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FAQs - MFR CCA & Non-Bank Mortgage Lenders



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What was the purpose of the Financial Conduct Authority's (FCA) multi-firm review?

The FCA conducted a multi-firm review (MFR) to assess the financial resilience of consumer credit firms and non-bank mortgage lenders. This involved examining how these firms identify, manage, and mitigate various financial risks to protect consumers and the UK financial system. The review focused on how firms addressed potential challenges arising from economic changes such as rising interest rates and cost of living pressures.

What were the key findings of the review?

The review found that most firms could improve their risk governance and risk management. Some key areas for improvement include:

- ❶ Inadequate risk identification: Some firms failed to fully consider crucial external risks like credit, counterparty, liquidity and funding, operational, and market risk.
- ❷ Underdeveloped risk management frameworks: Many firms lacked sophisticated systems to measure, monitor, and manage risks, leaving them vulnerable to adverse events.
- ❸ Insufficient stress testing: Many firms' stress testing approaches were underdeveloped and did not adequately consider severe but plausible scenarios, leaving them unprepared for economic shifts.
- ❹ Lack of wind-down planning: A significant number of firms lacked adequate wind-down plans, increasing the risk of disorderly failure and potential harm to consumers and the financial system.

What are the FCA's expectations regarding risk appetite?

The FCA expects firms to have a clearly articulated risk appetite statement that outlines their desired risk profile and the types of risks they are willing to accept. This statement should be translated into specific triggers and buffers for key financial measures, enabling firms to take timely corrective actions.

What were the observations related to interest rate risk management?

The review revealed that many firms, particularly those with primarily floating rate loan books, did not proactively monitor interest rate risk. They often assumed they were hedged against this risk without considering the potential second-order consequences, such as changes in consumer behaviour, which could negatively impact their financial resilience.

Why is stress testing important, and what were the shortcomings observed?

Stress testing helps firms assess their resilience to adverse events. The review found that many firms conducted limited stress testing that did not cover their entire risk profile. Some only focused on falling lending volumes without considering scenarios like rising arrears or interest rates. The FCA expects firms to use severe but plausible scenarios that are relevant to their circumstances.

What are the FCA's expectations for wind-down planning?

The FCA expects firms to have comprehensive wind-down plans that outline the steps they would take to minimize the impact of their failure on customers and markets. The review found a general lack of wind-down planning, with some firms considering it solely their funding providers' responsibility.

What are the implications of the review for firms not included in the sample?

While the review focused on a specific sample of firms, the findings and recommendations apply to all consumer credit firms and non-bank mortgage lenders. The FCA encourages all firms to review their arrangements against the findings and make any necessary improvements to enhance their financial resilience.

Where can firms find further guidance on the FCA's expectations?

Firms can refer to the following FCA publications for detailed guidance:

- 🕒 FG20/1: Guidance on the framework for assessing adequate financial resources
- 🕒 TR22/1: Observations on wind-down planning
- 🕒 Wind-down Planning Guide

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