HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Martin Lewis
Executive Chair
Money Saving Expert

13th February 2020

Dear Martin,

Following on from the FCA's recent release of data and my letter to Stephen Jones at UK Finance, I was pleased to see you continue to raise awareness of the need for action to help mortgage borrowers previously prevented from switching to cheaper deals until the FCA rule changes in October 2019.

As you will know, these borrowers are not prevented from switching because they are in closed books or owned by firms that are not regulated by the FCA. After the financial crisis, it was necessary to introduce more robust affordability assessments to prevent the poor lending practices seen in the past. It is unfortunate that as a result some borrowers, who took out their mortgage under the previous lighter touch regulations and who otherwise may have been able to switch because they are up to date with their repayments, have since struggled to access cheaper deals as they could not pass the stricter affordability test.

Tackling this issue has been a personal priority of mine, which is why I have worked hard with the FCA to remove these unnecessary affordability assessment barriers. I am now keen that as many borrowers benefit from switching as possible, which is why Andrew Bailey and I have made our expectation clear that lenders should be engaging with the new rules and working quickly to offer products to those borrowers that can switch and would benefit from doing so.

Many of the borrowers that the regulatory barriers prevented from switching to a better deal are currently with lenders that do not offer new deals. In all sales of UK Asset Resolution (UKAR) loans, fair customer treatment has been a key consideration for us in selecting a bidder. All bidders had to agree to UKAR's customer treatment conditions in order for their bid to be considered. This was a strict requirement, not open to negotiation, and was considered before bids were assessed on price. Indeed, the customer protections provided by UKAR match or exceed the market standard protections for asset sales of this type and the sale of UKAR loans does not negatively impact the ability of the affected customers to remortgage elsewhere or trap them with their new lender. In all but the first sale of UKAR loans the administrator and legal title holder, the entity that sets the standard variable rate and loan management policies, are FCA regulated. That means that customers are protected by the FCA's Treating Customers Fairly Principle and its Mortgages Conduct of Business rules. Customers also have recourse to the Financial Ombudsman Service if they have a complaint about the handling of their mortgage.

Of those borrowers whose mortgages are in closed books or owned by firms that are not regulated by the FCA, I was reassured to see from the recent FCA data that the majority are paying interest rates of 3.5% or less and many are also nearing the end of their mortgage terms. The FCA data for this cohort of borrowers suggests that 14,000 are likely to meet commercial lending criteria and could meaningfully benefit from switching. I am determined that as many borrowers as possible are notified of the changes and explore their options and so I am pleased to see that industry is considering how best to communicate to these borrowers through the FCA's implementation group. Consumer groups such as Money Saving Expert can also potentially play a key role in these communications.

However, I note that the data has identified a further group of borrowers that may be in problem debt and therefore exceed the risk appetite of many lenders, including those in arrears or interest only with no repayment strategy. The Government already has many initiatives to help and support those in problem debt, including the Money and Pensions Service which has been set up by the Government to support consumers with free and impartial information for every stage of their financial lives. Treasury officials are also working on implementing Breathing Space which will give borrowers in problem debt the opportunity to get their finances back on track. We have also ensured that regulations concentrate on helping people avoid repossession, including protection in the courts through the Pre-Action Protocol which makes it clear that repossession must always be the last resort for lenders.

I note that you have commissioned the London School of Economics (LSE) to develop some further policy proposals for Government that could support those borrowers struggling on their current mortgage and who subsequently find themselves unable to switch even under the new rules. I am keen that your exercise is productive and does not simply end up raising false hope by outlining solutions that sound attractive but on closer inspection are either unworkable or unfair. My officials and I will take any new proposals under full consideration if they meet our strict requirements that they: a) deliver value for money for Government (not just individuals), b) are a fair use of taxpayer spending , and c) address any risks of moral hazard (e.g. how to define who should receive financial support relative to other renters and mortgage borrowers).

I look forward to seeing the proposals of LSE and I would welcome any work you could do with industry to help communicate the rule changes to these borrowers. Thank you for your continued commitment to this important issue.

with very best regards

John

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