

# The UK Introduces Repayment Concessions for Residential Mortgages

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In June of this year, the UK's Financial Conduct Authority ("FCA") introduced rules to allow mortgage lenders to more easily vary contracts in order to allow borrowers to make reduced capital payments or switch to an interest-only loan for a period of up to six months. With 1.7 million fixed rate deals expiring over the next 12 months, and to enable lenders to meet their commitments under the Government's [Mortgage Charter](#) (to help customers in financial distress due to rising interest rates, including with tailored support such as temporary payment deferrals, part interest-part repayment options and a switch to interest-only payments), changes to the FCA's Mortgages and Home Finance: Conduct of Business ("MCOB") sourcebook have been made as exemptions from responsible lending requirements. As the exemptions facilitate switching to interest-only mortgages as well as extensions of the term of the loan, these measures have an obvious potential effect on the risk profile of securitised asset pools, as well as prompt reviews of impacts on any eligibility criteria and concentration limits of certain types of mortgage within securitised portfolios.

## The New Rules

Effective immediately:

1. Authorised mortgage lenders may now allow borrowers to extend their mortgage term up to retirement without undertaking the affordability assessment usually required by MCOB rules provided that the borrower decides to reverse the extension within six months of it having taken effect; and
2. Lenders may also offer the option of making interest-only payments for up to six months, provided that full capital repayments are resumed which include catching up with the reduced payments over the remaining term.

These measures do not supersede or replace existing forbearance options for borrowers in financial difficulty in MCOB, and lenders will still be expected to consider these. In addition, the new Consumer Duty will apply, including requirements to empower borrowers to make informed decisions by explaining benefits, risks and costs and enabling understanding.

## Implementation and Next Steps

Due to the urgent requirement for consumer protection measures, these new rules came into force on publication on 24 July. The FCA has also recently concluded a [consultation](#) on making their COVID Tailored Support Guidance ("TSG") permanent. The TSG was introduced during the pandemic and sets out expectations from lenders when dealing with customers who need "tailored support," including forbearance, when dealing with mortgage, overdraft and consumer credit debt. Again, the embedding of this support for consumers may require the review of affected securitised asset pools.

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