June 2018 accountability session

During my last appearance before the Treasury Committee at an FCA hearing I promised to write to you and your colleagues on a number of issues on which you required further information.

Mortgage Prisoners

Rushanara Ali asked a number of questions about consumers who cannot switch mortgages despite being up to date with payments – or ‘mortgage prisoners’. We estimate that there are around 30,000 consumers with firms authorised to lend who are on a reversion rate would benefit from switching but may be unable to do so. Around 10,000 of these customers hold mortgages with ‘active’ lenders that continue to lend to new and/or existing customers. The remaining 20,000 are with firms that, although authorised to lend, are no longer active.

Most customers who appear unable to switch took out mortgages (often interest-only) before the financial crisis. Major changes to lending practices during or immediately after the crisis, and the subsequent regulatory response aimed at preventing a return to past poor practices, appear to have left these customers unable to find a cheaper mortgage. We are concerned about this situation, which could be preventing some consumers from making savings.

We are seeking to resolve the issue by exploring possible solutions with industry. We have opened a dialogue with active lenders and their trade bodies to try and secure an agreement with regulated firms as quickly as possible. This could involve active lenders agreeing to approve applications for an internal switch from all customers currently on a reversion rate who also meet certain criteria, for example those customers who have been affected by recent changes in lending practices. This would be a solution that enables all affected customers with ‘active’ lenders to switch.

In addition to the 20,000 customers unable to switch, whose mortgages are with firms that are no longer active, we estimate that around 120,000 customers of firms not authorised to lend could potentially benefit from switching. Where firms sit outside the FCA’s regulatory remit and/or offer no new products, the solution is more challenging. We have begun discussions with relevant firms, consumer groups and government looking at possible solutions to this problem, including what would make these customers more attractive to active lenders.

Rushanara Ali also asked whether this is a problem which affects consumers in other European countries. Currently, most mortgage products sold in the UK comprise a short-term introductory deal after which the rate changes to a reversion rate, often a standard variable rate (SVR). Moving to a reversion rate often involves an increase in interest rate and therefore in mortgage...
payments. At this point it is usually in a consumer’s interest to switch to a new mortgage product, either with their existing lender (an internal switch) or a new lender (an external switch).

If the market works well, consumers can and do switch to minimise their mortgage payments. This behaviour can also drive competition amongst firms and lead to benefits for all consumers. However, market dynamics can change over time and lenders’ appetite for credit risk can fluctuate. This can result in higher risk consumers on a reversion rate being unable to find a new introductory deal to reduce their costs, despite not being tied to their existing lender.

Mortgage markets across Europe differ. For example, before the financial crisis, short to medium term fixed rate mortgages were dominant in Germany and the Netherlands but these were rollover or renegotiable rate loans, with the rate reset to the market rate at rollover. France, like the US, had mainly long-term fixed mortgages. Spain had mainly variable rate mortgages. As a result, even if consumers find they would no longer meet the lending criteria of lenders, there is typically less harm from not being able to switch.

The UK’s unique mortgage market coupled with the impact of the financial crisis has created the conditions for mortgage prisoners. Major changes to lending practices in the UK since the crisis, and the necessary regulatory changes to prevent a return to past poor practice have meant that some consumers have found themselves unable to switch. We are focused on finding solutions for mortgage prisoners who have pre-crisis mortgages, and those who have met their repayment obligations.

Section 348

In the course of giving our evidence I was asked by Alister Jack if firms or individuals withheld their consent to the publication of s348 confidential information, did we have the right to identify to the Committee which firms or individuals had withheld their consent.

We consider that simply identifying who has refused consent, of itself, does not constitute “confidential information” under section 348 of the Financial Services and Markets Act 2000. So, in most cases we would expect to be able to provide the Committee with the names of the firms and/or individuals who had refused consent, although there may be some instances where to identify a firm or individual would disclose more information about them than the fact that they had simply withheld their consent to disclosure.

Connaught

Alister Jack asked for a timeline of the review of the supervisory approach with regard to Connaught Income Fund Series 1. While the substantive review will only begin when it will not prejudice the enforcement investigation, we are doing what preparatory work we can to begin the review as soon as the enforcement investigation is complete. As with previous enforcement work, it is impossible for us to give a running commentary or a firm deadline because this depends on how an investigation progresses. I will keep the Committee updated as far as possible.

Diversity

I thought it would also be useful to update you on our diversity figures given the Committee’s interest in Women in Finance. These figures will be published in our Annual Diversity Report later this month.

The FCA has a target of 45% of our senior leadership team identifying as female by 2020 and 50% by 2025 as part of our commitment to the Women in Finance charter. At the end of March 2018 39% of the SLT identified as female, an increase from 36% in 2017. We also have a target of 8% of the SLT to identify as BAME by 2010 and 13% by 2025. The most recent figures show that 4% of the SLT identified as BAME, an increase from 2%.
As a public body, we want to lead by example, highlighting diversity and inclusion as an integral element of good conduct and positive culture. We have set ourselves stretching diversity targets and we are pleased with the progress so far. We welcome the fact that our efforts are being recognised externally; we recently won employer of the year at the Women in Finance awards 2018. We are also in the Social Mobility Employer Index (SMEI) Top 50.

**Perimeter**

Finally, I thought it useful to touch upon the matter of how the FCA is able to flag areas of its perimeter that it feels require the attention of Parliament. As I said during the evidence session, the idea of a perimeter review is one which appeals to me as a way of handling areas of regulatory arbitrage. I would be happy to discuss this with the Committee in future.

Andrew Bailey
Chief Executive