The FSA'S Mortgage Conduct of Business Rules

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Introduction

The Financial Services Authority (FSA) took over the regulation of mortgage sales from 31 October 2004. This new regime meant that the Mortgage Code, which had provided a form of voluntary regulation since 1997, was no longer required, and was replaced by the Mortgage Conduct of Business Rules (MCOB).

To be more precise, the FSA now regulates the sale and administration of those mortgages that meet the definition of a 'regulated mortgage contract', ie one that satisfies each of the following criteria:

- the lender is providing credit to an individual or trustee;
- the borrower's obligation to repay the loan is secured by a first legal mortgage on land (other than timeshare accommodation) in the UK;
- at least 40% of that land is used, or is intended to be used, as or in connection with, a dwelling by the borrower or by a related person.

A related person means either

- the borrower's spouse; or
- the borrower's parent, brother, sister, child, grandparent or grandchild.

A mortgage contract will be classed as a regulated contract only if the three criteria described above are satisfied at the time the contract is entered into.

Contracts that were entered into before 31 October 2004 cannot subsequently be regarded as regulated mortgage contracts, even if they satisfy the required criteria.

The majority of residential mortgages will meet the above criteria, as well as some commercial mortgages where the borrower or related person occupies at least 40% of the land as a dwelling.

The following are excluded from regulation by the FSA:

- second charges;
- corporate mortgages, ie loans to companies.

The structure of the MCOB sourcebook

2.1 The Mortgage Conduct of Business Rules (MCOB) are a separate sourcebook within the FSA Handbook. They comprise 13 chapters, which are summarised as follows.

Chapter	Title	What does it include?
MCOB 1	Application and Purpose	♦ helps firms understand which parts of the MCOB rules apply to them ♦ provides guidance on the application of other parts of the FSA Handbook
MCOB 2	Conduct of Business Standards: General	♦ general requirements that apply throughout the mortgage sourcebook ♦ communications must be clear, fair and not misleading ♦ rules on inducements
MCOB 3	Financial Promotions	♦ content requirements for qualifying credit promotions ♦ rules banning unsolicited real-time promotions (cold calling)
MCOB 4	Advising and Selling Standards	♦ the initial disclosure document ♦ independence ♦ suitability of advice ♦ non-advised sales

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MCOB 5	Pre-application Disclosure	♦ timing and content of the key facts illustration (KFI)
MCOB 6	Disclosure at the Offer Stage	♦ content of the offer document
MCOB 7	Disclosure at Start of Contract and After Sale	♦ start of contract information requirements ♦ annual statements ♦ information requirements for post-sale contract variations (such as further advances)
MCOB 8	Equity release: Advising and Selling Standards	♦ a tailored regime for advising and selling lifetime mortgages
MCOB 9	Equity release: Product Disclosure	♦ tailored product disclosure requirements for lifetime mortgages
MCOB 10	Annual Percentage Rate	♦ how to calculate the APR
MCOB 11	Responsible Lending	♦ a requirement for lenders to check the consumer's ability to repay
MCOB 12	Charges	♦ charges in key areas (for example, arrears and early repayment charges) must be reasonable, based on the cost to the lender ♦ charges must not be excessive
MCOB 13	Arrears and Repossessions	♦ information requirements for fair treatment of borrowers in arrears and facing repossession

The key points of each of these chapters (except 8, 9 and 10) that are considered to be most relevant to this qualification are produced in a simplified format in the following pages. Paragraphs shown in bold type represent actual Rules, whereas those shown in ordinary type represent either an interpretation of, or commentary on, those Rules.

Chapter 1
Application and purpose

1.1 The purpose of this chapter is to set out:

- ♦ to whom the MCOB Rules apply
- ♦ within what territorial limits the Rules apply
- ♦ the activities to which the Rules apply.

1.2 The MCOB Rules apply to every firm that carries on regulated mortgage activities.

1.3 The application of the Rules is expressed by reference to four types of firm, ie:

- ♦ mortgage lenders
- ♦ mortgage administrators
- ♦ mortgage arrangers
- ♦ mortgage advisors

1.4 The MCOB Rules apply if the customer of a firm carrying on regulated mortgage activities is resident in:

- ♦ the United Kingdom, or
- ♦ another European Economic Area (EEA) State and the regulated activity is carried on from an office maintained by the firm in the UK.

1.5 The Rules also apply to those business loans where the customer is not a large business customer. No precise definition of a large business customer is given, and it is left to the firm to make a judgment based on information provided by the customer.

1.6 Only regulated mortgage contracts entered into on or after 31 October 2004 are subject to the MCOB Rules. Any variation made to a contract that was entered into before that date will not be subject to the Rules, but the provisions of the Consumer Credit Act 1974 may apply instead.

1.7 It is the responsibility of a firm that, before entering into a contract, it must establish whether the contract will be regulated and therefore subject to the MCOB Rules.

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1.8 If, however, a firm mistakenly treats a contract as unregulated when it is in fact a regulated contract, then the firm must as soon as possible

- contact the customer and provide a statement to the effect that the contract is regulated and subject to the MCOB Rules, and stating the position with regard to any redress or compensation
- provide a statement that the Consumer Credit Act 1974 will not continue to apply to the contract, if this was originally the case.

Chapter 2
Conduct of business standards – general

2.1 This chapter applies to:

- all regulated mortgage activities;
- those activities that are carried on after a regulated mortgage contract has come to an end following the sale of a repossessed property.

Prescribed terms

2.2 **In any communication to a customer, a firm must:**

- **describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such a charge;**
- **describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such a charge;**
- **describe any *lifetime mortgage* as a 'lifetime mortgage'; and**
- **describe any *home reversion plan* as a 'home reversion plan'.**

Communication of information

2.3 **When a firm communicates information to a customer, it must take reasonable steps to communicate it in a way that is clear, fair and not misleading.**

2.4 When considering how to comply with this Rule, a firm should take into account the level of the customer's knowledge of the regulated mortgage contract to which the information relates.

2.5 This Rule covers all forms of communication with customers, ie oral statements, written statements, telephone calls and correspondence.

Inducements

2.6 The purpose of the following Rule is to ensure that firms conduct business with integrity, act in the interests of customers and treat them fairly.

2.7 **A firm must take reasonable steps to ensure that it, and any person acting on its behalf, does not:**

- ♦ **offer, give, solicit or accept an inducement, or**
- ♦ **refer any actual or potential business in relation to a regulated mortgage contract to another person if it is likely to conflict with the firm's duty to its customer.**

2.8 **A firm must not operate a system of giving or offering inducements to a mortgage intermediary whereby the value of the inducement increases if the intermediary achieves set business targets.**

2.9 **A mortgage lender must quantify in cash terms any material inducement it offers to a mortgage intermediary or third party.**

This quantification must take account of any subsequent payments made to the intermediary or other third party whilst the customer's regulated mortgage contract remains in place.

Accessibility of records

2.10 **The records that a firm is required to keep by the MCOB Rules must be readily accessible for inspection by the FSA.**

2.11 Records are deemed to be 'readily accessible' if they are available for inspection within two business days of the request being received.

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Chapter 3
Financial promotion

3.1 **This chapter applies to every firm that approves a qualifying credit promotion, ie a financial promotion for a regulated mortgage contract as well as a promotion for qualifying credit.**

3.2 An example of a qualifying credit promotion that complies with the MCOB Rules detailed in this chapter is shown below.

ABC ASSOCIATES

Finance Broker

With access to hundreds of products from most main lenders
we're sure to find the right solution for you.
Need advice on what's best?
No problem – all our staff are fully-trained
Our charges are usually just £250.

Call us today on

0800 000 000

Your home may be repossessed if you do not keep up repayments on your mortgage.

3.3 Certain qualifying credit promotions are exempt from the MCOB Rules. Essentially, these are promotions that contain only one or more of the following:

- the name of the firm;
- a logo;
- a contact point, ie address, email address, telephone or fax number;
- a brief, factual statement of the firm's main business.

3.4 This chapter distinguishes between real time and non-real time qualifying credit promotions.

A real time qualifying credit promotion is one that is communicated in the course of a personal visit or telephone conversation.

A non-real time qualifying credit promotion is one made by letter, email or that is contained in a newspaper, journal, magazine, website or television or radio programme.

3.5 **A non-real time qualifying credit promotion must contain the name of the firm and either an address or a contact point from which an address can be obtained eg an email address or telephone number.**

3.6 **A firm must be able to show that it has taken reasonable steps to ensure that a non-real time qualifying credit promotion is clear, fair and not misleading.**

3.7 **A non-real time qualifying credit promotion that includes a comparison must:**

- ♦ **use a comparison that meets the same needs or is intended for the same purpose**
- ♦ **not discredit or denigrate the services or activities of a competitor**
- ♦ **not take any unfair advantage of the reputation of a competitor**
- ♦ **not create any confusion in the market place between the firm and a competitor.**

3.8 It is recommended that firms should avoid the use of small print to qualify claims that are made in a prominent way in a non-real time promotion.

3.9 If a non-real time promotion includes information on the firm's performance, interest rates or market conditions then such information should be relevant and recent.

3.10 **A non-real time qualifying credit promotion that promotes a product that is conditional upon the customer obtaining further products or services must prominently state the compulsory nature of these purchases.**

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Required risk statements

3.11 **A non-real time promotion must always include the statement 'Your home may be repossessed if you do not keep up repayments on your mortgage'.**

3.12 **If the mortgage is to be denominated in a currency other than sterling, the following statement must be included in the promotion**

'Changes in the exchange rate may increase the sterling equivalent of your debt'.

3.13 The prominence of relevant information is essential in ensuring that a communication is clear, fair and not misleading.

Annual percentage rate (APR)

3.14 **If a non-real time qualifying credit promotion contains price information, it must also:**

- **state the APR**
- **express the APR as follows 'the overall cost for comparison is x% APR'**
- **clearly distinguish the APR from any other rate quoted, but ensuring that no other information is placed between the two figures.**

The firm is not required to explain the basis on which the APR is calculated, or to provide a figure for the total charge for credit.

Solicited and unsolicited real time qualifying credit promotions

3.15 **A solicited real time qualifying credit promotion is one that is made in the course of a personal visit or telephone call that was initiated by the customer.**

3.16 **A firm must not make an unsolicited real time qualifying credit promotion unless the customer has an established existing customer relationship with that firm and expects to receive such unsolicited promotions.**

3.17 In interpreting this Rule it is important for firms to remember that an exempt unsolicited promotion is not prohibited (see paragraph 3.3).

Form of real time qualifying credit promotions

3.18 **A firm must ensure that an individual who makes a real time qualifying credit promotion on the firm's behalf:**

- **does not contact the customer at an unsocial hour, unless previously agreed;**
- **does not contact the customer on an unlisted telephone number unless the customer has previously agreed to such calls on that number;**
- **identifies himself and the firm he represents;**
- **checks that the recipient wishes him to proceed if the time and method of communication were not previously agreed;**
- **terminates the communication if the recipient does not wish him to proceed;**
- **does so in a way in which is clear, fair and not misleading;**
- **does not make any untrue claims.**

3.19 An unsocial hour means:

- before 9am or after 9pm on Monday to Saturday;
- at any time on a Sunday.

3.20 The Rule detailed above in paragraph 3.18 also applies to call centre operators who initiate communication with customers.

Records

3.21 **A firm must make an adequate record of each non-real time qualifying credit promotion. The record must be retained for at least one year from the date the promotion was last communicated.**

3.22 Records can be kept in such form as the firm chooses, provided it is readily accessible for inspection by the FSA.

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Chapter 4
Advising and selling standards

4.1 The whole of this chapter applies to all mortgage lenders, mortgage advisors and mortgage arrangers.

4.2 The purpose of this chapter is to ensure that:

- customers are adequately informed about the nature of the service that they may receive from a firm in relation to regulated mortgage contracts;
- if any advice is given, it is suitable for the customer.

4.3 **A firm must take reasonable steps to ensure that the scope of the service given to a customer, and the regulated mortgage contracts offered, is based on a selection from one of the following:**

- **the whole market;**
- **a limited number of mortgage lenders;**
- **a single mortgage lender.**

Whole of market

4.4 **A firm which states that it gives information or advice to customers on regulated mortgage contracts from the whole market must not give such information or advice unless it has considered a sufficiently large number of regulated contracts that are generally available from the market.**

4.5 Every firm that offers customers a selection from the whole market must make sure that its analysis and knowledge of the market is kept up-to-date.

4.6 The 'whole market' approach can be satisfied by a firm using a panel of lenders, although the panel should comprise lenders representative of the whole market.

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Independence

4.7 **When providing information or giving advice to a customer on regulated mortgage contracts, a firm must not imply that it is acting independently unless it intends to:**

- **provide that service wholly or predominately based on the whole market, and**
- **enable the customer to pay a fee for the provision of that service.**

4.8 It is acceptable for a firm that sells investments **and** regulated mortgage contracts to act independently for one but offer only a limited range for the other. In such circumstances, the firm must ensure that all of its communications are clear, fair and not misleading so that customers fully understand the nature of the services provided.

4.9 It is also acceptable for a firm to provide a customer with other payment options, such as a combination of a fee and commission.

Initial disclosure requirements

4.10 **A firm must ensure that, on first making contact with a customer other than by telephone, and it anticipates giving personalised information or advice on a regulated mortgage contract, it:**

- **establishes with the customer whether it will provide advice or information;**
- **establishes with the customer how much he will pay for that advice or information;**
- **provides the customer with an initial disclosure document.**

An initial disclosure document does not have to be provided if a previously issued document is still likely to be accurate and appropriate for the customer.

4.11 It is the mortgage lender's responsibility to provide the initial disclosure document in a direct sale. Where a number of firms are involved in a transaction, those firms are expected to take reasonable steps to establish that the customer has been provided with an initial disclosure document.

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4.12 **If a firm is certain that the proposed contract will not be a regulated mortgage contract then an initial disclosure document need not be provided.**

4.13 **Where initial contact with the customer is by telephone, the following information must be provided at the outset:**

- **the name of the firm and the commercial purpose of the call;**
- **the scope of the service provided by the firm (see paragraph 4.3);**
- **if the scope of the service is not based on the whole market, that the customer can request a copy of the list of mortgage lenders whose regulated mortgage contracts are offered;**
- **whether or not the firm will provide the customer with advice on those regulated mortgage contracts it offers.**

All the above information must be confirmed in writing.

4.14 **If the telephone call has not led the firm to conclude that the customer is ineligible for any of its regulated mortgage contracts, the firm must send to the customer a copy of the required initial disclosure document within five business days of the telephone call.**

Advised sales

4.15 **A firm must take reasonable steps to ensure that it does not make a personal recommendation to a customer to enter into a particular regulated mortgage contract unless that contract will be suitable for that customer.**

4.16 The above Rule also applies where a firm gives a personal recommendation to vary an existing regulated mortgage contract.

4.17 **A regulated mortgage contract will be deemed to be suitable if, having regard to the facts disclosed by the customer, the firm has reasonable grounds to conclude that:**

- **the customer can afford to enter into the regulated mortgage contract;**

- **the contract is appropriate to the needs and circumstances of the customer;**
- **the contract is the most suitable of those that the firm is able to offer within the scope of the service provided.**

4.18 **The firm must explain to the customer that the assessment of whether he can afford to enter into a regulated mortgage contract based on:**

- **current interest rates, which might rise in the future;**
- **the customer's current circumstances, which might change in the future.**

4.19 **No personal recommendation must be made if there is no regulated mortgage contract from within the scope of the service provided by the firm that is appropriate to the needs and circumstances of the customer.**

4.20 This means that if a firm offers regulated mortgage contracts from either a limited number of lenders or from a single lender, it is not acceptable to recommend a mortgage that **almost** meets the customer's needs on the basis that it does not offer a product that fully meets those needs.

4.21 **If a firm makes a personal recommendation to a customer to enter into a regulated mortgage contract, the main purpose of which is to consolidate existing debts, the following matters must also be taken into account in determining the suitability of the contract:**

- **the cost associated with increasing the period over which the debt is to be repaid**
- **whether it is appropriate for the customer to secure a previously unsecured loan**
- **if the customer is known to have payment difficulties, whether it would be more appropriate for him to negotiate an arrangement with his creditors than to take out a regulated mortgage contract.**

4.22 **In assessing whether a customer can afford to enter into a particular regulated mortgage contract, a firm should consider:**

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- **information provided by the customer about his income and expenditure, and any other resources he has available**
- **any likely change to the customer's income, expenditure and resources**
- **the costs that the customer will be required to meet once any discount period comes to an end.**

4.23 **In assessing whether a particular regulated mortgage contract is appropriate to a customer's needs and circumstances, a firm should consider whether**

- **the customer's requirements meet the eligibility criteria of the contract, eg the amount of required advance and the loan-to-value ratio**
- **the customer should have an interest-only or repayment mortgage, or a combination of the two**
- **the customer has a preference for a particular mortgage term**
- **the customer has a preference or need for stability in monthly payments**
- **the customer has a preference or need for monthly payments to be reduced at the outset, eg for a discounted rate mortgage**
- **the customer intends to make early payments**
- **the customer has a preference or need for any other features of a mortgage contract, eg payment holidays.**

4.24 The above Rule does not require a firm to provide advice on regulated investments.

4.25 It is important to note that the assessment of suitability should not be limited to types of regulated mortgage contract that a firm offers. It is not acceptable to recommend the product that is closest to meeting a customer's needs and circumstances if the firm does not have access to products which would be fully appropriate to those needs and circumstances.

For example, a firm that only offers sub-prime products should not recommend one of these products to a customer with an unblemished credit record.

Record keeping

4.26 **A firm must make and retain a record:**

- **of all information provided by the customer, including that relating to his needs and circumstances;**
- **that explains why the firm has concluded that its personal recommendation satisfies the suitability requirements.**

The record must be retained for a minimum period of three years from the date on which the personal recommendation was made.

Non-advised sales

4.27 **If a firm arranges a regulated mortgage contract without giving a personal recommendation, it must ensure that all the questions it asks the customer about his needs and circumstances are scripted in advance.**

4.28 Information provided to a customer in a non-advised sale must be clear, fair and not misleading. The scripted questions should also be clear, fair and not misleading.

4.29 If, in the course of a non-advised sale, a firm decides that a customer is considering a regulated mortgage contract that is inappropriate for that customer, the firm should tell the customer to seek advice. This would mean that the firm would be paying due regard to the customer's interests and treating him fairly.

4.30 **A firm must ensure that all staff using scripted questions:**

- **are trained in the use of the script**
- **understand the difference between what constitutes a personal recommendation and what does not.**

4.31 **A firm must make, and keep up to date, a record of all scripted questions used. The record must be made on the date on which the questions are first used.**

The record must be kept for one year from the date that the questions were replaced by up-to-date ones.

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Specimen Initial Disclosure Document

This document must include the following sections.

1. The Financial Services Authority (FSA)

The FSA is the independent watchdog that regulates financial services. It requires us to give you this document. Use this information to decide if our services are right for you.

2. Whose mortgages do we offer?

- We offer mortgages from the whole market.
- We can only offer mortgages from a limited number of lenders. Ask us for a list of the lenders we offer mortgages from.
- We only offer mortgages from a single lender or, if the firm is a mortgage lender, we can only offer our own mortgages.

3. Which service will we provide you with?

- We will advise and make recommendations for you after we have assessed your needs.
- You will not receive advice or a recommendation from us. We may ask some questions to narrow down the selection of products that we will provide details on. You will then need to make your own choice about how to proceed.

4. What will you have to pay us for this service?

- No fee. We will be paid by commission from the lender.
- A fee of £… payable at the outset and £… payable when you apply for a mortgage.

  You will receive a key facts illustration that will tell you about any fees relating to a particular mortgage.

5. Refund of fees (This Section may be omitted if Section 4 has stated that there will be 'No fee')

If we charge you a fee, and your mortgage does not go ahead, you will receive:

- A full refund if the lender rejects your application.
- A refund of £… if the purchase falls through.
- No refund if you decide not to take out a mortgage.

6 Who regulates us?

XYZ Financial Services, 123 Any Street, Some Town ST21 7QB is authorised and regulated by the Financial Services Authority. Our FSA register number is ………..

or

We are an appointed representative of XYZ Financial Services, 123 Any Street, Some Town, ST21 7QB which is authorised and regulated by the Financial Services Authority. Their FSA registration number is ……..

Our permitted business is advising on and arranging mortgages. You can check this on the FSA's Register by visiting the FSA's website www.fsa.gov./register/ or by contacting the FSA on 0845 606 1234

7 What to do if you have a complaint

If you wish to register a complaint, please contact us:

…in writing Write to XYZ Financial Services, Complaints Department, 123

Any Street, Some Town, ST21 7QB.

…by phone Telephone 0121 100 1234

If you cannot settle your complaint with us, you may be entitled to refer it to the Financial Ombudsman Service.

8. Are we covered by the Financial Services Compensation Scheme (FSCS)?

We are covered by the FSCS. You may be entitled to compensation from the scheme if we cannot meet our obligations. This depends on the type of business and the circumstances of the claim.

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Mortgage advising and arranging is covered for 100% of the first £30,000 and 90% of the next £20,000. The maximum compensation is therefore £48,000.

Further information about compensation scheme arrangements is available from the FSCS.

In each of Sections 2, 3, 4 and 5 only one box should be prominently marked.

Chapter 5
Pre-application disclosure

5.1 A customer must be provided with an illustration before he submits an application to a mortgage lender.

5.2 **An illustration must be provided if a firm:**

- **makes a personal recommendation to a customer to enter into a regulated mortgage contract, or**
- **provides information to a customer that is specific to the amount that he wants to borrow, or**
- **provides the means for a customer to make an application to it.**

5.3 The purpose of this chapter is to ensure that, before a customer submits an application, he is supplied with information that makes clear:

- the features of the regulated mortgage contract for which an application is to be made;
- any linked borrowing or tied products that will be required;
- the price that the customer will be required to pay.

5.4 **A firm must be able to show that it has taken reasonable steps to ensure that any illustration it issues is clear, fair and not misleading.**

5.5. **An illustration on a particular regulated mortgage contract issued by, or on behalf of, a mortgage lender, must be an accurate reflection of the costs of that contract.**

5.6 **A mortgage intermediary must take reasonable steps to ensure that an illustration which it issues, or which is issued on its behalf by any firm other than a mortgage lender, is no more than 1% or £1, whichever is the greater, below the actual figures charged by the lender for:**

- **the total amount that must be repaid**
- **the amount to be paid for each £1 borrowed**
- **the amount to be paid by regular monthly instalments**
- **the amount by which the monthly instalment would increase following a 1% increase in the interest rate charged.**

In addition, the APR quoted in the illustration must not be understated by more than 0.1%.

5.7 There are no restrictions on figures being quoted higher than those actually charged by the lender. However, this should not be purposely done in order to make one contract look more expensive than another.

5.8 **In providing an illustration to a customer, a firm must explain to the customer the importance of reading and understanding it.**

This Rule can be satisfied by drawing the customer's attention in a face-to-face meeting of the importance of reading and understanding the illustration, or by referring to this in a covering letter sent with the illustration.

5.9 **If a customer accesses a quotation on the Internet, the following warning must be displayed prominently on each page on screen**

'This information does not contain all of the details you need to choose a mortgage. Make sure that you read the separate illustration before you make a decision.'

Record keeping

5.10 **A firm must make an adequate record of each illustration it issues. The record must be retained for a year from the date of the customer's application.**

5.11 The record should contain the following information;

- the date on which the illustration was provided to the customer;

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- the date of the customer's application;
- how the illustration was provided, eg by post or accessed on a website.

5.12 A firm is not required to keep a record of any illustration that is issued to a customer where he does not apply to enter into that particular contract.

Tied products

5.13 **If an illustration provided to a customer does not contain an accurate quotation or reasonable estimate of the payments the customer will be required to make in connection with any tied product, then:**

- **an accurate quotation must be provided as soon as possible after an application has been made, and before an offer of advance is issued;**
- **the customer has a right to withdraw his application for a period of seven days from receipt of the quotation for the tied product;**
- **the quotation for the tied product must be accompanied by a notice explaining that the customer can withdraw his application within seven days from receipt and receive a full refund of any fees paid.**

Timing

5.14 **An illustration for a regulated mortgage contract must be provided before the customer submits an application for that particular contract.**

5.15 **An illustration for a regulated mortgage contract must be issued at the point at which any personal recommendation is made to the customer. If the personal recommendation is made by telephone, the illustration must be provided within five business days.**

5.16 **An illustration must also be provided if a firm provides written information that is specific to the amount that the customer wishes to borrow on a particular regulated mortgage contract.**

5.17 **A firm must not accept fees or commission a valuation until the customer has had the opportunity to consider an illustration.**

No preference expressed on method of repayment

5.18 **If a customer expresses no preference between a repayment and an interest-only mortgage, the firm must:**

- **provide an illustration for a repayment mortgage;**
- **make the customer aware that the illustration has been prepared on this basis.**

Format and content of an illustration

5.19 **An illustration provided to a customer must:**

- **contain all the material set out in the specimen illustration (see below);**
- **follow the prescribed template;**
- **use font sizes and typefaces that make it sufficiently legible to a typical customer.**

An illustration must not contain any material other than that prescribed in the Rules.

5.20 It is not acceptable for an illustration to contain information relating to more than one regulated contract, ie comparisons between different products must not be made.

The standard format and content of an illustration is shown below. It is followed by explanatory notes for each section.

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Personalised illustration for:

Date produced:

Insert details of how long the illustration is valid for, and if appropriate when the mortgage needs to commence by

This is not a legally binding mortgage offer and it does not oblige (name of *mortgage lender*) to provide you with the mortgage described in this illustration.

1. About this illustration

We are required by the Financial Services Authority (FSA) – the independent watchdog that regulates financial services – to provide you with this illustration.

All firms selling mortgages are required to give you illustrations like this one, that contain similar information presented in the same way.

Ensure that you obtain other illustrations if you want to compare this mortgage with mortgages from other lenders.

2. Which service are we providing you with?

We recommend, having assessed your needs, that you take out this mortgage.

We are not recommending a particular mortgage for you. However, based on your answers to some questions, we are giving you information about this mortgage so that you can make your own choice.

3. What you have told us

4. Description of this mortgage

5. Overall cost of this mortgage

The total amount you must pay back, including the amount borrowed is	£...
This means you pay back	£... for every £1 borrowed
The overall cost for comparison is	...%APR

6. What you will need to pay each (insert frequency of payments)

<u>This box is required only where all or part of the mortgage is an interest-only mortgage. It must be deleted for repayment mortgages.</u>

Cost of repaying the capital

<u>This section is required only for deferred interest rate mortgages.</u>

This table shows the effect of the deferred interest being added to the amount you owe. <u>Where the interest rate is variable</u>: The amounts in the table could be considerably different if the interest rate changes.

Year	Interest deferred	Amount of deferred interest that is added to the mortgage	Remaining debt before deferred interest is added	Remaining debt with deferred interest added

7. Are you comfortable with the risks?

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8. What fees must you pay?	**Fee amount**
Fees payable to (insert name of mortgage lender)	Insert amount of each fee
Other fees	Insert amount of each fee

9. Insurance	**Insert frequency of payments for premium quoted payments**
Insurance you must take out through (insert name of mortgage lender or mortgage intermediary)	Insert amount(s) if appropriate
Insurance you must take out as a condition of this mortgage but that you do not have to take out through (insert name of mortgage lender or mortgage intermediary)	Insert amount(s) if appropriate
This box is required only where quotations for optional insurance are provided in the illustration **Optional insurance**	Insert amount(s)

10. What happens if you do not want this mortgage any more?

Early repayment charges

What happens if you move house?

11. What happens if you want to make overpayments?

12. Additional features

13. Using a mortgage intermediary

(This section is required only when the illustration is provided to a *customer* by, or on behalf of, a *mortgage intermediary.* If the *illustration* is provided by a *mortgage lender,* this section must be removed and Section 14 must be renumbered Section 13)

14.Where can you get more information about mortgages?

The FSA publishes useful guides on choosing a mortgage. These are available through its website: **www.fsa.gov.uk/customer**, or by calling 0845 606 1234. The website also provides Comparative Tables to help you shop around.

Contact Details

Your home may be repossessed if you do not keep up repayments on your mortgage

For **foreign currency mortgages add the following risk warning:**

Changes in the exchange rate may increase the sterling equivalent of your debt

Section 1 – about this illustration

5.21 The prescribed text shown in the specimen illustration must be included.

Section 2 – which service are we providing you with?

5.22 The appropriate 'check box' must be marked prominently to indicate the level of service provided to the customer.

Section 3 – what you have told us

5.23 The following information must be included:

- the amount of the loan required;
- the price of the property to be purchased;
- the mortgage term;

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- whether the contract is to be an interest-only or repayment mortgage, or a combination of the two.

Any other relevant information given by the customer can also be included.

5.24 Any fees and other charges that are to be added to the loan must be shown clearly **after** the amount of the loan

5.25 Similarly, any insurance premiums that are to be added to the loan must also be shown clearly.

5.26 If the customer is required to pay any fees or charges, but these are not being added to the amount to be borrowed, the following text must be added after the loan amount.

'No fees have been added to this amount but the fees you need to pay are shown in section 8.'

5.27 If no fees or charges are required to be paid by the customer, and no insurance premiums are being added to the loan, the following text must be added after the loan amount

'We do not charge any fees for this mortgage.'

5.28 If the illustration is in respect of a contract that is part interest-only and part repayment, it must show the amount that is being borrowed on each basis.

5.29 At the end of Section 3 of the illustration a statement must be included making it clear that any changes to the information obtained from the customer, or any change to the property valuation, could alter the illustration, and encouraging the customer to ask for a revised illustration.

Section 4 – description of this mortgage

5.30 This section of the illustration must

- state the name of the lender providing the mortgage
- provide a description of the interest rate type (eg fixed, discounted, capped etc) and the rate of interest to be charged
- unless the interest rate applies for the full term of the loan, confirm the period during which it will apply and the date on which it ends

- where there is more than one interest rate type or rate of interest, specify the amount of the loan to which each applies
- if the customer is obliged to buy a tied product or take out a linked current or savings account, state the details of the products required
- where the interest rate, payments or terms and conditions of the contract reflect the customer's adverse credit history, include the following text

'The terms of this mortgage reflect past or present financial difficulties.'

Section 5 – overall cost of this mortgage

5.31 In the case of an interest-only mortgage, the following text must be inserted

'However, it excludes any payment that you may need to make into a separate savings plan to build up a lump sum to repay the amount borrowed.'

5.32 In the case of a repayment mortgage, the following text must be inserted

'With a repayment mortgage you gradually pay off the amount you have borrowed, as well as the interest, over the life of the mortgage.'

5.33 This section of the illustration must show:

- the total amount to be repaid, ie the amount borrowed plus all interest charged;
- the amount to be repaid per £1 borrowed, ie the figure given above divided by the amount borrowed;
- the overall cost for comparison, ie the APR.

5.34 At the end of this section the following text must be included:

'Unless the interest rate is fixed throughout the term of the mortgage, the figures given in this section will vary following interest rate changes.'

Section 6 – what you will need to pay each month

5.35 This section must contain:

- the amount of the loan on which the illustration is based, including all fees, charges and insurance premiums that have been added to it;

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- the date on which the mortgage is expected to start;
- the number of monthly payments;
- whether the interest rate is fixed or variable;
- the interest rate charged on the mortgage at the time the illustration is issued;
- the amount of each monthly instalment at the interest rate quoted.

An example of how this last piece of information can be presented is as follows. Assume a mortgage term of 25 years, where the interest rate is fixed for the first five years. The information shown will be:

60 payments at a fixed rate of x%

followed by

240 payments at a variable rate, currently y%.

5.36 In the case of a deferred interest mortgage, the following text must be inserted:

'The deferred interest will be added to your mortgage.'

5.37 For an interest-only mortgage, the following text must be inserted under the heading 'Cost of repaying the capital'

'You will still owe (insert the amount of the loan) at the end of the mortgage term. You will need to make separate arrangements to repay this. When comparing the payments on this mortgage with a repayment mortgage, remember to add the payment that you may need to make into a separate savings plan.'

5.38 If the customer is required to take out a repayment vehicle that is a tied product then this section must include the appropriate details and an accurate quotation or a reasonable estimate of the payments to be made.

If a quotation cannot be provided it must be clearly stated that it is not available at present but will be provided as soon as possible. If the quotation is found to be unacceptable, then the application can be cancelled with a full refund of all fees.

Section 7 – are you comfortable with the risks?

5.39 Under the heading 'What if interest rates go up?' this section must include

- if the interest rate is fixed throughout the mortgage term, an explanation that monthly payments will not vary
- if the interest rate is fixed for part of the term, an explanation of how increases in the interest rate charged will affect the customer's monthly repayments
- if the interest rate is capped or collared, or both, and this applies throughout the mortgage term, an explanation that this is the case.
- if the interest rate is capped or collared , or both, and this applies for only part of the mortgage term, an explanation of how increases in the interest rate charged will affect the customer's monthly payments
- the following statement in respect of the effect of increases in the interest rate charged, ie:

'The monthly payments shown in this illustration will increase by £x for each 1% increase in the interest rate charged.'

- the following statement under the heading 'What if your income goes down?'

'You will still have to pay your mortgage if you lose your job or if illness prevents you from working. Think about whether you could do this.'

5.40 The amount by which the customer's payments would increase following an interest rate increase (see 5.39) must be calculated using:

- the total amount borrowed, or
- the amount outstanding from the earliest date at which the rate charged can vary, eg on a fixed rate mortgage, this would be the date on which the fixed rate ends; and
- the interest rate charged at the date the illustration was issued.

5.41 The following text must be included at the end of this section:

'The FSA's guide entitled 'You can afford your mortgage now, but what if…', will help you consider the risks.

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Section 8 – what fees must you pay?

5.42 This illustration must:

- itemise all fees that are included in the APR calculation, excluding any compulsory mortgage payment protection insurance;
- include the following statement:

'You may have to pay other taxes or costs in addition to any fees shown here.'

Fees to be itemised in this section include a fee to re-inspect the property following completion of works (if known at the time the illustration is issued), and any fee payable when the loan is fully repaid.

5.43 The fees payable to the lender must be shown separately to any other fees payable. Other fees include those charged by a mortgage intermediary for giving advice and arranging a mortgage.

5.44 The following information must be provided for **each** fee included in this section:

- a description of the fee;
- the amount payable;
- to whom the fee is payable, where it is not payable to the lender;
- when the fee is payable;
- whether or not it is refundable;
- whether the fee is accurate or estimated.

5.45 If a fee is to be added to the loan, this should also be stated.

5.46 If a higher lending charge is payable by the customer, the following statement must be included

'A higher lending charge is payable because you are borrowing x% of the property's price or value (estimated if not known when issuing the illustration).'

5.47 A lender must provide a tariff of charges on request by the customer.

Section 9 – insurance

5.48 This section must include details of any:

- insurance product which is a tied product;
- insurance product required as a condition of the mortgage which is not a tied product;
- insurance products that are optional.

It must be clearly stated from whom any tied insurance product must be purchased, ie the lender or the mortgage intermediary.

5.49 The following information must also be included in respect of each tied insurance product:

- for how long the customer is obliged to purchase the insurance;
- an accurate quotation or reasonable estimate of the payments required;
- details of when the payments for such insurance change, eg if they are reviewed annually.

5.50 If the customer is not required to take out any tied insurance product then this must be clearly stated in this section.

5.51 If the lender or intermediary makes a charge where the customer decides not to purchase a compulsory insurance product through the lender or intermediary, this must be clearly stated. The amount of the charge and the frequency with which it is payable must also be stated.

5.52 If the customer has asked for any insurance premiums to be added to the amount borrowed, the following statement must be included

'The annual insurance premium will be added to your mortgage account. This will increase the amount you owe'.

This statement must also give the period within which the premium can be paid before interest is charged on it.

Section 10 – what happens if you do not want this mortgage any more?

5.53 The following information must be included under the heading 'Early repayment charges':

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- whether the customer is not permitted to repay the mortgage early;
- whether any early repayment charges are payable, and, if so, when;
- an explanation of any other fees that are payable if the mortgage is repaid early, and the current level of those fees;
- an explanation of the basis on which early repayment charges are calculated, including details of any cashback or other incentives that must be repaid;
- the maximum amount of any early repayment charge payable.

5.54 Under the heading 'What happens if you move house?' details must be provided of whether the mortgage is portable on moving house and if any conditions or restrictions will apply.

Section 11 – what happens if you want to make overpayments?

5.55 This section must include details of any restrictions that apply to lump sum and regular overpayments, together with a statement as to whether or not the amount of the loan on which interest is calculated is reduced immediately on receipt of any lump sum or regular overpayment.

If such recalculation of interest is not immediate, details must also be included of when the recalculation will be made.

Section 12 – additional features

5.56 This section must include details of any additional features under the following headings:

1 Underpayments

Details of the circumstances in which underpayments can be made and whether any conditions apply.

2 Payment holidays

Details of the circumstances in which payment holidays can be taken and whether any conditions will apply.

3 Borrow back

Details of the circumstances in which the customer can borrow back any moneys overpaid and whether any conditions will apply.

4 Incentives

Details of any incentives, eg cashback. If a cashback is provided, the amount of the cashback and when it will be paid must also be provided.

5 Additional borrowing available without further approval

Details of the circumstances in which the customer can increase the amount of the loan on which the illustration is based without further approval by the lender, eg if there are drawdown facilities.

6 Additional secured borrowing

Details of the circumstances in which additional secured lending is offered.

7 Unsecured borrowing

Details of the circumstances in which unsecured lending is offered.

8 Credit card

This must state whether a credit card is offered with the mortgage.

9 Linked current account

Whether a linked current account is compulsory or optional and an explanation of the interest rates that apply under different circumstances to the account. The firm providing the linked current account, if not the mortgage lender, must also be stated.

10 Linked savings account

Whether a linked savings account is compulsory or optional and the interest rate paid if it differs from the interest rate charged on the mortgage. The firm providing the linked savings account, if not the mortgage lender, must also be stated.

5.57 If any of the additional features under headings 5, 6 and 7 apply, then the following information must also be given:

- the maximum additional amount available;
- the total resulting debt that the customer could incur, including the amount of the original loan;
- the monthly payments on this total debt;
- whether the additional borrowing must also be repaid in full if the original loan is repaid in full;
- if early repayment charges apply to the additional amount borrowed.

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Section 13 – using a mortgage intermediary

5.58 If the illustration is issued to a customer by, or on behalf of, a mortgage intermediary the following information must be provided:

- the amount payable by the lender to the intermediary;
- the name of the lender who will make the payment, and the name of the mortgage intermediary who will be paid.

5.59 If the amount payable by the lender to the intermediary is £250 or less, the intermediary need only state that the amount is no more than £250, unless the customer requests the actual amount.

5.60 The amount payable by the lender must include:

- any procuration fee; and
- a cash value for any material non-cash inducements.

Section 14 – where can you get more information about mortgages?

5.61 This section must be renumbered Section 13 if the illustration is not provided by, or on behalf of, a mortgage intermediary.

5.62 This section must include the following text

'The FSA publishes useful guides on choosing a mortgage. The are available free through its website: **www.fsa.gov.uk/consumer**, or by calling 0845 606 1234.'

5.63 The name, address and contact point of the firm providing the illustration must be given under the heading 'Contact details'.

5.64 The following text must be prominently displayed after the contact details:

'Your home may be repossessed if you do not keep up repayments on your mortgage.'

Chapter 6
Disclosure at the offer stage

6.1 **This chapter applies only to mortgage lenders and where an offer has been made by a firm to a customer with a view to the firm**

- **entering into a regulated mortgage contract; or**
- **varying the terms of a regulated mortgage contract by:**
  - **adding or removing a party,**
  - **making a further advance, or**
  - **switching all or part of the mortgage from one type of interest rate to another.**

6.2 This chapter does not apply to regulated lifetime mortgage contracts.

6.3 **If a firm offers to enter into a regulated mortgage contract with a customer, it must provide an offer document containing an illustration. The offer must be based on the information set out in the illustration.**

Records

6.4 A firm must make an adequate record of each offer document it issues, and this record must be retained for a year from the date of issue.

Amendments to the illustration

6.5 **The illustration provided as part of the offer document must be suitably adapted and revised to reflect that the firm is making an offer to the customer.**

The following text must be included under the heading 'About this offer document' in Section 1 of the illustration:

'You are not bound by the terms of this offer document until you have signed the legal charge.

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You should compare this offer document with the illustration given to you before you applied for this mortgage to see how the details may have changed.'

6.6 **The heading 'Which service are we providing you with?' must be replaced by 'Which service did we provide you with?' The wording under this text should be amended to read:**

- **we have recommended, having assessed your needs, that you take out this mortgage;**
- **we have not recommended a particular mortgage for you. You must make your own choice whether to accept this mortgage offer.**

The appropriate box alongside these options should be marked prominently to indicate the level of service provided.

6.7 **Where all or part of the mortgage is on an interest-only basis, the illustration that forms part of the offer document must:**

- **clearly state that the payments cover only interest, and not the capital borrowed;**
- **state the repayment vehicle the customer intends to use where these details are known – if the firm does not know how the customer intends to repay the capital, it must be clearly stated that the repayment vehicle is unknown and the customer provided with a clear reminder of the need to put suitable arrangements in place;**
- **include a reminder to the customer to check regularly the performance of any investment used as a repayment vehicle to see whether it is likely to repay the capital at the end of the mortgage term.**

6.8 **In adapting and revising the original illustration a firm must:**

- **avoid amending the format where possible as this could result in the illustration that forms part of the offer document being difficult to compare with the original illustration;**
- **use, where possible, the same headings, order of information and language that appeared in the original illustration.**

6.9 **The illustration that forms part of the offer document must form an integral part of that document. It must not be a separate document.**

Other information contained in the offer

6.10 **A firm must ensure that the offer document contains a prominent statement:**

- **of the period for which the offer is valid;**
- **explaining that once the mortgage has been completed there will be no right of withdrawal;**
- **explaining that the customer will have a right to repay the mortgage in accordance with the terms of the contract;**
- **explaining the consequences that might arise from the customer not entering into the contract, eg any fees that have been paid that will not be reimbursed.**

6.11 **A firm must ensure that under the heading 'Contact details', information is given on how to complain to the firm about the services it has provided and whether or not complaints may subsequently be referred to the Financial Ombudsman Service.**

6.12 **The offer document must be accompanied by a tariff of charges that could be incurred.**

Chapter 7
Disclosure at start of contract and after sale

7.1 **This chapter applies if a firm**

- **enters into a regulated mortgage contract with a customer; or**
- **administers a regulated mortgage contract entered into with a customer; or**
- **arranges or advises on or makes a further advance or other variation to the terms of a regulated mortgage contract entered into with a customer.**

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Disclosure requirements

7.2 **A firm must provide the customer with the following information before the first mortgage payment is made:**

- **the amount of the first payment required;**
- **the amount of subsequent payments if different from the first payment;**
- **the method by which payments will be collected, eg by direct debit;**
- **the date of collection of the first and subsequent payments;**
- **confirmation of which, if any, associated insurance or investment products have been purchased through the firm;**
- **the premiums for any insurance or investment products purchased through the firm, and confirmation of whether these premiums are to be collected with the mortgage payment or separately;**
- **whether the mortgage contract allows overpayments or underpayments to be made;**
- **confirmation of whether the mortgage is repayment or interest-only, or a combination of both;**
- **if the mortgage is interest-only, a reminder to check that any repayment vehicle is in place if this has not been provided by the firm;**
- **what the customer should do if he falls into arrears, ie make early contact with the firm, and drawing the customer's attention to the arrears charges set out in the tariff of charges, and the firm's address and telephone number of a contact point.**

Record keeping

7.3 **A firm must make an adequate record of the information disclosed to each customer at the start of the mortgage, and retain this record for a year from the date the information is provided to the customer.**

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Annual statements

7.4 **A firm must provide the customer with a statement at least once a year covering the mortgage and any tied products purchased through the firm.**

7.5 **The annual statement must contain the following:**

- **a clear statement of whether the mortgage is interest-only or repayment, or a combination of both;**
- **a prominent reminder, where the mortgage is interest-only, of whether the monthly payment includes the premiums on any repayment vehicle and that they should check the performance of any such investment;**
- **details of the following transactions during the period since the last statement was issued:**
  - **the date and amount of each payment made,**
  - **the amount of each payment that was due,**
  - **the rates of interest charged,**
  - **the amount of interest charged,**
  - **any other amounts or fees charged;**
- **a reminder that the customer should contact the firm if he is unable to make regular monthly payments**
- **the amount owed by the customer on the date the statement is issued**
- **the remaining mortgage term**
- **the date on which any early repayment charges cease to apply**
- **a revised tariff of charges if changes have been made since the last annual statement was issued and these have not previously been notified to the customer.**

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Further advances

7.6 **Before a customer submits an application to a lender for a further advance on an existing regulated mortgage contract, or for a further advance that will be regulated, the firm must provide the customer with the required illustration detailed in Chapter 5 – pre-application disclosure.**

7.7 **The illustration must**

- **be based on the amount of the further advance only**
- **use the term 'additional borrowing' in place of the term 'mortgage' throughout the illustration**
- **include a clear statement explaining the total amount that the customer will owe if he takes out the additional borrowing, and what the new monthly payment will be.**

Addition or removal of a party to the contract

7.8 **A firm is not required to provide an illustration where the removal of a party is due to the death of that party, and no other party is to be added to the mortgage.**

7.9 **In all other cases, before a customer submits an application to add or remove a party to a mortgage, a firm must provide any customer who will remain or become a party to the mortgage with the illustration detailed in Chapter 5 – pre-application disclosure.**

7.10 For the purposes of the previous two paragraphs, a guarantor is not regarded as a party to a regulated mortgage contract.

7.11 **The following text must be included in Section 2 of the illustration under the heading 'Which service are we providing you with?'**

'We are providing you with an illustration for the addition/removal of a party/parties to this mortgage. You must make your own choice about whether changing the parties to this mortgage is right for you.'

Changes to the monthly payment

7.12 **If a customer requests, or agrees to, a change to the monthly payment on a regulated mortgage contract, a firm must provide the customer with the following information before the change in monthly payment takes effect**

- **the amount outstanding at the date the change is requested;**
- **the new payment due and the date from which it will take effect;**
- **the new interest rate to be charged and the date from which it will take effect;**
- **details of any charges that apply for changing the monthly payment;**
- **if the mortgage is to be changed from repayment to interest-only, a prominent reminder that the customer should have in place arrangements to repay the capital.**

7.13 The above Rule will apply in the following cases:

- if the customer requests a change to the term of his mortgage;
- the lender has agreed to capitalise arrears;
- a fixed, discounted or capped rate period is coming to an end.

Chapter 8
Lifetime mortgages: advising and selling standards

8.1 **This chapter applies if a firm, in the course of carrying on a regulated mortgage activity, makes a personal recommendation or gives personalised information to a customer entering a regulate lifetime mortgage contract.**

8.2 **A firm must take reasonable steps to ensure that a personal recommendation to a customer to enter into a regulated lifetime mortgage contract is not made unless that contract is suitable for the customer, taking into account all facts disclosed by the customer.**

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8.3 **A regulated lifetime mortgage contract will be deemed to be suitable if the firm has reasonable grounds to conclude that:**

(a) the benefits to the customer outweigh any adverse effect on the customer's entitlement to means-tested benefits and tax position

(b) alternative methods of raising the capital required, such as a home reversion scheme or local authority grant, are less suitable

(c) the customer can afford any monthly payments that are required to be made to the lender

(d) the contract is appropriate to the needs, objectives and circumstances of the customer

(e) the contract is the most suitable of those that the firm is able to offer within the scope of service provided.

8.4 **A firm must not make a recommendation if there is no regulated lifetime mortgage contract from within the scope of the service provided to the customer that is appropriate to his needs, objectives and circumstances.**

8.5 **Where a firm, in determining the suitability of a regulated lifetime mortgage contract for a customer, has insufficient knowledge of means-tested benefits and tax matters, the customer must be referred to an appropriate source such as the Pension Service, Inland Revenue or Citizens Advice Bureau to obtain the required information.**

8.6 **Where a firm makes a personal recommendation to a customer to enter into a regulated lifetime mortgage contract for the purpose of consolidating existing debts, it must also take into account:**

- **the costs associated with increasing the period over which a debt is to be repaid**
- **whether it is appropriate for the customer to secure a previously unsecured loan.**

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8.7 **In assessing whether a customer can afford to enter into a particular regulated lifetime mortgage contract, a firm should take into account:**

- **information provided by the customer about his income and expenditure, and any other resources he has available;**
- **any likely change to the customer's income, expenditure or resources;**
- **the costs that the customer will be required to meet once any discount period comes to an end.**

8.8 In making a personal recommendation to a customer to enter into a particular regulated lifetime mortgage contract, a firm is not required to consider whether it would be preferable for the customer to trade down to a less expensive property or to sell his property and rent another one.

8.9 **A firm must make and retain a record:**

- **of all information obtained from the customer that has been used in making a personal recommendation**
- **that explains why any personal recommendation has been made and how it satisfies the customer's suitability requirement.**

This record must be retained for a minimum of three years from the date on which the personal recommendation was made.

Non-advised sales

8.10 If a firm arranges a regulated lifetime mortgage contract without giving a personal recommendation, it must ensure that all the questions it asks about the customer's needs, circumstances and objectives are scripted in advance.

8.11 **The scripted questions referred to above must cover the following:**

- **the customer's preferences for his estate, eg whether he wishes to leave bequests to certain people;**
- **the customer's health and life expectancy;**

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- **the customer's future plans and needs, eg whether he is likely to need to raise further funds in the future or is likely to move house;**
- **whether the customer has a preference or need for stability in the amount of monthly payments, where these are required;**
- **whether the customer has considered alternative methods of raising the required funds, such as a home reversion scheme;**
- **whether the customer has established if his entitlement to means-tested benefits or his tax position will be adversely affected.**

Chapter 9
Lifetime mortgages: product disclosure

Content of an illustration

9.1 **An illustration for a regulated lifetime mortgage contract must:**

- **be in the prescribed format;**
- **use font sizes and typefaces that are sufficiently legible for a typical customer;**
- **be clearly laid out;**
- **describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such a charge;**
- **describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such a charge;**
- **describe any regulated lifetime mortgage contract as a 'lifetime mortgage' and any home reversion plan as a 'home reversion plan' and not use any other expression to describe such a mortgage or plan or omit that description from the name given to any product that meets the definition.**

9.2 **As a minimum the illustration must be personalised to reflect:**

- **the specific contract in which the customer is interested;**

- **the amount of the loan required, or for a drawdown mortgage, the amount the customer wishes to drawn down on a monthly basis;**
- **the price or value of the property on which the regulated lifetime mortgage contract is to be secured – this can be estimated if necessary;**
- **the estimated term of the contract calculated from the designated mortality tables.**

9.3 **Where the term estimated from the mortality tables is less than 15 years, the illustration should use a term of 15 years.**

9.4 **Where the illustration is issued to two or more customers who intend to borrow jointly, the estimated term should be based on the longest life expectancy.**

The information that follows is that which must be included in the relevant section of the illustration. A specimen illustration is shown at the end of this chapter.

The head of the illustration

9.5 The following information must be included:

- the customer's name;
- the date of issue of the illustration;
- details of how long the illustration is valid for, and whether there is any date by which the contract needs to commence.

Section 1 – about this information

9.6 The prescribed text shown in the specimen illustration must be included.

Section 2 – which services are we providing you with?

9.7 The appropriate box must be marked prominently.

Section 3 – what is a lifetime mortgage?

9.8 The prescribed text shown in the specimen illustration must be included.

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Section 4 – what you have told us

9.9 This section must state all the information that has been obtained from the customer.

9.10 If the amount on which the illustration is based includes any charges or other payments, then these must be clearly stated.

9.11 If the contract on which the illustration is based has no charges or other payments that must be paid by the customer, then the following text must be included

'We do not charge any fees for this lifetime mortgage.'

9.12 At the end of this section a statement must be included encouraging the customer to ask for a revised illustration if there are any changes to the information he provided or to the valuation of the property.

Section 5 – description of this mortgage

9.13 This section must:

- state the name of the mortgage lender providing the regulated lifetime mortgage contract to which the illustration relates
- include a statement describing the contract, eg 'repayments are not required during the life of this lifetime mortgage' or 'this lifetime mortgage provides you with a monthly cash sum'
- include a statement regarding the term of the contract using the following text:

'This illustration is based on an estimated term of x years, but remember that this term is not fixed and could be longer or shorter than x years. If you are still living in your home at the end of x years, the lifetime mortgage will continue to run'

- include a statement of the maximum amount the customer may borrow and the circumstances , if any, in which the customer may be able to borrow additional funds at a later date;
- include details of any tied products that the customer is obliged to purchase.

Section 6 – benefits

9.14 This section must include details of the amount that the customer will receive as a lump sum or as a monthly payment, whichever is applicable.

9.15 If the contract is linked to an investment, and any payments required by the lender are to be deducted from the investment income, the net income that the customer will receive must be shown.

Section 7 – risks – important things you must consider

9.16 This section must include:

- ♦ details of the specific circumstances in which the mortgage lender is able to repossess the property;
- ♦ a statement of how the mortgage lender will treat any negative equity that arises at the time the amount borrowed is due to be repaid in full;
- ♦ a statement of the circumstances in which the regulated lifetime mortgage contract is portable, and whether early repayment charges are payable;
- ♦ a statement of the effect on the contract of another party moving into the property;
- ♦ details of the mortgage lender's requirements for repair and maintenance of the property;
- ♦ a warning that taking our this contract may affect the customer's tax position and entitlement to welfare benefits, and that the customer should consider seeking further information from the Inland Revenue, Benefits Agency or Citizens Advice Bureau;
- ♦ the following statement, shown prominently, at the end of this section:

'Check that this mortgage will meet your needs if you want your family or others to inherit your home. If you are in doubt, seek independent legal and financial advice.'

9.17 Where a monthly cash sum is payable under a drawdown mortgage, a statement must be included that inflation can erode the value of the cash sum over time.

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Section 8 – what you will owe and when

9.18 Section A (Details of mortgage payments) applies only if the customer is required to make monthly payments to the lender during the life of a regulated lifetime mortgage contract.

9.19 This section must contain the following information:

- the loan amount on which the illustration is based, including any fees, charges and insurance premiums that have been added to the loan;
- the assumed start date of the contract;
- the interest rate charged at the time the illustration is issued;
- whether the interest rate is fixed or variable;
- the number of monthly payments;
- the amount of each monthly payment;
- a clear explanatory statement if the monthly payment due to the lender is to be deducted form the income provided by a linked investment product such as an annuity, such that the customer receives the net income.

9.20 Section B (projection of roll-up of interest) applies only if all or part of the interest due over the life of the contract is added to the loan and paid to the lender on repayment of the loan.

9.21 The following information must be show in the various columns:

- 'Year': this will be 1, 2, 3, etc. The start date for year 1 must be the assumed date of completion of the contract.
- 'Balance at the start of the year': this will be the estimated amount outstanding on the contract at the beginning of each year.
- 'Amount paid to you during the year' will include any sums that are expected to be drawn down during the year in question.
- 'Interest charged at x% per year: this will be the total amount of interest that is expected to be charged for that year, calculated on the balance at the start of the year plus the amount expected to be drawn down during the year. The rate used must be as follows:
  - the fixed rate if this applies throughout the term,

- – the appropriate variable rate that applied at the date the illustration is issued, where a variable rate will apply throughout the term.

- ♦ 'Fees charged during the year': this must include any fees that will be added to the loan during the year in question.
- ♦ 'What you owe at the end of the year': for each year this will be the total of:
  - – the balance at the beginning of the year
  - – any amounts drawn down
  - – interest charges
  - – fees added to the loan.

Section 9 – will the interest rate change?

9.22 Where the customer is required to make monthly payments to the lender during the life of the contract, this section of the illustration must include the following

- ♦ an explanation that payments will not vary where the interest rate is fixed throughout the term of the contract;
- ♦ an explanation of when or how increases in the interest rate charged will affect the customer's monthly payments, where the rate is fixed only for part of the term of the contract;
- ♦ an appropriate explanation if the interest rate cannot go above a certain level or below a certain level, or both, throughout the term of the contract;
- ♦ an explanation of when or how increases in the interest rate charged will affect the customer's monthly payments, where the rate cannot go above a certain level for part of the term of the contract.

9.23 If the customer's monthly payments to the lender can vary at any time during the term of the contract, the following text must be included:

'The monthly payments shown in this illustration could be considerably different if interest rates change. For example, for one percentage point increase your monthly payment will increase by around £x.'

9.24 The amount shown in paragraph 9.22 must be based on the total amount borrowed and the variable rate applicable at the date on which the

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illustration is issued (if the rate is discounted, then the discounted rate must be used in the calculation).

9.25 Where the customer is not required to make payments to the mortgage lender, and part or all of the interest is rolled up, this section must contain:

- ♦ if the interest rate is variable, the following text:

'If the interest rate increases, the amount you owe will also increase. If the rate was one percentage point higher than that shown in the illustration throughout the term of the contract, the amount that you would owe at the end of that time would be £x'

or

- ♦ if the interest rate becomes variable at the end of a fixed or capped rate period, the following text:

'If the interest rate increases after the (fixed rate period or capped rate) period ends, the amount you owe will increase. If the rate was one percentage point higher than that shown in the illustration throughout the remainder of the term, the amount you would owe at the end of the term would be £x.'

9.26 Where the customer's payments to the lender could vary, the following risk warning must be shown:

'Rates may increase by much more than this so make sure you can afford the monthly payment.'

Section 10 – how the value of your home could change

9.27 Where the customer is required to make monthly payments to the lender in respect of the interest charged, the following text must be shown:

'The amount you owe will usually stay the same throughout the term of your mortgage so the amount due to the lender when the mortgage is repaid will be the amount of the loan, unless any charges have been added.'

9.28 Where the customer is not required to make payments to the lender, and part or all of the interest is rolled up, the following text must be shown:

'When you look at how the amount you owe goes up, remember also that property prices can go up or down, and that this can affect the amount of money left over for you or your estate after the mortgage is repaid.'

Section 11 – what fees must you pay?

9.29 This section must include all the fees that are included in the APR calculation, excluding charges for compulsory mortgage payment protection insurance, and the following statement:

'You may have to pay other taxes or costs in addition to any fees shown here.'

9.30 The following information must be provided for each fee included in this section:

- a description of the fee;
- the amount payable;
- to whom the fee is payable;
- when the fee is payable;
- whether or not the fee is refundable and, if so, the extent to which it is refundable.

9.31 If the customer has asked for any fees to be added to the loan amount, this should be stated alongside each such fee.

9.32 If the customer has the option of adding any of the fees included in this section to the loan, the following text must be included:

'If you wish you can add ... fees to the lifetime mortgage. This will increase the amount you owe to £x and will increase the amount you owe shown in Section 8. If you want to do this, you should ask for another illustration.'

Section 12 – insurance

9.33 This section must include details of any:

- insurance which is a tied product;
- any insurance which is required as a condition of the mortgage and which is not a tied product.

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9.34 The following information must be included if the customer is required to take out insurance that is a tied product either the through the lender or, where relevant, the mortgage intermediary:

- details of the product;
- for how long the customer is obliged to purchase the insurance;
- an accurate quotation or a reasonable estimate of any payments the customer must make for the insurance;
- details if when premiums may change, eg if premiums are reviewed annually.

Section 13 – what happens if you do not want this mortgage any more?

9.35 The following information on early repayment charges must be included:

- an explanation of whether any early repayment charge is payable and, if so, when it is payable;
- a basic explanation of how any early repayment charge is calculated, eg as a percentage of the loan or as so many months' interest;
- the maximum early repayment charge that the customer could have to pay;
- details of whether or not the contract is portable on moving house and an explanation of any restriction or conditions that might apply during the period in which an early repayment charge is payable.

9.36 If there are circumstances in which an early repayment charge does not apply, these must be clearly explained.

Section 14 – additional features

9.37 This section must include details of how the lender would treat overpayments made by the customer, and also of any other facilities offered as part of the contract, ie:

- overpayments, underpayments and payment holidays;
- borrow back of overpayments already made;
- additional borrowing available without further approval;
- credit card;

- unsecured borrowing;
- linked current account and linked savings account.

9.38 Details must be given of any restrictions on lump sum and regular overpayments, together with a statement as to whether or not the amount on which interest is charged is recalculated immediately on receipt of an overpayment.

9.39 Details of the circumstances in which the customer can make underpayments or take payment holidays must be given, together with a brief statement of any conditions that will apply.

9.40 This section must include details of the circumstances in which the customer can borrow back any monies overpaid and an explanation of any conditions that will apply.

Section 15 – overall cost of this mortgage

9.41 This section must include the following text

'The APR helps you to compare lifetime mortgages by giving you one rate that shows the overall cost of the mortgage. It takes into account some fees and charges as well as the interest due, and this means that the APR may be higher than the interest rate shown in Sections 5 and 8. Only use the APR to compare lifetime mortgages of the same type, and where the same sample term is used.'

9.42 The following text must also be included

'The total amount you would pay back over the term, including the amount borrowed, is £x.'

'The overall cost for comparison is x% APR.'

9.43 Where the interest on the contract is to be rolled up, the total amount payable must be based on the total amount that the customer would owe at the end of the term.

Section 16 – using a mortgage intermediary

9.44 This section is only relevant where the illustration is issued by, or on behalf of, a mortgage intermediary. It must include the following

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- the amount payable, either directly or indirectly, by the lender to the intermediary;
- the name of the mortgage lender who will make the payment and the name of the mortgage intermediary who will be paid.

9.45 If the amount payable by the lender to the intermediary is £250 or less, the intermediary need only state that the amount is 'no more that £250', unless the customer requests the actual amount.

9.46 If the lender will make no payment to the intermediary, this section should state that the intermediary will not receive a payment.

Contact details

9.47 This section must include the name, address and contact point of the firm providing the illustration.

A specimen illustration is shown below.

Personalised information on a lifetime mortgage for ………………...……

Date produced:………………………….

Insert details of how long the illustration is valid for, and if appropriate when the mortgage need to commence by

1 About this information

- We are required by the Financial Services Authority (FSA) – the independent watchdog that regulates financial services – to provide you with this illustration.
- All firms selling lifetime mortgages are required to give you illustrations like this one, that contain similar information presented in the same way.
- Ask for other illustrations if you want to compare this lifetime mortgage with lifetime mortgages from other lenders.
- The FSA provides useful information on lifetime mortgages and other ways of releasing equity from your home in a booklet. You can get this free through the FSA website **www.fsa.gov.uk/consumer** or by calling 0845 606 1234.

2 Which service are we providing you with?

We recommend, having assessed your needs, that you take out this lifetime mortgage.

We are not recommending a particular lifetime mortgage for you. However, based on your answers to some questions we are giving you information about this lifetime mortgage so that you can make your own choice, or find out about other ways in which you may be able to release equity from your home.

3 What is a lifetime mortgage?

Important information from the Financial Services Authority:

- ♦ A lifetime mortgage is a special type of loan which is usually designed to run for the rest of your life, and which means that you borrow money that is secured on your home to give you a lump sum and/or regular income. The amount you owe to the lender is usually paid back from the proceeds of the sale of your home after your death. If you are borrowing with someone else this would be after the death of the last borrower. Any money left over would be paid to your beneficiaries.
- ♦ If you buy a new home, you may be able to transfer your lifetime mortgage to your new home, or you may be able to get a new lifetime mortgage. Otherwise you will usually have to repay the amount you owe to the lender from the money you get from the sale of your home. Any money left over belongs to you.
- ♦ If you move into sheltered accommodation or long term care you will usually have to repay the amount you owe to the lender from the money you get from the sale of your home. If you are borrowing jointly with someone else and one of you needs to move into long-term care, you don't usually have to sell your home until the last borrower dies or moves into long-term care or another property.
- ♦ If you decide that you simply don't want the lifetime mortgage any more, you can repay the amount you owe to the lender at any time, but the lender may make an early repayment charge if you do so. Section 13 of this illustration will tell you if any early redemption charges apply to this mortgage.
- ♦ Some lifetime mortgages are linked to an investment – this means you borrow a lump sum that is invested (for example in an annuity) to give

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a regular income. If this happens the full details of the investment will be shown in a separate document and it is important to read both documents together.

4 What you have told us

5 Description of this mortgage

6 Benefits

Your net income

This box is only required where the regulated lifetime mortgage contract is linked to an investment and the payments due on the regulated lifetime mortgage contract are deducted from the income from the investment

Other benefits and incentives

7 Risks – important things you must consider

8 What you will owe and when

(A) details of mortgage payments – this section is only required where the customer is required to make payments to the mortgage lender in respect of all or part of the interest payable.

What you will owe and when

(B) projection of roll-up of interest – this section is only required where the customer is not required to make payments to the mortgage lender in respect of all or part of the interest payable.

9 Total borrowing

(For further advances only – if used subsequent sections will be renumbered.)

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Will the interest rate change?

10 How the value of your home could change

11 What fees must you pay?

12 Insurance

Insurance you must take out through (insert name of mortgage lender or mortgage intermediary).

Insurance you must take out as a condition of this lifetime mortgage but that you do not have to take out (insert name of mortgage lender or mortgage intermediary).

Optional insurance

This box is required only where quotations for optional insurance are provided in the illustration.

13 What happens if you do not want this mortgage any more?

Early repayment charges.

Circumstances in which early repayment charges do not apply.

14 Additional features

15 Overall cost of this mortgage

The total amount you would pay back over the example term of ... years including the amount borrowed is:

The overall cost for comparison is:

16 Using a mortgage intermediary

This section is only required when the illustration is provided to a customer by a mortgage intermediary. If the illustration is provided by a mortgage lender, this section must be removed.

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Chapter 10
Annual Percentage Rate

10.1 This chapter deals with the complexities of the annual percentage rate (APR) calculation. This is not considered to be an essential requirement of this qualification, although an explanation of the fundamentals of this particular topic is given in the study material for Unit 5 of CeMAP® Module 2.

Chapter 11
Responsible lending

11.1 **This chapter applies to mortgage lenders but only where the lender:**

- **enters into a regulated mortgage contract with a customer; or**
- **makes a further advance on an existing regulated mortgage contract.**

11.2 **A lender must be able to show that, before deciding to enter into a regulated mortgage contract with a customer, account was taken of the customer's ability to repay.**

11.3 **A lender must make an adequate record to demonstrate that it has taken account of the customer's ability to repay. The record must be retained for a year from the date on which the regulated mortgage contract is entered into.**

11.4 **The Rules described in paragraphs 11.2 and 11.3 apply where a further advance is made on a regulated mortgage contract.**

Responsible lending policy

11.5 **A mortgage lender must put in place, and operate in accordance with, a written policy setting out the factors it will take into account in assessing a customer's ability to pay.**

A lender must make and keep up-to-date an adequate record of its responsible lending policy. If the policy is changed, a record of the previous policy must be retained for a year from the date of the change.

Chapter 12
Charges

12.1 **This chapter applies where a firm**

- ♦ **enters into, or makes a further advance on, a regulated mortgage contract; or**
- ♦ **administers a regulated mortgage contract; or**
- ♦ **arranges or advises on a regulated mortgage contract.**

Early repayment charges

12.2 **A firm must ensure that any regulated mortgage contract that it enters into does not impose an early repayment charge other than one that is:**

- ♦ **able to be expressed as a cash value; and**
- ♦ **a reasonable pre-estimate of the costs payable if the customer repays the full amount of the loan before the mortgage contract has reached its termination date.**

12.3 A firm is able to choose its own method for calculating early repayment changes, except that it should not use the 'Rule of 78'.

12.4 **Before entering into a regulated mortgage contract, a firm must disclose in the illustration provided as part of the offer of advance the maximum amount payable as any early repayment charge that applies.**

Arrears charges

12.5 **A firm must ensure that any regulated mortgage contract it enters into does not impose a charge for arrears on a borrower except where that charge is a reasonable estimate of the cost for the additional administration required as result of the borrower being in arrears.**

12.6 **The above Rule does not prevent a firm from entering into a regulated mortgage contract under which the rate of interest**

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charged on a fixed or discounted rate mortgage can be increased to the firm's standard variable rate if the borrower goes into arrears.

However, the standard variable rate must not be one created especially for borrowers in arrears.

Excessive charges

12.7 **A firm must ensure that any regulated mortgage contract it enters into does not impose excessive charges upon a borrower.**

12.8 In determining whether a charge is excessive, a firm should consider:

- ♦ charges for similar products or services on the market;
- ♦ the extent to which the charge has been disclosed to the borrower;
- ♦ the extent to which the charge is an abuse of the trust that the borrower has placed in the firm.

Chapter 13
Arrears and possessions

13.1 **This chapter applies to the administration of a regulated mortgage contract and the administration of a mortgage shortfall debt.**

It continues to apply to a firm after a regulated mortgage contract has come to an end following the sale of a repossessed property.

13.2 **A firm must deal fairly with any customer who:**

- ♦ **is in arrears on a regulated mortgage contract; or**
- ♦ **has a mortgage shortfall debt.**

13.3 **A firm must put in place, and operate in accordance with, a written policy and procedures for complying with the Rule described in paragraph 13.2.**

13.4 **A firm should ensure that its written policy and procedures include**

- **using reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall or mortgage shortfall debt**
- **liaising with a third party source of advice regarding the payment shortfall or mortgage shortfall debt**
- **adopting a reasonable approach to the time over which the payment shortfall or mortgage shortfall debt should be repaid , taking into account the customer's circumstances**
- **granting, unless it has good reason not to do so, a customer's request to change the date on which the monthly payment is due or the method by which the payments are made**
- **giving consideration, where no reasonable payment arrangement can be made, to the customer being allowed to remain in the property to effect a sale**
- **repossessing the property only when all other reasonable attempts to resolve the position have failed.**

13.5 The FSA takes the view that the determination of a reasonable period for the repayment of arrears or a mortgage shortfall debt will depend on the customer's circumstances. In some cases this will mean that repayments are arranged over the remaining term of the mortgage.

Record keeping

13.6 **A firm must make and retain an adequate record of its dealings with a customer whose account is in arrears or who has a mortgage shortfall debt.**

The record must be retained for a year from the date on which the arrears or mortgage shortfall debt were cleared.

Provision of information to the customer

13.7 **If a customer falls into arrears on a regulated mortgage contract, a firm must provide the customer with the following information within 15 business days of becoming aware of the arrears:**

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- **the FSA information sheet on arrears 'What to do when you can't meet your mortgage payments';**
- **a list of the payments missed or only partly paid;**
- **the total amount of the arrears;**
- **the charges incurred as a result of the arrears;**
- **the total outstanding debt, excluding any redemption charges;**
- **the nature and level of charges that will be incurred unless the arrears are cleared.**

Procedure required before taking action for possession

13.8 **Before commencing action for possession, a firm must:**

- **provide a written update of the information required by the Rule described in paragraph 13.7;**
- **ensure that the customer is informed of the need to contact the local authority to establish his eligibility for re-housing after possession has been taken;**
- **clearly state the possession procedure.**

Statement of charges

13.9 Where an account is in arrears and charges are being levied, a firm must provide the customer with a regular written statement of the payments due, the arrears, the charges incurred and the outstanding debt. The statement should be provided at least once a quarter.

13.10 The written statement referred to above need not be sent if a repayment plan is being adhered to and no charges are being made.

Pressure on customers

13.11 **A firm must not put pressure on a customer through excessive telephone calls or correspondence, or by contact at an unreasonable hour.**

13.12 A reasonable hour is considered to be between 8am and 9pm. However, a firm should also take into account any knowledge that it has of a customer's work pattern or religious faith which might make it unreasonable to contact him within these hours.

Marketing a repossessed property

13.13 **A firm must ensure that when a property has been taken into possession, steps are taken to:**

- **market the property for sale as soon as possible; and**
- **obtain the best price that might reasonably be paid, taking into account market conditions and the increasing debt owed by the customer.**

13.14 **If the proceeds of sale are less than the outstanding debt, the customer must be advised as soon as possible after the sale of:**

- **the mortgage shortfall debt;**
- **whether that shortfall debt may be pursued by another company, eg a mortgage indemnity insurer.**

13.15 **If the firm decides to recover the mortgage shortfall debt, it must notify the customer of this intention. Such notification must be made within six years of the date of sale (five years if the mortgage is subject to Scots Law).**

13.16 **If the proceeds of sale are more than the outstanding debt, a firm must take reasonable steps to inform the customer of the surplus and, subject to the rights of any subsequent mortgagees, pay it to him.**

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