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3rd April 2014

Dear Lorna,

Quarterly consultation - Mortgage affordability – Financial Policy Committee recommendation on interest rate stress tests

This is the Consumer Panel's response to chapter five of the quarterly consultation (14/4).

In its March 2012 response to the Financial Services Authority's Mortgage Market Review, and in its private discussion with Lord Turner in September 2012, the Panel recommended that the MMR interest rate stress tests should be used contra-cyclically to lean against periods of excessive exuberance and pessimism in mortgage lending. Such cyclical excesses raise important conduct issues that directly affect consumers' wellbeing as well as prudential considerations about financial stability.

To protect consumers from these ups and downs, we argued that the decision on the appropriate interest rate stress tests should be taken by the Financial Conduct Authority (FCA) partly in the light of, and co-ordinated with, the macro-prudential policy stance of the Financial Policy Committee (FPC)¹.

Although the assignment of decision-making responsibilities is not as we envisaged, we are nevertheless pleased that the FCA is proposing to amend its affordability rules to require mortgage lenders to have regard to any future FPC recommendation on appropriate interest rate stress tests.

This provision should benefit consumers by helping to ensure interest rate stress tests are not overly restrictive in subdued market conditions, when underwriting standards are already tight, and insufficiently restrictive in boom market conditions, when underwriting standards loosen. Such symmetry of regulatory response over the cycle is very important, and insufficiently stressed in the FPC announcement.

The Panel believes that the FCA should pro-actively share its intelligence on cyclical swings in firms' mortgage lending standards to help ensure that conduct matters are given appropriate weight in FPC decisions about the use of the interest rate stress tests. Effective mechanisms to enable such intelligence sharing will need to be in place in order to support the Chief Executive's role as sole FCA representative on the FPC.

Yours sincerely,



Sue Lewis
Chair - Financial Services Consumer Panel

¹ <http://www.fs-cp.org.uk/publications/pdf/mmr-mar12.pdf>