BRIEFING · SEPTEMBER 2026

Artificial Intelligence in *UK Mortgages and Housing Finance*

What the evidence actually says, what the regulators expect, and what can safely be done now. Conduct regulation is UK-wide; court possession data covers England and Wales.

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Prepared as a market briefing. Every figure is traced to a regulator, a court, the statute book, a government register, a trade body's own data collection, or an organisation speaking on its own record.

ONE

A note on the numbers

This briefing is built from what can be checked, and it names what was left out.

Almost every published statistic about artificial intelligence in mortgages is produced by a company selling artificial intelligence into mortgages. None of that material appears here. Every figure in this briefing traces to the Financial Conduct Authority, the Prudential Regulation Authority, the Financial Ombudsman Service, the Ministry of Justice, HM Land Registry, UK Finance's own data collection, the statute book, or a lender or professional body speaking on its own record.

Three habits govern the rest of the document.

DATES ARE STATED, BECAUSE THEY MOVE

The FCA's research on first-time-buyer arrears covers loans sold between January 2015 and December 2024, with performance tracked to June 2025. The FCA's redress exercise for borrowers in financial difficulty dates from 2023. Both are described that way every time they are used, and neither is presented as a statement about current practice.

AN ABSENCE IS SEARCHED BEFORE IT IS ASSERTED

Where this briefing reports that something is not on the public record — a lender's disclosure of AI in its mortgage decisions, for instance — the relevant documents were read for it, and the claim is stated as what was read. "Not found" and "confirmed absent" are kept apart.

NAMED AND EXCLUDED

Every statistic in circulation about AI-generated payslips, synthetic applicants and a surge in AI mortgage fraud is excluded: the sources are US trade press, US vendor blogs and a communications agency's commentary, and none is a UK primary source. Vendor accuracy claims for automated valuation models are excluded. A widely quoted share of mortgage sales made through brokers is excluded, because it traces only to a lender executive's blog. A seven-year-old fraud-bureau figure that still surfaces in current searches is excluded on its date.

Every vendor claim encountered in the research was excluded, without exception.

Sources for each figure are given at the foot of the section in which it appears, and listed in full in section thirteen.

TWO

The wider market

A large market, growing again, with arrears falling — which is exactly when decision-making gets automated.

£1.76tn
Outstanding residential mortgage balances, Q2 2026

£77.4bn
Gross advances in Q2 2026, up 31.7% on a year earlier

9m
Households the industry supports in owning a home

Outstanding residential mortgage balances reached £1,760.6 billion at the end of the second quarter of 2026, 0.8 per cent up on the quarter and 3.1 per cent on the year. Gross advances rose 11.1 per cent in the quarter to £77.4 billion, and new commitments reached £79.2 billion. The FCA counts more than 180 lenders and around 5,000 intermediary firms, and 1.3 million people a year who buy, remortgage or release equity.

The regulator's own reading of the book is benign. "The number of mortgage accounts with a payment shortfall peaked in H1 2024 and has now fallen to its lowest level since H1 2022," it wrote in March 2026, and arrears "have remained low despite higher interest rates."

> WHY THIS MATTERS TO AN AI PROGRAMME
>
> *A healthy book is when automation looks safest, and it is when the cost of an automated error is least visible.*
>
> A model trained on a period of falling arrears learns what falling arrears look like. The decisions it will be asked to make, in the part of the book that matters, are about the borrowers who do not fit that period.

FCA and Bank of England, *Mortgage lending statistics*, Q2 2026, 8 September 2026 · FCA, *Regulatory Priorities: Mortgages*, March 2026.

THREE

The pressure point

Fewer cases reach the end of the road. Each one takes longer to get there.

In the second quarter of 2026, 77,940 homeowner mortgages were in arrears of 2.5 per cent or more of the outstanding balance, one per cent fewer than in the previous quarter. 1,150 homeowner properties were taken into possession, eight per cent fewer. Buy-to-let arrears stood at 8,390 and possessions at 630.

The courts show the same direction. In England and Wales between April and June 2026 there were 5,232 mortgage possession claims, down 20 per cent on a year earlier; 3,651 orders, down 17 per cent; and 1,008 repossessions by county court bailiffs, down 14 per cent.

EVERY VOLUME MEASURE

Arrears down. Possessions down. Claims down a fifth. Orders and warrants down.

THE TIME MEASURE

The median time from claim to repossession rose to 49.1 weeks, from 42.9 weeks a year earlier.

The Ministry of Justice does not give a cause for the lengthening. Its bulletin notes that the average time "can fluctuate and is affected by various factors", and that the trend is driven by outright orders, which make up more than two thirds of cases. This briefing does not supply a cause either. The point it takes is narrower: a decision that now takes nearly a year to work through the courts is a long time for an automated assessment at the start of it to be wrong.

UK Finance, *Mortgage arrears and possessions*, Q2 2026, 13 August 2026 · Ministry of Justice, *Mortgage and landlord possession statistics: April to June 2026*, 13 August 2026 (England and Wales).

FOUR

What the sector is facing

The regulator's economist has shown a better model. The regulator's policy team has shown a filter doing harm. Both are true.

In June 2026 the FCA published two documents that belong side by side.

The first is a research note on arrears among around 3.1 million first-time-buyer households. It compares a conventional survival model with a gradient-boosted decision-tree model. The machine-learning model "attains a materially higher AUC (0.751 vs 0.669)", and in the note's own plain terms, "both models are equally accurate on average, but the gradient-boosted model is better at telling higher-risk households apart". The variables carrying the risk are familiar: loans above 90 per cent loan-to-value have "an estimated 74% higher arrears hazard"; self-employed borrowers about 24 per cent higher; borrowers with previous credit impairment about 32 per cent higher. Research notes carry the FCA's standard caveat that they may not represent its position.

The second is CP26/18, a consultation on supporting first-time buyers and underserved borrowers. In it the FCA sets out a case:

> *A prospective borrower separated from their former partner 2 years ago after experiencing prolonged economic abuse. Despite having stable employment, a strong recent payment record and being able to afford repayments, they were automatically declined by the firm because of their impaired credit history from this period.*
>
> FCA, CP26/18, *June 2026*

The FCA's diagnosis is that some firms use a reporting definition, "credit-impaired customer", as a filter it was never designed to be, and that doing so "can deny consumers access to mainstream lending".

Read together, the two documents describe one technology. A model that ranks better and a rule that declines on a flag are both automated decisions. What separates the improvement from the harm is whether a person can still see, and change, what happens to the individual in front of them. No mortgage-specific statement from the regulator says where that line sits.

FCA Research Note, *Mortgage arrears risk: UK first-time buyers*, 9 June 2026, pp.15–19 · FCA, CP26/18, paras 5.3–5.4, June 2026.

FIVE

The challenges of using AI here

Four risks specific to mortgages. None of them is about the technology failing to work.

ONE · THE FILTER THAT DECLINES

A model that ranks applicants better is only an improvement if a borrower like the one in the FCA's own case can still reach a person who reads the whole file. Better ranking without a route to judgement is a more confident version of the automatic decline.

TWO · THE UNSEEN VALUATION

Current loan-to-value is the strongest loan-level predictor in the FCA's arrears research, and it is what a lender weighs when choosing between a term extension and a possession claim. A model valuation can sit beneath that decision, and the borrower may never see it or know how to question it.

THREE · FORBEARANCE BY SEGMENT

Since 4 November 2024 the FCA's rules have required support for borrowers in difficulty to be tailored to the individual. In 2023, before those rules were strengthened, the FCA secured up to £47 million of redress from 17 lenders for around 195,000 customers, for "not adequately tailoring support to individual circumstances". A collections model that assigns people to treatment paths is exactly the kind of process that finding was about. There is no reason to think a model does better by default.

FOUR · THE BROKER CHAIN

Most mortgage advice is given by intermediaries rather than lenders. Respondents to the FCA's mortgage rule review said AI "should not replace human advisers" and that "qualified advisers should review and sign off AI-based recommendations". Those are respondents' views, not rules. Nobody has yet said who checks that the sign-off is real.

FCA Research Note, 9 June 2026 · FCA PS24/2, published 10 April 2024, in force 4 November 2024 · FCA press release, 25 May 2023 · FCA FS25/6, December 2025.

Where AI actually is

What the public record shows, and what it conspicuously does not.

The regulator. The FCA's own economics function has built and published the comparison described in section four, using the Product Sales Data every lender reports. It is the most specific evidence on the public record of what machine learning does to mortgage risk ranking, and it came from the regulator rather than a supplier.

The land register. HM Land Registry's 2025–26 annual report records that "AI-enabled models have already processed over 10 million images to extract key property information", that an internal AI assistant was rolled out across the organisation in January, and that Nationwide Building Society "was the first lender to submit a mortgage application using QES" — qualified electronic signatures, which rest on "biometric checks such as facial recognition".

The regulator's testing programme. The second cohort of the FCA's AI Live Testing includes Coadjute, a property-transaction platform, testing AI for anti-money-laundering checks carried out by conveyancers. The FCA names no mortgage-lending use case in either cohort.

The lenders. The published AI disclosures of seven large UK lenders were read at annual-report or own-release standard: Lloyds Banking Group, NatWest Group, HSBC, Santander UK, Nationwide, TSB and, at a lesser standard with the genre stated, Monzo and Starling. They describe knowledge tools, coding assistants, complaint handling, chat, fraud detection and call summaries. **None names an AI use in mortgage underwriting, valuation, arrears or collections.**

WHAT THE SILENCE MEANS

The decisions this briefing is about are the ones the largest lenders say least about.
That is not evidence that nothing is happening. It is evidence that a board cannot benchmark its mortgage AI against a competitor's disclosure, because there is none to benchmark against.

HM Land Registry, *Annual Report and Accounts 2025–26*, 15 July 2026 · FCA, AI Live Testing second cohort, 21 April 2026; first cohort, 3 December 2025 · lender annual reports and releases, 2026.

SIX

The threat side

The threat here is to the title and to the money when it moves — and the verified response is itself AI.

The threat model in this series is re-established for each sector rather than inherited. In insurance the threat was fraud against the firm. In mortgages the primary record points somewhere else: to impersonation of the owner, and to the diversion of money at the point a property changes hands.

£60m
Property against which suspected fraudulent registrations were cancelled, 2025–26

63
Fraudulent registrations prevented

900,000+
Active Property Alert accounts, up 14.6%

UK Finance's fraud report for 2025 records £41.3 million lost to invoice and mandate scams, the category that includes criminals posing as conveyancing solicitors. It contains no dedicated analysis of mortgage fraud. Cifas, in its Fraudscape report for 2025, describes "AI and generative technologies enabling convincing impersonations, fake documents and synthetic identities" — but as commentary, with no count of AI-enabled cases and no mortgage-specific figures.

EXCLUDED

The claim that AI-generated payslips and bank statements are flooding mortgage applications appears everywhere and is sourced nowhere in the UK primary record. It is not used. Nor is a count of owner-impersonation cases obtained under Freedom of Information by a communications agency, because the response itself could not be read.

The more interesting finding is the direction of the defence. The protection HM Land Registry is building for digital deeds is a qualified electronic signature resting on biometric identity checks, including facial recognition. In this sector, on the evidence available, AI is at least as much the lock as the burglar.

HM Land Registry, *Annual Report and Accounts 2025–26*, 15 July 2026 · UK Finance, *Annual Fraud Report 2026* · Cifas, *Fraudscape 2026*, 12 March 2026.

SEVEN

The UK legal position

Encouragement to experiment, existing rules unchanged, and a legal change underneath the valuation that nobody has framed.

> *We encourage firms to experiment with AI, use our sandbox services and look at our Innovation Pathways.*
>
> *FCA, Regulatory Priorities: Mortgages, March 2026*

Consumer Duty and MCOB	Responsible lending and affordability rules apply unchanged. The FCA has said it does not plan to introduce extra regulations for AI and will rely on existing frameworks.
MCOB 13 and PS24/2	Tailored support for borrowers in financial difficulty, strengthened from 4 November 2024.
Mortgage rule review	PS25/11 (October 2025) allows firms to "interact with their customers without this automatically triggering the need to provide regulated advice". CP26/18 closed on 28 July 2026.
SMCR	A named senior manager answers for the systems in their area.
DUAA 2025, s.80	In force 5 February 2026. A solely automated significant decision is now permitted with safeguards — information, representations, human intervention and the right to contest — rather than prohibited by default.

The overlooked change: Basel 3.1 and the valuation

The PRA's final Basel 3.1 rules, published on 20 January 2026, come into force on 1 January 2027. They are prudential rules, written about capital. They also decide how current a lender's view of every borrower's home has to be. Firms must obtain an updated valuation if they "estimate that the value of the property has fallen by more than 10% from the recorded value", and a backstop requires a new valuation once five years (three in some cases) have passed since the last one.

The PRA confirmed in 2020 that its rules do "not require that a physical inspection be conducted"; desktop and drive-by valuations are acceptable, and the valuer must be independent of the credit decision. When the rules were consulted on, the industry's trade body asked the PRA to confirm that automated valuation models "will continue to meet valuation requirements", describing them as "routinely used across the industry". Across a £1.76 trillion book, a standing revaluation duty is a volume task.

The valuation then passes from a prudential rulebook into a conduct decision about a borrower in difficulty, where the rule is that support must be tailored to the individual. That handover is the change this briefing asks boards to look at.

FCA, *Regulatory Priorities: Mortgages*, March 2026 · FCA, *AI and the FCA: our approach*, 13 February 2026 · PRA PS1/26, 20 January 2026; PS9/24, September 2024 · PRA, Q&A on CRR property valuations, 2020 · UK Finance response to CP16/22, March 2023 · Data (Use and Access) Act 2025 s.80; SI 2026/82.

EIGHT

Beyond the UK

One comparator, stated as a comparator.

The EU Artificial Intelligence Act lists, in Annex III point 5(b), AI systems used "to evaluate the creditworthiness of natural persons or establish their credit score" as high-risk, expressly excluding systems used to detect financial fraud. Mortgage lending is inside that description. The high-risk obligations apply from 2 December 2027.

The United Kingdom has taken the opposite route by design. The FCA's published position is that it does "not plan to introduce extra regulations for AI", relying instead on the Consumer Duty and the Senior Managers regime, and it has told Parliament that guidance on applying those rules to AI will follow by the end of 2026.

For a system in that category, the Act's requirements attach to the system itself: a risk-management system, data governance, technical documentation, record-keeping, transparency to the deployer, human oversight, and standards of accuracy and resilience to error and attack (Articles 9 to 15). A lender placing a credit-scoring model on the EU market has to be able to show each of them.

THE EU

Credit scoring is designated high-risk, with obligations attached to the system itself.

THE UK

No AI-specific rule. Obligations attach to the outcome and to a named person.

STATE THIS PLAINLY

The EU AI Act does not apply to UK lenders lending in the UK. This is a comparator, not an obligation, and no compliance gap is implied. Its value is as a description of what another major regulator decided these systems are.

Regulation (EU) 2024/1689, Annex III, point 5(b) · FCA, *AI and the FCA: our approach*, 13 February 2026 · FCA response to the Treasury Committee, 16 April 2026.

NINE

Today

Seven things that can be done now, none of which waits on new law, new funding or a supplier.

- → **Audit every automatic decline rule against the FCA's CP26/18 case**, and record which rules a person can override and how often they do.
- → **Give a declined applicant with an impaired history a route to a person** who reads the whole file, and measure how many take it and what happens.
- → **Inventory every automated valuation used after origination**, and write down which decisions it feeds — capital, pricing, forbearance, possession.
- → **Write down how a borrower in arrears can see and challenge the valuation** a forbearance offer rests on, before anyone asks.
- → **Explain each forbearance path in terms of the individual**, not the segment the individual was placed in. The rule says tailored.
- → **Agree with intermediaries who signs off AI-drafted recommendations**, and how the sign-off is evidenced.
- → **Pilot Open Banking affordability data for variable incomes**, which CP26/18 expressly supports.

None of these requires a decision about whether to adopt AI. They are the conditions under which that decision can be defended afterwards.

The first four matter most, because they concern the two numbers a borrower cannot see: the rule that declined them and the valuation their forbearance rests on. Each is a short piece of work, and each produces a document a supervisor would expect to find if it asked the question in the FCA's own consultation paper.

Drawn from FCA CP26/18, PS24/2, FS25/6 and PRA PS1/26.

TEN

Tomorrow

Three levels defined by where accountability sits, and three horizons.

Three levels

Assistive	It prepares, extracts and summarises; the person decides. Income evidence checks, document extraction and case summaries for an underwriter sit here. Accountability is unchanged, and almost all defensible value sits here today.
Augmentive	It recommends within bounds; the person confirms or overrides, and the override is recorded. A model that ranks an application or proposes a forbearance path, with an underwriter or collections specialist deciding, is augmentive — provided the review is demonstrably meaningful.
Adaptive	It decides within a defined envelope, and accountability moves to whoever sets and monitors the envelope. An automatic decline rule is adaptive whether or not anyone meant it to be. For the sector as a whole this level is a reasoned projection, not an observation.

Three horizons

0 to 12 months	The decline audit, the valuation inventory and a written challenge route — before Basel 3.1 applies on 1 January 2027 and before the FCA's promised guidance on AI lands.
12 to 36 months	Arrears prediction of the kind the FCA has published moves into collections. Whether each path is tailored or merely segmented becomes the supervisory question.
36 months and beyond	The FCA's roadmap explores AI helping advisers give holistic advice, and Smart Data is scheduled for 2027. The shape of the advice process after that is open.

The third band is a projection. It depends on rules the FCA has not yet written, and should be read as a direction of travel rather than a plan.

FCA FS25/6 roadmap, December 2025 · FCA Research Note, 9 June 2026 · PRA PS1/26.

ELEVEN

Benefit realisation

Ranking better is not the same as being right, and the regulator's own research says so.

The most useful worked example in the sector is the FCA's own. Its gradient-boosted model separates higher-risk first-time buyers from lower-risk ones better than the conventional model — an AUC of 0.751 against 0.669. It is no more accurate on average. The benefit of the better model is therefore in who is offered what, and when: earlier contact, better-targeted support, a different product. It is not in fewer arrears overall, and a business case that claims otherwise is claiming something the evidence does not show.

WHAT A MODEL BUSINESS CASE MEASURES

Ranking performance. Straight-through processing rates. Time to offer. Cost per case.

WHAT IT USUALLY DOES NOT

Declines later reversed on review. Time to a person for a flagged applicant. Forbearance outcomes by segment. Valuations challenged and changed.

A benefit case that reports only ranking accuracy will record a success while the declined borrower in the FCA's own example stays declined.

The practical step is small. Add one measure of the effect on the person to every AI business case in the lending portfolio. It is usually available from data the lender already holds, and it converts a productivity claim into something that survives a supervisory conversation.

FCA Research Note, *Mortgage arrears risk: UK first-time buyers*, 9 June 2026, p.19.

TWELVE

A way in

Eight workstreams. The first three form a natural first step.

01	**Readiness assessment**	Which automated rules and models touch a lending, valuation or forbearance decision, and who answers for each.	4–6 weeks
02	**Use case identification and triage**	Sorted by where accountability sits, not by expected saving.	3–4 weeks
03	**Regulatory and legal position paper**	Consumer Duty, MCOB 11 and 13, section 80, and the Basel 3.1 valuation rules read together.	3–4 weeks
04	**Board and executive governance**	Who approves a model, who reviews overrides, and on what evidence.	4 weeks
05	**Threat and integrity response**	Title, identity and payment diversion at completion.	4 weeks
06	**Benefit realisation framework**	Including the effect-on-the-person measures set out in section eleven.	3 weeks, parallel
07	**Build, buy or partner evaluation**	Including valuation model supply, and who carries the error.	4–6 weeks
08	**Twelve-month mobilisation roadmap**	Sequenced against 1 January 2027 and the FCA's AI guidance.	2 weeks

THE FIRST STEP

Workstreams one to three form a natural first engagement of six to eight weeks.

Six to eight weeks also fits before the Basel 3.1 valuation rules apply on 1 January 2027 and before the FCA's promised guidance on applying its rules to AI — which is the difference between describing a practice you already have and being told what it should have been.

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THIRTEEN

Sources

Every figure in this briefing, traceable to a named publication and a date.

→ FCA and Bank of England, *Mortgage lending statistics*, Q2 2026, 8 September 2026.

→ FCA, *Regulatory Priorities: Mortgages*, March 2026.

→ FCA, *Mortgage rule review*: PS25/11 (October 2025); FS25/6, *Feedback to DP25/2 and Roadmap* (December 2025); CP26/18, *Supporting first-time buyers and underserved consumers* (June 2026, closed 28 July 2026).

→ FCA Research Note, *Mortgage arrears risk: UK first-time buyers*, Richard Scott, 9 June 2026.

→ FCA, PS24/2, *Strengthening protections for borrowers in financial difficulty*, 10 April 2024, in force 4 November 2024.

→ FCA press release, *Lenders to pay out up to £47m in redress to borrowers in difficulty*, 25 May 2023.

→ FCA, *AI and the FCA: our approach*, last updated 13 February 2026; AI Live Testing cohort announcements, 3 December 2025 and 21 April 2026.

→ Financial Ombudsman Service, *Annual complaints data and insight 2025/26*.

→ UK Finance, *Mortgage arrears and possessions*, Q2 2026, 13 August 2026; *Annual Fraud Report 2026*.

→ Ministry of Justice, *Mortgage and landlord possession statistics: April to June 2026*, 13 August 2026.

→ PRA, PS1/26, *Implementation of Basel 3.1: Final rules*, 20 January 2026; PS9/24, September 2024; *Q&A on CRR requirements for property valuations*, 2020.

→ UK Finance, response to PRA CP16/22, Chapter 3, March 2023.

→ RICS, *Responsible use of artificial intelligence in surveying practice*, in effect 9 March 2026.

→ HM Land Registry, *Annual Report and Accounts 2025–26*, 15 July 2026.

→ Cifas, *Fraudscape 2026*, 12 March 2026.

→ Data (Use and Access) Act 2025, section 80; commenced 5 February 2026 by SI 2026/82.

→ Regulation (EU) 2024/1689 (the EU Artificial Intelligence Act), Annex III.

Excluded on the record, and named here because the exclusions are part of the method: AI mortgage-fraud statistics without a UK primary source; vendor valuation-model accuracy claims; an intermediated-sales share traced only to a lender's blog; a seven-year-old fraud figure; an owner-impersonation count whose FOI response could not be read.

FOURTEEN

About the author

Neil Catton is an independent technology strategist with more than thirty-nine years of technology leadership across twenty-plus sectors — from central government, policing and national health systems to banking, manufacturing and insurance. He has held CTO and Director-level roles at BT, Wipro, Fujitsu, Sopra Steria and Capita, and works across a fractional portfolio spanning public safety, public sector, insurance, health technology and early-stage startups.

He acted as fractional CTO to a UK challenger bank building an SME mortgage platform, designing the banking platform from scratch, selecting and onboarding every supplier and hiring the permanent team, and earlier worked on Oracle platforms for Abbey National and Barclays. He is the author of the technology ethics trilogy *The Next Evolution*, *The Cognitive Crucible* and *The Shadow System*, and writes at neilcatton.substack.com.

How this briefing was produced

Only primary sources are used: a regulator, a court, the statute book, a government register, a trade body's own data collection, or an organisation speaking on its own record. Where this briefing reports an absence, the relevant documents were read for it and the claim is stated as what was read. Figures that could not be traced to a named source are named as excluded rather than quietly dropped, because what a briefing leaves out is the better test of it.

In keeping with this report's own argument: this briefing was produced with AI assistance, used transparently and kept under direct human editorial control throughout. Every source was verified; every judgement was reviewed by Neil Catton before publication.

NOTICE

This briefing is not legal, regulatory, financial or professional advice. The position is stated as at 24 September 2026 and may since have moved; readers should check the current position before relying on anything here. Third-party sources are cited in good faith and should be verified before reliance. Named organisations appear only from regulator, registry or ombudsman records or from their own published statements, and are used illustratively; none has been engaged or approached in connection with this briefing. No advisory or client relationship is created by receipt of this document.

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