Minor changes to the FCA's equity rules

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

The FCA amended its Mortgages and Home Finance: Conduct of Business (MCOB) sourcebook - as a result of feedback that its responsible lending rules may have contributed to the restricted development and take-up of lifetime products. Specifically, the MCOB has been amended to:

- disapply the requirement to conduct an affordability assessment where a lifetime mortgage customer has the option, at any time, to switch to interest roll-up;
- amend product disclosure requirements to ensure consumers receive information that is clear, fair and not misleading; and
- give firms the option, in the product disclosure, of estimating, on a different basis, the term used for illustrative purposes where their view is this would be more appropriate

The FCA has also made changes to its Glossary and Supervision manual (SUP) to ensure a consistent description of mortgages, as referenced within MCOB.

Impacts of the measure

The assessment explains that the FCA expect 5 lifetime mortgage providers to be affected by the amendments, who are considering offering relevant lifetime mortgages. The assessment explains that these will incur costs updating their Key Facts Illustration (KFI). Firms informed the FCA that these costs range from zero to £24,000, with an average of £10,950. In total, the FCA estimates the cost of these changes to be £54,750.

The assessment also explains that disapplying the requirement to conduct affordability assessments will bring a cost saving to firms. Based on KPMG estimates regarding the cost of introducing an affordability assessment, the saving of disapplying this requirement is assumed to be £9.35 per transaction. Applying this to the predicted sales volumes provided by regulated firms, the FCA has estimated an ongoing benefit to business of £251,819 over ten years from removing this requirement.

The assessment also estimates the increase in profits that are expected as a result of the additional lending allowed by the measure. Firms have provided information about the additional lending volumes anticipated because of the rule changes. These estimates have been provided for the next five years, after which the FCA assumes no growth or fall in lending. To estimate the additional profits from this lending, the FCA has assumed that firms make at least 10% of the value of the loan over its lifetime, based on supervisory conversations with firms about the impact of the rule changes. The FCA has also amortised the profits over the lifetime of the mortgages, only including profits that are received in the ten year appraisal period. In total these benefits to business are estimated to be £43 million. These estimates are supported by consultation with firms and the FCA's Cost Benefit Analysis (CBA).

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of -£3.6 million. This is a qualifying regulatory provision that will score under the Business Impact Target.

Quality of submission

The FCA has provided sufficient detail to allow the RPC to validate this measure. In particular, the assessment provides detail of the approaches made to the FCA, requesting the removal of the apparent restrictions caused by the FCA's rules. The evidence of the likely impacts has been supported by feedback from businesses, gathered through the FCA's survey and consultation. The FCA has subsequently provided a table summarising the costs and benefits to business of the amendments.

Regulator assessment

Classification	Qualifying regulatory provision (OUT)
Equivalent annual net direct cost to business (EANDCB)	-£3.6 million
Business net present value	£34.7 million

RPC assessment

Classification	Qualifying regulatory provision (OUT)
EANDCB – RPC validated[1]	-£3.6 million
Business Impact Target (BIT) Score[1]	-£18.0 million

[1] For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Michael Gibbons CBE, Chairman