Consultation Response

Mortgages and the Coronavirus : updated draft guidance for firms

Financial Conduct Authority

May 2020

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About this consultation

The Financial Conduct Authority has launched a consultation proposing a further range of temporary measures to support mortgage holders who are facing financial challenges arising from the coronavirus.

About Age UK

Age UK is a national charity that works with a network of partners, including Age Scotland, Age Cymru, Age NI and local Age UKs across England, to help everyone make the most of later life, whatever their circumstances. In the UK, the Charity helps more than seven million older people each year by providing advice and support. It also researches and campaigns on the issues that matter most to older people. Its work focuses on ensuring that older people: have enough money; enjoy life and feel well; receive high quality health and care; are comfortable, safe and secure at home; and feel valued and able to participate.

Key points and recommendations

- Firms need to ensure that customers, particularly those who are vulnerable, fully understand the long-term implications of any action that they take for their finances.
- Individuals encountering financial difficulties prior to the pandemic should still be supported by firms to address the underlying cause of those difficulties.
- The moratorium on possession action should only be used in the buy-to-let market to ensure that tenants can remain in their homes.

Introduction

We welcome the opportunity to comment on the proposals, and the action that the FCA is taking to protect consumers impacted by Coronavirus in the mortgage market.

We appreciate the urgency of the action that the FCA is taking. We are very concerned that many people are encountering financial problems as a consequence of the pandemic, including many older people. Meeting financial commitments that were previously affordable has suddenly become challenging, including for many pensioners, and the flexibility that the FCA is giving firms to help such customers is to be welcomed.

We are also concerned that the various payment holidays on offer, not all of which are regulated by the FCA (for example utility bills and rent payments (for some)), could all end at a similar time, potentially causing significant harm if people are asked to repay the accrued debts. We are encouraging regulators and industries to work together to avoid pushing many older people over the edge. For some consumers, ending the mortgage repayment holiday will be an important part of this.

Owing to the short time available to us, we have been unable to consider the impact of each of the measures in detail but have the following general points to make.

The long-term impact

We are concerned that people will take advantage of the flexibility that is offered without fully appreciating the long-term impacts on their finances, and particularly that debt will still have to be repaid. This is particularly important for older people, who may be on limited incomes and so may have difficulty meeting increased repayment requirements when we return to normal circumstances.

Firms must ensure that older customers taking advantage of these new measures fully understand the long-term implications of any actions they agree with their provider, including the implications for repayments in the future.

Many vulnerable customers, including many older people, may also have difficulty understanding how financial products work, and the implications for them. While they may have understood how a mortgage worked when they took it out, issues such as a lack of advice or cognitive decline may mean that this is no longer the situation. Firms need to be particularly supportive of such customers, and the FCA should require firms to report to them how they are using the new provisions to support customers, in particular how they are helping vulnerable customers.

This is not just for older people who have retired but also for people approaching retirement. A decision to forgo mortgage payments for several months now could have a significant impact upon the term of the mortgage, and see them making mortgage repayments much longer into retirement than they were planning or at a much higher amount than expected, or having unintended consequences such as forcing people to keep working for longer.

Customers who had a payment shortfall prior to March 20th

We recognise that mortgage borrowers in difficulty prior to March 20th were excluded from the ‘mortgage holiday’ provisions introduced on that date, and the Coronavirus pandemic may have since exacerbated their problems.

However, for many of these people, the underlying factor making it difficult for them to pay their mortgage is going to be unconnected with the pandemic. Lenders must ensure that they do not ignore addressing the underlying problem that saw the mortgage difficulties develop in the first place.

Repossessions

We welcome the extension of the moratorium on repossessions, and its applicability to both the residential and buy-to-let markets.

The aim of any intervention in the buy-to-let market must be to ensure that tenants enjoy the same levels of protection from eviction as homeowners. As such, the moratorium on possessions for buy-to-let mortgages should only be used to ensure that a tenant is able to remain in the property if either the tenant or mortgage holder encounter difficulties.

We appreciate that following a mortgage holiday, the lender may increase mortgage repayments to recoup the amount outstanding. In determining any new repayment level, the lender should ensure that any increase would not justify a significant increase in the rent that could be unaffordable to the tenant.