FINANCIAL CONDUCT AUTHORITY

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Dear Chief Executive,

FCA strategy for mortgage intermediaries

Mortgage intermediaries play an important role in matching consumers with home loans. We want to see a thriving and innovative mortgage market where customers receive tailored advice, are paired with suitable products, and high standards are maintained in line with the Consumer Duty. We also want to see an advice market that thrives, and where consumers can make informed decisions about products that meet their needs.

The purpose of this letter is to set out our current and future priority areas of supervisory focus over the next 2-year period. Our key focus is on embedding the Consumer Duty. We will of course keep these priorities under review and recognise that we may need to change them if there are other emerging issues. If our main areas of regulatory focus change, we will communicate this to you so that you can plan against them.

We expect you to discuss this letter with your leadership team and satisfy yourself that these areas of focus are being addressed under your existing Consumer Duty work programmes, or if not, how these risks may need to be addressed going forwards.

Where we carry out thematic work, we will seek to select an appropriate cross section of the market and will then share the outcomes of this work by publishing good and poor practice so that everyone can learn from it.

Quality of advice and unsuitable products

Economic changes over the past few years have resulted in challenges for the sector. The increase in interest rates has left some borrowers with higher payments and concerns around passing affordability assessments when taking out a new mortgage or switching lenders. More customers are facing challenging financial circumstances or vulnerability, which can require more in-depth fact-finding leading to intermediaries having to adapt their approach.

It is important that customers' needs and circumstances are at the heart of the advice process, including where intermediaries manufacture their own advice services. The Consumer Duty requires firms to go beyond assessing whether the customer meets a lender's criteria to ensuring the advice process is designed to meet the needs, characteristics, and financial objectives of the target group of customers.

In the first charge market, we want to see firms do more to ensure customers have considered their options. Firms must consider customers' personal and financial circumstances, financial objectives, and provide appropriate information to enable them to make effective decisions. This may include probing customers' stated preferences and exploring any trade-offs with those who express contradictory or conflicting needs.

In the second charge market, we have seen some firms failing to consider whether a secured loan is appropriate for customers in financial difficulty. Recommending products without considering the costs associated with increasing the repayment period and whether it is appropriate for the customer to secure those debts could cause harm. The rules under the Consumer Duty, require firms to avoid causing foreseeable harm (PRIN 2A.2.8 R).

In the lifetime market, we have already outlined our findings on the shortcomings in advice on later life mortgage advertising and advice. Where customers have more complex financial situations, firms should assess their needs and circumstances, ensuring they have adequate processes in place to identify and take account of characteristics of vulnerability.

As part of our supervisory work over this next 2-year period we will review whether sufficient assessment of customer circumstances is being carried out, and whether the advice given is suitable. We will assess the extent to which firms are ensuring customers understand the products available to them. We will also review the adequacy of firms' systems and controls, and quality assurance procedures to ensure there is consistency in the advice given and appropriate oversight to mitigate risks of harm.

As part of the review, we will select a cross section of firms and will look to publish good and poor practice so that all firms can learn from the work that has been carried out.

High pressure selling and ancillary products

Conflicts of interest, when not properly identified and managed, can drive a high-pressure sales culture in the mortgage intermediaries' market. Recent supervisory work has shown some firms have a culture driven by sales targets, with advisors financially incentivised to sell products that attract higher rates of commission or fees. The way sales staff are paid can drive mis-selling and product bias if conflicts are not properly managed (PRIN 2A.8.2 G). Incentive schemes should avoid rewarding poor compliance and mis-selling to ensure firms reach good outcomes for their customers, in line with the Consumer Duty.

Firms should regularly review whether incentive schemes which they or their appointed representatives (ARs) operate could impede staff or the firm from acting in the customer's best interest and whether they are balanced and rewarding the right behaviours (MCOB 2A.1.4 R).

We intend to assess how firms are identifying and managing conflicts of interest. Where we identify that the risk of high-pressure sales is not being properly managed, we will consider appropriate regulatory tools to bring this about.

Excessive fees and fair value

We understand that certain products or customer circumstances can make the advice process longer or more complicated, and this may be reflected in higher fees. However, we would not expect firms to capitalise on this by increasing prices unfairly or without justification.

Section 7 of the Consumer Duty guidance sets out our expectation of firms conducting fair value assessments. When performing these assessments, firms must assess the total cost to the consumer, the benefits and limitations of the product and analyse contrasting outcome for different groups of customers, particularly those with any vulnerable characteristics (PRIN 2A.4.8 R).

When reviewing firms' fair value assessments, we have seen different approaches. We have seen positive steps, for instance, some firms have completed holistic reviews of their fees charged compared against their costs and have considered the service provided in different circumstances. We have seen examples where firms have reduced or removed charges for certain products or ongoing services where these were deemed too high relative to the benefits provided. We have also seen firms put better controls in place for certain groups of consumers and remove charges for those groups if they do not offer fair value. However, we have seen instances of less considered approaches, and we remind firms that solely benchmarking against competitors does not go far enough. We have recently published an update on good and poor practice in fair value assessments, so that firms can understand what good and poor practice looks like under the Consumer Duty.

We expect firms to be able to demonstrate their products and services offer fair value, and we will continue to monitor this as part of our ongoing supervisory work.

Financial promotions

It is imperative that when promoting mortgage services, the risks of secured lending are featured prominently alongside the promoted benefits. If advertising is unbalanced, customers are prevented from making an informed decision about the financial product and/or the services being offered. There is increased risk when promoting more complex products, such as second charge or lifetime products if the promotion is unbalanced or biased towards a certain product. Firms should not be seeking to exploit consumers' behavioural biases, and communications should be designed in a way that avoids foreseeable harm and aids consumer understanding.

The Consumer Duty sets out requirements for firms around *consumer understanding* (PRIN 2A.5). It builds on the *clear, fair and not misleading* standard under Principle 7. Communications should enable the intended recipients to evaluate their options by assessing the benefits, risks and costs associated with those options, and how those options relate to their needs and financial objectives. Firms should consider how they can demonstrate compliance with the consumer understanding retail customer outcome, for example, through testing, monitoring and adapting communications and products or processes to support good consumer outcomes.

We carried out multi-firm work on later-life mortgage advertising and advice in 2023; our findings and expectations of firms can be viewed here. We also published guidance on financial promotions on social media in March 2024. Social media is a widely used marketing channel for mortgage intermediaries, and we expect firms to familiarise themselves with this guidance. We will continue to closely monitor firms' compliance with our financial promotion rules.

Other priorities and expectations of firms

Dormant ARs

In our policy statement, New cancellation and variation power: Changes to the Handbook and Enforcement Guide PS22/5, we stated that we expect principal firms to monitor the type, volume and source of business being carried out by their ARs. If your AR is not carrying on any regulated activity, you should consider terminating the relationship and submitting an 'appointed representative – termination' form to us using Connect. This reduces the risk of ARs potentially using the 'halo effect' of being listed on the Financial Services Register purely to promote their unregulated activities.

Managing conflicts of interest in ARs

Conflicts of interest should be monitored and managed on an ongoing basis and should be reviewed and assessed when a principal firm completes its annual selfassessment and annual reviews under SUP 12.6A. This is to ensure principal firms can fulfil their obligations to oversee their ARs. For example, with common directorships, principal firms should consider whether they have adequate systems and controls in place to enable them to effectively manage conflicts of interest.

Trading names

Registering a trading name is not an alternative to authorisation or being appointed as an AR. PERG 2.3.7G provides guidance on factors that we think are relevant to considering whose business the person is carrying out. If a person carries on regulated activity without being authorised or exempt (for example, being made an AR) it is likely they are carrying out regulated business unlawfully.

Conditional selling

We continue to act where we receive intelligence and reports of homebuyers being pressured to use estate agents' in-house mortgage brokers. We encourage any firms to which this applies, to review whether they are adequately identifying and taking appropriate steps to mitigate conflicts of interest in line with the requirements set out in SYSC 10.

Contact

If you need to contact us, please use the channels on our contact page including the Supervision Hub on 0300 500 0597. However, there may be times when your firm faces urgent issues of strategic importance. If this happens, please contact Mark Burns, Head of Department, Cross Market Intervention, on 020 7066 1360 or mark.burns@fca.org.uk who would be happy to discuss such issues.

We look forward to working with you to embed good consumer outcomes under the Consumer Duty.

Yours sincerely,

Alison Walters

Director, Consumer Finance
Supervision, Policy and Competition Division