



The Consumer Council for Northern Ireland response to the Financial Conduct Authority's (FCA's) Mortgages Market Study Interim Report

The Consumer Council

1. The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland.

2. Background

2.1 Pre-crash mortgages in Northern Ireland.

In 2014, the Housing Repossession Task Force was established to investigate the impact of repayment arrears, repossessions and negative equity in Northern Ireland. The final evidence report was published in May 2015¹.

The report found that in 2007, house prices in Northern Ireland were surpassed only by London, the South East and East regions of the UK. However, this rapid ascent of prices was not supported by regional wealth growth. At their height, house prices represented more than nine times the median salary and average mortgage repayments consumed 64% of incomes. The report also found that in 2014, house prices remained 50% below their 2007 peak.

2.2 Legacy

According to the FSA's 2012 paper on the Mortgage Market Review, as a result of the economic crash of 2008, it has been estimated that up to 60%² of the Northern Ireland mortgage population are now 'mortgage prisoners' trapped in long standing mortgages they cannot escape and in homes where equity has fallen well below the original purchase price. This is particularly problematic if the individual in question stretched their affordability to get the mortgage in the first place. It also means that some people are unable to sell a house they cannot afford to live in.

Furthermore, on mortgage prisoner percentages, it was found by the Resolution Foundation in 2014 that:

¹ <https://www.communities-ni.gov.uk/topics/housing/housing-repossessions-taskforce>

² FSA (2012) Mortgage Market Review Data Pack: Supplement to PS12/16. London: Financial Services Authority. <https://www.fca.org.uk/publication/archive/fsa-mm-r-datapack2012.pdf>

“By far the highest (are) in Northern Ireland (57 per cent of all mortgagor households) due to the scale of the low equity problem. It is however, also above the national average in London (46 per cent), the South East (46 per cent) and the South West (44 per cent).”³

3. Response

The Consumer Council broadly welcomes the FCA’s vision for the mortgage market and their potential remedies designed to:

- a. Reduce the barriers these consumers face now or could face in future; and
- b. Amend responsible lending rules and guidance (to include a modified affordability assessment for the consumer).

3.1 The Consumer Council uses eight consumer principles to understand how particular issues, policies and regulatory proposals are likely to affect consumers, we have gone into detail on the applicable principles below. The principles are:

1. Access – can people get the goods and services they need or want?
2. Choice – is there any?
3. Safety – are the goods or services dangerous to health or welfare?
4. Information – is it available, accurate and useful?
5. Fairness – are some or all consumers unfairly discriminated against?
6. Representation – do consumers have a say in how goods or services are provided?
7. Redress – if things go wrong, is there a system for putting them right?
8. Education – are consumers aware of their rights and responsibilities?

3.2 Access

Some financial service providers that operate in the rest of the UK are absent from Northern Ireland. For instance, in 2016, the Northern Ireland mortgage market made up only 0.9% of new UK mortgage lending, while the Northern Ireland population represents 2.9% of the total UK population. The contribution to the UK market is small but it is important to note the differing market structure.

The Consumer Council would ask the FCA to ensure that the steps it takes to achieve its vision for the mortgage market applies equally to the market for consumers in Northern Ireland.

³ <https://www.resolutionfoundation.org/app/uploads/2014/05/Mortgage-note.pdf>

3.3 Choice

Compounding constricted choice, switching inertia is a problem in Northern Ireland's other markets⁴ with just three in ten consumers having switched energy supplier for example. Therefore The Consumer Council is encouraged by planned FCA changes to remove barriers for consumers, thereby make switching easier.

3.4 Safety

Consumer Council research suggests affordability was more stretched in Northern Ireland during the economic crash than any other UK region.⁵ Going forward, it is important that regulators and policymakers are confident that Northern Ireland consumers are taking out affordable mortgages. Therefore, The Consumer Council requests that the FCA are taking proportional steps to ensure high standards of new mortgage lending in Northern Ireland.

Secured Debt

A significant proportion of borrowers in Northern Ireland, particularly lower income groups, have also become over-indebted through second charge and unsecured loans. The qualitative evidence suggests that over indebtedness through second charge and unsecured loans is a particular issue amongst homeowners who exercised their 'right-to-buy'.

Unsecured Debt

A further concern is that Northern Ireland is highly consumer credit-driven. Consumer spending makes up 74% of Northern Ireland's Gross Domestic product (GDP), compared to the UK average of 60%⁶. An increasing level of unsecured debt will eventually affect people's ability to repay their mortgage, particularly if interest rates rise.

3.5 Information

According to the FCA's Financial Lives Survey⁷, 24% of Northern Ireland consumers cited a low understanding of financial issues compared to a UK average of 17%. Similarly they expressed low levels of financial confidence. More feel they have low financial capability (24% vs. 17%). Not as many describe themselves as a confident and savvy consumer (43% vs. 52%), or as highly confident managing their money (26% vs. 37%). Fewer consider themselves to be highly knowledgeable in financial matters (10% vs. 16%) These figures emphasize the importance of clear, unambiguous and jargon free information in mortgage products, particularly for consumers in Northern Ireland with lower financial skills and confidence.

⁴ YouGov Consumer Council Omnibus Survey - 8 April 2019 – Ref: TCCI-194584

⁵ Assessment of Northern Ireland's Mortgage Market - February 2018 –D Hogg

⁶

<https://www.ons.gov.uk/economy/nationalaccounts/satelliteaccounts/bulletins/consumertrends/apriltojune2018>

⁷ FCA Financial Lives Survey <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults>

3.6 Fairness

Northern Ireland has the highest⁸:

- Proportion of home owners with a mortgage who switched to interest only mortgages during the term of their mortgage (most likely due to capital repayments becoming unaffordable);
- Proportion of home owners with a mortgage in mortgage arrears;
- Number of home owners in negative equity; and
- Percentage of 'Mortgage Prisoners'.

The Consumer Council therefore recommends that steps be taken to mitigate the legacy issues highlighted above through providers:

- (a) Informing Northern Ireland consumers of available options if they are in mortgage arrears, a mortgage prisoner or on an interest-only mortgage.
- (b) Warning consumers of the effect an interest rise will have on their personal finances when assessing mortgage provision.

3.7 Representation

The Consumer Council believes that the financial needs, capabilities and confidence⁹ of Northern Ireland consumers is different to that of the rest of the UK. Policies that benefit the UK population as a whole may not have the same positive effect when considered in the much smaller context of the Northern Ireland population. Therefore, the needs of Northern Ireland consumers should be fully considered and represented within the FCA's proposed mortgage work.

3.8 Redress

We know that some consumers cannot switch to a more affordable mortgage despite being up-to-date with their mortgage payments. Distressed customers who need to lower their monthly repayments are unable to take advantage of the lowest interest rates available. This means they are neither able to change mortgage nor move house. Northern Ireland has the highest percentage of mortgage prisoners in the UK and this issue needs swift remedial action with firms treating consumers fairly at the point of choosing a mortgage and throughout the lifetime of the product.

3.9 Education

Of all Northern Ireland mortgages, 70% are sold through intermediaries which is on a par with the rates in GB of 67%.¹⁰ This puts an onus on these intermediaries to ensure mortgage buyers can easily answer basic questions on their mortgage such as:

⁸ Assessment of Northern Ireland's Mortgage Market - February 2018 – D Hogg

⁹ FCA Financial Lives Survey <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults>

¹⁰ <http://www.imla.org.uk/resources/imla-changing-face-of-mortgage-distribution-december-2015.pdf>

- Is the interest rate variable or fixed?
- If variable will I be able to afford the payments if interest rates go up?
- Can I take payment holidays if my financial circumstances change?
- Is it flexible so I can pay off earlier if I am able and save on interest charges?
- Is cash back available to help me cover valuation or legal expenses, my deposit, carpets or home improvements?

4. Conclusion

- 4.1 Northern Ireland's consumers continue to display low levels of optimism and hope in regards to their financial position with a fifth (19%)¹¹ believing the outlook to be 'poor'.
- 4.2 Consumers should be able to compare products with ease, be it energy providers, car insurers or mortgage providers. Being able to compare mortgage products easily could produce significant savings for consumers by freeing them from unsuitable products or encouraging timely switching prior to introductory rate offers ending.
- 4.3 Given the fragility of Northern Ireland's spending - dependent economy it is imperative regulators and policymakers are confident that consumers are taking on affordable mortgages at competitive rates of interest. Therefore, The Consumer Council is encouraged that FCA has engaged with market participants and those with an interest in this area to discuss the potential remedies outlined within the interim report.

5. Recommendations

The Consumer Council is concerned that Northern Ireland is often omitted from 'UK wide' research which then leads to inform market studies, regulation and policies, hence is at risk of under-monitoring and subsequently ineffective (or less effective) regulation.

Suggested Actions:


- Investigate and map out the various differences in the Northern Ireland market.
- Assess consumer access to mortgage providers in Northern Ireland to discern if there is a suitable level of competition and if Northern Ireland home buyers can access new mortgage deals as easily as those in other parts of the UK.
- Help consumers to easily compare products in order to establish best value.
- Assist those consumers who are trapped in mortgage deals or in danger of harm in their current mortgage.

¹¹ <https://www.fca.org.uk/publications/research/understanding-financial-lives-uk-adults>

Thank you for this opportunity to respond to the FCA's Mortgages Market Study Interim Report. The Consumer Council consents to this response being reproduced by the FCA.

Should you wish to discuss this response further please contact me on 028 9025 1627 or via email to eimear.duffy@consumercouncil.org.uk.

Yours sincerely

A handwritten signature in cursive script that reads "Eimear Duffy".

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