Consultation Response:

FCA Mortgage Rule Review: the future of the mortgage market

Response by the Money Advice Trust

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Introduction

About the Money Advice Trust

The Money Advice Trust is a charity founded in 1991. Our mission is to help prevent financial difficulty and remove problem debt from people's lives.

In 2024, our National Debtline and Business Debtline advisers provided help to 156,100 people by phone or our digital advice tool, and 47,600 people by webchat, with 2.8 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK and in 2024 we delivered this free training to 750 organisations.

We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

Find out more at www.moneyadvicetrust.org.

Public disclosure

Please note that we consent to public disclosure of this response.

Introductory comment

We welcome the opportunity to respond to the FCA mortgage rule review. Please note that we have limited our response to elements of the consultation relevant to debt advice.

We would suggest that a cautious approach is taken when considering any changes to the mortgage responsible lending rules. The paper suggests that the FCA is considering whether to update the rules *“to support product innovation and greater homeownership for those consumers who can repay”.*

Supporting people who can afford a mortgage to access this is an important aim. However, any move to do so needs to take into account lessons from the past, including the period before the FCA mortgage lending and arrears rules, protections in sub-prime and second charge lending and the mortgage pre-action protocol.

Whilst a review of the responsible lending rules is to be welcomed, this review should not result in a reduction in protections that lead us back to the situation in 2010. We, understandably, do not want to see a rise in arrears and repossession figures or a return to the housing market as it existed before 2008. It was a lot easier to get mortgages that turned out to be unaffordable. The sub-prime mortgage sector was a real driver for this, with high interest rates and poor forbearance practices and a high number of interest-only mortgages, or mortgages based on self-declared self-employed income.

Any rebalancing of the risk appetite needs to be carefully thought through, to understand if the benefits outweigh the potential risks. Any rebalancing inevitably creates a higher risk of arrears and repossessions increasing and, if the Government and FCA choose to take that route, then they will need to equally ensure that there is adequate forbearance and protections in place, to support mortgage-holders who fall into difficulty.

Responses to individual questions

Question 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?

We have not identified any additional groups that we believe the FCA should focus upon at this point.

Question 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 information given in the consultation shows that sales of mortgages to the self-employed are proportionately less than they are as a percentage of society. It would seem to us that there needs to be research into the reasons why this is the case before the question raised can be answered. For example, is it because fewer self-employed borrowers are making applications, perhaps because they might perceive it to be a more rigorous process for them, or is it partly due to relatively low income levels for many self-employed people.

We would expect a cautious approach to be adopted to any changes due to the statistics in the paper showing that self-employed people are more likely to have arrears. However, it is a fine line between having sufficient information to assess affordability and being overly cautious just because someone is self-employed. This employment status does of course cover many different household set ups and income levels.

From our experience of advising Business Debtline clients, we suggest considering the following.

- Lenders may request more than one year’s audited accounts when assessing a mortgage as self-employed income can fluctuate quite a lot from year to year. It would be interesting to know how lenders might usefully interpret these changes between the years when assessing risk. It would then be possible to establish whether lenders should consider average income over a longer or shorter period to take these fluctuations into account.

- There could be more flexibility regarding overpayments and underpayments to assist self-employed borrowers whose income fluctuates a lot or who have seasonal income. This could be a feature of a penalty-free self-employed mortgage product. There would still need to be criteria for when such features would be available, alongside limits on use.
- Self-employed people will be setting aside money to pay their taxes, so they are used to the idea of putting more money aside when their business is going well. This approach could be adapted for mortgage products where the borrower shares accounts data with the lender with an agreement that a certain percentage of increase in profits would be paid into the mortgage.
- Any such product should be flexible enough to amend the term of the mortgage accordingly without there being any penalty, e.g. the term reduces if more payments are made, and may include the flexibility to lower repayments and increase the term when the borrower's business is struggling – with some limits agreed at outset.
- Where borrowers are growing their business, a self-employed mortgage might start off with lower repayments but have milestones within the mortgage term whereby repayments need to increase, so that the affordability of the mortgage relies on the future growth of business. However, this could be a risky approach without extra safeguards being built in.

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

As demonstrated in the paper, the stress test has been instrumental in protecting consumers against the impact of increases in interest rates. It has been shown to have been effective as the high interest rate increases in 2022/23 have not led to the very high rates of mortgage arrears and repossessions as was seen in the previous mortgage crisis. Mortgage possession claims fell from a peak of 26,419 in the quarter April to June 2009 (in the aftermath of the 2008 financial crash) before stabilising in 2015. There were 48,900 repossessions in 2009.[1]

As the paper says:

"….stress testing means that the vast majority of borrowers who came to the end of their fixed terms in 2023 faced new mortgage rates which were lower than those they had been 'stressed' at. Arrears levels remained low throughout this period."

However, that is not to say that there has been no increase in mortgage arrears and repossessions during this time period. The government statistical report for the first quarter of 2025[2] shows:

"Mortgage possession actions: claims, orders, warrants and repossessions continue recent rises and are all currently above the previous year's levels.

[1] House of Commons Library (2023) Mortgage arrears and repossessions in England
[2] Ministry of Justice Mortgage and landlord possession statistics: January to March 2025

Compared to the same quarter in 2024, mortgage possession claims (6,765) are up 31%. Mortgage orders for possession (4,624) are up 53%, warrants issued (3,517) are up 20% and repossessions (1,092) are up 42%."

We believe the stress test has been effective in reducing the level of arrears and repossessions, and any decision on relaxing this must take this into account. We would be nervous about it being relaxed in any significant way. From a debt advice perspective, we have not seen a substantial rise in problems for clients with mortgages, in contrast with previous times. At National Debtline, 12.1% of our clients have a mortgage in 2025 and 2% of all clients are in mortgage arrears.[3]

In 2008, 40% of National Debtline clients had mortgages, and over 10% of callers had mortgage arrears. This means there has been a significant drop in people with mortgages and mortgage arrears seeking debt advice over this period.4 There has been a significant rise in the proportion of people who rent their homes and who seek advice over the same period reflecting the relative costs of rental properties and cost of living pressures.

We would see this as an indication of the success of the current FCA lending policies and MCOB rules which have prevented arrears and repossessions rising to the level of previous periods.

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

We agree with the perspective set out by the FCA in the paper. There are already longer term fixed-rate mortgages available on the market for borrowers if they wish to take up this option. It is not clear what action the FCA should take to support further take up of such products.

Question 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?

We agree that a rent-based affordability assessment could be a factor in determining the likelihood of ability to pay alongside the interest rate stress test. However, we don't think it should be the sole factor in assessing a consumer's ability to pay.

[3] National Debtline client data, based on all clients who contacted National Debtline between 1 October 2024 – 12 September 2025.
[4] Money Advice Trust (2018) [A decade in debt]

Any assessment would need to take into account the following factors.

- Clearly a track record of paying a higher rent than the prospective mortgage should be a factor in assessing whether a new mortgage is affordable. However, if paying the rent resulted in someone having little money left over to live, then this would not have been sustainable longer term.
- There will be extra bills in relation to homeownership to factor in, such as for insurance, repairs and maintenance.
- There should still be a requirement to carry out an income and expenditure check and income verification.
- There needs to be an assessment as to how long the consumer has been paying rent. Longer term evidence of a history of having paid rent with no problems will be required, as this will be more reliable than a very recent tenancy.
- The assessment should take into account the type of tenancy, e.g. who was responsible for the rent, e.g. a shared property with individual tenants or shared rent as a couple.
- Was the tenancy only sustainable through support from friends and family towards rent or household bills?
- Is it possible to assess whether rent and household bills were only affordable by taking out credit, such as credit cards, overdrafts and buy now pay later borrowing.

Question 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?

We do not support leaving the approach on rent affordability to firms. We do not think that the Consumer Duty is a substitute for clearly expressed rules for firms to follow and for consumers to understand. The Consumer Duty may have a consumer outcome focus, but it is a principle rather than a set of rules. It is also not subject to a sufficiently robust system of supervision and enforcement by the FCA as yet.

We also have concerns that it would be difficult to establish what a good consumer outcome looks like in this case, unless it is in comparison with other firm practices.

Question 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.

We would urge the FCA to be extremely cautious in its approach to reforming the interest-only requirements in the current rules. We are not convinced that such changes would help first-time buyers in the longer term, although they might help make a mortgage more affordable initially.

Proposals for part interest only and part capital repayment mortgages might sound reasonable in theory, but it is unclear how any transition from one to the other might work, particularly where in practice, the higher payments under a repayment mortgage remain unaffordable. It is easier to trust that circumstances will improve ten years down the line, but this will not necessarily be the reality in practice. There needs to be very careful thought given to what alternatives would be available for a borrower in that position.

We are also not convinced that there should be a shift from the expectation that the sale of property would provide sufficient funds to repay the mortgage but also to buy a cheaper property. It is not clear what in practice will be the outcome for a borrower if the payment vehicle is purely the sale of the property, with no means to at least afford a deposit on a smaller property or rental deposit.

These proposals are in danger of replicating the potential risks seen before the mortgage crash, where interest only mortgages were prevalent. However, lenders did not ensure borrowers sufficiently understand how the products worked. Borrowers did not realise that they would not be paying down capital and did not have alternative payment vehicles in place.

The risks of negative equity were also not sufficiently taken into account. Many clients who came to National Debtline at the time had negative equity, lost their homes and then had to deal with a shortfall on their mortgage.

The paper states:

"2.88 Our data shows that interest-only mortgages are more likely to fall into arrears. Our 2023 research found 2.2% of the total number of interest-only and part-and-part mortgages (22,000) were not repaid at the end of the stated mortgage term."

Clearly, interest-only mortgages are a riskier product. If any amendments are made to the rules regarding interest only mortgages, then there should be amendments to ensure that where these expire without a repayment vehicle, lenders should not be able to call in the mortgage and repossess automatically. New rules should require that alternatives should be considered, and put in place by lenders, to ensure that there are good outcomes for borrowers in this situation.

Question 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 would urge the FCA to take into account the many recommendations set out in the Surviving Economic Abuse (SEA) Joint Mortgages report.[5] We believe that the SEA are the experts in this field and therefore their recommendation for government to set up a task force on economic abuse should be listened to.

Their recommendations for amendments to MCOB, the FCA's Consumer Duty and Guidance for Firms on the Fair Treatment of Vulnerable Customers to ensure fair treatment of victim-survivors of economic abuse should form the basis of the FCA's regulatory interventions in this area.

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

In our Business Debtline service we see clients contacting us about bridging loans when they are struggling to repay and want breathing space to look at other options, such as refinancing or to delay enforcement by the lender.

We mainly see bridging loans that have no instalments to pay, and just a due date for full payment, but we also see some with a mix of instalments and an end payment. We see bridging loans mainly being used by the self-employed to help finance or part finance their business by using their home as security, either directly or through a secured personal guarantee. In many cases these are likely to be unregulated agreements, and the level of lending can be very high. We do see domestic bridging loans on a less regular basis, and these are more likely to be regulated.

However, what we do see is a jump in the interest chargeable once the term ends which can create real issues for refinancing and affordability. We would suggest that any reforms include the right to extend the loan on the existing terms (perhaps for a limited time) after the end of the period to give a buffer for the borrower to refinance or complete a sale and so on. This would give borrowers the right to an extension on a reasonable basis when needed and give them room to manage unexpected developments that they may face that does not depend solely on the goodwill of their lender.

[5] Surviving Economic Abuse (2024) Locked into a mortgage, locked out of my home report

Question 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 would very much support requiring an enhanced level of advice for certain groups of borrowers. We would expect this requirement to produce better outcomes for borrowers taking out riskier products such as interest-only mortgages where there is need for specific, more complex advice.

The paper makes a reasoned case for including first time buyers with a high loan to value, credit impaired consumers, as well as interest-only mortgage products in this group, as this group is more likely to be in long-term mortgage arrears. We do not see what the risks might be in adopting this approach or have ideas of a better way of doing this.

We are particularly concerned about second mortgages and secured lending for the purpose of debt consolidation in particular. Please see our response to question 32 below.

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

Balancing the Government's ambition to allow more risk in the system to support economic growth, and the potential for this to cause consumer harm is clearly challenging.

As a debt advice charity, we want people to have access to affordable, secure and safe housing. But we also do not want to see the growth of mortgage arrears, and mortgage repossessions. It is hard to define an acceptable level of "tolerable harm" in numbers, when our day-to-day frontline work means we are all too aware of the individuals who sit behind these numbers, and the impact that falling into difficulty can have on them. It is also worth noting that increased arrears and repossessions can have a wider societal cost relating to homelessness and rehousing, mental and physical health, and educational disruption. There could also be a knock-on cost to debt advice services, if there is an increase in demand driven by mortgage arrears, negative equity and mortgage shortfall cases.

We are conscious that the wider landscape on FCA rules and forbearance measures has changed significantly since the financial crisis. We now have stronger rules setting out the forbearance measures lenders must consider, and put in place, and greater understanding from lenders on the challenges people may face. All this has helped contribute to a reduction in people experiencing harm from falling into mortgage difficulty. We would note that any change to mortgage affordability rules will likely mean more people needing to access forbearance and both the FCA and lenders need to be prepared for this.

It may also mean that further strengthening or prescription is required to ensure that an increase in overall risk appetite doesn't lead to more people experience harm. We would encourage the FCA to model this as part of their discussions on tolerable risk. For example, if there is a level of increase in arrears the FCA and Government are willing to accept, they need to understand what additional forbearance may be required to protect these people, and to work with firms to ensure this happens.

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

We are concerned that changing the existing mortgage affordability rules could lead to a rise in arrears and repossessions.

It remains fair for the FCA to state:

"*5.25 Levels of arrears are low but vary quite considerably across the market depending on lenders' risk appetite and type of consumers they serve. Rebalancing risk appetite, specifically updating our responsible lending rules to support greater home ownership, may affect arrears and repossession levels."*

We, understandably, do not want to see a return to the housing market as it existed before 2008, when it was a lot easier to get mortgages that turned out to be unaffordable. The sub-prime mortgage sector was a real driver for this, with high interest rates and poor forbearance practices and a high number of interest-only mortgages, or mortgages based on self-declared self-employed income.

Any rebalancing inevitably creates a higher risk of arrears and repossessions increasing and, if the Government and FCA choose to take that route, then they will need to equally ensure that there is adequate forbearance and protections in place, to support mortgage-holders who fall into difficulty.

We would also like to see more options for flexible repayments built into the mortgage product itself rather than borrowers needing to be in financial difficulty before they can access support. This could mean the right to access payment holidays and temporary periods of interest-only payments as standard mortgage terms.

Question 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 very much support the idea of taking a different approach to mortgage taken out for purposes other than buying a property.

We have seen egregious cases at National Debtline and Business Debtline over the years relating to second mortgage firms. We have to give advice to people with secured loan arrears who face losing their homes due to taking out high interest loans secured on their property.

In our experience, these types of loans are worse product types with more onerous terms and conditions, and higher interest rates which constitute a greater inherent risk for borrowers. The FCA acknowledges that second charge mortgages have higher levels of arrears. In recent years we have seen a much smaller number of cases where clients have secured loans. Since October 2024, 0.55% of clients at National Debtline had secured loan arrears whilst 1.8% of clients at Business Debtline had secured loan arrears.

We give holistic debt advice which encompasses a range of potential debt options, and includes debt consolidation.[6] We do not routinely recommend a secured loan to consolidate unsecured debts. In theory, it sounds initially attractive, as there is only one monthly payment to make instead of many, so will make payments easier to manage.

Our National Debtline guide sets out the issues to consider.[7]

- Whilst a consolidation loan might lower the monthly amount that the borrower needs to pay on the original credit agreements, it may take longer to pay back than the original debt. This will make consolidation loans more expensive in the long term.

- The interest rate on the new loan might be higher than the interest rate on existing credit agreement.

- The monthly payment might be lower, but it may still not be affordable. There is no point in taking out a new loan that the consumer cannot afford to pay.

- In our experience, borrowers will not always clear all the debt they have, and end up with other credit to pay, as well as the payments on the new secured loan to keep up.

- Keeping open lines of credit can lead to further debt building up again, especially where the new loan is not really affordable.

- A secured loan will put the family home at risk of repossession, whereas arrears on unsecured credit will not generally do so. This means any change in circumstances could have drastic consequences.

- If someone misses payments, then of course not only will they have arrears, but their house will be at risk of repossession. In our experience, second mortgage firms did not always adopt best practice approaches to forbearance.

We would argue that before a secured debt consolidation loan should be considered, that the FCA requires the potential borrower to receive compulsory free to client FCA authorised debt advice first, before any regulated financial advice.

[6] National Debtline guide Ways to clear your debt
[7] National Debtline guide Debt consolidation: what to think about before you borrow

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

We very much support long-term forbearance measures and see it as vital that firms provide real, practical support to borrowers in mortgage arrears. We were pleased to see this support expanded in the FCA Consumer credit and mortgages (tailored support) guidance 2024.

Whilst we agree that firms should provide early support, we find it difficult to be persuaded that in some cases, *"earlier repossession action or earlier support to sell the property may result in better outcomes for the customer".* While we recognise this can lead to higher levels of arrears building up, experiencing repossession action can be hugely distressing for the individual.

We would like to see an expectation on firms to not only consider a range of forbearance options but to be required to implement forbearance options.

We have raised concerns with the FCA, that all the forbearance options might be considered and each one dismissed as not "appropriate" in turn by mortgage lenders. This gives the appearance of having followed the rules by "considering" the options but results in a poor outcome for customers who find that the only option still being considered is repossession, as forbearance options have all been discarded. We want to see an option being offered to borrowers in every case, even if this is not technically a forbearance option, as long as it helps them to stay in their homes.

In our response to the FCA Strengthening protections for borrowers in financial difficulty paper,[8] we said:

"It is not likely to be in a customer's "best interests" to conclude that repossession is the right option. The impact on the customer of long-term issues such as a rising balance on the mortgage or higher repayments should not outweigh the very real effects of repossession and homelessness on that borrower. These should tend to outweigh the longer-term considerations of higher payments and a rising balance."

We still believe that it is unlikely that earlier repossession will result in a "fairer outcome" for a borrower or be the best option to minimise a potential future debt burden. This presupposes that circumstances would not change. In addition, many people would not consider repossession and homelessness to be in their families' best interests.

[8] Money Advice Trust (2023) Response to the FCA Strengthening protections for borrowers in financial difficulty

Question 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?

Annex 3 in the paper sets out the types of loan and borrowers who are more likely to end up in arrears.

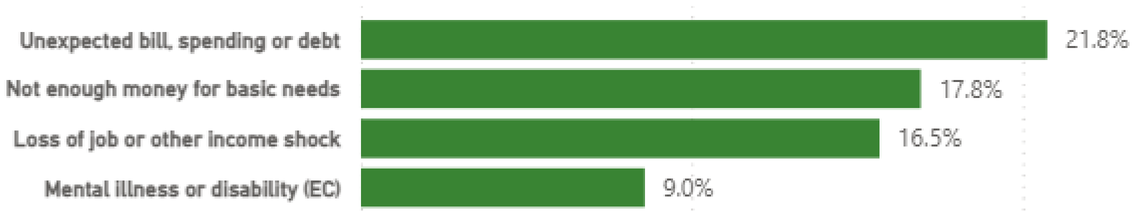
"5.37 The analysis reveals that certain borrower profiles are more vulnerable to falling into payment difficulties, including single borrowers (who are roughly twice as likely to fall behind compared to joint borrowers), younger borrowers aged 18-24, and self-employed individuals. Supporting the empirical literature, the loan characteristic with the strongest correlation with arrears appears to be the repayment-to-income ratio."

In our experience, we would agree that adverse life events are significant factors contributing to a higher arrears risk.

In addition, our client statistical profile show that National Debtline clients are most likely to be single, younger and female.[9]

Single	57%
Aged 18 to 44	60%
Women	61%

Our National Debtline clients also report their reasons for being in debt. The top four reasons are set out below.



Six in 10 of our clients have an additional vulnerability, on top of their financial difficulty, and one in three have a mental health illness.[10]

We are interested in the conclusion in the paper that monthly payments as a fraction of monthly income indicates a greater risk of arrears, rather than just loan to income ratios. This would make sense in a world of interest rate rises where people are also having to juggle the cost of living impacts of rises in other household bills at the same time.

[9] National Debtline client data, based on all clients who contacted National Debtline between 1 October 2024 – 12 September 2025.
[10] National Debtline client data, based on all clients who contacted National Debtline between 1 October 2024 – 30 June 2025.

Our statistics show that household bills including energy, council tax and rent and water arrears feature significantly in the top 10 debts held by National Debtline clients.[11]

Top 10 debts

	Debt type	% of customers with this debt	Average number of debts	Average value of debt
1	Credit cards	38%	2.5	£6,591
2	Energy arrears	34%	1.4	£2,429
3	Council Tax arrears	25%	1.2	£2,008
4	Overdraft	21%	1.2	£1,377
5	Borrowing from family/friends	16%	1.3	£4,579
6	Water arrears	16%	1.1	£1,071
7	Bank / building society loan	15%	1.5	£10,677
8	Rent arrears	14%	1.0	£1,941
9	Catalogue	13%	1.6	£1,456
10	Universal Credit Advance	10%	1.1	£486

Where monthly payments on a mortgage are also high as a fraction of monthly income, and considering the impact of rising household bills on struggling households, this would seem to strengthen the requirement for protections in mortgage lending rather than suggest that the affordability assessments should be relaxed.

For more information on our response, please contact:

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[11] National Debtline client data, based on all clients who contacted National Debtline between 1 October 2024 – 30 June 2025.

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