FSA sets out major reforms for the mortgage market

FSA/PN/140/2009
19 October 2009

The Financial Services Authority (FSA) today sets out proposals for the major reforms required in the UK mortgage market to ensure that it works better for consumers and is sustainable for all market participants.

The proposals, published in the mortgage market review discussion paper, reflect the FSA's changed approach to a more intrusive and interventionist style of regulation.

The review's key features are:

- Imposing affordability tests for all mortgages and making lenders ultimately responsible for assessing a consumer's ability to pay;
- Banning 'self-cert' mortgages through required verification of borrowers' income;
- Banning the sale of products which contain certain 'toxic combinations' of characteristics that put borrowers at risk;
- Banning arrears charges when a borrower is already repaying and ensuring firms do not profit from people in arrears;
- Requiring all mortgage advisers to be personally accountable to the FSA;
- Calling for the FSA's scope to cover buy-to-let and all lending secured on a home.

Jon Pain, FSA managing director of supervision, said:

"The mortgage market has seen extraordinary upheaval over the last 18 months and whilst it has worked well for the vast majority of borrowers, some have suffered great financial distress. We recognise that we need to bring about a step change in regulation and we need to act now to address the issues we have identified.

"The paper sets out the main findings of the FSA's comprehensive analysis of the mortgage market. It clearly shows a rapid explosion in mortgage products; the emergence of high risk lending strategies which typically focused on higher risk borrowers; relaxed credit standards; and a mutual assumption by too many borrowers and lenders that the good times could not end.

"The FSA needs to ensure that firms only lend to people who can afford to pay the money back. The reforms that we have announced today will ensure that the mortgage market works better for consumers and that it is sustainable for firms."

The review has also identified that the irresponsible lending practices seen in the market until recently will be curtailed by the FSA's existing work on capital and liquidity.

The proposals are designed to tackle the problems identified while maintaining a vibrant and sustainable market. But the FSA has not ruled out further change if the initial proposals do not have sufficient effect, including caps on loan-to-value, loan-to-income or debt-to-income.

The discussion paper is out for discussion until 30 January 2010 and the FSA will be actively seeking views from consumer groups and industry. A feedback statement will be published in March. Implementation will be phased, with the focus on speed for areas of high detriment, such as arrears.

NOTES FOR EDITORS

- Further details of the main proposals:
- Affordability tests: the DP proposes making the lender ultimately responsible in every sale for verifying affordability. It also proposes that in each case a lender should assess the consumer's ability to repay, i.e. calculate the free disposable income a consumer has to pay for the mortgage.
- Self-certification: the DP proposes requiring verification of income for all mortgage applications;
- Toxic combinations: the DP discusses whether a type of product regulation likely to be more effective in protecting consumers would be to prohibit loans to borrowers that exhibit certain multiple high-risk characteristics, such as prohibiting loans to credit-impaired borrowers that are also at high loan-to-income.
- Arrears: the FSA will publish specific proposals in January to toughen up rules on arrears handling as well as banning administration charges where a borrower is adhering to an arrangement to repay arrears; and prohibiting the charging of early redemption charges on arrears fees.
- Requiring all mortgage advisers to be personally accountable to the FSA; DP proposes extending the Approved Persons regime to mortgage advisers who deal with consumers and to advisers and/or arrangers who are responsible for overseeing compliance
- Five firms have been referred to enforcement for poor arrears and repossession handling practices and excessive arrears charges.
- The FSA regulates the financial services industry and has four objectives under the Financial Services and Markets Act 2000: maintaining market confidence; promoting public understanding of the financial system; securing the appropriate degree of protection for consumers; and fighting financial crime.

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