurmountable debt before intervention occurs.

Although outside the remit of this consultation the FCA should explore the mortgage market in other jurisdictions and identify the forces in the UK that prevent product offerings that could be beneficial to UK consumers. For example, substantially longer-term fixed rate mortgages, up to and including the full life of the mortgage, are the mortgage of choice in the US.[1] In addition to longer fixed periods, there are no prepayment penalties; the borrower has the flexibility to pay their mortgage early or to remortgage when interest rates decline. This combination provides the borrower with greater certainty and control over their mortgage payments, and it reduces the likelihood of default, especially in a rising interest-rate market.

[1] 30 Year Mortgage Statistics in US 2025 | Key Facts - The World Data

Finally, the Panel emphasises that relying on the Consumer Duty as an outcomes-based framework is not always a substitute for robust supervision. The FCA must rigorously monitor market data to evaluate whether these interventions genuinely expand access, or merely prompt existing borrowers to remortgage. We strongly urge the FCA to conduct supplementary consumer research to determine if the rules are functioning as intended, thus preventing foreseeable harm.

Specific Comments:

Repayment Vehicles for Interest-Only Mortgages

The Panel supports the proportionate approach to repayment strategy evidence, specifically the proposal to waive strict evidentiary requirements where the interest-only element constitutes less than 25% of the property value, while maintaining full evidence requirements where it exceeds 50%.

However, this support is contingent upon lenders maintaining a proactive "watching brief" on property valuations. Fluctuations in house prices can rapidly shift consumers between risk thresholds; a market downturn could suddenly necessitate a robust repayment vehicle, while an upturn could relieve the consumer of that burden. While we do not believe the FCA needs to prescribe exact review frequencies, it must mandate that firms continuously monitor loan-to-value (LTV) risks to prevent consumer detriment.

Furthermore, we urge the FCA to publish specific guidelines for the "Tailored Interactive Dialogue" required to establish a credible repayment vehicle. We note the FCA's preference for permissive guidance in this area and its reliance on the Consumer Duty to govern firm behaviour. While we cautiously accept this approach, it must be backed by swift enforcement action and sanctions where consumer harm is identified.

Irregular Income and MCOB Amendments

The proposals offer a pragmatic route to supporting consumers with variable incomes. However, the Panel suggests the FCA explore structural product innovations as an alternative—namely, encouraging lenders to offer flexible mortgages with enhanced overpayment and underpayment facilities. Specifically, we would like to see models where overpayments are applied to the outstanding capital balance immediately upon receipt, rather than at the end of the annual mortgage cycle, thereby reducing the consumer's total interest burden.

Regarding the proposed changes to the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB 5.6.40R) and (MCOB 11.9.5R)—replacing references to "monthly payments" with generic terminology like "regular contractual payment"—we recognise this will facilitate product innovation. However, it raises significant regulatory questions concerning the definition of arrears. If a consumer is on a quarterly payment schedule, the accrual of missed payments could rapidly lead to severe debt before standard regulatory triggers (such as warning letters) are activated. The FCA must issue clear guidance on arrears thresholds for non-standard payment frequencies.

Credit Impairment

The Panel welcomes the FCA calling out the poor practices of firms that have incorrectly applied regulatory rules to automatically deny credit to consumers with historic impairments (e.g., defaults, CCJs, or IVAs within the past three years). Many of these consumers have remediated their financial situations but remain excluded from the mainstream market due to rigid, misapplied underwriting criteria.

While the FCA's intervention is laudable, it is deeply concerning that this systemic misinterpretation was permitted to persist for years. This failure has caused measurable detriment, damaging consumers' financial and mental wellbeing and driving many toward high-cost, adverse credit offerings. The FCA must urgently review its supervisory intelligence and market monitoring processes to understand why this was not identified sooner, ensuring similar blind spots do not exist elsewhere.

We also urge the FCA to launch a targeted communications campaign to inform affected consumers that they may now be eligible for mainstream credit.

Conclusion

The Panel cautiously welcomes these proposals, subject to the mitigations detailed above. Home ownership brings greater security to consumers and is a form of wealth building.

We must reiterate that while the Consumer Duty was designed to operate alongside prescriptive rules, an over-reliance on the Duty in areas of high product complexity, risks consumer confusion and subsequent harm. While regulation cannot insulate consumers from every eventuality, the FCA must evaluate these proposals holistically. Consumers are currently being asked to absorb a growing cumulative burden of financial risk across multiple markets; the Regulator must ensure this cumulative burden remains both understood and acceptable.

The Panel looks forward to working with the FCA as it takes forward these rule changes and widens access to the mortgage market.

Yours sincerely,

Chris Pond

Chair, Financial Services Consumer Panel