StepChange response to FCA consultation on CP26/18** Mortgage Rule Review: Supporting first-time buyers and underserved customers

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Introduction

StepChange Debt Charity is a specialist not-for-profit provider of debt advice and debt solutions supporting people across the UK. In 2025, over 160,000 people completed a full debt advice through our online and telephone service.

We welcome this consultation on the *Mortgage Rule Review: Supporting first time buyers and underserved consumers*. As part of our ongoing work on credit files and financial exclusion, particularly as it relates to victim-survivors of economic abuse, we are involved and invested in this work. We will be responding to questions 11 and 12 in Chapter 5 ‘Credit impaired or recently recovered.’

Our research demonstrates that credit information is central to consumer outcomes, including some of the harmful outcomes that StepChange sees as a debt advice charity. Victim-survivors face the sharp end of these harms, as often their situation is poorly understood, and they face an impaired credit record because of their abuser’s behaviour. This can, in some cases, lead to them being locked out of affordable mortgage rates, unable to access a mortgage at all, trapped in an unaffordable mortgage or having difficulties switching mortgages. This is in addition to being excluded from affordable unsecured lending, and vital goods and services.

We are broadly supportive of the proposals laid out in Chapter 5. Clarification of the ‘credit-impaired customer’ will support lenders in not disqualifying mortgage applicants just because of adverse information on their credit record, so that evidence about underlying circumstances can be considered. But more work is needed to create a cultural shift in lender behaviour so that perceptions of risk are tempered by the life circumstances that might lead to credit file impairment, including economic abuse.

Response to consultation questions 11 & 12

Question 11: Do you agree with our proposed clarification on the application of the definition of ‘credit-impaired customer’?

We agree with and welcome the FCA's proposed clarification. It should help to address the use of the glossary definition beyond its intended purpose and reduce unnecessary exclusion of borrowers whose impaired credit records do not reflect their current circumstances. However, clarification alone is unlikely to change firms' lending decisions. Further guidance and wider changes to credit information and lending practices will also be needed to achieve the FCA's (and the Government's) intended objectives.

As the FCA rightly states in the consultation paper, credit impairment is not always a true reflection of an individual's credit worthiness, and may be impacted by factors such as prioritisation of debts, life events, and coerced debts.

StepChange research has demonstrated that coerced debt can be a significant driver of credit impairment.[1] Among the 569 UK adults we polled who had experienced coerced debt in the previous 12 months,[2] around half (48%) experienced at least one negative impact on their credit file. The below chart lays out the specific credit file impacts respondents faced. You will note that women and those with additional vulnerabilities (such as a long term physical or mental health condition) faced these negative impacts in greater numbers, which supports wider evidence that demonstrates that women face the sharper and more severe end of domestic violence.

Fig. 1 – Impacts of coerced debt on credit files[3]

	Total	Male	Female	Additional vulnerability
My score fell	40%	32%	49%	50%
Defaults on loans, credit cards or other types of credit	14%	10%	17%	18%
Missed payments on loans or a mortgage	10%	10%	10%	12%
Being put on an insolvency or debt solution	7%	5%	9%	8%
Flagged on fraud databases or having fraud markers	1%	1%	1%	2%

Indeed, historic impaired credit records, including arrears of three months or more on a previous loan in the last two years, CCJs over £500 in the last three years,

[1] StepChange Debt Charity (2026) Filed away: The experiences of victim-survivors with coerced debts during and after economic abuse
[2] This research is based on polling we commissioned YouGov to conduct. Fieldwork took place between 7th – 23rd November 2025, with a total sample size of 569 adults who in previous omnibus surveys had indicated that they had experienced at least one indicator of coerced debt. The survey was carried out online
[3] *Op cit.*, p. 28

bankruptcies and IVAS from the past three years may not be truly reflective of a borrower's current financial circumstances and ability to repay.

It is right, therefore, that the FCA makes it explicit that the 'credit-impaired' glossary definition applies only in: (a) MCOB 11.6.16R, MCOB 4.7A.22 G, and (b) SUP 16.12 reporting. This proposal supports the Government's Financial Inclusion Strategy, with the aim of opening and maintaining avenues for consumers to access mainstream, more affordable lending with more favourable terms.

It is likely, however, that clarification of the definition – and the circumstances around which it may be used – alone will not be sufficient to drive the change needed for firms to take on the perceived risk of a 'credit-impaired customer.' It is clear, therefore, that a cultural shift is also needed in order to improve the overall approach from lenders towards consumers with impaired credit files and specific life circumstances.

This work complements the work of the Credit Information Governance Body (CIGB) in developing an improved framework for reflecting consumers' creditworthiness. It also complements the work of the Consumer Duty, and the FCA's reference to firms avoiding causing foreseeable harm, acting in good faith and supporting customers to pursue their financial objectives is the right direction of travel.

This also highlights, however, the need for proposed guidance on lending to consumers with historic adverse credit and current/emerging financial difficulties, so that firms are equipped with the knowledge of how to approach consumers with impaired credit records.

As we stated in our response to the FCA's Credit Information Market Study interim report and discussion paper,[4] credit information is central to outcomes for consumers. We have identified how financial difficulties journeys and the harms of problem debt arise from desperation borrowing among people unable to keep up with existing credit commitments and other essential costs.[5] Gaps and weaknesses in credit information undermine the ability of firms to prevent unaffordable borrowing and/or intervene early to arrest debt spirals. Firms should assess ability to repay based on sufficient, verified and appropriate information (MCOB 11.6.2R), without being restricted by the glossary definition.

As we have noted above, the lack of context around credit file data, for example for victim-survivors of economic abuse, can drive poor outcomes for these consumers, even where consumers have the ability to pay. As you note, "by applying the 'credit-impaired' glossary definition within their credit-risk policies, firms may not be lending to victim-survivors who might be able to afford mortgages."[6] Indeed, one of our

[4] StepChange (2023) StepChange response to FCA Credit Information Market Study interim report and discussion paper
[5] StepChange (2022) Falling behind to keep up: the credit safety net and problem debt
[6] FCA (2026) Consultation Paper CP26/18** Mortgage Rule Review: Supporting first-time buyers and underserved consumers, Section 5.10

clients, who was a victim-survivor of economic abuse and who subsumed all of the coerced debts (joint with her then husband, the perpetrator) in her sole name in order to sever financial ties with him, found herself unable to get a mortgage for several years after she fled the abuse. Not only was this financially detrimental and prevented her from rebuilding her life, but also, having her own financial behaviour and financial standing undermined also had a negative impact on her mental health. She was, by this time, a high earner who felt she was financially responsible.

At the same time, however, mechanisms must be put in place to help lenders to be able to access the granularity of detail and context behind a consumer's credit impairments. The FCA's research shows that almost three-quarters of low to middle income adults want credit score providers to take into account the reasons for missed payments when calculating scores and the same proportion being willing to share details with lenders and score providers if this meant their score improved.[7] This demonstrates that consumers are willing to share contextual information where it leads to more accurate lending decisions. The challenge is therefore not consumer willingness, but ensuring that firms have appropriate mechanisms to capture and use that information consistently and fairly. The FCA should continue working with industry through the Credit Information Governance Body to develop standards that enable relevant context — including the impact of economic abuse and other extenuating life events — to be reflected appropriately in lending decisions.

Question 12: Is there anything more we can do to encourage lenders to support prospective borrowers with impaired credit or those who have recently recovered?

We believe there is more that can be done to encourage lenders to support prospective borrowers with impaired credit or those who have recovered from financial difficulty, while maintaining appropriate standards of responsible lending.

StepChange's client outcomes research shows that many clients make sustained progress after receiving debt advice, with improvements in their ability to deal with debts, financial situation and wellbeing.[8] Despite this, people with historic adverse credit can continue to face barriers to accessing mainstream credit because lending decisions place significant weight on historic credit information, even where it may not fully reflect their current financial circumstances.

Here, there is read across to Chapter 6 of the Credit Information Market Study (CIMS) final report, which sets out the case for the development of a common data format, Remedy 2B, with the goal of recording consumer circumstances consistently and appropriately, particularly for borrowers in financial difficulty. As the FCA notes, "[i]mproving the consistency and granularity of credit information held by designated

[7] *Ibid.*, Section 5.19
[8] StepChange Debt Charity (2020) Paths to recovery: Understanding client outcomes 15 months after debt advice

CRAs will likely help firms assess risk more effectively and consequently secure better consumer outcomes."[9] In this connection, proposals in the CIMS report under Remedy 2B,[10] including considering how a more granular range of separate flags could be introduced to identify consumers engaged in different types of collective debt solutions or other initiatives as well as an 'exceptional circumstance' flag would complement and support the objectives of the Financial Inclusion Strategy and the proposed clarification of the 'credit-impaired' customer definition.

We would encourage the FCA to support lending practices that place greater emphasis on an individual's current financial position and ability to repay. This could include making greater use of affordability assessments, income and expenditure information, and open banking data, where appropriate, alongside recognition of sustained positive payment behaviour. This would allow firms to distinguish more effectively between consumers whose historic adverse credit reflects specific life circumstances which may improve and/or which may require more support.

We agree that the FCA should also consider issuing guidance on lending to consumers with impaired credit records where there is evidence of extenuating circumstances, such as economic abuse.

More broadly, as has been discussed in relation to Remedy 2B we believe firms should recognise engagement with free debt advice as a positive indicator of future financial recovery and seek to avoid unnecessarily excluding consumers who have taken active steps to resolve financial difficulties. Reducing barriers to mainstream credit for people who have recovered financially can support financial inclusion, reduce reliance on higher-cost forms of credit, and contribute to better long-term consumer outcomes.

At StepChange, for victim-survivors of economic abuse, we would like to see their credit files reflect their genuine credit worthiness, and not the abuse they have experienced. Ultimately, that means that we would like to see derogatory marks arising from the actions of a perpetrator removed from the victim-survivor's credit file. This is work we are feeding into through our presence on the CIGB Consumer Council and the Credit Reference Agencies (CRA) Working Group.

[9] FCA (2023) Credit Information Market Study Final Report, p.75
[10] *Ibid.*, p.76

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