Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

Telephone: 020 7066 9346
Email: enquiries@fs-cp.org.uk

Pippa Lane
Mortgage Policy
Financial Conduct Authority
25 The North Colonnade
Canary Wharf
London E14 5HS

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Dear Pippa,

Quarterly Consultation No 18 Chapter 9 – Retirement interest-only mortgages

The Financial Services Consumer Panel welcomes the opportunity to respond to QCP 18 on retirement interest-only mortgages.

The FCA's proposal to allow retirement interest-only mortgages makes sense for many consumers.

There has been a transformation in recent years in the financial position of older households. Households comprising people over 65 now have higher average incomes than households of working age. Their ability to sustain mortgage repayments is often greater than that of younger people. They have known, reliable, incomes.

Making interest-only mortgages available to people who already have substantial equity in their homes and sufficient income is not a major risk either to borrowers or lenders. The transaction is straightforward, the loan would be subject to affordability assessments, the level of debt is known, and selling the property to downsize at a later date, or on the death of one of the partners, is a reasonable capital repayment strategy. The interest only mortgage poses less risk than equity release. Redeeming an equity release product to sell the property is expensive and can involve an irreversible loss of equity.

However, we are concerned that people who want to release equity from their home may not understand, or be advised of, all of the options available to them. They should be able to get advice from a suitably qualified adviser who understands the whole market, as well as any tax and benefit implications, even if they are not a specialist equity release adviser. They should get this holistic advice whether they first approach a mortgage adviser, an IFA, or the product provider.

Mortgage advisers wishing to advise on equity release products such as lifetime mortgages and home reversions have to have a further qualification. Although this qualification is not onerous, it does require advisers to explore the customer's financial needs and requirements in the round, and to consider the effect a release of equity would have on benefits and tax.

The Retail Distribution Review banned commission and raised professional standards. We believe this is an opportunity to do the same to the mortgage market.

Where people seek advice for retirement interest-only mortgages, the advisers should have a level 4 qualification or equivalent, and they should have an obligation to refer people to a specialist equity release adviser if it appears that the equity release route would be more suitable, for example, when the affordability assessment shows they have insufficient income to pay the interest payments.

Yours faithfully,

Sue Lewis
Chair, Financial Services Consumer Panel