Council of Mortgage Lenders

Financial Capability Strategy for the UK

Response by the Council of Mortgage Lenders to the Money Advice Service

Introduction

1. The CML is the representative trade body for the residential mortgage lending industry that includes banks, building societies and specialist lenders. Our 125 members currently hold around 95% of the assets of the UK mortgage market. In addition to lending for home-ownership, the CML members also lend to support the social housing and private rental markets.

2. We welcome the opportunity to provide our views on the draft financial capability strategy where it makes reference to mortgages or housing and we have also provided some more general comments.

General comments

3. We believe that it is important for the UK to have a strategy which promotes financial capability among consumers. We further believe that the national curriculum is a good mechanism to deliver this over the long-term and we are pleased that this is now a feature of the secondary curriculum across the UK.

4. While the introduction of a new curriculum will help to ensure those coming out of formal education have a greater level of understanding there is of course a very large tail of people who have already exited formal education. The strategy correctly identifies that many of these people will lack financial capability and that measures should be put in place to help them to better understand the implications of any financial decisions they take.

5. What is the correct goal for the strategy? We believe the ambition should be that people have the ability to make the best of their financial position and thus have the opportunity to improve their quality of life. this makes better financial capability a living and attractive proposition. Financial capability should be seen as a means to an end, not an end in itself.

6. A strategy of this nature could have an objective of preventing or reducing the number of people getting into financial difficulty; or it could be seen as there to help them to recover their position when they fall into difficulty. We prefer the first of these approaches and suggest that this is spelled out.

7. It is concerning that the UK has taken so long to develop a follow up to the 2006 5 year strategy and we are pleased that the Money Advice Service is re-plotting its course to get back on track.

Financial products

8. In so far as the strategy concerns specific products, it should primarily focus those core products with which almost everyone will have contact at some point in their lives; and perhaps on those targeted towards financially fragile consumers, such as short-term high cost credit . There is no need to devote resource to niches where access is only of interest to the relatively well-off.

9. Of course, with many financial products, especially those such as mortgages which involve significant commitment, most consumers will look beyond their own financial capability (even if it has been relatively well-developed) and seek specialist advice. In such cases, the benefit of enhanced capability will be to allow the consumer to have a better informed and understood conversation with the specialist.

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Housing and mortgages

10. With pension reforms in train the draft strategy is correct to make one of its focuses preparation for later life, to help people plan and prepare adequately for their retirement. This work obviously needs to encompass housing provision.

11. The guidance regime for those approaching retirement, as it develops in the light of proposed changes to annuity legislation needs to take into account any outstanding debt that is likely to be present at retirement and whether consumers have considered how to manage this debt into their retirement.

12. Mortgage borrowers should be engaged early, and where possible, make preparations to reduce the size of any outstanding mortgage as much as possible before they enter retirement. Many mortgage lenders allow their customers to make significant overpayments without any financial penalty.

Debt advice

13. The UK has a system which provides debt advice and financial education through statutory entities such as the Money Advice Service and there are a number of other organisations, non-statutory and often charitable who undertake similar roles.

14. All of these organisations have similar ambitions and adopt similar strategies for realising those ambitions. We believe it is important that there is a joined up approach adopted across this sector to ensure there is not a system, as currently prevails, of duplicity and that instead there is a coherent and common understanding to ensure the best is made of limited resources.

15. From a mortgages point of view there are robust regulatory structures in place to assist lenders in helping people who fall behind on their payments and the CML (and others) has produced various good-practice documentation to assist lenders even further. In this vein we have included a copy of a document we recently provided to Which? illustrating that many of the recommendations for action included in the 'people with financial difficulties section' is already provided for by mortgage lenders.

16. We believe that many of these structures could be applied to other forms of credit which will, overall, help to ease the burden of debt on consumers who are in the most difficulty. The emphasis on creditors should be about reasonableness but consumers should not be absolved of their responsibility to repay. We recognise that 'breathing space' should be given to those who are struggling, this already happens, however that has to be proportionate and with a sound determination of onward sustainability.

Conclusion

17. The draft strategy is light on success measurement; there should be consideration of easy to grasp metrics such as a drop in 'problem' debt or a reduction in overall household indebtedness over time. These targets would have to take account of the overall economic situation.

18. We hope that the Money Advice Service will not see its role in isolation and that it further develops its partnerships with others including the credit industry.

19. It should be recognised that this 5 year strategy will need to be repeated by a further exercise to determine what happens beyond the 5 years. Increases in the capability of consumers will take time and the strategy will need regular refreshing.

20. To discuss this response in more detail please contact Matt Burgum, senior policy adviser, on 020 7438 8933.

Helping borrowers in arrears

Introduction

1. Bank base rate (BBR) is projected to rise within the year. Borrowers on fixed rates will not be immediately affected but borrowers on variable rate mortgages linked to BBR will. In addition, because a lender's standard variable rate (SVR) is linked to its funding costs and an increase in BBR often leads to an increase in funding costs, borrowers on a lender's SVR may also be affected.

2. While the overwhelming majority of people will continue to be able to meet their obligations this paper summarises the approaches mortgage lenders take to assist borrowers in payment shortfall (arrears) or at risk of payment difficulty (pre-arrears).

Arrears

3. The number of borrowers in mortgage arrears has declined dramatically with arrears rates (where arrears are >2.5% of the mortgage balance) at their lowest level since 2008 – when the CML began collecting this data.

4. The FCA in its MCOB rules sets out clear expectations as to how lenders are required to conduct themselves when a borrower has a payment shortfall on their account.

This includes;

i. A general principle of "dealing fairly" with the borrower;
ii. Consideration of whether the payment mechanism the customer is using remains suitable for them;
iii. Where a customer pays by direct debit the lender must not re-present the direct debit request more than twice to ensure that the borrowers bank does not levy excessive charges;
iv. Liaise, if the customer makes arrangements for this, with a third party source of debt advice;
v. Allow reasonable time for a payment shortfall to be repaid (including over the whole of the remaining term of the mortgage) and consider changing the borrowers mortgage product to ease financial burden (including interest only);
vi. Fees levied as a consequence of payment shortfall must be reflective of additional administrative costs.

5. Lenders must not repossess a property unless all other reasonable attempts to resolve the position with the borrower have failed. Before a lender gets to this point it must have considered whether it would be appropriate for the borrower to be moved to another payment type (for example, from repayment to interest only), extend the term so that monthly payments are lowered, defer any interest payments or capitalise any arrears into the main mortgage balance. If a borrower wishes to sell their property, to avoid repossession, lenders may give them adequate time to do so and may assist them with this process.

6. The CML has produced comprehensive good-practice guidance for lenders which gives many practical examples of how lenders can apply the rules in practice to achieve good outcomes for consumers. The guidance is publicly available.

Pre-arrears

7. Lenders recognise the value in identifying customers who may be at future risk of falling into payment difficulty but where their account is up to date. This gives lenders the ability to have structured conversations, in advance of any actual payment shortfall, to work with their customer to come up with a preventative solution based on their individual needs.

8. If a future payment problem is linked to wider indebtedness, lenders will regularly suggest the borrower seeks third party debt advice enabling them to make better informed decisions about their financial circumstances.

9. When working with customers in a pre-arrears environment the lender may consider all of the non-exhaustive options outlined in paragraph 4 and 5.

Conclusion

10. Lenders are very alive to the impact BBR rises will have on their customers and so have developed robust policies structured around a principle of fairness to ensure the best outcomes. The CML continues to work with lenders on this and we regularly publish information to help them.

11. With reports like this one from the Resolution Foundation attempting to quantify the number of people at risk of payment difficulty it is important all actors in the industry work to ensure that a good customer outcome is always at the heart of decision making.