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Mortgage prisoners

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Who are mortgage prisoners?

Although definitions vary, generally speaking "mortgage prisoners" are people who are unable to switch mortgages to a better deal, even if they are up to date with their payments.

Most mortgage prisoners have a mortgage in a closed book of an inactive firm. This means that the mortgage is held with a lender that can no longer make mortgage contracts because they are not authorised to do so.

Why are there mortgage prisoners?

Many of these closed books were created when firms collapsed in or soon after the financial crisis of 2008. UK Asset Resolution (UKAR) took control of the mortgage books concerned and later sold them off. But in doing so they had to maximise profit to the taxpayer, "acting in a way that promoted competition, and treat[ed] customers fairly." So many mortgages were sold to investors who were not authorised or regulated.

At the same time, regulators and lenders imposed more stringent criteria on borrowing to help prevent another financial crash. Many people were unable to meet the new conditions. They were unable to move to other deals, even if they would pay less by doing so.

How many mortgage prisoners are there?

The Financial Conduct Authority (FCA) calculated that 250,000 mortgage holders were in closed books in 2019 and 195,000 in 2021. According to the FCA's definition, though, only 47,000 of these were mortgage prisoners. They argue that others in the larger figure are likely either:

- free to move their mortgages but hadn't done so,
- unlikely to benefit from doing so, or
- not up to date with their payments so would not in any case be eligible to move.

Some stakeholders have criticised the FCA's assumptions and calculations. For instance, they argue that many people have only fallen into arrears because they have to pay much more than they might elsewhere.

Actions to help mortgage prisoners

In late 2019 the FCA introduced modified mortgage assessment criteria. It hoped that this would allow certain groups of mortgage-holders to switch to better deals. Inactive lenders and unregulated firms had to inform their mortgage-holders of possibilities. But in 2021, it found that the new rules had directly led to only about 200 switches.

Continuing frustration led to calls for more effective and imaginative responses. The consumer advocate Martin Lewis and the UK Mortgage Prisoner Action Group, among others, highlighted the continuing situation. They argued that government action had at least been partly responsible for creating the problem.

In 2023, a report undertaken by the London School of Economics said that the Government had made a surplus of £2.4 billion from the sale of the mortgage books. It offered costed proposals that it argued would meet Government criteria for helping to solve the problem.

Parliamentary consideration and Government response

In April 2021 the House of Lords agreed an amendment to the Financial Services Bill 2021 (pdf). It would have required lenders to offer mortgage prisoners loans at no more than two percentage points above the base rate. But the Commons voted to disagree to the amendment during ping pong. The Government argued that it would be an unacceptable and unfair intervention into the mortgage market. The Lords agreed to remove the amendment.

The Chief Executive of the FCA told the Treasury Committee in May 2021 that further reforms to help resolve the situation were up to Parliament.

In March 2023, Lord Sharkey, Liberal Democrat co-Chair of the Mortgage Prisoners All-Party Parliamentary Group, proposed an amendment to the Financial Services and Markets Bill 2022-23. It was identical to the one presented in 2021. He agreed to withdraw it when the Government promised to meet stakeholders to discuss the proposals in the LSE report. He presented and withdrew a similar amendment in June 2023 during report stage as the Treasury had still not responded. The Government said that it was continuing to consider the proposals.

1 Who are mortgage prisoners?

There are different definitions of 'mortgage prisoners'.

Most uses of the term – and the focus of this briefing paper – relate to people who can't leave mortgages they hold with 'inactive lenders'[1], even if they would save money by doing so. These firms include:

- lenders that don't or aren't authorised to make new loans
- firms that have bought sets of mortgage contracts ('mortgage books') from current or former lenders for investment purposes

Customers of such firms typically found themselves paying high standard variable interest rates (SVRs) after low introductory rates ended.

Many then couldn't move to a new, competitive mortgage deal because other lenders considered them too risky. This meant that they were "trapped" paying higher rates of interest.

In most cases this situation arose from a combination of three consequences of the financial crisis that began in 2008:

1. A number of lenders collapsed, most notably Northern Rock and Bradford & Bingley. Their mortgage books were nationalised and transferred to a publicly owned body, UK Asset Resolution (UKAR). UKAR could not make loans. As discussed in section 2.1, UKAR then sold on mortgage books, many to inactive firms.
2. The financial crisis made lenders more cautious overall. They no longer offered high loan-to-value, interest-only loans (see section 2.2).
3. Regulators imposed further conditions on lending – particularly affordability assessments – that in many cases stopped them from offering loans to customers of other lenders (as outlined in section 2.3).

1 Most discussion refers to 'inactive lenders' rather than 'inactive firms', on the basis that the firm holds the loans, even if it has never actively lent.

1.1 How many mortgages are affected?

While most discussion of the issue agrees on the background, there are different ideas about how many borrowers should be called 'mortgage prisoners'.

In a review of the number of people affected in 2021, the FCA estimated that there were 195,000 mortgages held in closed mortgage books with inactive lenders – 2.3% of the total number of residential mortgages. In 2019, it had estimated that there were 250,000.[2]

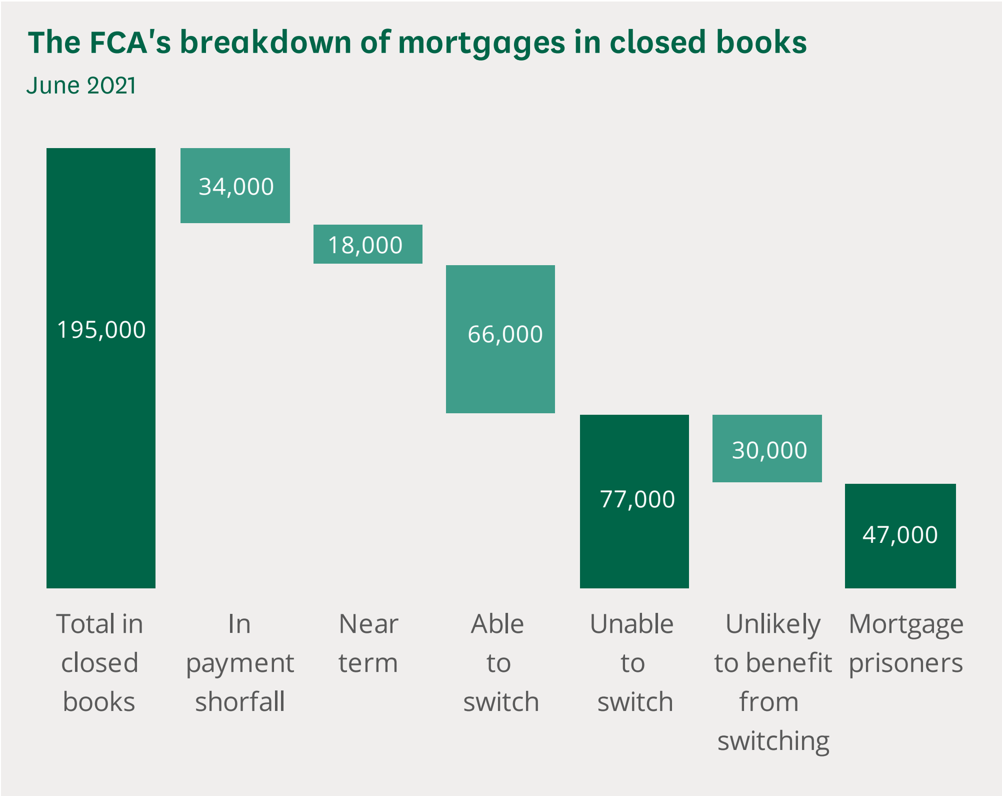
The FCA figures were collected in 2021. The Bank of England base rate was 0.1% then; it reached 4.25% in March 2023.

However, the FCA doesn't regard all of those as mortgage prisoners. As set out in the figure below, it removed various groups from the 2021 figure of 195,000, as follows:

- 34,000 borrowers were **not up to date with their payments**, so wouldn't be able to find a new mortgage on the open market anyway.
- 18,000 had **less than two years or £10,000 left to pay** on their mortgage, levels that would make it hard to find a new deal. The FCA noted that even if they did transfer, they would save very little.
- 66,000 would be **able to switch if they wanted to**. This is based on estimates of loan-to-value and of borrowers' credit scores.
- That left an estimated 77,000 who were unable to switch. Of these, the FCA estimated that 30,000 **would not currently benefit** from switching because they were not paying more than active market rates.

Those reductions left a total of **47,000 borrowers**, and it is that group that the FCA regards as mortgage prisoners. They are up to date with payments and might benefit by switching, but they are unable to because factors such as the relative size of the loan required and their wider credit ratings do not match lender appetite on the wider market.[3]

2 FCA, Mortgage prisoners review, CP 576, 29 November 2021, p12
3 As above, p13-14



Source: FCA, Mortgage prisoners review, CP 576, November 2021, p13

But other stakeholders have criticised the FCA's definition as too limited. The UK Mortgage Prisoners Action Group typically refers to the total number of people holding mortgages in closed books as mortgage prisoners.[4]

It argued that the use of estimates did not adequately reflect the numbers of closed-book mortgage-holders affected. In addition, it criticised the FCA for comparing mortgage prisoners with borrowers in the active market who displayed "similar characteristics" given that people in the latter group had not been compelled to pay higher interest rates. It was essential, the Action Group contended, to understand why so many mortgage prisoners had fallen into arrears or gained bad credit histories.[5]

In its response to the FCA's review, the Action Group rejected the exclusion of other people in closed books, accusing the regulator of a "cynical effort" to minimise the extent of the problem. It noted for instance that excluding those nearing the end of their mortgage failed to acknowledge the experiences of so many over the previous years.[6]

4 UK Mortgage Prisoners website
5 UK Mortgage Prisoners Action Group, Response to FCA Paper Mortgage Prisoners Review: Terms of Reference, September 2021, p3
6 UK Mortgage Prisoners Action Group, Response to FCA review on mortgage prisoners, March 2022 (accessed 20 June 2002), p5

Wider definitions

The action group (and others) sometimes describe even wider groups of mortgage-holders as mortgage prisoners. These include people who have run into difficulties with second-charge mortgages (that is, secured loans taken out on the value of the property) or people who have been unable to remove ex-partners from mortgage agreements after a relationship breakdown – or when they do so, find that they fail the affordability criteria.[7]

In addition, the term 'mortgage prisoner' is sometimes used more generally to refer to people who find it impossible to move or remortgage, notably people who have bought properties with potentially dangerous cladding.[8]

Although some or all of these groups may face similar challenges, most political and campaigning discussion of the issue relates to groups in the broader closed-book category, which is the focus of this briefing paper.

7 UK Mortgage Prisoners Action Group, Response to FCA Paper Mortgage Prisoners Review: Terms of Reference, September 2021, p3

8 See, for instance, Today's Conveyancer, "Two million people are mortgage prisoners due to cladding issues", 1 April 2021

2 How the issue arose

2.1 Sale of mortgage books to inactive firms

Two major UK mortgage lenders were taken into public ownership early in the financial crisis of 2007-2009:

- After running into trouble and failing to find a buyer, **Northern Rock** was nationalised in February 2008. The Government split it into two entities. One of these, Northern Rock (Asset Management plc), took on the bank's loan book.[9]
- In September 2008, the Financial Services Authority determined that Bradford & Bingley could no longer meet the threshold to operate as a deposit-taker. The Government stepped in, selling off the retail saving and branch network to the Santander Group. It transferred ownership of the remainder (including the mortgage book) to the Treasury.[10]

UK Asset Resolution was established in 2010 to "manage the orderly wind down" of the failed lenders' assets – worth almost £116 billion at the time.[11] It set out to dispose of the mortgage books "within the context of protecting and creating value for the taxpayer as shareholder, acting in a way that promoted competition, and treating customers fairly." By 2019, UKAR had recouped the value of the £48.7 billion originally lent to the two lenders, and by 2021 had sold off the Government's remaining interests in them.[12]

Buyers of the mortgage books included Virgin Money, TSB and consortia led by JP Morgan, Cerberus, Prudential and Barclays. While some of these were active lenders, others were not. They included capital management companies that were not authorised to offer mortgages and instead bought the portfolios as an investment.[13] The FCA requires inactive firms to pass management of mortgage books to regulated third-party administrators. This means that customers receive some protection under FCA regulations,[14] but in a review of the history of the mortgage prisoner issue, Kath Scanlon,

9 Commons Library briefing paper, Bank rescues of 2007-09: outcomes and cost (SN-05748), 8 October 2018, p12-13

10 Commons Library briefing paper, Taxpayer direct support to banks (SN-05642), 13 July 2010, p5-6

11 UK Asset Resolution, "About us"; HM Treasury, "Government completes final £5 billion sale of Bradford & Bingley plc and NRAM Limited" (news story), 26 February 2021

12 UK Asset Resolution, "About us"

13 As above; Kath Scanlon et al., Releasing the mortgage prisoners: final report, LSE,November 2020, p2

14 Letter from John Glen to Nicky Morgan: Customer protections in UKAR sales and mortgage prisoners (pdf), 30 January 2019

Distinguished Policy Fellow at the LSE, argues that that coverage does not extend to interest rates charged.[15]

Sales of mortgage books to such creditors – and the consequent effects on mortgage-holders – have been the subject of criticism and concern. Kath Scanlon suggests that UKAR's focus contrasted with the "customer-centred approach" adopted by the Department of the Environment when it sold off local authority mortgage books in the 1980s.[16]

2.2 More cautious lender appetite

Many of the customers who went on to become mortgage prisoners had taken out interest-only mortgages at high loan-to-value rates. For instance, Northern Rock's Together mortgage had allowed customers to borrow 125% of the value of their home using a combination of a traditional mortgage and a personal loan.[17] As the financial crisis developed, lenders began tightening up restrictions on what they would offer – for instance by no longer offering high loan-to-value, interest-only loans.[18] Requiring borrowers to pay a deposit and to repay the loan over the course of its term (rather than simply at the end) and verifying declared income were inherently less risky approaches than some of the former practices.

The consequence of this was that when mortgage-holders with inactive lenders reached the end of introductory low-rate terms, many found it far more difficult to meet other lenders' requirements for new deals. While lender restrictions affected the whole mortgage market, the effect would have been more pronounced for 'higher-risk' customers of inactive firms who had no new options with their existing providers.

2.3 New regulatory restrictions

While lender caution informed commercial decisions and policies, from 2012 the Financial Services Authority (FSA) – predecessor to the Financial Conduct Authority (FCA) – and the EU (of which the UK was still a member) also implemented new regulatory requirements on lending practice in order to avoid another crash.[19]

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15 Kath Scanlon et al., Releasing the mortgage prisoners: final report, LSE, November 2020, p2

16 As above

17 "Northern Rock scraps 'high-risk' Together mortgages", The Guardian [online], 22 February 2008 (accessed 1 July 2022)

18 See, for instance, Financial Services Authority, Mortgage Market Review data pack: Supplement to PS12/16 (pdf), October 2012, p25-26

19 FCA, Affording a mortgage, 4 April 2016 (accessed 13 December 2021)

As part of this process, the FCA consulted on arrangements to take account of the EU's 2014 Mortgage Credit Directive (MCD), which brought together a set of rules to be transposed into regulation in Member States.[20]

Mortgage affordability assessment

As a result of its wider Mortgage Market Review, the FSA announced a renewed focus on "responsible lending" in October 2012 that would be implemented by the FCA from April 2014.[21] This introduced:

- an affordability assessment, in which lenders had to verify the borrower's income and review expenditure
- an interest rate stress test to ensure that the borrower could afford increased payments in line with "market expectations of future interest rate increases"
- interest-only rules, which required "a clearly understood and believable alternative source" for capital repayment[22]

Crucially, the rules included various "transitional arrangements" that allowed lenders some discretion to set aside the affordability and interest-only requirements when taking on customers from other lenders, if the new lender judged the outcome to be "in the customer's best interest".[23] That might apply, for instance, if the customer would be paying less under the new contract.

Implementation of the EU Mortgage Credit Directive

The EU's 2014 Mortgage Credit Directive (MCD) brought together a set of rules to be transposed into regulation in Member States.[24]

In updating UK regulation to comply with the Directive from March 2016, the FCA said that while it intended to maintain existing regulation as far as possible, during the consultation process it had "identified a conflict between the MCD and some of our current affordability rules for existing borrowers making changes to their mortgages". As a result it would impose affordability assessment checks when borrowers moved to a different lender or when they wished to increase their existing mortgage to fund essential household repairs. It reported that use of first exception had been "extremely limited".[25]

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20 European Commission, Mortgage credit - Directive 2014/17/EU (accessed 20 June 2022)

21 Financial Services Authority, PS12/16: Mortgage Market Review: Feedback on CP11/31 and final rules (pdf), October 2012

22 As above, p7

23 As above, p18-19

24 European Commission, Mortgage credit - Directive 2014/17/EU (accessed 20 June 2022)

25 FCA, PS15/9: Implementation of the Mortgage Credit Directive and the new regime for second charge mortgages, feedback to CP14/20 and final rules, 27 March 2015, p11 (accessed 1 July 2022)

The general affordability requirements reinforced the commercial restrictions on the availability of new deals. But the imposition of such requirements for all switches to new lenders would affect all proposed switches by those in closed books of inactive firms. Commenting on those new arrangements, specialists interviewed by the trade journal Mortgage Solutions noted that many people would continue to be "woefully underserved". Lenders had already adopted "can't do attitudes", and the transitional rules had not been in place long enough to make much of a difference.[26]

The new restriction – and indeed whether the MCD did in fact require it – would come into contention when the plight of mortgage prisoners gained more political attention from 2018, as discussed in later sections.

2.4 Consequences for mortgage-holders

The combination of the factors set out above meant that over time, various groups of mortgage-holders found that their options were reduced. But many of those who kept up their payments should have been able to switch to more affordable arrangements with their existing lender. The most notable exception was the group:

- whose mortgages were held with inactive firms, and
- whose circumstances did not meet the risk appetites of other lenders, and/or the wider affordability requirements

This is the group that became known as the mortgage prisoners.

The FCA published a review of its new responsible lending arrangements in May 2016.[27] This found no evidence that the new rules had prevented "creditworthy consumers" from finding new loans.[28] But it made no reference to any issues relating to inactive lenders and their customers.[29]

The gradual increase in awareness of the issue was reflected in an increasing number of news reports. In September 2017, for instance, The Independent highlighted the plight of "a million homeowners" who were trapped paying at least their lender's standard variable rate. It noted that the six biggest lenders' SVR was 3.85%, while the same lenders were offering two-year fixed rates as low as 1.14%. Using the average London mortgage, the report calculated that mortgage prisoners in the capital would be paying over

26 "The plight of the mortgage prisoner post-MCD – Marketwatch", Mortgage Solutions [online], 17 March 2016 (accessed 5 August 2022)
27 FCA, "Embedding the Mortgage Market Review: Responsible Lending Review", TR16/4, May 2016 (pdf)
28 As above, p6
29 As above, p5-6

£9,300 in interest each year – almost £6,600 more than if they were on the lowest rate.[30]

As well as the definition of 'mortgage prisoner', the level of excess interest they paid became a matter of dispute. Responding to FCA estimates that the average SVR paid by mortgage prisoners in 2019 was 0.4 percentage points higher than the average SVR available on the open market[31], the UK Mortgage Prisoners Action Group argued that its members were paying on average 1.33 percentage points more. The differences were much more pronounced when compared with fixed-term deals. They suggested that as a result:

> A mortgage prisoner with an average mortgage of £165,000 has overpaid in interest between £25,000 and £45,000 over the last decade. If they had been offered a reasonable interest rate from the beginning, many homes would not have been repossessed and many thousands of families could have avoided other debt and paid down the capital on their mortgage.[32]

In November 2021, the FCA's review (see section 3.4) reported interest rate differences as follows:

- 50% of closed-book mortgages were charging an interest rate of 3% or less, compared with 82% of those on the active market.
- 47% of closed-book mortgages charged between 3% and 5%, compared with 17% on the active market.[33]

30 "Credit crunch legacy costs borrowers £13m a day", The Independent [online], 13 September 2017 (accessed 28 July 2022)

31 FCA, Statement on mortgage prisoners, July 2020, p3

32 UK Mortgage Prisoners Action Group, Setting the record straight, March 2021, p5-7. The Group's figures were based on responses from 449 of its members in February 2021.

33 FCA, Mortgage prisoner review, 29 November 2021, p12

3 Regulatory responses

3.1 A modified affordability assessment

In May 2018 an FCA study of the mortgage market[34] considered whether consumers who did not or could not switch their mortgage were being treated fairly. The report noted the circumstances that had led to the emergence of the mortgage prisoner issue and said that the regulator was "concerned about this situation, which has developed in light of a very significant market and regulatory correction and could be harming a number of customers who are paying more than they should."[35]

As a result, in October 2019, the FCA introduced a different affordability assessment that would allow some mortgage-holders (including some mortgage prisoners) to switch to a better deal. Customers had to meet certain criteria, including being up-to-date with payments and not moving to a new house or borrowing more (apart from paying for some associated fees).[36] This new arrangement became known as the "modified affordability assessment".

The FCA also confirmed that inactive lenders and unregulated firms would be required to tell their customers about the changes and that it had become easier for them to switch to another lender.[37]

How many mortgage prisoners might benefit?

In November 2019, just after it introduced the new rules, the FCA estimated that there were about 250,000 people whose mortgages were in closed mortgage books or held by a creditor not regulated by the FCA. Using its definition of mortgage prisoners, it concluded that "around 14,000 eligible mortgage prisoners should be both likely to meet commercial lending criteria and stand to make a meaningful saving" under the new rules.[38] It noted that over 90,000 (56%) of the 250,000 borrowers were on interest-only mortgages. The FCA thought that "lenders are likely to want these borrowers to demonstrate a credible strategy for repaying the balance at the end of the mortgage term, which may be difficult for many."[39]

34 FCA, Mortgages market study: interim report (MS16/2/2), May 2018
35 As above, p10
36 FCA, FCA confirms help for mortgage prisoners, 28 October 2019 (accessed 13 December 2021)
37 As above
38 FCA, Understanding mortgage prisoners, 17 January 2020 (accessed 13 December 2021)
39 FCA, Understanding mortgage prisoners, 17 January 2020 (accessed 13 December 2021)

Progress with the approach

While the October 2019 changes provided a potential way out for some mortgage prisoners, it is important to note that the rules gave lenders the **option** of applying the modified assessment – they were not required to use it.

In January 2020, the FCA reported a limited response on the part of the industry. It noted that "there has been disappointingly little interest or engagement from the major mortgage lenders."[40]

The All-Party Parliamentary Group (APPG) on Fair Business Banking criticised large lenders' failure to respond. Kevin Hollinrake (Conservative), Co-Chair of the APPG described their inaction as "cynical" and called on the Government "to intervene to force banks to do the right thing and to prevent any bank from selling off their loan books in future to unregulated vulture funds."[41]

In March 2020, though, the onset of the coronavirus pandemic led to new uncertainties and priorities for both borrowers and lenders. On 20 March the FCA introduced repayment holidays for people struggling to pay mortgages as a result of the impact of the pandemic. Repossessions were also suspended.[42] These actions helped mortgage prisoners but were not specifically designed for them.

In May 2020, the FCA extended the deadline for lenders to contact mortgage prisoners about switching to 1 December 2020. It noted that the pandemic had led to a reduction in available mortgage products overall, so many mortgage prisoners would find it very difficult if not impossible to switch. In October, the deadline was extended again to 15 January 2021.[43]

3.2 2020 FCA statement on help for mortgage prisoners

In July 2020, the FCA published a statement setting out what it had done for mortgage prisoners. It noted that although many might benefit by switching, comparatively few had done so. It noted a similar inertia among mortgage-holders in general, and it hoped to investigate reasons for this once the overwhelming effects of the pandemic abated.[44]

40 MoneySavingExpert, "Major lenders show 'little interest' in helping mortgage prisoners switch", 20 January 2020 (accessed 14 December 2021)
41 Fair Business Banking APPG, "Reaction to UK Finance statement on FCA mortgage prisoner data", 20 January 2020 (accessed 14 December 2021)
42 FCA, Mortgages and coronavirus: updated guidance for firms, 17 August 2020 (accessed 14 December 2021)
43 FCA, Implementation group on changes to deliver switching options for mortgage prisoners, 28 June 2021 (accessed 14 December 2021)
44 FCA, Statement on mortgage prisoners and consultation on intra-group switching and maturing interest-only and part-and-part mortgages, 28 July 2020 (accessed 14 December 2021)

Information about options that may be open to mortgage prisoners is available from Money Helper and MoneySavingExpert.

It went on to highlight joint working with the Money and Pensions Service to support mortgage prisoners who were behind with their payments.

It also launched a consultation on further changes that might help many borrowers,[45] the results of which are discussed in the next section.

The APPG on Mortgage Prisoners welcomed the initiative, although it argued that thousands of mortgage prisoners would not benefit. It called on the FCA to impose a limit on interest rates for mortgage prisoners.[46]

3.3 Policy changes and consultation responses

The FCA published updated guidance in October 2020. This confirmed that, as proposed in the consultation, it would:

- remove the requirement to undertake affordability assessments for borrowers who wished to move to a better deal within the same financial group.[47] The FCA noted that this was still at the discretion of lenders, but it hoped that they would take advantage of the new possibility.[48]
- help borrowers "with maturing interest-only and part-and-part mortgages" to delay payment until 31 October 2021, given the challenges arising from the pandemic.[49]

The FCA's policy document also commented on some wider points raised by respondents to the consultation:

- The FCA was very cautious about the idea of imposing a cap on standard variable rates for mortgage prisoners, as proposed by the APPG. It would need to be confident that this would be a "proportionate" response, and would need to consider the effect of such a policy on both mortgage prisoners and the mortgage market more generally.[50]
- Some respondents said that the sale of mortgage books to entities that were unable to make new mortgages should be banned. The FCA pointed out that such entities were obliged to pass the management of mortgages to third-party administrators who **were** regulated (although

45 FCA, CP20/13 Consultation on mortgages: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages, July 2020

46 APPG on Mortgage Prisoners, FCA action on interest-only mortgages is welcome but mortgage prisoners need a cap on rates, 31 July 2020 (accessed 14 December 2021)

47 For instance, where two lenders had merged and were separately branded.

48 FCA, PS20/11: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages, October 2020, p5

49 As above. "Part-and-part mortgages" involve paying off interest and a proportion of capital.

50 As above, p19-20

their activities were not).[51] It added that changes to the FCA's regulatory perimeter were up to the Treasury and Parliament.[52]

- The FCA said that it would continue to work with lenders on overcoming the limited availability of switching options that might have been opened up by the modified affordability assessment (see section 2.3). But it noted both the wider effects on the market of the coronavirus pandemic and that decisions about lending were commercial matters.[53]

3.4 The FCA's November 2021 review

The FCA's Mortgage Prisoners Review was published at the end of November 2021.[54]

The regulator introduced the review by acknowledging "the difficult circumstances that mortgage prisoners are in". Echoing the Chief Executive's comments to the Treasury Committee, it said that the review aimed to provide data to help the Government consider any "practical and proportionate solutions to help these borrowers".[55]

As discussed in section 1 of this paper, the FCA re-emphasised its focus on a sub-group of mortgages in closed books of inactive lenders. The report nevertheless acknowledged that other stakeholders used different definitions. While most of the data in the report referred to those within the FCA's definition, some of the reporting and discussion was nevertheless relevant to more of those affected. [56]

Main findings

The review found that the modified affordability assessment introduced in 2019 had had a "limited" effect, appearing to have directly led to only about 200 mortgage switches.

It said that that lenders seemed unwilling to engage with the options, and that in any case most borrowers who had applied did not meet the lenders' credit risk appetites. In addition, it noted that:

> Borrowers do not always engage with switching. For example, in response to 140,000 letters sent about potential switching options, the Money and

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51 Kath Scanlon et al., Releasing the mortgage prisoners: Proposed solutions and illustrative costings, LSE, February 2023, p4

52 FCA, PS20/11: Removing barriers to intra-group switching and helping borrowers with maturing interest-only and part-and-part mortgages, October 2020, p19

53 As above, p20

54 FCA, Mortgage prisoner review, CP576, 29 November 2021

55 FCA, "Mortgage prisoner review" (news story), 29 November 2021

56 FCA, Mortgage prisoner review, CP576, 29 November 2021, p9

> Pensions Service…received 534 calls and mortgage intermediaries received 702 calls. There will also have been some overlap between these calls.[57]

But the review then noted that “over 2,000” mortgage-holders in inactive books appeared to have been able to switch even without the modified assessment. It speculated as to whether the FCA’s wider activity might have helped to prompt this. It also reiterated the constraints on firms’ plans resulting from the pandemic.

The report offered little update on the effectiveness of the intra-group switching rule (see section 3.3) beyond noting that “most, but not all, borrowers in this situation have, or will have, access to new deals.”[58]

In conclusion, the FCA highlighted several findings:

- Half of closed-book borrowers were paying a rate of 3% or less and “95% of borrowers who have a mortgage in a closed book with an inactive firm are paying a lower rate than they did when they first took out the mortgage.”[59]

- Reiterating that it did not consider all borrowers in closed books to be “trapped”, the review said that about 66,000 “should” be able to switch. It suggested that consumer organisations and consumer intermediaries might be able to help more to do so.[60]

- As to the 47,000 who fit the FCA’s focused definition of “mortgage prisoners”, many appeared to have “characteristics of vulnerability”. It hoped that lenders might consider amending their criteria to benefit those “close to the risk appetite of lenders…using the using the modified affordability assessment if appropriate.”[61]

- Affected mortgage-holders might also take some steps themselves, including improving their credit scores, paying down interest-only balances, and seeking support from debt advisers or mortgage intermediaries to consider “alternative options” or “very difficult decisions such as downsizing.”[62]

Reactions to the review

The Mortgage Prisoners Action Group responded to the FCA’s review in March 2022.[63] It argued that from the outset, the FCA’s “limited” definition had let the review and the Government not to take account of what it saw as other

57 FCA, Mortgage prisoner review, CP576, 29 November 2021, p16
58 As above, p16
59 As above, p17
60 As above, p17
61 As above, p17
62 As above, p17-18
63 UK Mortgage Prisoners Action Group, UK Mortgage Prisoners: Response to FCA Review on Mortgage Prisoners, March 2022 (accessed 23 June 2022)

legitimate groups of mortgage prisoners. In addition, it said that the review failed to consider any solutions other than switching.[64]

It went on to note that although the Economic Secretary had promised in April 2021 to use the review to "urgently" identify any further solutions and to contact lenders to seek their support, he had done "absolutely nothing to our knowledge" to take the matter forward. It noted that the cost-of-living crisis and three rises in base rates, which it said were "immediately passed on" to mortgage prisoners, had "left many in dire circumstances".[65]

The response concluded by noting that the FCA accepted the limitations of modified affordability. The action group called for a consideration of a wider range of solutions, such as those outlined in the LSE report, as well as the caps on interest rates rejected by the Government in the debate on the Financial Services Bill.[66]

Sarah Coles, senior personal finance analyst at Hargreaves Lansdown, noted that many consumers may well have fallen into arrears simply because they had been trapped paying more than they might otherwise have had to. She also noted that comparatively more of those affected were of an age where switching mortgages was much less practicable. She estimated the real number of mortgage prisoners as closer to 100,000 than the 47,000 reported by the FCA.[67]

In 2023, LSE researchers criticised both assumptions underlying the FCA's and their continued use almost two years later, by which point mortgage interest rates had significantly risen.[68] (See section 4.1.)

64 UK Mortgage Prisoners Action Group, UK Mortgage Prisoners: Response to FCA Review on Mortgage Prisoners, March 2022 (accessed 23 June 2022), p1

65 As above, p2

66 As above, p7-8

67 "Real mortgage prisoner number may be double FCA figure: Hargreaves Lansdown", Mortgage Strategy, 30 November 2021 (accessed 20 June 2022)

68 Kath Scanlon et al., Releasing the mortgage prisoners: Proposed solutions and illustrative costings, LSE, February 2023

4 Wider stakeholder initiatives

4.1 LSE research reports (2020 and 2023)

Martin Lewis of MoneySavingExpert announced in February 2020 that his charitable foundation would fund a study to "find evidence-based policy solutions, which will push the Government to step in and rescue the mortgage prisoners that the financial regulator can't reach." He said that it was time for the Government to accept the responsibility of finding a solution to the problem.[69]

John Glen, the then Economic Secretary, wrote to Martin Lewis on 13 February 2020 noting that he looked forward to reviewing the findings of the study. But he cautioned:

> I am keen that your exercise is productive and does not simply end up raising false hope by outlining solutions that sound attractive but on closer inspection are either unworkable or unfair.
>
> My officials and I will take any new proposals under full consideration if they meet our strict requirements that they a) deliver value for money for government (not just individuals), b) are a fair use of taxpayer spending, and c) address any risks of moral hazard (eg, how to define who should receive financial support relative to other renters and mortgage borrowers).[70]

The study published two reports, as discussed below.

2020 report

The first report from the study – "Releasing the mortgage prisoners" – was published in November 2020.[71] Written by a team led by Kath Scanlon, Distinguished Policy Fellow at the London School of Economics (LSE), the report highlighted the severe effect of circumstances on mortgage prisoners' wellbeing. It noted that while both UKAR and the FCA had recognised the problem, the actions taken to date had only helped a small minority of those affected. The coronavirus pandemic had only made their situation worse.

The report concluded that a range of solutions was needed. It argued that the policy goal tended to focus on reducing mortgage payments, but it would be

69 MoneySavingExpert, "Martin Lewis to fund large-scale research to help free 170,000 mortgage prisoners", 4 February 2020 (accessed 14 December 2021)

70 MoneySavingExpert, "Treasury Minister replies: 'Martin, I'll listen to your mortgage policy plans, but I've lines you can't cross'", 2 March 2020 (accessed 13 December 2021)

71 Kath Scanlon et al., Releasing the mortgage prisoners: final report, LSE, November 2020

preferable to reduce harm by "preventing defaults, keeping people in their homes and mitigating overall debt problems (including other types of debt)."[72]

As well as recommending better information and funding for debt counselling and advice, the report advocated such responses as:

- government equity loans, which might help some mortgage prisoners to pass stress tests, and perhaps combining them with an element of loan write-off
- "mortgage rescue", in which homes could be sold to housing associations and former mortgage-holders allowed to stay on as tenants
- bringing the owners of closed books into the FCA's regulatory perimeter
- capping very high standard variable interest rates on closed books

The report concluded by highlighting that there was an "ethical case" for the Government to "bear proportionate responsibility for resolving the situation", given that it had "clearly contributed to the creation of the problem".[73]

In response to the report, Seema Malhotra, Co-Chair of the APPG on Mortgage Prisoners, reiterated the APPG's call for a cap on standard variable rates and for the Government to "expand the powers of the FCA so that it can protect customers who have their mortgages owned or influenced by unauthorised firms and vulture funds."[74]

While the then Economic Secretary said on 17 November 2020 that the Government welcomed the contribution, he emphasised that for the moment he would continue to monitor the impact of the FCA's actions.[75] In February 2021, though, he referred to the FCA's 2019 estimate that customers of inactive lenders paid on average only 0.4 percentage points more than those with active lenders. He argued that capping mortgage prisoners' SVRs might "create harm in other parts of the market." He noted that the LSE report itself had recognised such a risk.[76]

2023 report

The researchers published a follow-up report – Releasing the mortgage prisoners: Proposed solutions and illustrative costings – in February 2023.[77]

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72 Kath Scanlon et al., Releasing the mortgage prisoners: final report, LSE, November 2020, p*i*

73 As above, p23-27

74 APPG on Mortgage Prisoners, "APPG reaction to LSE Mortgage Prisoner Report", 11 November 2020 (accessed 14 December 2021)

75 UIN 115040, 12 November 2020

76 UIN 145088, 28 January 2021

77 Kath Scanlon et al., Releasing the mortgage prisoners: Proposed solutions and illustrative costings, LSE, February 2023

This took account of both the data published by the FCA in 2021 (see section 3.4) and John Glen's 2020 requirements (see above).

The researchers criticised the limitations of the FCA's definition, noting that it minimised the scale of the problem and ignored, for instance, the real effect of being a mortgage prisoner on borrower's subsequent ability to meet payments. It said that its own definition included all those in the wider group of borrowers that the FCA had excluded. They further emphasised that subsequent rises in interest rates may well have moved many of those previously judged "able to switch" into payment difficulty.[78]

The study also highlights that the Office of Budgetary Responsibility had reported that the Government had made a surplus of £2.4 billion from the sale of the loan books held by UKAR, and that this might give it sufficient "headroom" to implement proposed solutions.[79]

The report sets out specific proposals (or steps) that it says would "eventually" enable mortgage prisoners to remortgage with active lenders:

1. **Free comprehensive financial advice for all closed-book borrowers**. The Government would pay for support agencies to contact all those affected and to offer them "comprehensive and holistic financial advice". Borrowers would have to take up this option before receiving any of the further support measures.

2. **Government equity loans to clear the unsecured element of Together loans**. Together loans, offered by Northern Rock, had combined a mortgage of up to 95% of the property value with a linked unsecured load of up to 30% of the property value. The interest rate on the latter product rises dramatically if the borrower remortgages. The LSE study notes that in 2010 this product made up 35% of the value of UKAR's outstanding mortgages.[80]

   The study recommends that offering an interest-free loan for five years to replace the "toxic" unsecured element should allow some Together borrowers to remortgage on the open market immediately, while others could take advantage of step 3.

3. **Government equity loans, based on Help to Buy**. Help to Buy was a Government scheme that offered first-time buyers equity loans that charged no interest for the first five years.[81] The study notes that arrangements for this and other equity schemes have often been

78 Kath Scanlon et al., Releasing the mortgage prisoners: Proposed solutions and illustrative costings, LSE, February 2023, p8-11

79 As above, p4. See also Office for Budget Responsibility, October 2021 Economic and fiscal outlook charts and tables, Annex B.

80 As above, p7

81 See Gov.uk, Help to Buy: Equity Loan, for an overview of how the scheme operated in England.

profitable for the Government because it benefits from any increase in the value of the property.

The study suggests that offering mortgage prisoners such a scheme proposes should help many to manage mortgage and wider debt more effectively. This, together with a reduction in loan to value, would in time help many to meet the risk appetite of lenders on the open market.

4. **As a fallback, Government guarantees on new mortgages**. The study notes that the Government had offered a temporary Mortgage Guarantee Scheme during the pandemic to ensure that high loan-to-value mortgages remained available.[82] The study suggests that a similar scheme could be made available to mortgage prisoners, and that evidence from previous such initiatives had shown that they had indeed increased mainstream lenders' confidence and the range of options available.

4.2 UK Mortgage Prisoners Action Group report

In March 2021 the UK Mortgage Prisoners Action Group released its own report. "Setting the record straight" was strongly critical of the Government's and the FCA's responses. [83]

The report highlighted what it saw as a "false narrative" that had engineered an unreasonable shift of blame from lenders onto customers. It argued that the FCA's narrower definition of "mortgage prisoners" had only reinforced this. The report challenged many of the assertions made by the Government and the FCA, arguing for instance that:

- the action group was aware of only 40 mortgage-holders who had benefited from the FCA's new affordability criteria
- mortgage prisoners had paid an average of 1.33 percentage points above mean market SVRs for over a decade, rather than the 0.4 quoted by the FCA
- freeing the mortgage prisoners would allow them to reduce mortgage rates by up to 3 percentage points[84]

It concluded that "the situation…is a direct result of an aggressive and profiteering policy by the Treasury to return the books to private ownership to the detriment of hundreds of thousands of families in the UK."[85] It called for a range of responses, including a cap on SVRs for mortgages in closed books,

82 See HM Treasury, The mortgage guarantee scheme, 16 April 2021.

83 UK Mortgage Prisoners Action Group, Setting the record straight, March 2021

84 As above, p4 and 7-8. The Group's figures are based on a February 2021 survey of its members. There were 449 respondents.

85 As above, p3-6

Government-backed equity schemes and mortgage products, recompense for the long period of overpayments, and action on arrears management charges and credit records.[86]

4.3 Potential legal action

In December 2019, a specialist litigation firm, Harcus Parker, announced 'no-win, no-fee' legal proceedings on behalf of mortgage prisoners "to reclaim the difference between the high interest they have paid on their mortgages and the interest they would have paid if the rate had been set by their lender at a lower 'fair' level."[87] The UK Mortgage Prisoners website promotes the action.

In July 2022, it was reported that Harcus Parker was initiating proceedings against TSB on behalf of 200 customers who had held mortgages that had been administered through the bank's Whistletree brand.[88]

Harcus Parker says that TSB had bought a portfolio of former Northern Rock mortgages in 2016, and that while the "terms of the mortgage contracts" obliged them to charge customers the bank's SVR, they had in fact charged them at almost double that rate. The law firm intended to make claims for the difference between those rates.[89]

According to Thisismoney.co.uk, TSB said that it would "robustly defend its position."[90]

The Mirror has reported that the case is expected to be heard in 2024.[91]

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[86] UK Mortgage Prisoners Action Group, Setting the record straight, Mach 2021, p6

[87] Harcus Parker, Mortgage prisoner litigation (accessed 12 September 2022)

[88] "TSB faces £800m mortgage prisoner lawsuit from former Northern Rock borrowers locked into 'excessively high' rates", Thisismoney.co.uk [online], 19 July 2022

[89] Harcus Parker, "Whistletree Mortgage Prisoners" (accessed 12 September 2022)

[90] "TSB faces £800m mortgage prisoner lawsuit from former Northern Rock borrowers locked into 'excessively high' rates", Thisismoney.co.uk [online], 19 July 2022

[91] "Thousands of mortgage holders 'could get extra money back' after High Court trial", The Mirror [online], 29 March 2023 (accessed 6 April 2023)

5 Parliamentary consideration

5.1 Treasury Committee, 2018

In June 2018 the Treasury Committee asked the then Chief Executive of the FCA, Andrew Bailey, about the regulator's consideration of ways of helping customers of inactive lenders.

Andrew Bailey highlighted the fact that many of those lenders were outside the regulatory perimeter – that is, not directly subject to the FCA's authority. Acknowledging that the consequences for customers were "not fair", he promised the regulator would consider all options to resolve the matter.[92]

He noted further potential complexity arising from the EU framework of conduct rules for mortgage firms. Although there had been wider questions about whether the FCA and the Treasury were "over-interpreting" the Mortgage Credit Directive, they believed that it meant that holders of mortgages with an active lender could remortgage with that lender even if they failed the affordability assessment. But they could not remortgage with **another lender**, even if they would be paying less under the new mortgage. This was a "trap" that Bailey descried as "silly" and "bonkers".[93]

In a letter to the Committee in July 2018, Andrew Bailey explained that while the EU's Directive applied across Europe, the differences between mortgage markets meant that this problem was largely limited to the UK, where most mortgages were sold with a short-term introductory offer. After that ended, customers could usually easily move to another short-term deal. The changes to lending practices after the financial crisis had closed that option to many borrowers and so "created the conditions for mortgage prisoners."[94]

In October 2018, Andrew Bailey told the Committee that the FCA and the Treasury maintained that the situation had arisen from the Directive, although the EU had denied this. He suggested that the EU did not seem disposed to resolving an issue that only affected the UK (which was about to leave the Union).[95]

92 Treasury Committee, Oral evidence: The work of the Financial Conduct Authority, HC 475, 13 June 2018, Q317

93 As above, Q320

94 Treasury Committee, Correspondence with the Chief Executive of the FCA relating to mortgage prisoners (pdf), 24 July 2018

95 Treasury Committee, Oral evidence: The work of the Financial Conduct Authority, HC 475, 31 October 201,7 Q136-137

On 18 November 2018, John Glen, the then Economic Secretary, wrote to Nicky Morgan, the then Chair of the Treasury Committee, saying that the Government was prepared to "explore legislative solutions" after Brexit and was working with the FCA to consider anything else that might be done.[96]

5.2 Commons debate, June 2019

Launching a backbench debate on mortgage prisoners on 6 June 2019, Charlie Elphicke (Conservative) highlighted the fact that the Treasury still held 35,000 mortgages via UKAR and that it was possible that both Tesco Bank and Metro Bank might sell on their mortgage books. There was no guarantee that these would not be sold to unregulated lenders.[97]

Charlie Elphicke argued that the FCA's proposals for a modified mortgage assessment (as discussed in section 3.1) didn't go far enough: it should be an obligation rather than an option for the banks to take affected customers on "without any regulatory penalty". He added that the Treasury needed to "take responsibility" for its overall approach to selling mortgage books, and that it had been wrong to "pursue the highest amount of cash at the expense of vulnerable borrowers". He suggested that there should be a "wholesale ban" on selling mortgages to unregulated firms.[98]

Rushanara Ali (Labour) and George Eustice (Conservative) supported the call for more government action, suggesting that further legislation might be needed.[99] [100]

Martin Whitfield (Labour) denounced the "blame game" regarding interpretations of the EU Directive, and instead pointed to the "reality" that "vulture funds" like Cerberus were able to enjoy "exploitative profiteering".[101]

Responding to points made during the debate, John Glen, the then Economic Secretary, noted that the FCA's proposed changes would "enable lenders to accept switching consumers, providing they are up to date with repayments and are not borrowing more."[102]

He went on to outline the Government's future approach to the sale of mortgage books. Although there had been no "reasonable bids from active lenders" for forthcoming sales, he emphasised that the **administrators** of such books would in any event have to be regulated by the FCA. So affected mortgage-holders would be covered by the regulator's requirements of fair

96 Letter from John Glen to Nicky Morgan: Trapped Borrowers and UK Asset Resolution (pdf), 12 November 2018
97 HC Deb 6 June 2019 {Mortgage Prisoners], c335-336
98 As above, c337
99 As above, c336
100 As above, c342
101 As above, c347
102 As above, c370

treatment and be able to complain to the Financial Ombudsman Service. In addition, contracts would specify that any "future rate rises are in line with the rates charged by the largest active lenders." They would also prohibit any financial barriers that might prevent consumers from switching to another lender.[103]

5.3 Debate during the passage of the Financial Services Act 2021

The question of mortgage prisoners was raised in ultimately unsuccessful amendments to the then Financial Services Bill, now the Financial Services Act 2021.

Lord Sharkey (Liberal Democrat and co-chair of the APPG on Mortgage Prisoners) proposed two amendments:

- **21**, that would have introduced a new clause. This would have amended the Financial Services and Markets Act 2002 to require authorised and regulated lenders to impose a cap on the standard variable rates interest rates charged to mortgage prisoners "and to ensure that mortgage prisoners can access new fixed interest rate deals at an interest rate equal to or lower than an interest rate specified by the FCA." The cap would be set at no more than 2 percentage points above the Bank of England base rate.[104]

- **37B**, that would give all mortgage prisoners who met certain conditions access to "a fixed rate mortgage…on terms no less favourable than mortgages offered to consumers who are not mortgage prisoners and have broadly similar creditworthiness characteristics."[105]

Lord Sharkey argued that the Government and the FCA had neither accepted responsibility for causing the problem in the first, nor for "devising a proper, just and timely solution."[106]

But Baroness Noakes (Conservative) cautioned against "leaping to further solutions" until more data was available about the success of the FCA's 2019 rule changes. She questioned the practicality of the "fairly vociferous

103 HC Deb 6 June 2019 [Mortgage prisoners], c371-372
104 HL Bill 162-R-II(Rev) Revised second marshalled list for Report, 12 April 2021, p5
105 HL Bill 162-R-III Third marshalled list for Report, 14 April 2021, p6. The conditions were that mortgage prisoners should have arrears of not more than one payment over the preceding year, a remaining mortgage term of at least two years, an outstanding loan amount of at least £10,000, and having had consent to let the property concerned.
106 HL Deb [Financial Services Bill], 14 April 2021, c1401

demand" for a cap on SVRs, as well as the wisdom of overriding lenders' own judgements about risk.[107]

The Lords agreed to Amendment 21 during report stage.[108] But the Commons disagreed to it when the Bill returned during ping pong. Summarising the reasons to the Lords, Earl Howe argued that those affected were unable to switch because they did not meet lenders' risk appetite, a situation that also applied to many borrowers in the active market. So it would be unfair to give one group access to lower payments. He concluded by reiterating the Government's "commitment to finding any further practical and proportionate options for affected borrowers, supported by facts and evidence."[109]

Lord Sharkey expressed his disappointment at the Government's position, but the Lords agreed not to insist on the amendment.[110]

5.4 Treasury Committee, 2021

As part of its ongoing oversight of the work of the FCA, the Treasury Committee returned to the question of mortgage prisoners in May 2021.[111]

Nikhil Rathi, Chief Executive of the FCA, suggested that resolution was now likely to be a matter for the Government rather than the regulator. While many of those affected had taken out interest-only mortgages in the early 2000s, they had done so without a payment plan. Lenders now required such a plan to be put in place.[112]

In response to further questions about whether the FCA could make inactive lenders "charge a more reasonable market rate of interest", he again emphasised that the FCA had reached the limit of what it could do. He reminded the Committee that Parliament had recently rejected such a proposal, which was in any event beyond the regulator's powers. While the FCA would consider emerging data and options:

> ..as I understand it, it will be a Treasury review, because obviously the levers are primarily for the Government to consider. I think it was also the finding of the report by the London School of Economics that, at this stage, these are now matters for the Government, because some of the solutions are fiscal solutions.[113]

107 HL Deb [Financial Services Bill], 14 April 2021, c1403-1405
108 As above, c1405-1416
109 As above, c2308-2309
110 As above, c2318
111 Treasury Committee, Oral evidence: Work of the Financial Conduct Authority, HC 146, 12 May 2021, Q171
112 As above
113 Treasury Committee, Oral evidence: Work of the Financial Conduct Authority, HC 146, 12 May 2021, Q175-176

5.5 Debate during the passage of the Financial Services and Markets Bill, 2022-23

Debate in the Commons

The issue returned to the Commons on 7 September 2022 in the second reading of the Financial Services and Markets Bill.[114] Seema Malhotra, co-Chair of the Mortgage Prisoners APPG, noted that only 10% of customers in the active market were on their lender's SVR, and – unlike mortgage prisoners – they were free to move to a lower rate. She suggested that the Government should introduce both a cap (as debated and rejected by the Government in 2021 and discussed in section 5.3 of this paper) and fixed rates for affected customers:

> The Government say that that would be an unprecedented intervention in the market, but the truth is that there is no market and there is no competition. It is the Government's fault, because they sold these mortgage prisoners on to vulture funds, who are not treating them fairly. The APPG's proposals are a targeted intervention and would have no impact on the wider market of active lenders such as the main high street banks who compete to offer new deals to their existing customers.[115]

Writing on the matter to the Opposition on 10 October 2022, the Economic Secretary, Andrew Griffith, noted the "complex and varied" individual circumstances and reiterated the Government's position that "there is no single solution that will meaningfully benefit mortgage prisoners without also creating wider harm or unfairness to others."[116]

Committee consideration in the Lords

Lord Sharkey, Liberal Democrat co-Chair of the Mortgage Prisoners APPG, proposed amendment 197 to the Bill in the House of Lords. As in 2021 (see section 5.3), this sought to offer mortgage prisoners:

- a cap on SVRs of no more than 2% above the base rate
- access (for some) to fixed-rate deals[117]

Speaking to the amendment on 8 March 2023, Lord Sharkey noted that the long-awaited review of earlier initiatives had found that only about 1% of mortgage prisoners had been able to switch. He then highlighted findings from the 2023 LSE report (see section 4.1) that the Government had made a

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114 See House of Commons Library legislative briefing, Financial Services and Markets Bill 2022-23 (CBP-9594, 30 November 2022)

115 HC Deb 7 September 2022 [Financial Services and Markets Bill], c300-301

116 HM Treasury, Letter from Andrew Griffith MP to Tulip Siddiq MP and Abena Oppong-Asare MP (DEP 2022-0794), 10 October 2022

117 HL Grand Committee Deb 13 March 2023 [Financial Services and Markets Bill], c145GC-146GC

£2.4 billion surplus from the sale of the mortgage books. He urged the Minister and the Treasury to discuss the solutions advocated in the report.[118]

Baroness Noakes (Conservative) repeated her comments on the 2021 amendment, adding that it would in many cases benefit borrowers who had chosen not to switch when they were apparently already able to.[119]

Speaking on behalf of the Government, Lord Harlech (Conservative) again highlighted wider risks associated with the proposals in the amendment. But he concluded by acknowledging the Government's commitment to exploring options, and so agreed to arrange a meeting between APPG Members and the Treasury on the LSE report before the Committee's report stage.[120]

Lord Sharkey accepted the offer and withdrew the amendment.[121]

Report stage in the Lords

However, Lord Sharkey presented a revised version of his earlier amendment during report stage on 13 June 2023. He noted that while the Treasury had met stakeholders on 26 April, there had as yet been no Government response on the LSE report. He said that Treasury staff expected to reply to the researchers by summer recess, a situation he described as "an intolerable and unjustifiable delay and a clear indication of the low priority the Treasury is giving the matter."[122]

Baroness Penn, Parliamentary Secretary to the Treasury, replied that the Government would once again oppose the amendment. As well as reiterating earlier arguments against it, she said that the Treasury was continuing to consider the LSE proposals, which were "significant in scale and ambition." She added:

> [W]e have concerns that these proposals may not be effective in addressing some of the major challenges that prevent mortgage prisoners being able to switch to an active lender. For example, the proposals would not assist those with an interest-only mortgage ultimately to pay off their balance at the end of their mortgage term.[123]

Lord Sharkey withdrew the amendment, but noted that it was still not clear whether and when the Treasury would respond to the LSE report.[124]

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118 HL Grand Committee Deb 13 March 2023 [Financial Services and Markets Bill], c146GC-148GC
119 As above, c148GC-150GC
120 As above, c151GC-153GC
121 As above, c153GC
122 HL Deb, 13 June 2023 [Financial Services and Markets Bill], c1902-1905
123 As above, c1907-1908
124 As above, c1908-1909