



21<sup>st</sup> April 2022

Dear Sir

## Background

UK Mortgage Prisoners are from hard working families who have been trapped, living with extortionate and unfair SVR rates on their mortgages, for well over a decade now.

Most excluded from the active mortgage lending market for multiple complex reasons arising from a previous Government's intervention, following the Financial Crash of 2008 and the subsequent regulatory changes to borrowing and affordability criteria. This has occurred while the majority of borrowers have been able to access historically consistently low interest rates over the same period.

Since campaigning began in 2018, UKMP have repeatedly asked for a solution to end the unfair treatment of mortgage prisoners created as a consequence of these actions.

In 2021 we campaigned in support of the APPG for Mortgage Prisoners' proposal for a cap on the SVR to be put on mortgages within inactive firms. The House of Lords voted in favour as did all parties in the House of Commons, including 2 Conservative MPs, but unfortunately the remaining Conservative MPs rejected it. During the many debates it was concluded, unanimously, that in the absence of the cap an urgent solution must be found.

Almost 12 months have passed, and there is still **no sign of a solution** from the Government, despite promises that mortgage prisoners are both the Government's and the Regulator's **priority**. In fact, in the FCA Mortgage Prisoners Review published in November 2021, it was reported that as few as 200 borrowers have been helped to switch to the active market since the modified affordability criteria was announced in October 2019. To date, disappointingly, "switching" has been the sole focus of the Treasury and FCA.

We have produced our **Response to the FCA review** in which we have detailed our rejection of the numbers-cutting exercise carried out, that is leaving the most vulnerable behind and detracts from the true extent of the problem and the total absence of propositions for meaningful resolution. In addition, citing "borrower inertia", with no context, is a further attempt to put the onus of blame on the customer.

The detriment suffered by Borrowers forced onto the extortionately high interest rates has been widely reported. **Martin Lewis'** funded LSE report recognised the impact of the prolonged unfair treatment and extreme harm inflicted on mortgage prisoners. UKMP have produced a number of reports documenting the lived experiences of mortgage prisoners and their families, providing evidence of the damage to their own, and their children's, physical and mental health.

As well as these reports, the Citizens Advice super-complaint has been investigated by the Competitions and Market Authority who agreed that borrowers who are held on their mortgage lender's reversionary SVR are being exploited and that Government and Regulators **must** act, and FCA must intervene, to prevent struggling mortgage customers from paying this **penalty rate**.

## Call for Action

Mortgage Prisoners have lived through the financial crash, a global pandemic, and now are facing the worst cost of living crisis for decades. Our members' mortgage rates have risen for the third time since December 2021, following each hike in base rates, and we are on the cusp of a fourth consecutive rise, unprecedented for a quarter of a century.

**Therefore, an unprecedented intervention is required to assist mortgage prisoners who are the remaining collateral damage of an unprecedented financial crash. Exceptional circumstances require exceptional action.**

The FCA have recently written to this group stating there is no more they can do without government action, and this is now for the Treasury to look to resolve. Blame culture must end. Treasury citing self-certification, interest only or high loan to value mortgages as the reason for this crisis neglects the historical context of high and rising property values and a marketplace where high street lenders and brokers actively encouraged the uptake of these products.

Regardless of the endless disagreement on the reasons why, we can't change the past, but we can change the future, if we all work together. **A line needs to be drawn under the Mortgage Prisoners plight with utmost urgency for all concerned, so we can all move on with our lives.** No one should be left behind. To simply state that the problem is too complicated to resolve is not a reason to fail to act.

As a Minister who is proud of the Treasury's achievements and the work that you have carried out in helping those in problem debt, for example, when Fair4AllFinance received £3.8m in funding from HM Treasury you said:

*'I now want to see lenders and organisations committed to financial inclusion supporting this innovative new scheme, which could make a vital difference for people right across the UK who can't access or afford existing forms of credit'*

**Please do not miss the opportunity to make a resolution for Mortgage Prisoners and their families your legacy.**

## Solution

We are asking that the **Queen's Speech** contains **solutions for mortgage prisoners** put forward from this Government. To that end, we would like to see two proposals.

**Firstly**, as Treasury has failed to act as promised on 26th April 2021 and the majority of Mortgage Prisoners are not in an active market, we now look to Government to **CAP SVR margins** in line with pre-crash margins at no greater than 2% over base rate.

This brings immediate relief to those most vulnerable families and puts us back into a fairer situation. Margins have dramatically increased over a period of historically consistently low costs of borrowing and this needs to be rebalanced.

The Government position as the basis for refusing this has been that a market cannot be interfered with. However, the Chancellor is looking to CAP rates within the loans and credit card market as a result of the 'Poverty Premium' where the poorest pay more. This is equally true in the mortgage market.

**Margins should be restored to pre-GFC levels. Profiting from the most vulnerable should cease.**

There is further market precedence by Lenders themselves where, for example, Nationwide are one of very few, if not the only Lender, to have recognised that post-crash rules do not fit pre-crash borrowers and thus have a much lower SVR for pre 2010 customers. Why have the Government and FCA not looked at the wider potential for this?

**Secondly**, we want to see support with **cornerstone funding** from the Government to “crowd in” investment from ethical investors for a Fair Mortgage Product to allow existing mortgage prisoners to be refinanced. This will mean that loans which were provided on prevailing, pre-financial crisis terms, can be refinanced on fair terms, facilitating their repayment in full - a win-win situation for both lenders/administrators and borrowers.

In the void created by Government and Regulator inaction, UKMP have been working with experienced industry figures to develop such potential funding. The proposals will not require any subsidy, grant or Treasury contribution, other than the cornerstone investment in the Fair Mortgage Fund, which we estimate can attract a commercial rate of return and will crowd in other lenders, creating a unique vehicle that will significantly solve the current mortgage prisoner situation and be a vehicle for assisting homeowners who may face future financial difficulty due to the dramatically increasing costs of living.

These are not either/or but both/and propositions. Together with steps to date they present the **widest reaching uniform solution** to date.

## **Conclusion**

In the context of the current financial crisis and for those who have suffered the damage of nearing a decade and a half of being held on high rates, there will be a tsunami of repossessions coming down the line unless Treasury **seize this opportunity to act and really show mortgage prisoners are their priority**.

Not only will such **urgent unprecedented intervention** alleviate lasting harm to UK families, including the elderly and disabled, it will save the taxpayer in emergency accommodation costs, and prevent additional strain on other services, in a context of stress on mental health services and lack of social housing, to accommodate people where homelessness has become the final option.

We believe that these measures will free many of the UK mortgage prisoners, prevent other homeowners falling into the mortgage prisoner trap and contribute to a fair financial market. The social cost savings will be significant which will also benefit the country all round.

We are pleading with you, Minister. Please show that we are your priority now.

Yours sincerely,

Rachel Neale

Lead Campaigner

UK Mortgage Prisoners Ltd/ HOPE

