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Chapter 1

Application and purpose
1.1 Application and purpose

Application

1.1.1 MCOB applies as described in this chapter.

Purpose

1.1.2 The purpose of this chapter is to set out to whom, for what activities, and within what territorial limits the rules, evidential provisions and guidance in MCOB apply.
1.2 General application: who? what?

1.2.1 This sourcebook applies to every firm that:

(a) carries on a home finance activity (subject to the business loan application provisions); or

(b) communicates or approves a financial promotion of qualifying credit, of a home purchase plan or of a home reversion plan.

(2) Where a firm has outsourced activities to a third party processor, any rule in MCOB which requires the third party processor, when acting as such, to disclose its identity to a customer must be read as requiring disclosure of the identity of the firm (or appointed representative, as appropriate) which is taking responsibility for the acts and omissions of the third party processor when carrying on the outsourced activities.

1.2.1A Firms which outsource regulated activities are reminded of the guidance on outsourcing in § SYSC 3.2.4 G and § SYSC 8.

Firm types and the home finance activities

1.2.2 This sourcebook applies to activities carried out in respect of three types of product: regulated mortgage contracts (which includes lifetime mortgages), home purchase plans, and home reversion plans. Together, these products are referred to as home finance transactions.

(2) Lifetime mortgages and home reversion plans are together referred to as equity release transactions.

(3) The application of most of this sourcebook is expressed by reference to four types of firm: lenders/providers, administrators, arrangers, and advisers. Arrangers and advisers are together referred to as intermediaries. This includes those firms that provide business loans to customers under a regulated mortgage contracts (see § MCOB 1.2.3 R to § MCOB 1.2.9 G). A single firm may fall into more than one of these types. PERG 4 contains detailed guidance on regulated mortgage activities and PERG 14 contains detailed guidance on home purchase activities and reversion activities.
Business loans: application of MCOB

1.2.3 In relation to a regulated mortgage contract for a business purpose

(1) MCOB applies if the customer is not a large business customer; and

(2) if MCOB applies, a firm must either:

(a) comply with MCOB in full (disregarding the tailored provisions for regulated mortgage contracts for a business purpose in the remainder of MCOB); or

(b) comply with MCOB taking account of those tailored provisions, including MCOB 1.2.7 R.

1.2.4 For detail of the tailored provisions applying, see the section on 'business loans' set out in each relevant chapter.

1.2.5 (1) In order for a loan to fall within the definition of a regulated mortgage contract, at least 40% of the total of the land to be given as security must be used as or in connection with a dwelling. Therefore, the variation in approach provided for in MCOB 1.2.3 R(2) can only apply where the loan being used for a business purpose is secured against a property at least 40 per cent of which is used as a dwelling. It cannot apply to a loan secured on property that is used solely for a business purpose.

(2) Whether a regulated mortgage contract is for a business purpose will be a matter of fact to be determined by a firm depending on the individual circumstances of each case. In the FSA’s opinion, a regulated mortgage contract secured, for example, on the borrower’s own home, but used to finance the purchase of a single buy-to-let property will not be for a business purpose.

1.2.6 In determining whether a customer is a large business customer for the purposes of MCOB 1.2.3 R(1), a firm will need to have regard to the figure given for the customer’s annual turnover in the customer’s annual report and accounts or business plan. In addition, a firm may rely on information provided by the customer about the annual turnover, unless, taking a common-sense view of this information, it has reason to doubt it.

Business loans: additional requirements if tailored route is used

1.2.7 In relation to a regulated mortgage contract for a business purpose, if a firm has opted for the tailored route, it must adopt the following modifications to the sourcebook:

(1) (except in relation to sections 6 and 8 of any initial disclosure document or sections 5 and 8 of any combined initial disclosure document) substitute an alternative description of the facility provided under the regulated mortgage contract for 'mortgage' where that term is used in any disclosure;
(2) substitute the term 'illustration' for 'key facts illustration' when opting to use the tailored business loans rules in MCOB 4.9, MCOB 5.7, MCOB 6.7 or MCOB 7.7; and

(3) limit disclosure to facilities provided under the regulated mortgage contract.

1.2.8 (1) Firms are reminded of the requirement in MCOB 2.2.6 R that any communication should be clear, fair and not misleading when substituting an alternative for the term 'mortgage' in accordance with MCOB 1.2.7 R(1).

(2) Possible alternatives to the term 'mortgage' include, for example, 'secured business overdraft', 'secured loan' or 'secured business credit'.

1.2.9 The disclosure rules in MCOB place particular emphasis on the description of borrowing. Where the regulated mortgage contract is for a business purpose, a firm should reflect this emphasis in any disclosure by first describing any borrowing before addressing the other facilities provided under the regulated mortgage contract.

Home purchase plans

For detail of the tailored provisions applying to home purchase plans, see the section on 'home purchase plans' set out in each relevant chapter.

Authorised professional firms

1.2.10 MCOB does not apply to an authorised professional firm with respect to its non-mainstream regulated activities except for:

(1) MCOB 2.2 (Communications);

(2) MCOB 3 (Financial promotion); and

(3) initial disclosure requirements but only as regards providing the information contained in section 7 (What to do if you have a complaint) and section 8 (Are we covered by the Financial Services Compensation Scheme?) of an initial disclosure document or combined initial disclosure document (see MCOB 4.4 and MCOB 4.10).

1.2.11 Authorised professional firms should be aware of the following:

(1) PROF 5 (Non-mainstream regulated activities); and

(2) MCOB 3.1.9 R (Authorised professional firms) and the exception in article 55 of the Financial Promotion Order (Communications by members of the professions) which applies in relation to financial promotion of qualifying credit or of a home reversion plan of authorised professional firms under MCOB 3.2.5 R(3) (Exemptions).
Pre-contractual arrangements by a home finance provider

1.2.12 In MCOB the activities of a home finance provider which would be arranging but for article 28A of the Regulated Activities Order (Arranging contracts or plans to which the arranger is a party), are to be treated as arranging and therefore also as home finance activities.

1.2.13 The effect of article 28A of the Regulated Activities Order would normally mean that arrangements made by a party to a home finance transaction would not fall within the home finance activity of arranging. So in a direct sale, a home finance provider would not be carrying on the regulated activity of arranging but, where the transaction proceeds to completion, would instead be involved in a regulated activity comprising entering into a home finance transaction. However, the provisions in MCOB on arranging home finance transactions are applied to pre-contractual arrangements by a home finance provider.
1.3 General application: where?

**Location of the customer**

1.3.1 Except as set out in this section, MCOB applies if the customer of a firm carrying on home finance activities is resident in:

(1) the United Kingdom; or

(2) another EEA State, but in this case only if the activity is carried on from an establishment maintained by the firm (or its appointed representative) in the United Kingdom; at the time that the home finance activity is carried on.

**Financial Promotion**

1.3.2 The territorial scope of MCOB 3 (Financial promotion) is set out in MCOB 3.3 (Application: where?) rather than in this section.

**Electronic commerce activities and communications**

1.3.3 This sourcebook does not apply to an incoming ECA provider acting as such.

**Distance contracts entered into from an establishment in another EEA State**

1.3.4 (1) The rules in (2) do not apply to a firm with respect to a regulated mortgage activity or a home purchase activity exclusively concerning a distance contract if the following conditions are satisfied:

(a) the firm carries on the activity from an establishment maintained by the firm in an EEA State other than the United Kingdom; and

(b) either the EEA State:

(i) has implemented the Distance Marketing Directive; or

(ii) has obligations in its domestic law corresponding to those provided for by the Distance Marketing Directive;

and, in either case, with the result that the obligations provided for by the Distance Marketing Directive (or corresponding
obligations) are applied by that State when the firm carries on that activity; and

c) the firm is a national of an EEA State or a company or firm mentioned in article 48 of the Treaty.

(2) The rules which do not apply are:

(a) initial disclosure requirements in MCOB 4.4 (in respect of regulated mortgage contracts) and MCOB 4.10 (in respect of home purchase plans);

(b) MCOB 4.5 (Additional disclosure for distance mortgage mediation contracts and distance home purchase mediation contracts with consumers);

(c) MCOB 4.6 (Cancellation of distance mortgage mediation contracts and distance home purchase mediation contracts);

(d) MCOB 5 (Pre-application disclosure);

(e) MCOB 6 (Disclosure at offer stage);

(f) MCOB 7.6.7 R to MCOB 7.6.17 R (Further advances);

(g) MCOB 8.3 (Application of rules in MCOB 4) to the extent that it applies MCOB 4.4 to MCOB 4.6;

(h) [deleted]

(i) MCOB 9.3 (Pre-application disclosure);

(j) MCOB 9.4 (Content of illustrations); and

(k) MCOB 9.5 (Disclosure at offer stage for equity release transactions).

Distance contracts with retail customers

Parts of MCOB relate to distance contracts (or distance mortgage mediation contracts and distance home purchase mediation contracts) with consumers. These expressions are derived from the Distance Marketing Directive, and the following paragraphs provide some guidance to firms on their meaning:

(1) consumer

The Distance Marketing Directive applies for distance contracts with 'any natural person who is acting for purposes which are outside his trade, business or profession', for which the term 'consumer' has been adopted. Examples of individuals who would be regarded as consumers include:

(a) personal representatives, including executors, unless they are acting in a professional capacity, for example a solicitor acting as executor; or

(b) private individuals acting in personal or other family circumstances, for example, a trustee of a family trust.
(2) Distance contract

To be a *distance contract*, a contract must be concluded under an ‘organised distance sales or service-provision scheme’ run by the contractual provider of the service who, for the purpose of the contract, makes exclusive use (directly or through an intermediary) of one or more means of distance communication up to and including the time at which the contract is concluded. So:

(a) the *firm* must have put in place facilities designed to enable a *customer* to deal with it exclusively at a distance, such as facilities for a *customer* to deal with it purely by post, telephone, fax or the Internet. If a *firm* normally operates face-to-face and has no facilities in place enabling a *customer* to deal with it customarily by distance means, the *Distance Marketing Directive* will not apply. A one-off transaction effected exclusively by distance means to meet a particular contingency or emergency will not be a *distance contract*; and

(b) there must have been no simultaneous physical presence of the *firm* and the other party to the contract throughout the offer, negotiation and conclusion of the contract. So, for example, contracts offered, negotiated and concluded over the Internet, through a telemarketing operation, or by post will normally be *distance contracts*.

Use of intermediaries

The mere fact that an intermediary (acting for the supplier or for the *consumer*) is involved, does not make the sale of a financial product or service a *distance contract*. There will not be a *distance contract* if there has been simultaneous physical presence of the intermediary and the *consumer* at some stage in the offer, negotiation and conclusion of the contract.
1.4 [deleted]

1.4.1 [Deleted]
1.5 Application to appointed representatives

1.5.1 Although MCOB does not apply directly to a firm’s appointed representatives, a firm will always be responsible for the acts and omissions of its appointed representatives in carrying on business for which the firm has accepted responsibility (section 39(3) of the Act). In determining whether a firm has complied with any provision of MCOB, anything done or omitted by a firm’s appointed representative (when acting as such) will be treated as having been done or omitted by the firm (section 39(4) of the Act).

(2) Firms should refer to SUP 12 (Appointed representatives), which sets out requirements which apply to firms using appointed representatives.
1.6 Application to mortgages in relation to the Consumer Credit Act 1974

1.6.1 MCOB applies to regulated mortgage contracts entered into on or after 31 October 2004. Variations made on or after that date to contracts entered into before that date are not subject to FSA regulation but may be subject to the Consumer Credit Act 1974. PERG 4.4.13G contains guidance on the variation of contracts entered into before 31 October 2004.

1.6.2 Principle 2 requires a firm to conduct its business with due skill, care and diligence. The purpose of MCOB 1.6.3 R is to reinforce this. The FSA would expect firms to take appropriate steps to determine whether any mortgage it proposes to enter into is subject to FSA regulation.

1.6.3 Before a firm enters into a mortgage, it must take all reasonable steps to establish whether that mortgage will be a regulated mortgage contract and therefore subject to MCOB.

1.6.4 If, notwithstanding the steps taken by a firm to comply with MCOB 1.6.3 R, it transpires that a mortgage which the firm has treated as unregulated is in fact a regulated mortgage contract, the firm must as soon as practicable after the correct status of the mortgage has been established:

(1) contact the customer and provide him with the following information in a durable medium:

   (a) a statement that the mortgage contract is a regulated mortgage contract subject to FSA regulation, stating in particular the position with regard to redress and compensation; and

   (b) (where relevant) a statement that the Consumer Credit Act 1974 will not apply to the mortgage contract and that any Consumer Credit Act rights or requirements set out in previous communications will not apply;

(2) apply to the regulated mortgage contract all relevant MCOB requirements, such as those on disclosure (in MCOB 7) or on the treatment of customers in arrears (in MCOB 13).
(1) MCOB 1.6.4 R(2) means, for example, that if a firm discovered immediately after completion that a loan was a regulated mortgage contract, the firm would be required to comply with MCOB 7.4 (Disclosure at the start of the contract).

(2) Although MCOB 1.6.4 R recognises that firms may become aware that a mortgage is a regulated mortgage contract at a late stage, the FSA expects this to be an extremely rare occurrence. It could arise, for example, if a firm has acted on the understanding, verified as far as was practicable, that in respect of a particular mortgage contract less than 40% of the land would be used in connection with a dwelling. If it was discovered later that more than 40% of the land was used in connection with the dwelling (and provided that all the other legal requirements were met) the mortgage will be a regulated mortgage contract to which MCOB applies.

(3) MCOB 1.6.3 R and MCOB 1.6.4 R do not override the application of MCOB to any regulated mortgage contract. MCOB applies notwithstanding a firm’s genuine belief that a mortgage is unregulated. In deciding whether to take disciplinary action as a result of a breach of MCOB, the FSA will take into account whether the action by the firm was reckless or deliberate (see DEPP 6.2.1 G (1)(a)).
MCOB 1: Application and purpose

[deleted]
[deleted]
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MCOB 1: Application and purpose

[deleted]
Chapter 2

Conduct of business standards: general
2.1 Application

Who?

This chapter applies to a firm in a category listed in column (1) of the table in MCOB 2.1.2 R in accordance with column (2) of that table.

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>whole chapter except MCOB 2.2.6A R, MCOB 2.2.8A R, MCOB 2.2.8B G, MCOB 2.6A and MCOB 2.8.6 G</td>
</tr>
<tr>
<td>mortgage administrator</td>
<td></td>
</tr>
<tr>
<td>mortgage adviser</td>
<td></td>
</tr>
<tr>
<td>mortgage arranger</td>
<td></td>
</tr>
<tr>
<td>home purchase provider</td>
<td>MCOB 2.1, MCOB 2.2.1 G, MCOB 2.2.6 R to MCOB 2.2.9 G, MCOB 2.5, MCOB 2.6, MCOB 2.6A.1 R to MCOB 2.6A.4 G, MCOB 2.6A.7 G to MCOB 2.6A.10 G, MCOB 2.7.4 R to MCOB 2.7.6 R, MCOB 2.7A and MCOB 2.8.6 G</td>
</tr>
<tr>
<td>home purchase administrator</td>
<td>As for a home purchase provider but MCOB 2.6A.1 R to MCOB 2.6A.4 G and MCOB 2.6A.7 G do not apply</td>
</tr>
<tr>
<td>home purchase adviser</td>
<td>As for a home purchase provider but MCOB 2.6A does not apply</td>
</tr>
<tr>
<td>home purchase arranger</td>
<td></td>
</tr>
<tr>
<td>reversion provider</td>
<td>whole chapter except MCOB 2.2.6A R, MCOB 2.2.8A R and MCOB 2.2.8B G, MCOB 2.6A.7 G, MCOB 2.7.4 R to MCOB 2.7.6 R and MCOB 2.8.6 G</td>
</tr>
<tr>
<td>reversion administrator</td>
<td>As for a reversion provider but the relevant provisions of MCOB 2.6A apply only when arranging for a</td>
</tr>
<tr>
<td>reversion arranger</td>
<td></td>
</tr>
</tbody>
</table>
This chapter applies in relation to:

(1) **home finance activities**;

(2) those activities in ■ MCOB 12 and ■ MCOB 13 that are carried on after a **regulated mortgage contract** or **home purchase plan** has come to an end following the sale of a **repossessed** property, and those activities in ■ MCOB 12 that are carried on after a **home reversion plan** has ended for any reason; and

(3) the **communication or approval** of a **financial promotion** of **qualifying credit**, of a **home purchase plan** or of a **home reversion plan**.
2.2 Communications

Purpose

2.2.1 The purpose of MCOB 2.2 is to restate, in slightly amended form, and as a separate rule, the part of Principle 7 (Communications with clients) that relates to communication of information. This enables a customer, who is a private person, to bring an action for damages under section 150 (Contravention of rules) of the Act to recover loss resulting from a firm that carries on the activities referred to in MCOB 2.1.3 R communicating information, in the course of those activities, in a way that is not clear or fair, or that is misleading. MCOB 2.2 also clarifies the expectations of the FSA where any rule requires the provision of information and there are two or more customers.

General

2.2.2 In many circumstances there will be two or more customers under any home finance transaction, or two or more prospective customers looking to enter into the same home finance transaction. In such circumstances, where a rule in MCOB requires the provision of information to such customers and the customers have different addresses, a firm sending out this information should send it to each address. If the customers share the same address it will be sufficient to send a single copy of the information addressed to each of the customers.

Prescribed terms for regulated mortgage contracts and home reversion plans

2.2.3 In any communication to a customer, a firm must:

(1) describe any early repayment charge as an 'early repayment charge';

(2) describe any higher lending charge as a 'higher lending charge';

(3) describe any lifetime mortgage as a 'lifetime mortgage'; and

(4) describe any home reversion plan as a 'home reversion plan'; and

[deleted]
Related investment advice

2.2.5  Firms are reminded that they should follow the relevant rules in COBS 6 and COBS 13 relating to advice and disclosure on investments if they are advising the customer on an investment such as an annuity associated with an equity release transaction or an ISA used as a repayment vehicle.

Clear, fair and not misleading communications and financial promotions

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

(2) [deleted]

2.2.6A  A firm which approves a financial promotion of a home purchase plan must take reasonable steps to ensure that the financial promotion is clear, fair and not misleading.

2.2.7  When considering how to comply with the requirements of these rules on clear, fair and not misleading communications and financial promotions, a firm should have regard to the customer’s knowledge of the home finance transaction to which the information relates.

2.2.8  The rule on clear, fair and not misleading communications covers all communications with customers, for example any oral or written statements, telephone calls and any correspondence which is not a financial promotion to which MCOB 3 (Financial promotion) applies. In respect of financial promotions of qualifying credit or of home reversion plans, firms should note the separate requirements of MCOB 3.

2.2.8A  If a firm uses a figure equivalent to an APR in a communication of a financial promotion of a home purchase plan, when calculating that figure it must use an approach equivalent to the APR rules.

2.2.8B  The following guidance may be relevant to a firm that communicates or approves a financial promotion of a home purchase plan:

(1) guidance on what ‘communicate’, ‘approve’ and ‘financial promotion’ mean, and on the media of communication to which financial promotion rules apply (see MCOB 3.2.1 G and MCOB 3.2.2 G);

(2) guidance on other Handbook provisions relevant to financial promotions (see MCOB 3.2.8 G to MCOB 3.2.9 G);

(3) guidance on other regulations and guidelines relevant to financial promotions (see MCOB 3.5.3 G);

(4) guidance on referring to the FSA (see MCOB 3.6.2 G (3));

(5) guidance on the clear, fair and not misleading standard (see MCOB 3.6.5 G, MCOB 3.6.10 G and MCOB 3.6.14 G); and
(6) guidance on the use of the Internet for communicating financial promotions (see MCOB 3.12 and PERG 8.22).

Note: A comparative financial promotion will need to comply with regulation 4A of the Control of Misleading Advertisements Regulations 1988.

Prominence of relevant information can play a key role in ensuring that a communication is clear, fair and not misleading. Where this is the case, the firm should consider prominence in the context of the communication as a whole. Use can be made of the positioning of text, background and text colour and type size to ensure that specified information meets the requirements of MCOB.
2.3 Inducements: regulated mortgage contracts and home reversion plans

Purpose

2.3.1 The purpose of MCOB 2.3 is to ensure, in accordance with Principles 1, 6 and 8, that a firm does not conduct business under arrangements that might give rise to a conflict with its duty to customers or to unfair treatment of them.

Prohibition of inducements

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

(1) offer, give, solicit or accept an inducement; or

(2) direct or refer any actual or potential business in relation to a regulated mortgage contract or home reversion plan to another person on its own initiative or on the instructions of an associate; if it is likely to conflict to a material extent with any duty that the firm owes to its customers in connection with such a home finance transaction or any duty which such a recipient firm owes to its customers in connection with such a home finance transaction.

An inducement is a benefit offered with a view to bringing about a particular course of action.

2.3.4 The purpose of MCOB 2.3.2 R(2) is to prevent the requirement in MCOB 2.3.2 R(1) being circumvented by an inducement being given or received by an unregulated associate. There may be circumstances, however, where a firm is able to demonstrate that it could not reasonably have knowledge of an associate giving or receiving an inducement. It should not, however, direct business to another person on the instruction of an associate if this is likely to conflict with the interests of its customers.

2.3.5 MCOB 2.3.2 R does not prevent a firm:

(1) assisting a home finance intermediary so that the quality of the home finance intermediary’s service to customers is enhanced; or

(2) giving or receiving indirect benefits (such as gifts, hospitality and promotional competition prizes);
providing in either case this is not likely to give rise to a conflict with the duties that the recipient owes to the customer. In particular, such benefits should not be of a kind or value that is likely to impair the ability of a firm to act in compliance with any rule in MCOB, for example the suitability requirements in MCOB 4.7 (Advised sales).

2.3.6 A firm must not operate a system of giving or offering inducements to a mortgage intermediary, reversion intermediary or any other third party whereby the value of the inducement increases if the intermediary or third party, such as a packager, exceeds a target set for the amount of business referred (for example, a volume override).

(2) A firm must not solicit or accept an inducement whereby the value of the inducement increases if the firm exceeds a target set for the amount of business referred.

Quantification of inducements

2.3.7 (1) A mortgage lender or reversion provider must quantify, in cash terms, any material inducement it offers to a mortgage intermediary, reversion intermediary or a third party.

(2) In quantifying the value of the material inducement, the firm must include any subsequent payments (such as a trail fee) made where the customer continues with the same home finance transaction.

2.3.8 (1) Quantification of any material inducement offered by the mortgage lender or reversion provider supports the disclosure requirements elsewhere in MCOB. Further guidance on the disclosure of any inducement in cash terms is provided in MCOB 5.6.118 G for regulated mortgage contracts other than lifetime mortgages, MCOB 9.4.124 G for lifetime mortgages and MCOB 9.4.173 G for home reversion plans.

(2) A payment made to a third party unconnected with the home finance intermediary, where that payment only reflects the cost of outsourcing work relating to the processing of mortgage applications, would not be considered an inducement for these purposes.
2.4 High pressure sales: regulated mortgage contracts and home reversion plans

Purpose

2.4.1 The purpose of this section is to remind firms of the relevance of the high level standards in PRIN, especially with regard to the use of sales methods that may lead a customer to feel pressurised to enter into, or vary, a regulated mortgage contract or home reversion plan.

Fair treatment

2.4.2 Principle 6 (Customers' interests) requires that a firm must pay due regard to the interests of its customers and treat them fairly. This means, for example, that a firm should avoid selling practices that commit customers (or lead customers to believe that they are committed) to any regulated mortgage contract or home reversion plan before they have been able to consider the illustration and offer document. One such practice might be to present a new customer with an illustration, offer document and mortgage deed at one time and to require the mortgage deed to be signed on the same occasion (when there is no urgent need to do so).

Information

2.4.3 Principle 7 (Communications with clients) requires that a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading. This means, for example, that a firm should avoid giving any customer a false impression about the availability of a regulated mortgage contract or home reversion plan, such as describing it as a ‘special offer’ not available after a certain date unless this is really the case.
2.5 Reliance on others

Purpose

2.5.1 Principle 2 requires a firm to conduct its business with due skill, care and diligence. MCOB 2.5 indicates the extent to which firms that carry on home finance activities and that communicate or approve a financial promotion can meet this requirement by relying on others.

When firms can rely on others

2.5.2 A firm will be taken to be in compliance with any rule in MCOB that requires a firm to obtain information to the extent that the firm can show that it was reasonable for it to rely on information provided to it by another person.

2.5.3 (1) In relying on MCOB 2.5.2 R, a firm should take reasonable steps to establish that the other person providing the information is:

(a) not connected with the firm; and

(b) competent to provide the information.

(2) Compliance with (1) may be relied on as tending to establish compliance with MCOB 2.5.2 R.

(3) Contravention of (1) may be relied on as tending to establish contravention of MCOB 2.5.2 R.

2.5.4 (1) Any information which a rule in MCOB requires to be sent to a customer may be sent to another person on the instruction of the customer, so long as the recipient is not connected with the firm.

(2) There is no need for a firm to send information to a customer where it has taken reasonable steps to establish that this has been or will be supplied by another person.
2.6 Exclusion of liability

**Purpose**

2.6.1 Principle 6 (Customers’ interests) requires a firm to pay due regard to the interests of its customers and treat them fairly. A firm may not exclude the duties it owes or the liabilities it has to a customer under the regulatory system. It may exclude other duties and liabilities only if it is reasonable for it to do so.

**Limits on the exclusion of liability**

2.6.2 A firm must not, in any written or oral communication, seek to exclude or restrict, or to rely on any exclusion or restriction of, any duty or liability it may have to a customer under the regulatory system.

2.6.3 A firm must not, in any written or oral communication to a customer, seek to exclude or restrict, or to rely on any exclusion or restriction of, any duty or liability not referred to in MCOB 2.6.2 R unless it is reasonable for it to do so.
2.6A Protecting customers' interests: home purchase plans and home reversion plans

A firm must ensure that the interests of its customer under a home purchase plan or home reversion plan are protected to a reasonable standard.

Circumstances that a firm should consider include how the customer will be protected in the event of:

1. the failure of a reversion provider or home purchase provider;
2. the transfer of a reversion provider’s or home purchase provider’s interest (or the interest the provider would have had, had it not nominated a third party to hold it) in the property to a third party;
3. other dealings by a reversion provider or home purchase provider (or its nominee) with a third party; and
4. a reversion provider’s or home purchase provider’s (or its nominee’s) failure to perform obligations owed to third parties, or imposed by statute.

The steps that a firm might take in order to protect its customer’s interests will depend on a number of factors, including the nature and structure of the home purchase plan or home reversion plan and the jurisdiction in which the property is situated. If it is not possible to achieve reasonable protection (for example, due to impediments under a particular legal system) then a firm should not enter into, arrange or administer the plan.

In the FSA’s view, a customer’s interests will include:

(a) protection of the customer’s rights under the plan, in particular the right to occupy the property throughout its term;
(b) protection of any interest (legal or beneficial) that the customer retains, acquires or is intended to acquire in the property, including the expectation that such interests will be unencumbered by third party interests; and
(c) that, where a customer pays sums under a home purchase plan towards the purchase price of the property, those sums will be applied towards the purchase price. Or, in circumstances where that is not practicable
(for example, on repossession), that an appropriate amount will be returned to the customer.

(2) The protections that a firm should consider include:

(a) the extent to which different forms of tenure protect the tenant’s right to occupy the property and afford protection against removal. In particular, granting the customer a licence to occupy the property is unlikely to provide an adequate level of security;

(b) (except in Scotland) the need for any agreement under which a customer has a right to acquire an interest in the property to be specifically enforceable;

(c) the extent to which appropriate registrations, restrictions, notices or other entries should be made in the relevant land register;

(d) the timing of entries in the relevant land register and who should be responsible for making them; and

(e) the customer’s need for a full and clear understanding of all the steps that the firm expects him or his advisers to take to protect his interests both at the time the plan is entered into, and throughout its duration.

Protecting customers’ interests: additional material for home reversion plans

2.6A.5 Unless it is satisfied on reasonable grounds based on the customer’s knowledge, expertise and experience that it is unnecessary, a firm must obtain from its customer’s legal adviser, before its customer enters into a home reversion plan, confirmation that:

(1) he has been instructed to ensure that the customer’s legal rights under the plan are protected to a reasonable standard; and

(2) he has explained to the customer those aspects of the customer’s legal rights and obligations under the home reversion plan that he needs to understand.

2.6A.6 Firms remain responsible for ensuring that their customers’ interests are protected to a reasonable standard.

Protecting customers’ interests: additional material for home purchase plans

2.6A.7 A home purchase provider should consider obtaining confirmation from the customer’s legal adviser that he has carried out, or will carry out, the steps that the firm expects the customer or his legal advisers to take to protect his interests at the time the plan is taken out.

Treating customers fairly: home purchase plans and home reversion plans

2.6A.8 A firm must pay due regard to the interests of its customer and treat him fairly when drafting, amending the terms of, or imposing obligations or
exercising rights or discretions under, a home purchase plan or home reversion plan.

2.6A.9 A firm is unlikely, for example, to be treating its customer fairly in relation to termination of a home purchase plan or home reversion plan if:

(1) the grounds on which it may terminate all or part of a plan are unduly wide, or on which a customer may terminate are unduly narrow; or

(2) the customer is not given appropriate notice of termination.

2.6A.10 A firm is also unlikely to be treating its customer fairly if, upon termination of an agreement under a home purchase plan or home reversion plan, the customer does not receive (net of any reasonable sums payable by the customer):

(1) in the case of a home reversion plan where the customer retains a beneficial interest in the property, the value of that beneficial interest; or

(2) in the case of a home purchase plan, the value of purchase payments made.

Note: The terms of a home purchase plan or home reversion plan should take into account relevant legal obligations such as those under the Unfair Terms Regulations and, where applicable, the Housing Act 1988 (or, in Scotland, the Housing (Scotland) Act 1988). A firm may find material on the FSA website concerning the FSA’s consumer protection powers useful. The Office of Fair Trading has also published guidance on the impact of the Unfair Terms Regulations on tenancy agreements.

Treating customers fairly: home reversion plans

2.6A.11 A firm is unlikely, for example, to be treating a reversion occupier fairly if:

(1) the reversion occupier is obliged to maintain the property to a standard which exceeds the standard that the property is in when the home reversion plan commences;

(2) the reversion occupier is not entitled to, or is not given, reasonable notice of an inspection, or the inspection is conducted in a way that is biased against him;

(3) unreasonable restrictions are imposed on who may occupy the property, taking into account the potential needs of the reversion occupier throughout the duration of the home reversion plan;

(4) unreasonable restrictions are imposed on the uses to which the property may be put;

(5) the reversion occupier is unreasonably treated as having abandoned the property. For example, it is likely to be unreasonable to treat a property as abandoned based only on a period of non-occupation;

(6) where the reversion occupier has a reasonable expectation that the home reversion plan can be transferred to another property, agreement to such a transfer is, or can be, refused unreasonably.
Independent valuation: home reversion plans

2.6A.12 **R**

A firm must ensure that any valuation is carried out by a competent valuer who is independent of the reversion provider.

2.6A.13 **A**

(1) A valuer may be considered competent if he is a suitably qualified member of a professional body.

(2) A valuer may be considered independent if:

   (a) the customer can choose the valuer subject to the firm objecting on reasonable grounds and to the valuer being competent;

   (b) he owes a duty of care to the customer in valuing the property; and

   (c) the customer has an appropriate remedy against him under a complaints procedure which allows the complaint to be referred to an independent person whose decision is binding on the valuer.

(3) Compliance with (1) and (2) may be relied on as tending to establish compliance with MCOB 2.6A.12 R.

2.6A.14 **G**

Members of the Royal Institution of Chartered Surveyors, for example, are required to operate a complaints procedure that allows the complaint to be referred to an independent person whose decision binds the valuer and which, in the FSA’s view, provides a customer with an appropriate remedy.

Obtaining best price: partial home reversion plans

2.6A.15 **R**

A firm must take reasonable steps to ensure that, when a home reversion plan ends and the customer retains a beneficial interest in the property:

(1) the property is sold within a reasonable period of time; and

(2) the best price that might reasonably be obtained is paid.

2.6A.16 **G**

It is recognised that a balance has to be struck between the need to sell the property as soon as possible, and other factors, such as market conditions, which may prompt the delay of the sale. Legitimate reasons for deferring action might include the expiry of a period when a grant is repayable on re-sale, or the discovery of a title defect that needs to be remedied if the optimal selling price is to be achieved.
2.6A.17 **R** For the purpose of this section (except this rule), a reversion arranger or reversion administrator's customer:

1. includes a reversion occupier or potential reversion occupier who enters, or proposes to enter, into a home reversion plan with an unauthorised reversion provider who is the firm's customer; and

2. excludes an unauthorised reversion provider.

2.6A.18 **G** A person may enter into a home reversion plan as provider without being regulated by the FSA (or an exempt person) if the person does not do so by way of business (see PERG 14.5). If a firm arranges for such a person to enter into a home reversion plan as provider, the firm will be responsible for ensuring that the reversion occupier’s interests are protected to a reasonable standard, even if the reversion arranger is not acting for the reversion occupier. A reversion administrator is under the same obligation in relation to a reversion occupier under a home reversion plan which it administers on behalf of an unauthorised reversion provider.
2.7 Application to electronic media and distance communications

2.7.1 GEN 2.2.14 R (References to writing) has the effect that electronic media may be used to make communications that are required by the Handbook to be ‘in writing’ unless a contrary intention appears. In MCOB, the use of an electronic medium is restricted in certain circumstances to a durable medium as required by the Distance Marketing Directive.

Additional guidance in respect of electronic communication with or for customers

2.7.2 For any electronic communication with a customer in relation to a home finance transaction a firm should:

(1) have in place appropriate arrangements, including contingency plans, to ensure the secure transmission and receipt of the communication; it should also be able to verify the authenticity and integrity of the communication together with the date and time sent and received; the arrangements should be proportionate and take into account the different levels of risk in a firm’s business;

(2) be able to demonstrate that the customer wishes to communicate using this medium; and

(3) if entering into an agreement, make it clear to the customer that a contractual relationship is created that has legal consequences.

2.7.3 A firm should note that GEN 2.2.14 R (References to writing) does not affect any other legal requirement that may apply in relation to the form or manner of executing a document or agreement.

General provisions related to distance contracts

2.7.4 During the course of a distance contract with a consumer, the making or performance of which constitutes or is part of a regulated mortgage contract or home purchase plan:

(1) the firm must, at the consumer’s request, provide a paper copy of the contractual terms and conditions of the regulated mortgage contract, home purchase plan or services being provided by the firm; and
(2) the firm must comply with the customer's request to change the means of distance communication used, unless this is incompatible with the regulated mortgage contract, home purchase plan or service being provided by the firm.

A firm must ensure that information provided to a consumer before the conclusion of a distance contract about his contractual obligations under that contract conform with the contractual obligations that would be imposed on him under the law applying if the contract were concluded.

Unsolicited services

(1) A firm must not:

(a) supply a service to a consumer without a prior request on his part, when this activity includes a request for immediate or deferred payment; or

(b) enforce any obligations against a consumer in the event of unsolicited supplies of services, the absence of a reply not constituting consent.

(2) Paragraph (1) applies in relation to mortgage mediation activities, entering into a regulated mortgage contract, home purchase mediation activities or entering into a home purchase plan under an organised distance sales or service-provision scheme run by the firm or by an intermediary, who, for the purpose of that supply, makes exclusive use of one or more means of distance communication up to and including the time at which the services are supplied.
Application

2.7A.1 This section applies to a firm carrying on an electronic commerce activity from an establishment in the United Kingdom, with or for a person in the United Kingdom or another EEA state, in relation to a home finance transaction.

Information about the firm and its products or services

2.7A.2 A firm must make at least the following information easily, directly and permanently accessible to the recipients of the information society services it provides:

(1) its name;

(2) the geographic address at which it is established;

(3) the details of the firm, including its e-mail address, which allow it to be contacted rapidly and communicated with in a direct and effective manner;

(4) an appropriate statutory status disclosure statement (GEN 4 Annex 1 R), together with a statement which explains that it is on the FSA register and includes its FSA register number;

(5) if it is a professional firm, or a person regulated by the equivalent of a designated professional body in another EEA State:

(a) the name of the professional body (including any designated professional body) or similar institution with which it is registered;

(b) the professional title and the EEA State where the professional title was granted;

(c) a reference to the applicable professional rules in the EEA State of establishment and the means to access them; and
(6) where the firm undertakes an activity that is subject to VAT, its VAT number.

[Note: article 5(1) of the E-Commerce Directive]

2.7A.3 R

If a firm refers to price, it must do so clearly and unambiguously, indicating whether the price is inclusive of tax and delivery costs.

[Note: article 5(2) of the E-Commerce Directive]

2.7A.4 R

A firm must ensure that commercial communications which are part of, or constitute, an information society service, comply with the following conditions:

(1) the commercial communication must be clearly identifiable as such;

(2) the person on whose behalf the commercial communication is made must be clearly identifiable;

(3) promotional offers must be clearly identifiable as such, and the conditions that must be met to qualify for them must be easily accessible and presented clearly and unambiguously; and

(4) promotional competitions or games must be clearly identifiable as such, and the conditions for participation must be easily accessible and presented clearly and unambiguously.

[Note: article 6 of the E-Commerce Directive]

2.7A.5 R

An unsolicited commercial communication sent by e-mail by a firm established in the United Kingdom must be identifiable clearly and unambiguously as an unsolicited commercial communication as soon as it is received by the recipient.

[Note: article 7(1) of the E-Commerce Directive]

Requirements relating to the placing and receipt of orders

2.7A.6 R

A firm must (except when otherwise agreed by parties who are not consumers):

(1) give an ECA recipient at least the following information, clearly, comprehensibly and unambiguously, and before the order is placed by the recipient of the service:

(a) the different technical steps to follow to conclude the contract;

(b) whether or not the concluded contract will be filed by the firm and whether it will be accessible;

(c) the technical means for identifying and correcting input errors before the placing of the order; and
(d) the languages offered for the conclusion of the contract;

(2) indicate any relevant codes of conduct to which it subscribes and information on how those codes can be consulted electronically;

(3) (when an ECA recipient places an order through technological means), acknowledge the receipt of the recipient's order without undue delay and by electronic means (an order and an acknowledgement of receipt are deemed to be received when the parties to whom they are addressed are able to access them); and

(4) make available to an ECA recipient, appropriate, effective and accessible technical means allowing the recipient to identify and correct input errors before the placing of an order.

[Note: article 10(1) and (2) and 11(1) and (2) of the E-Commerce Directive]

2.7A.7 R

Contractual terms and conditions provided by a firm to an ECA recipient must be made available in a way that allows the recipient to store and reproduce them.

[Note: article 10(3) of the E-Commerce Directive]

Exception: contract concluded by e-mail

2.7A.8 R

The requirements relating to the placing and receipt of orders do not apply to contracts concluded exclusively by exchange of e-mail or by equivalent individual communications.

[Note: article 10(4) and 11(3) of the E-Commerce Directive]
2.8 Record keeping

Purpose

2.8.1 MCOB 2.8 provides details of the standard expected of firms where there is an obligation in MCOB requiring firms to maintain adequate records to evidence compliance. An overall view of the record keeping requirements in MCOB is in MCOB Sch 1.

Accessibility of records

2.8.2 The records required in MCOB must be readily accessible for inspection by the FSA.

2.8.3 A record would be 'readily accessible' if it were available for inspection within two business days of the request being received.

2.8.4 (1) A firm may arrange for records to be kept in such form as it chooses, provided the record is readily accessible for inspection by the FSA.

(2) Where a firm chooses to maintain records in electronic form, it should take reasonable steps to ensure that:

(a) the electronic record accurately reflects the original information; and

(b) the electronic record has not been subject to unauthorised or accidental alteration.

2.8.5 Each rule in MCOB that requires a record also sets out a period that the record must be kept for. While not a requirement of MCOB, firms may choose to keep records for longer periods, for example, where there is the possibility of customer complaint or legal action against the firm.

Home purchase plans

2.8.6 This sourcebook does not specify detailed record keeping requirements for a firm that carries on a home purchase activity or that communicates or approves a financial promotion of a home purchase plan (but note the high-level record-keeping provisions in the Senior Management Arrangements, Systems and Controls sourcebook).
Chapter 3

Financial Promotion of qualifying credit and of home reversion plans
3.1 Application: who?

This chapter applies to every firm which communicates or approves a financial promotion of qualifying credit or of a home reversion plan.

3.1.1 This chapter applies generally to firms in relation to all financial promotions of qualifying credit or of a home reversion plan. This wide application is however cut back by MCOB 3.2 (Application: what?) and MCOB 3.3 (Application: where?) which limit the application of this chapter for:

(1) financial promotions which would fall within the scope of the exemptions in the Financial Promotion Order or the additional exemptions set out in MCOB 3.2.5 R (Applications: what? Exemptions); and

(2) financial promotions to persons outside the United Kingdom.

3.1.2 MCOB 3.1.1 R means that:

(1) this chapter applies not only to financial promotions for regulated mortgage contracts, but also to promotions for qualifying credit; and

(2) this chapter applies to all aspects of a promotion by a firm of products which combine unsecured and secured lending.

3.1.3 In relation to MCOB 3.1.3 G(2), an example would be a promotion for a mortgage product, one feature of which was an unsecured lending facility or reserve.

3.1.4 Under section 39(3) of the Act, a firm is responsible for financial promotions communicated by its appointed representatives when acting as such.

3.1.5 [deleted]

3.1.6 A financial promotion may relate to other controlled investments in addition to qualifying credit and home reversion plans, for example a building society leaflet which describes the range of mortgage, savings and insurance products it provides. In such cases, the financial promotion rules in this and other sourcebooks will each apply as relevant.
As a result of articles 90 and 91 of the Regulated Activities Order:

(1) a financial promotion of qualifying credit is not subject to the advertising provisions of the Consumer Credit Act 1974, unless it is an exempt generic promotion; and

(2) where a firm makes a communication, which consists of a financial promotion of qualifying credit and information relating to a different form of lending that is not qualifying credit (for example an unsecured personal loan), the content of the latter will need to comply with the relevant advertising provisions of the Consumer Credit Act 1974.

**Authorised professional firms**

(1) Except for MCOB 3.6.17 R to MCOB 3.6.25 R (Annual percentage rate (APR)), MCOB 3 does not apply to an authorised professional firm in relation to the communication of a financial promotion if the following conditions are satisfied:

(a) the firm's main business must be the practice of its profession (see IPRU(INV) 2.1.2R(3));

(b) the financial promotion must be made for the purposes of and incidental to the promotion or provision by the firm of:

(i) its professional services; or

(ii) its non-mainstream regulated activities (see PROF 5.2 (Nature of non-mainstream activities)); and

(c) the financial promotion must not be communicated on behalf of another person who would not be able lawfully to communicate the financial promotion if he were acting in the course of business.

(2) In (1)(b)(i), 'professional services' means services:

(a) which do not constitute a regulated activity; and

(b) the provision of which is supervised and regulated by a designated professional body.

**Nationals of other EEA States**

A national of an EEA State (other than the United Kingdom) wishing to take advantage of the exemption in article 36 of the Financial Promotion Order in respect of a financial promotion of qualifying credit or of a home reversion plan should act in conformity with the rules in this chapter.
Illustrative examples of qualifying credit promotions

3.1.12 MCOB 3 Annex 1 G gives examples of financial promotion of qualifying credit that would satisfy some of the provisions of MCOB 3.
3.2 Application: what?

Application for a financial promotion of qualifying credit

This chapter applies to the communication or approval of a financial promotion of qualifying credit as follows:

- Application, purpose and general (MCOB 3.1 to MCOB 3.5)
- Form and content of non-real time qualifying credit promotions (MCOB 3.6)
- Unsolicited real time promotions of qualifying credit or home reversion plans (MCOB 3.7)
- Form and content of real time qualifying credit promotions (MCOB 3.8)
- Confirmation of compliance: financial promotions of qualifying credit or home reversion plans (MCOB 3.9)
- Records: non-real time financial promotions of qualifying credit or home reversion plans (MCOB 3.10)
- Communication and approval of qualifying credit promotions for an overseas person or an unauthorised person (MCOB 3.11)
- The Internet and other electronic media (MCOB 3.12)

Application for a financial promotion of a home reversion plan

This chapter applies to the communication or approval of a financial promotion of a home reversion plan as follows:

- Application, purpose and general (MCOB 3.1 to MCOB 3.5)
- Form and content of non-real time qualifying credit promotions (MCOB 3.6 in accordance with MCOB 3.8A)
Unsolicited real time financial promotions of qualifying credit or home reversion plans  
MCOB 3.7

Form and content of financial promotions of home reversion plans  
MCOB 3.8A

Confirmation of compliance: financial promotions of qualifying credit or home reversion plans  
MCOB 3.9

Records: non-real time financial promotions of qualifying credit or home reversion plans  
MCOB 3.10

The Internet and other electronic media  
MCOB 3.12

Application for a financial promotion of a home purchase plan

The rules in this chapter do not apply to the communication or approval of a financial promotion of a home purchase plan. However, the clear, fair and not misleading standard still applies as does certain relevant guidance from this chapter (see MCOB 2.2).

What do "communicate", "approve" and "financial promotion" mean?

3.2.1

(1) The rules in this chapter adopt various concepts from the restriction on financial promotion by unauthorised persons in section 21(1) of the Act (Restrictions on financial promotion). Guidance on that restriction is contained in PERG 8 (Financial promotion and related activities) and that guidance will be relevant to interpreting these rules. In particular, guidance on the meaning of:

(a) 'communicate' is in PERG 8.6 (Communicate); and

(b) 'invitation or inducement' and 'engage in investment activity' (two elements which, with 'communicate', make up the definition of 'financial promotion') is in PERG 8.4 (Invitation or inducement) and PERG 8.7 (Engage in investment activity).

(2) Guidance on the approval of a financial promotion of qualifying credit is in MCOB 3.11.1 G (Approval of qualifying credit promotions).

Media of communication

3.2.2

(1) There is no restriction on the media of communication to which this chapter applies. It applies to a financial promotion communicated by any means, including by way of printed advertising, radio and television broadcasts, a personal visit, a telephone call, an e-mail, the Internet and electronic media such as digital and other forms of interactive television or media. Both solicited and unsolicited communications are covered.

(2) Financial promotions may be communicated for example, by means of:

(a) product brochures;
(b) general advertising in magazines, newspapers, radio and television programmes and websites;
(c) mailshots (whether distributed by post, facsimile, e-mail or other media);
(d) telemarketing activities, such as telephone calls made by call centres;
(e) written correspondence, telephone calls and face-to-face discussions with customers;
(f) sales aids which themselves constitute a financial promotion;
(g) presentations to groups of customers; and
(h) other publications, which may contain non-personal recommendations as to obtaining qualifying credit or entering into a home reversion plan.

Guidance on the use of the Internet for communicating financial promotions is in:
- MCOB 3.12 (The Internet and other electronic media)
- PERG 8.22 (The Internet)

Exemptions

This chapter does not apply to a firm in relation to a financial promotion of qualifying credit of a kind listed in MCOB 3.2.5 R, except that if the firm approves the financial promotion, the following apply:

1. MCOB 3.1 to MCOB 3.5 (Application, Purpose and General);
2. MCOB 3.6.3 R (Clear, fair and not misleading);
3. MCOB 3.11.1 G to MCOB 3.11.4 G (Approval of qualifying credit promotions; No approval of real time qualifying credit promotions; Approval of qualifying credit promotions when not all the rules apply); and
4. if the firm approves a non-real time financial promotion of qualifying credit by an overseas person MCOB 3.11.5 R (Non-real time qualifying credit promotions for overseas persons) applies.

This chapter does not apply to a firm in relation to a financial promotion of a home reversion plan of a kind listed in MCOB 3.2.5 R, unless the firm approves the financial promotion.

Table This table belongs to MCOB 3.2.4 R and MCOB 3.2.4A R.

Exemptions

This chapter does not apply to the following:

1. an illustration produced in accordance with the requirements of MCOB 5, MCOB 6, MCOB 7 or MCOB 9;
2. a financial promotion which contains only one or more of the following:
Exemptions

(a) the name of the firm (or its appointed representative);
(b) a logo;
(c) a contact point (address (including an e-mail address), telephone or facsimile number);
(d) a brief, factual statement of the firm’s (or its appointed representative’s) main occupation;

(3) a financial promotion which can lawfully be communicated by an unauthorised person without approval;

(4) a financial promotion communicated from outside the United Kingdom which would be exempt under articles 30, 31, 32 or 33 of the Financial Promotion Order (Overseas communicators) if the office from which the financial promotion is communicated were a separate unauthorised person (but see GEN 4.4.1R (Business for private customers from non-UK offices));

3.2.6 MCOB 3.2.5 R(2) exempts a financial promotion made by a firm or an appointed representative which refers to its activities only in general terms in image or brand advertising. The items identified in MCOB 3.2.3 R(2) do not enable detailed information to be given about the qualifying credit or home reversion plan available from the firm. Thus firms should avoid the use of names, logos or addresses, for example, which attempt to convey additional product or cost-related information.

Combination of exemptions

3.2.7 A firm may rely on more than one exemption (and also on MCOB 3.3.1 R (Application: where?)) in relation to the same financial promotion.

Other relevant handbook rules

3.2.8 Firms are reminded that financial promotion (including those which are exempt) may be subject to more general rules, including Principle 7 (Communications with clients), SYSC 3 to SYSC 10 (Systems and controls) and MCOB 2.2.6 R (Clear, fair and not misleading communication).

3.2.9 Firms are reminded that if in the course of making a financial promotion of any kind an adviser gives specific advice on a home finance transaction to a customer about the suitability of a product for that individual, the adviser in giving the advice is subject to the rules, as appropriate, on advising and selling in MCOB 4 (Advising and selling standards) and MCOB 8 (Equity release: advising and selling standards).
3.3 Application: where?

**Territorial Scope**

This chapter applies to a *firm* in relation to:

1. the *communication* of a *financial promotion* to a *person* in the *United Kingdom*;

2. the *communication* of an unsolicited real time financial promotion of qualifying credit or a *home reversion plan*, unless it is made from a place, and for the purposes of a business which is only carried on, outside the *United Kingdom*;

3. the approval of a *non-real time financial promotion* of qualifying credit or a *home reversion plan* for *communication* to a *person* in the *United Kingdom*; and

4. the *communication* or approval for *communication* of a *financial promotion* that is an *electronic commerce communication* to a *person* in an *EEA state* other than in the *United Kingdom*.

3.3.2

1. The application under MCOB 3.3.1 R is relevant both when a *firm* communicates a *financial promotion* itself and when a *firm* approves a non-real time financial promotion for *communication* by others. But see also MCOB 3.3.3 R (Exceptions to territorial scope: rules without territorial limitation) for approval of financial promotions.

2. The exemptions in MCOB 3.2.5 R (Application: what?; Exemptions) also incorporate some territorial elements. In particular, the exemption for financial promotions originating outside the *United Kingdom* (section 21(3) of the Act (Restrictions on financial promotion)) (see MCOB 3.2.5 R (4)), the exemptions for overseas communicators (see MCOB 3.2.5 R (4)), the exemption for electronic commerce communications made from an establishment in an EEA State other than the *United Kingdom* to an ECA recipient in the *United Kingdom* (see PERG 8.12.38G (Incoming electronic commerce communication (article 20B))).

3. [deleted]
3.3.3 Exceptions to territorial scope: rules without territorial limitation for approval of financial promotions

Subject to MCOB 3.3.5 R the following parts of this chapter apply without any territorial limitation if a firm approves a financial promotion of qualifying credit or of a home reversion plan:

(1) MCOB 3.1 to MCOB 3.5 (Application, Purpose and General);

(2) rules requiring a financial promotion to be clear, fair and not misleading (see MCOB 3.6.3 R (1) in relation to qualifying credit and MCOB 3.8A.1 R in relation to a home reversion plan); and

(3) the provisions regarding approval of financial promotions (except those relating to approval of financial promotions of qualifying credit provided by an overseas person) (see MCOB 3.11.1 G to MCOB 3.11.4 G and MCOB 3.8A.6 R).

3.3.4 There is no need for a financial promotion which is indicated in MCOB 3.3.1 R to be outside the territorial scope of the application of MCOB 3 to be approved before being communicated by an unauthorised person (because the restriction in section 21 of the Act (Restrictions on financial promotion) does not apply). If a firm nevertheless approves such a financial promotion, it must comply with the rules indicated. However, a firm must not approve a real time financial promotion (see MCOB 3.11.2 R (No approval of real time qualifying credit promotions) or MCOB 3.8A.6 R (No approval of real time financial promotions of a home reversion plan)).

3.3.5 Exceptions to territorial scope: financial promotions of qualifying credit relating to distance contracts

(1) Notwithstanding MCOB 3.3.1 R and MCOB 3.3.3 R, where a firm which satisfies the conditions in (2) communicates a financial promotion of qualifying credit, the rules in (3) do not apply.

(2) The conditions are that:

(a) the firm communicates the financial promotion of qualifying credit from an establishment maintained by the firm in an EEA State other than the United Kingdom, and not from an establishment maintained by the firm in the United Kingdom or outside the EEA;

(b) either that EEA State:

(i) has implemented the Distance Marketing Directive; or

(ii) has obligations in its domestic law corresponding to those provided for by the Distance Marketing Directive;

(c) the financial promotion of qualifying credit relates, exclusively, to a distance contract, for the conclusion of
which the obligations provided for by the *Distance Marketing Directive* (or corresponding obligations) are applied by that State; and

(d) the *firm* is a national of an *EEA State* or a company or firm mentioned in article 48 of the *Treaty*.

(3) The *rules* which do not apply are:

(a) ■ MCOB 3.6.1 R (Name and contact point);
(b) ■ MCOB 3.6.13 R (Required risk statements);
(c) ■ MCOB 3.6.15 R (Transient advertising);
(d) ■ MCOB 3.6.26 R (Multi-rate mortgages);
(e) ■ MCOB 3.6.27 R (Fees for advice or arranging); and
(f) ■ MCOB 3.8.2 R (3) and (4) (Form and content of real time qualifying credit promotions).

### Meaning of 'communicated to a person inside or outside the United Kingdom'

**3.3.6**

For the purposes of this chapter:

(1) a *financial promotion* is *communicated* to a *person* outside the *United Kingdom* if it is:

(a) made to a *person* who receives it outside the *United Kingdom*; or

(b) directed only at *persons* outside the *United Kingdom*; and

(2) a *financial promotion* is *communicated* to a *person* inside the *United Kingdom* if it is *communicated* to a *person* other than as described in (1);

and see ■ MCOB 3.3.7 R and ■ MCOB 3.5.6 R which amplify this *rule*.

### Meaning of "'directed only at persons outside the United Kingdom'"

**3.3.7**

(1) If the conditions set out in 4(a), (b), (c) and (d) are met, a *financial promotion* directed from a place inside the *United Kingdom* will be regarded as directed only at *persons* outside the *United Kingdom*.

(2) If the conditions set out in 4(c) and (d) are met, a *financial promotion* directed from a place outside the *United Kingdom* will be regarded as directed only at *persons* outside the *United Kingdom*.
(3) In any other case, where one or more of the conditions in 4(a) to (e) is met, that fact will be taken into account in determining whether a financial promotion is directed only at persons outside the United Kingdom (but a financial promotion may still be regarded as directed only at persons outside the United Kingdom even if none of these conditions is met).

(4) The conditions are that:

(a) the financial promotion is accompanied by an indication that it is directed only at persons outside the United Kingdom;

(b) the financial promotion is accompanied by an indication that it must not be acted upon by persons in the United Kingdom;

(c) the financial promotion is not referred to in, or directly accessible from, any other financial promotion which is made to a person or directed at persons in the United Kingdom by the same person;

(d) there are in place proper systems and procedures to prevent recipients in the United Kingdom (other than those to whom the financial promotion might otherwise lawfully have been made) obtaining the product to which the financial promotion relates, from the person directing the financial promotion, a close relative of his or a member of the same group;

(e) the financial promotion is included in:

(i) a website, newspaper, journal, magazine or periodical publication which is principally accessed in or intended for a market outside the United Kingdom; and

(ii) a radio or television broadcast or teletext service transmitted principally for reception outside the United Kingdom.
3.4 Purpose

3.4.1
(1) Section 21(1) of the Act (Restriction on financial promotion) imposes a restriction on the communication of financial promotions by unauthorised persons. A person must not, in the course of business, communicate a financial promotion unless:
   (a) he is an authorised person; or
   (b) the content of the financial promotion is approved by an authorised person.

(2) However, the Financial Promotion Order exempts from the restriction created by section 21(1) of the Act certain types of financial promotions.

3.4.2
(1) The purpose of this chapter is to provide rules and guidance for a firm which wishes to communicate or approve a financial promotion of qualifying credit or of a home reversion plan.

(2) This chapter amplifies, for activities within its scope Principle 6 (Customers’ interests) and Principle 7 (Communications with clients).
3.5 General

3.5.1 [deleted - see application tables in MCOB 3.2]

3.5.2 Table [deleted]

Other regulations and guidelines

3.5.3 A firm communicating a financial promotion may also be subject to other regulations and guidelines, outside the remit of the FSA, such as:

1. the codes issued from time to time by the Advertising Standards Authority, the Independent Television Commission and the Radio Authority;

2. regulations of any overseas regulator (where relevant) if the firm intends to market from the United Kingdom into any other country;

3. the Privacy and Electronic Communications (EC Directive) Regulations 2003

4. the Timeshare Act 1992, as amended by the Timeshare Regulations 1997 (SI 1997/1081); and

5. the Consumer Protection Act 1987, or Consumer Protection (Northern Ireland) Order 1987 (SI 1987/2049 (N.I 20)).

'Real time' and 'non-real time' qualifying credit promotions

3.5.4 This chapter draws a distinction between real time and non-real time financial promotions. Guidance on the meaning of those expressions, which are based upon article 7 of the Financial Promotion Order, is contained in PERG 8.10.2G (Real time v. non-real time promotions).

3.5.5 (1) A real time financial promotion is a financial promotion which is communicated in the course of a personal visit, telephone conversation or other interactive dialogue.

(2) A non-real time financial promotion is a financial promotion that is not a real time financial promotion. It includes a financial promotion made by letter, e-mail or contained in a
newspaper, journal, magazine, other periodical publication, website, television or radio programme, or teletext service.

(3) The following are to be regarded as indications that a financial promotion is a non-real time financial promotion:

(a) the financial promotion is communicated to more than one person in identical terms (save for details of the recipient's identity);

(b) the financial promotion is communicated by way of a system which in the normal course constitutes or creates a record of the communication which is available to the recipient to refer to at a later time; and

(c) the financial promotion is communicated by way of a system which in the normal course does not enable or require the recipient to respond immediately to it.

Meaning of 'made', 'directed at' and 'recipient' in MCOB 3

(In accordance with article 6 of the Financial Promotion Order (Interpretation: communications)) any reference in this chapter to:

(1) a communication being made to another person is a reference to a communication being addressed, whether verbally or in legible form, to a particular person or persons (for example, where it is contained in a telephone call or letter);

(2) a communication being directed at persons is a reference to a communication being addressed to persons generally (for example where it is contained in a television broadcast or website); and

(3) a 'recipient' of a communication is the person to whom the communication is made or, in the case of a non-real time financial promotion which is directed at persons generally, any person who reads or hears the communication.
3.6 Form and content of non-real time qualifying credit promotions

Name and contact point

3.6.1 A non-real time financial promotion must contain the name of the firm or its appointed representative and either an address or a contact point from which an address is available.

3.6.2 (1) For the purposes of MCOB 3.6.1 R, the name may be a trading name or shortened version of the legal name of the firm (although other legislation, for example, the Companies Act 1985, may require a firm to include information not required by this rule).

(2) The type of contact point envisaged for a firm by MCOB 3.6.1 R is an e-mail address or telephone or facsimile number, where a customer can contact the firm for its address.

(3) A firm is not required in a financial promotion which it communicates or approves to name the FSA as its regulator. However, to ensure the financial promotion is clear, fair and not misleading, if the firm chooses to name the FSA as its regulator and the financial promotion refers to matters not regulated by the FSA, it should also make clear that those matters are not regulated by the FSA. This might arise, for example, where the communication included both a financial promotion of qualifying credit and a promotion for unsecured lending.

Clear, fair and not misleading

3.6.3 (1) A firm must be able to show that it has taken reasonable steps to ensure that a non-real time financial promotion is clear, fair and not misleading.

(2) A non-real time financial promotion which includes a comparison or contrast must:

(a) compare credit meeting the same needs or which is intended for the same purpose;

(b) objectively compare one or more material, relevant, verifiable and representative features of that credit, which may include price;
(c) not create confusion in the market place between the firm itself (or the person whose qualifying credit promotion it approves) and a competitor or between the firm's trademarks, trade names, other distinguishing marks, qualifying credit (or those of the person whose qualifying credit promotion it approves) and those of a competitor;

(d) not discredit or denigrate the trademarks, trade names, other distinguishing marks, qualifying credit, services, activities or circumstances of a competitor;

(e) not take unfair advantage of the reputation of a trademark, trade name or other distinguishing marks of a competitor;

(f) not present qualifying credit as an imitation or replica of qualifying credit bearing a protected trademark or trade name; and

(g) indicate in a clear and unequivocal way in any comparison referring to a special offer the date on which the offer ends or, where appropriate, that the special offer is subject to the availability of the qualifying credit, and, where the special offer has not yet begun, the date of the start of the period during which the special price or other specific conditions will apply.

3.6.4 (1) A firm should take reasonable steps to ensure that, for a non-real time financial promotion:

(a) it does not omit any matters the omission of which causes the financial promotion of qualifying credit not to be clear, fair and not misleading;

(b) if it describes a feature of any qualifying credit, it gives no less prominence to the possible disadvantages than to the benefits associated with that feature;

(c) it uses plain and intelligible language, and is easily legible (or, in the case of oral promotions, clearly audible);

(d) the accuracy of all statements of fact in it can be substantiated;

(e) its promotional purpose is not in any way disguised or misrepresented;

(f) any statement of fact, promise or prediction is clear, fair and not misleading and any relevant assumptions are clearly and prominently disclosed (but a firm is not required to explain, on the face of the financial promotion of qualifying credit, the basis on which a stated APR is calculated: see MCOB 3.6.18 G);

(g) any statement of opinion is honestly held and, unless consent is impracticable, given with the written consent of the person concerned;
(h) the facts on which any comparison or contrast is made are verified, or, alternatively, that relevant assumptions are prominently disclosed and that the comparison or contrast is presented in a fair and balanced way, which is not misleading and includes all factors which are relevant to the comparison or contrast;

(i) it does not contain any false indications, in particular as to:
   (i) the firm’s independence;
   (ii) the firm’s resources and scale of activities; or
   (iii) the scarcity of any qualifying credit;

(j) the design, content or format does not in any way disguise, obscure or diminish the significance of any statement, warning or other matter which the financial promotion of qualifying credit is required by this chapter to contain;

(k) it does not include any reference to approval by the FSA or any government body, unless such approval has been obtained in writing from the FSA or that body (see also GEN 1.2(Referring to approval by the FSA));

(l) where it contains information required as a consequence of the following provisions, the items of information provided in relation to each provision appear in proximity to each other:
   (i) MCOB 3.6.11 R;
   (ii) MCOB 3.6.13 R(Required risk statements), unless MCOB 3.6.15 R(transient advertising) applies;
   (iii) MCOB 3.6.17 R(Annual percentage rate (APR));
   (iv) MCOB 3.6.25 R;
   (v) MCOB 3.6.26 R(Multi-rate mortgages); and
   (vi) MCOB 3.6.27 R(Fees for advice or arranging).

(2) (a) Contravention of MCOB 3.6.4 E(1) may be relied on as tending to show contravention of MCOB 3.6.3 R(1).

(b) Compliance with MCOB 3.6.4 E(1) may be relied on as tending to show compliance with MCOB 3.6.3 R(1).

3.6.5 In relation to MCOB 3.6.3 R:

(1) firms should avoid the use of small print to qualify prominent claims;
(2) if a non-real time financial promotion includes information on the performance of the firm, on conditions in the market, interest rates, APRs or other price information this information should be relevant and recent. Firms should therefore avoid including this information in financial promotions which have a long shelf-life without a clear and prominent warning that the information can become outdated; and

(3) firms must ensure that an adequate description of mortgage products is given. For example, firms should take care to ensure that where a rate is variable at any time during the term of the mortgage, the content of the financial promotion does not imply the rate may be fixed.

3.6.6 The effect of MCOB 3.6.4 E(1)(b) will depend upon the content of the promotion. A non-exhaustive list of examples satisfying MCOB 3.6.4 E(1)(b) follows:

(1) a promotion which, when describing any cashback offered to the customer, also clearly refers to any relevant conditions, such as a requirement to pay back some or all of the cashback on early repayment of the mortgage;

(2) a promotion which, when describing any fixed or discount rate, also clearly states the duration of any early repayment charges;

(3) a promotion which, when describing any reduction in regular payments following from the re-arrangement of existing loans, also clearly indicates any increase in the total cost and any extension to the repayment period for the customer;

(4) a promotion which, when describing any possible monetary saving, also clearly states how this could be achieved;

(5) a promotion which, when including references to non-standard services or facilities, also clearly states that an additional fee may be payable for these; and

(6) a promotion which, when it includes an indication of an initial payment holiday (for example, 'pay nothing for 3 months'), also makes clear whether or not interest will be charged during this period.

3.6.7 The requirement in MCOB 3.6.4 E(1)(l) that certain information must be given in proximity means, for example, in relation to printed qualifying credit promotions, that this information is all visible at the same time.

3.6.8 In ensuring a financial promotion is clear fair and not misleading, a firm must ensure that the financial promotion does not contain any of the following words or expressions, unless the relevant condition applies:

(1) the word 'overdraft' or any similar expression as describing any agreement for running-account credit except an agreement enabling the customer to overdraw on a current account;

(2) the expression 'interest free' or any similar expression (such as '0% Finance' or 'Interest Free Option') indicating that a customer is liable to pay no greater amount in respect of a transaction financed
by credit than the customer would be liable to pay as a cash purchaser in relation to the same transaction, except where:

(a) the total amount payable by the customer does not exceed the cash price; or

(b) [MCOB 3.6.26 R](Multi-rate mortgages) applies, in which case the expression may be used in respect of any rate of charge of 0% provided that during the period in which the rate applies there is no interest charged and no increase in the amount of the mortgage loan.

(3) the expression 'no deposit' or any similar expression, except where no advance payments are required to be made on the loan;

(4) the expression 'mortgage guaranteed', 'pre-cleared' or any similar expression, unless the financial promotion invites entry into a contract that is free of any conditions regarding the credit status of the customer; and

(5) the expression 'gift', 'present' or any similar expressions, unless there are no conditions which would require the customer to return the money or items that are the subject of the claim.

A non-real time financial promotion must:

1. describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such charges;

2. describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such charges;

3. not contain the 'key facts' logo unless it is required by a rule; and

4. describe any lifetime mortgage as a 'lifetime mortgage' and not use any other expression to describe such a mortgage.

1. It cannot be assumed that customers necessarily have an understanding of the qualifying credit being promoted. If a non-real time financial promotion is specially designed for a targeted collection of customers who are reasonably believed to have particular knowledge of the qualifying credit being promoted, this fact should be made clear.

2. In relation to quotations of opinion:
   (a) where only part of an opinion is quoted, it should nevertheless be a fair representation; and
(b) any connection between the holder of the opinion and the firm should be made clear.

3.6.11 R

A non-real time financial promotion that features qualifying credit which is conditional upon the customer obtaining one or more further products from a specific firm (or its agents or associates) must prominently state the compulsory nature of these purchases.

3.6.12 G

MCOB 3.6.11 R is concerned with ensuring that customers are adequately informed, at an early stage, as to the existence of any tied products or services. However, it does not introduce equivalent disclosure requirements for services or products that must be obtained as a condition for the making of the loan, but where the customer has a free choice as to the supplier.

Required risk statements

3.6.13 R

A non-real time financial promotion must, unless the transient advertising rule applies, prominently contain one or more of the following statements in the circumstances described:

1. where it relates to a lifetime mortgage: 'This is a lifetime mortgage. To understand the features and risks, ask for a personalised illustration.' If the promotion also relates to a home reversion plan the statement may be adapted to the extent necessary to comply with the equivalent requirement for a home reversion plan (see MCOB 3.8A.3 R (2)(a));

2. where it refers to paying off unsecured debts (for example, credit cards, personal loans or overdrafts) by taking out qualifying credit: 'Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.'

3. in all cases except (1) and (2): 'Your home may be repossessed if you do not keep up repayments on your mortgage.'; or if it refers in whole or in part to qualifying credit secured on property which is not the customer's home the statement may be amended but only to the extent necessary in order to reflect that fact.

4. where the mortgage will be denominated in a currency other than sterling: 'Changes in the exchange rate may increase the sterling equivalent of your debt.'

5. where more than one of the statements in (1) to (4) applies, each relevant statement should be included. In such cases, the statement set out in (1), (2) or (3) should precede that in (4).

6. where a non-real time financial promotion relates to both qualifying credit and credit which is not qualifying credit the
statements required by (2) or (3) may be modified by replacing your mortgage with a mortgage or any other debt secured on it.

(1) Prominence of relevant information can play a key role in ensuring that a communication is clear, fair and not misleading. As a consequence, a number of requirements in MCOB relate to prominence. Where this is the case, the FSA will assess prominence in the context of the promotion as a whole. Use can be made of the positioning of text, background and text colour and type size to ensure that prescribed information meets the requirements of MCOB. The surrounding of required statements with other information should be avoided where this might detract from the prominence which it is obligatory to afford to the statements.

(2) Firms may if they wish include a foreign language version of any required warning, in addition to the English language version required by these rules. If foreign language versions of warnings are included, firms are reminded of prominence requirements in MCOB 3.6.13 R and MCOB 3.6.14 G (1). Information should not be included which detracts from the required prominence of warning statements.

Transient advertising

3.6.15 MCOB 3.6.13 R (Required risk statements) does not apply if the non-real time financial promotion is communicated:

(1) by way of sound broadcasting or television where the primary purpose of the programming in which the promotion is contained is not to promote lending; or

(2) by an exhibition of pictures or photographic or cinematographic films.

3.6.16 MCOB 3.6.15 R (1) is intended to distinguish between promotions in breaks between 'normal' commercial broadcast programming (where the text prescribed in MCOB 3.6.13 R (Required risk statements) is not required) and promotions in breaks which are in or around programming intended to promote lending where MCOB 3.6.13 R (Required risk statements) applies.

(2) In relation to promotions on dedicated interactive television services, if the promotion is not contained within programming but instead forms a separate feature, the exemption offered by MCOB 3.6.15 R (1) would not be available.

Annual percentage rate (APR)

3.6.17 A firm must ensure that if a non-real time financial promotion contains either price information for specific qualifying credit, or makes reference (either explicitly or implicitly) to the availability of credit for customers who might otherwise consider their access to credit restricted, the promotion also:

(a) states the APR;
(b) gives the APR, and the accompanying statement in (3), with no less prominence than any price information or reference (either explicitly or implicitly) to the availability of credit for customers who might otherwise consider their access to credit restricted; and

(c) positions the APR after any other rate of charge relating to the qualifying credit, clearly distinguishing it from any such rate but without interjecting other information in between the APR and any other rate of charge.

(2) A firm must calculate the APR in accordance with MCOB 10(Annual percentage rate).

(3) The APR must be expressed as follows, with X being the APR calculated for the particular qualifying credit: 'The overall cost for comparison is X% APR'

3.6.18 MCOB 3.6.17 R does not require a firm to explain the basis on which the APR is calculated, or to provide a figure for the total charge for credit, in the non-real time financial promotion.

3.6.19 For the purposes of MCOB 3.6.17 R(1), references to the availability of credit for customers who might otherwise consider their access restricted include references to:

1. credit history; or
2. credit rating; or
3. county court judgments; or
4. employment; or
5. housing circumstances (for example, council tenants).

3.6.20 In relation to MCOB 3.6.17 R(1)(c), the intention is that the APR should follow on, but be readily identifiable as different, from the indicated rate or rates of charge.

2. For multi-rate products this should mean that the APR is presented, in sequence, after the different rates of charge that apply.

3. The APR may be distinguished from other rates of charge by techniques such as using a contrasting (and legible) colour for text. However, the requirement of MCOB 3.6.17 R(1)(c) will not be satisfied by text devices such as the use of brackets which tend to diminish the impact of the APR.
If a financial promotion contains price information for more than one qualifying credit product, MCOB 3.6.17 R requires an APR to be provided for each product. Where more than one APR is required to be given, each APR will need to be no less prominent than:

1. any price information relating to the particular product;

2. any reference (either explicitly or implicitly) to the availability of credit for customers who might otherwise consider their access to credit restricted; and

3. any other APR in the financial promotion.

If the non-real time financial promotion concerns a contract under which the APR varies (for example, depending upon the circumstances of the customer), the APR required by MCOB 3.6.17 R (Annual percentage rate (APR)) is that which is representative of the business expected to arise from the promotion.

For the purposes of MCOB 3.6.22 R, an APR is not representative of business unless it is an APR at or below which at least 66% of customers responding to the promotion and who enter into a qualifying credit agreement which is the subject of the promotion would be charged.

The FSA would not regard an APR described as 'from X%' as satisfying MCOB 3.6.22 R.

In MCOB 3.6.22 R, when determining the representative APR, account should be taken of the business that has arisen from similar qualifying credit promotion in the previous 12 months. Where the financial promotion is for a new product or business, reference should instead be had to the relevant business plans.

If the non-real time financial promotion of qualifying credit concerns a contract where the APR varies depending upon the circumstances of the customer, the following further statement must be included with due prominence: ‘The actual rate available will depend upon your circumstances. Ask for a personalised illustration.’

Multi-rate mortgages

If the non-real time financial promotion of qualifying credit is for a product where more than one rate of charge will or may apply during the course of the contract, and the non-real time financial promotion of qualifying credit contains information about any of these rates then:

1. the non-real time financial promotion of qualifying credit must contain a clear and no less prominent description of all of the rates of charge that will apply;
(2) where any rate to be charged in the future is variable (such as the mortgage lender’s standard variable rate), the rate indicated must be the level of that rate current at the time of the promotion; and

(3) the rates must be stated in sequence from the rate initially applying through to the rate assumed to apply at the end of the mortgage, and after each rate must be given a statement:
   (a) of its period of application; and
   (b) that the rate then changes.

Fees for advice or arranging

3.6.27 R If a non-real time financial promotion of qualifying credit relates to the controlled activities of advising on or arranging qualifying credit and a fee may be charged for these activities, a firm must ensure that a prominent indication is given of:

(1) the amount of the fee (if known); or

(2) a representative fee based upon the business expected to arise from the promotion.

3.6.28 R MCOB 3.6.27 R seeks to ensure that customers are given early notice of the existence of any fees charged by intermediaries in connection with the provision of qualifying credit. Where the fee is known at the outset, this must be indicated. The indication could be either as a cash value or as a percentage. If the charging of a fee, and the level of this, are dependent upon the circumstances of the customer, the indication must be based upon the business that is expected to result from the promotion.

3.6.29 G MCOB 3.6.14 G(1) provides further guidance in relation to prominence.

3.6.30 G MCOB 3.6.27 R(2) does not require the promotion to set out the characteristics of the representative business (loan amount etc) on which the indicated fee is based. For example, where the fee charged by a firm relates to circumstances of the customer such as their previous credit history, it would be sufficient to state that 'There will be a fee for mortgage advice. The precise amount will depend upon your circumstances but we estimate that it will be X'.

MCOB 3 : Financial Promotion of qualifying credit and of home reversion plans
3.7 Unsolicited real time financial promotions of qualifying credit or a home reversion plan

Meaning of 'solicited' and 'unsolicited' real time financial promotion

3.7.1

(1) An unsolicited real time financial promotion is a real time financial promotion which is not solicited as described in (2).

(2) A solicited real time financial promotion is a real time financial promotion which is solicited, that is, it is made in the course of a personal visit, telephone call or other interactive dialogue if that call, visit or dialogue:

(a) was initiated by the recipient of the financial promotion; or

(b) takes place in response to an express request from the recipient of the financial promotion;

and it is clear from all the circumstances when the call, visit or dialogue is initiated or requested that during the course of the visit, call or dialogue a financial promotion would be made.

(3) In (2), a person is not to be treated as expressly requesting a call, visit or dialogue:

(a) because he omits to indicate that he does not wish to receive any or any further visits or calls or to engage in any or any further dialogue;

(b) because he agrees to standard terms that state that such visits, calls or dialogues will take place unless he has signified clearly that, in addition to agreeing to the terms, he is willing for them to take place.

(4) If a financial promotion is solicited by a person ('R') it is treated as also having been solicited by any other person to whom it is made at the same time as R if that other person is a close relative of R or is expected to enter into a home reversion plan or any contract for qualifying credit jointly with R.
(Solicited v unsolicited real-time promotions). PERG 8.10.11G to PERG 8.10.14G also gives guidance on who will be considered the 'recipient' of a communication.

**Prohibition on unsolicited real time financial promotions to customers**

A *firm* must not make an *unsolicited real time financial promotion of qualifying credit or of a home reversion plan* unless the *customer* has an established existing *customer* relationship with the *firm* and the relationship is such that the *customer* envisages receiving such *financial promotions*.

3.7.3 **R**

A *firm* must not make an *unsolicited real time financial promotion of qualifying credit or of a home reversion plan* unless the *customer* has an established existing *customer* relationship with the *firm* and the relationship is such that the *customer* envisages receiving such *financial promotions*.

3.7.4 **G**

(1) *Firms* are reminded of the exemptions in ■ MCOB 3.2.5 R (Application: what? exemptions). ■ MCOB 3.7.3 R does not prohibit an exempt *real time financial promotion*.

(2) ■ MCOB 3.2.5 R(2) creates an exemption for *financial promotions* that contain only very limited information about the *firm* (such as its name or contact details). The limited nature of this exemption means that a *firm* is unlikely to be able to use it to induce a *customer* to approach the *firm* and turn any subsequent communication by the *firm* into a *solicited real time financial promotion*. 
3.8 Form and content of real time qualifying credit promotions

3.8.1 A firm should note that MCOB 3.7.3 R (Prohibition on unsolicited real time promotions to customers) prevents a firm from communicating to a customer an unsolicited real time financial promotion of qualifying credit other than an exempt promotion (which is outside the scope of this chapter) or where MCOB 3.7.3 R applies. Many solicited real time financial promotion will be exempt promotions (and, therefore, outside the scope of this chapter). Accordingly, MCOB 3.8.2 R and MCOB 3.8.3 G apply only to solicited real time financial promotions which are not exempt financial promotions and to unsolicited real time financial promotion of qualifying credit within MCOB 3.7.3 R.

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

1. does so in a way which is clear, fair and not misleading;
2. does not make any untrue claims;
3. makes clear the purpose (or purposes) of the financial promotion at the initial point of communication, and identifies himself and the firm which he represents;
4. if the time and method of communication were not previously agreed by the recipient:
   a. checks that the recipient wishes him to proceed;
   b. terminates the communication if the recipient does not wish him to proceed (but may ask for another appointment);
   c. recognises and respects, promptly, the right of the recipient to:
      i. end the communication at any time;
      ii. refuse any request for another appointment;
5. gives any person with whom he arranges an appointment a contact point;
(6) does not communicate with a person:

(a) at an unsocial hour, unless the person has previously agreed to such a communication;

(b) on an unlisted telephone number, unless the person has previously agreed to such calls on that number.

3.8.3 In MCOB 3.8.2 R(6)(a) an unsocial hour usually means on a Sunday or before 9am or after 9pm on any other day. It could also mean other days of the week or other times if the firm knows that a particular customer would not wish to be called on that day or at that time for reasons of, for example, religious faith or night shift working.

3.8.4 The requirements of MCOB 3.8.2 R and MCOB 3.8.3 G:

(1) apply in respect of all individuals who initiate the communication, including advisers and call centre operators;

(2) apply to all forms of real time financial promotion of qualifying credit with customers, including face-to-face and telephone financial promotion;

(3) but do not prevent, for example, a telephone call centre which has received a call from a customer at an hour generally regarded as unsocial, either responding to that call or asking during the call if the customer would like details of other qualifying credit.

3.8.5 SYSC 3.2.20 R (Records) requires a firm to take reasonable care to make and retain certain records. For a telemarketing campaign to which MCOB 3.8.2 R and MCOB 3.8.3 G apply, those records should include copies of any scripts used.

3.8.6 Firms should note the additional disclosure requirements in MCOB 4.4.7 R (Disclosure where initial contact is by telephone) and MCOB 4.5 (Additional disclosure for distance mortgage mediation contracts and distance home purchase mediation contracts with retail customers) in relation to telephone calls that may fall within the definition of a financial promotion.
3.8A Form and content of financial promotions of home reversion plans

Clear, fair and not misleading

3.8A.1 A firm which communicates or approves a financial promotion of a home reversion plan must take reasonable steps to ensure that the financial promotion is clear, fair and not misleading.

3.8A.2 The guidance on the clear, fair and not misleading standard at MCOB 3.6.5 G, MCOB 3.6.10 G and MCOB 3.6.14 G may be relevant.

Note: A comparative financial promotion will need to comply with regulation 4A of the Control of Misleading Advertisements Regulations 1988.

Non-real time financial promotions to customers

3.8A.3 A non-real time financial promotion of a home reversion plan must:

(1) describe any home reversion plan as a 'home reversion plan' and not use any other expression to describe it; and

(2) unless it is communicated by way of sound broadcasting or television where the primary purpose of the programming in which the promotion is contained is not to promote home finance or by an exhibition of pictures or photographic or cinematographic films:

(a) (if made to or directed at a customer other than an unauthorised reversion provider) prominently state that it relates to a home reversion plan and that the customer should ask for a personalised illustration to understand its features and risks; or

(b) (if made to or directed at an unauthorised reversion provider) prominently state that a home reversion plan is a long-term investment and a complex legal arrangement, and that expert independent legal advice should always be obtained before entering into any agreement.

3.8A.4 (1) A firm should take reasonable steps to ensure that, for a non-real time financial promotion:
(a) it includes any matters the omission of which causes the
financial promotion not to be clear, fair and not misleading;

(b) if it describes a feature of any home reversion plan, it gives no
less prominence to the possible disadvantages than to the
benefits associated with that feature;

(c) it uses plain and intelligible language, and is easily legible (or,
in the case of oral promotions, clearly audible);

(d) the accuracy of all statements of fact in it can be substantiated;

(e) its promotional purpose is not in any way disguised or
misrepresented;

(f) any statement of fact, promise or prediction is clear, fair and
not misleading and any relevant assumptions are clearly and
prominently disclosed;

(g) any statement of opinion is honestly held and, unless consent
is impracticable, given with the written consent of the person
concerned;

(h) the facts on which any comparison or contrast is made are
verified, or, alternatively, that relevant assumptions are prominently disclosed and that the comparison or contrast is
presented in a fair and balanced way, which is not misleading
and includes all factors which are relevant to the comparison
or contrast;

(i) it does not contain any false indications, in particular as to:

   (i) the firm’s independence; or

   (ii) the firm’s resources and scale of activities;

(j) the design, content or format does not in any way disguise,
obscure or diminish the significance of any statement, warning
or other matter which the home reversion plan is required by
this chapter to contain;

(k) it does not include any reference to approval by the FSA or
any government body, unless such approval has been obtained
in writing from the FSA or that body (see also GEN 1.2
(Referring to approval by the FSA));

(2) (a) Contravention of (1) may be relied on as tending to show
contravention of MCOB 3.8A.1 R.

(b) Compliance with (1) may be relied on as tending to show
compliance with MCOB 3.8A.1 R.
The effect of giving no less prominence to the possible disadvantages than to the benefits associated with a feature will depend upon the content of the promotion. The following non-exhaustive examples would satisfy the requirement:

1. A promotion which, when describing any possible monetary saving, also clearly states how this could be achieved; and

2. A promotion which, when including references to non-standard services or facilities, also clearly states that an additional fee may be payable for these.

No approval of real time financial promotions of a home reversion plan

A firm must not approve a real time financial promotion of a home reversion plan.

Referring to the FSA

The guidance on referring to the FSA in a financial promotion may be relevant (see MCOB 3.6.2 G (3)).
3.9 Confirmation of compliance: financial promotions of qualifying credit or home reversion plans

3.9.1 (1) Before a firm communicates or approves a non-real time financial promotion of qualifying credit or of a home reversion plan it must confirm that the financial promotion complies with the rules in this chapter.

(2) A firm must arrange for the confirmation exercise in (1) to be carried out by an individual or individuals with appropriate expertise.

3.9.2 (1) 'Appropriate expertise' will vary depending on the complexity of the financial promotion and the qualifying credit or home reversion plan to which it relates. The individuals engaged by a firm to confirm the compliance of its financial promotions with this chapter may themselves have different levels of expertise and therefore a different level of authority for confirmation depending on the type of promotion and the qualifying credit or home reversion plan involved.

(2) A firm may arrange for a third party with appropriate expertise to carry out the confirmation exercise on the firm's behalf, but the responsibility for the financial promotion remains with the firm.

Withdrawing confirmation

3.9.3 If, at any time after it has completed a confirmation exercise in MCOB 3.9.1 R(1), a firm becomes aware that a financial promotion no longer complies with the rules in this chapter, it must ensure that the financial promotion is withdrawn as soon as is reasonably practicable by:

(1) ceasing to communicate it;

(2) withdrawing its approval (if applicable); and

(3) notifying any person that the firm knows to be relying on its approval (if applicable) or confirmation (under MCOB 3.9.5 R).

3.9.4 (1) MCOB 3.9.3 R is of particular importance to a financial promotion, such as a product brochure, that a firm uses over a period of time. It has little application to a financial promotion which is of its nature ephemeral, for example a mobile phone text message. Further, a financial promotion which clearly speaks as at a particular date will not cease to comply with the rules in this chapter merely...
because the passage of time has rendered it out-of-date. This does not mean,
however, that a financial promotion can include information (such as price
information) which is likely to become outdated during the currency of the
financial promotion without the firm having regard to the need for any
financial promotion to be clear, fair and not misleading. See further
MCOB 3.6.5 G (2).

(2) For compliance with MCOB 3.9.3 R, the FSA will expect a firm to monitor
its relevant financial promotions as part of the firm’s routine compliance
monitoring procedures. A firm may find it helpful to designate a relevant
financial promotion with a ‘review date’, a date at which the financial
promotion should be checked once more against the rules in this chapter. If
it is found no longer to meet these requirements it should be withdrawn as
soon as is reasonably practicable.

(3) If at any time a firm becomes aware that customers may have been misled
by a financial promotion it should consider whether customers who have
responded to the financial promotion should be contacted with a view to
explaining the position and offering any appropriate form of redress to those
who have suffered financial loss.

Communicating a financial promotion where another firm has confirmed
compliance

A firm will not contravene any of the rules in this chapter in
circumstances where it (firm ‘A’) communicates a non-real time financial
promotion which has been produced by another person provided that:

(1) A takes reasonable care to establish that another firm (firm ‘B’)
has already confirmed the compliance of the financial promotion
in accordance with MCOB 3.9.1 R;

(2) A takes reasonable care to establish that A communicates the
financial promotion only to recipients of the type for whom it
was intended at the time B carried out the confirmation exercise;
and

(3) so far as A is, or ought reasonably to be, aware:
   (a) the financial promotion has not ceased to be clear, fair and
       not misleading since that time; and
   (b) B has not withdrawn the financial promotion.
3.10 Records: non-real time financial promotions of qualifying credit or of a home reversion plan

Requirement to make and retain records

3.10.1 A firm must make an adequate record of each non-real time financial promotion of qualifying credit or of a home reversion plan which it has confirmed as complying with the rules in this chapter. The record must be retained for a year from the date at which the financial promotion was last communicated.

Content of records

3.10.2 In deciding what is an adequate record, a firm should consider including, or providing reference to, where appropriate, such matters as:

1. the name of the individual or individuals who confirmed that the financial promotion complied with the rules in this chapter;
2. the date of confirmation and (where appropriate) approval;
3. details of the medium for which the financial promotion was authorised;
4. the evidence supporting any material factual statement about qualifying credit or a home reversion plan in the financial promotion. For example, for any testimonial they use, advertisers should hold signed and dated proof, including a contact address. Unless they are genuine opinions taken from a published source, testimonials should only be used with the written permission of those giving them; and
5. where the promotion contains a typical APR, evidence to show that the APR was representative of the business expected to arise from the promotion (see MCOB 3.6.22 R).

3.10.3 A firm should also retain a copy of the financial promotion as finally published or, if this is not practicable, monitor the published version to verify that it is in substantially the same format as the version which the firm confirmed complied with the rules in this chapter.

Records which should be retained include:
(a) any written financial promotion used by an adviser; and
(b) any written material which is used in an organised marketing campaign
(including, for example, written mailshots whether sent by e-mail, post,
facsimile or other media).

(3) If the financial promotion is not in written form, the record should represent
the actual financial promotion as accurately as possible.

Form of records

MCOB 2.8 (Record keeping) applies to the form in which records required in
accordance with this chapter must be kept.
3.11 Communication and approval of qualifying credit promotions for an overseas person or an unauthorised person

Approval of qualifying credit promotions

3.11.1 (1) Section 21(1) of the Act (Restrictions on financial promotion) prohibits an unauthorised person from communicating a financial promotion, in the course of business, unless an exemption applies or the financial promotion is approved by a firm.

(2) Most of the rules in this chapter apply when a firm approves a financial promotion of qualifying credit in the same way as when a firm communicates a financial promotion of qualifying credit itself. A firm therefore has a similar responsibility for a financial promotion of qualifying credit that it approves as for one that it communicates. For example, a firm which approves a non-real time financial promotion must:

(a) confirm that the financial promotion complies with the rules in this chapter; and

(b) be able to show that it has taken reasonable steps to ensure that the financial promotion is clear, fair and not misleading.

(3) A firm may also wish to approve a financial promotion of qualifying credit that it communicates itself. This would ensure that an unauthorised person who then also communicates it to another person will not contravene the restriction in section 21(1) of the Act (Restrictions on financial promotion).

(4) A firm which approves a promotion that is exempt under MCOB 3.2.5 R (Application: what?; exemptions) or MCOB 3.3.1 R (Application: where?) must still comply with certain rules in this chapter (see MCOB 3.2.4 R (Application: what? exemptions) and MCOB 3.3.3 R (Exceptions to territorial scope: rules without territorial limitation)).

No approval of real time qualifying credit promotions

3.11.2 A firm must not approve a real time financial promotion of qualifying credit.

Approval of qualifying credit promotions when not all the rules apply

3.11.3 If a firm approves a financial promotion of qualifying credit in circumstances in which one or more of the rules in this chapter are expressly disApplied, the approval must be given on terms that it is limited to those circumstances.
If an approval is limited in accordance with MCOB 3.11.3 R, and an unauthorised person communicates the financial promotion to persons not covered by the approval, the unauthorised person may commit an offence under section 21(1) of the Act (Restrictions on financial promotion). A firm giving a limited approval may wish to advise the unauthorised person accordingly.

Non-real time qualifying credit promotions for overseas persons

A firm must not communicate or approve a non-real time financial promotion which relates to qualifying credit provided by an overseas person, unless:

1. the qualifying credit promotion makes clear which firm has approved or communicated it and, where relevant, explains;
   a) that the rules made under the Act for the protection of customers do not apply;
   b) the extent and level to which the compensation scheme will be available, or if the scheme will not be available, a statement to that effect; and
   c) if the communicator wishes, the protection or compensation available under another system of regulation; and

2. the firm has no reason to doubt that the overseas person will deal with customers in the United Kingdom in an honest and reliable way.
3.12 The Internet and other electronic media

3.12.1 This section contains guidance on the use of the Internet and other electronic media to communicate financial promotions. Firms are also referred to the guidance in MCOB 2.7 (Application to electronic media and distance communications).

Approach and general guidance

3.12.2 Any material, which meets the definition of a financial promotion of qualifying credit or of a home reversion plan, including any video or moving image material incorporated in any website containing such a financial promotion, should comply with the rules in this chapter. See PERG 8 (The Internet) for further guidance on financial promotions on the Internet, including the treatment of hyperlinks and banners.

3.12.3 As indicated in MCOB 3.3 (Application: where?), for the purposes of the financial promotion rules there are two types of approach to financial promotion communicated via the Internet and other electronic media

(1) real time financial promotions where the communication is in the form, for example, of a telephone conversation, or other form of interactive dialogue; and

(2) non-real time financial promotions where the customer may, for example, choose from reading a description of the qualifying credit or home reversion plan, through to the completion of a contract in a similar way to browsing through a leaflet rack. The rules in this chapter relating to hard copy financial promotions such as advertisements in magazines or newspapers apply equally to such promotions. E-mails, material displayed on a website and sound and television broadcasts are non-real time financial promotions (see MCOB 3.5.5 R(2)).

3.12.4 (1) Before using the Internet, digital or any other form of interactive television or other electronic media to promote its services, a firm should refer to legislation such as the Data Protection Act 1998 and the Computer Misuse Act 1990, as well as to this chapter.

(2) In relation to financial promotions communicated by way of television, firms will want to have regard to Guidance Note 3 of the ITC Code of Advertising Standards and Practice on the use and appearance of superimposed text.

(3) When designing websites and other electronic media, firms should be aware of the difficulties that can arise when reproducing certain colours and printing certain types of text. These difficulties could cause problems with the presentation
and retrieval of required information. Any financial promotion of qualifying credit or of a home reversion plan communicated by the Internet, digital or other forms of interactive television is subject to the requirements on form and content in this chapter.

Specific guidance

The FSA website The FSA’s web site http://www.fsa.gov.uk contains a wide range of information including pages of specific relevance to customers. Firms may, if they wish, include a reference or hyperlink to the FSA’s site; this will not, however, replace any requirements of the financial promotion rules.
Examples of qualifying credit promotions

This annex consists only of one or more forms. Forms are to be found through the following address:

Examples of qualifying credit promotions - www.fsa.gov.uk/pubs/other/mcob_forms/mcob3_annex1.pdf
MCOB 3: Financial Promotion of qualifying credit and of home reversion plans
Chapter 4

Advising and selling standards
### 4.1 Application

#### Who?

This chapter applies to a firm in a category listed in column (1) of the table in MCOB 4.1.2 R in accordance with column (2) of that table.

#### Table

This table belongs to MCOB 4.1.1 R.

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>MCOB 4.1 to MCOB 4.4, and MCOB 4.8 to MCOB 4.9</td>
</tr>
<tr>
<td>mortgage adviser</td>
<td>whole chapter except MCOB 4.10</td>
</tr>
<tr>
<td>mortgage arranger</td>
<td>whole chapter except MCOB 4.7 and MCOB 4.10</td>
</tr>
<tr>
<td>home purchase provider</td>
<td>MCOB 4.1, MCOB 4.2 and MCOB 4.10 (except MCOB 4.10.5 G to MCOB 4.10.7 G).</td>
</tr>
<tr>
<td>home purchase adviser</td>
<td>MCOB 4.3, MCOB 4.4 and MCOB 4.8 in accordance with MCOB 4.10</td>
</tr>
<tr>
<td>home purchase arranger</td>
<td>MCOB 4.1, MCOB 4.2, MCOB 4.5, MCOB 4.6 and MCOB 4.10.</td>
</tr>
<tr>
<td></td>
<td>MCOB 4.3, MCOB 4.4, MCOB 4.7 and MCOB 4.8 in accordance with MCOB 4.10</td>
</tr>
<tr>
<td>reversion provider</td>
<td>As for a home purchase adviser except MCOB 4.10.5 G to MCOB 4.10.7 G and MCOB 4.7 do not apply</td>
</tr>
<tr>
<td>reversion adviser</td>
<td>see MCOB 8 for the application of this chapter</td>
</tr>
<tr>
<td>reversion arranger</td>
<td></td>
</tr>
</tbody>
</table>
4.1.3 R

This chapter applies if a firm in the course of carrying on a home finance activity:

(1) makes, or anticipates making, a personal recommendation about; or

(2) gives, or anticipates giving, personalised information relating to; the customer:

(3) entering into a home finance transaction; or

(4) varying the terms of a home finance transaction entered into by the customer.

4.1.4 R

(1) MCOB 4.4 (Initial disclosure requirements) applies only in relation to varying the terms of a regulated mortgage contract entered into by the customer in any of the following ways:

(a) adding or removing a party;

(b) taking out a further advance; or

(c) switching all or part of the regulated mortgage contract from one interest rate to another.

(2) Otherwise, this chapter, MCOB 4, applies in relation to any form of variation of a regulated mortgage contract.

4.1.5 R

In relation to an equity release transaction, this chapter is modified by MCOB 8 (Equity release: advising and selling standards).

4.1.6 G

MCOB 4.1.5 R means that this chapter, MCOB 4, deals with standard regulated mortgage contracts and home purchase plans only and therefore firms should note that the scope of service rules in this chapter do not apply in respect of equity release transactions.

4.1.7 G

If a firm is an authorised professional firm, when the firm conducts non-mainstream regulated activities with a customer, the only initial disclosure requirements that apply are those relating to the Financial Ombudsman Service and the FSCS (see MCOB 1.2.10 R (3)).

4.1.8 G

The FSA would not view the removal of a party to the regulated mortgage contract following the death of that party (and where no other variation is proposed) as a variation for the purposes of MCOB 4.1.4 R(1).
4.2 Purpose

(1) This chapter amplifies Principle 6 (Customers' interests), Principle 7 (Communications with clients) and Principle 9 (Customers: relationships of trust).

(2) The purpose of this chapter is to ensure that:

(a) customers are adequately informed about the nature of the service which they may receive from a firm in relation to home finance transactions. In particular firms need to make clear to customers the scope of home finance transactions available from them; and

(b) where advice is given, it is suitable for the customer. The steps firms need to take to ensure that the customer receives suitable advice will vary depending on the demands and needs of the customer and the type of home finance transaction.

(3) This chapter also implements certain requirements of the Distance Marketing Directive in relation to distance mortgage mediation contracts and distance home purchase mediation contracts.
4.3 Scope of service provided

Providing services within and beyond scope

4.3.1

Subject to (2), a firm must take reasonable steps to ensure that the scope of the service given to a customer, and the home finance transactions offered, is based on a selection from one of the following:

(a) the whole market; or
(b) a limited number of home finance providers; or
(c) a single home finance provider.

(2) A firm may change the scope of the service it gives to a particular customer by widening the scope, for example, from that in (1)(c) to that in (b) or (a) but it must take reasonable steps to ensure that before doing so:

(a) the customer is made aware of the proposed change by a communication in a durable medium; and
(b) the customer’s attention is drawn to any change in the fees that the customer must pay to the firm for the firm's services.

4.3.2

A firm must take reasonable steps to ensure that the extent of the scope of the service which it holds itself out as offering to a customer reflects the extent of that scope in practice.

4.3.3

■ SYSC 3.2.6 R and ■ SYSC 6.1.1 R (Compliance) requires a firm (including a common platform firm) to ‘establish, implement and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system’. In meeting this requirement in relation to ■ MCOB 4.3.2 R, a firm which states that it provides a service based on a limited number of mortgage lenders (see ■ MCOB 4.3.1 R (1)(b)) should have adequate systems and controls in place to monitor whether business is actually placed with those mortgage lenders.
Whole of market

4.3.4  

(1) A firm which holds itself out as giving information or advice to customers on regulated mortgage contracts from the whole market must not give any such information or advice unless:

(a) it has considered a sufficiently large number of regulated mortgage contracts which are generally available from the market; and 

(b) the consideration in (a) is based on criteria which reflect adequate knowledge of the regulated mortgage contracts generally available from the market as a whole.

(2) A firm in (1) must satisfy the obligation in MCOB 4.7.2 R by taking reasonable steps to ensure that a personal recommendation given to a customer is:

(a) in accordance with the consideration in (1); and

(b) the regulated mortgage contract which on the basis of that consideration is the most suitable to meet the customer’s needs.

4.3.4A  

In applying this chapter, there is:

(1) one market for regulated mortgage contracts that are not lifetime mortgages; and

(2) another market for home purchase plans.

4.3.5  

If a firm holds itself out as giving information or advice to customers on regulated mortgage contracts generally available from the whole market, the firm may choose to offer its customers only a selection of those regulated mortgage contracts. The firm’s selection of regulated mortgage contracts for this purpose will need to be sufficiently large to enable the firm to satisfy the suitability requirement in MCOB 4.3.4 R (Whole of market).

4.3.6  

(1) When offering only a selection of regulated mortgage contracts as described in MCOB 4.3.5 G, a firm should ensure that its analysis of the market and of the available regulated mortgage contracts is kept adequately up to date. For example, a firm would need to update its selection of regulated mortgage contracts if it became aware that a regulated mortgage contract had become generally available offering an improved product feature, or a better interest rate, when compared with the regulated mortgage contracts currently in the firm’s selection.

(2) One way in which a firm may wish to satisfy MCOB 4.3.4 R is by using a panel of mortgage lenders, which includes representative firms from the whole market. However, if a firm wishes to offer a whole of market service through the use of a panel, it must still assess the individual regulated mortgage contracts that are being offered by mortgage lenders in making its selection.
Independence

4.3.7

(1) When providing information or giving advice to a customer on home finance transactions, a firm must not hold itself out as acting independently unless it intends to:

(a) provide that service wholly or predominantly based on the whole market in the relevant type of home finance transaction; and

(b) enable the customer to pay a fee for the provision of that service.

(2) A firm which in accordance with (1) holds itself out as independent must ensure that the information or advice subsequently given to the customer concerned is information or advice on home finance transactions from the whole market in the relevant type of home finance transaction.

4.3.8

(1) MCOB 4.3.7 R stipulates what a firm must do if it is to hold itself out to any particular customer as acting independently. A firm which wishes to hold itself out generally as acting independently should ensure that doing so (for example through a trading name or advertising) is consistent with the kind of service which customers receive in relation to the relevant home finance transactions.

(2) A firm that sells both investments and home finance products can offer from the whole market (or the whole market for a type of home finance transaction) and therefore be 'independent' for one but offer only a limited range for the other. If this is the case, the firm should explain the different nature of the services in a way that meets the requirement for clear, fair and not misleading communications in MCOB 2.2.6 (Clear, fair and not misleading communications).

4.3.9

MCOB 4.3.7 R (1)(b) means that a firm wishing to hold itself out as independent will need to give a customer a purely fee-based option for paying its fees. However, the firm may in addition provide the customer with other payment options, such as a combination of fees and commission.

Appointed representatives

4.3.10

A firm may restrict the home finance transactions it authorises a particular appointed representative to sell. If it does so, the appointed representative must reflect this restricted scope in any initial disclosure document or combined initial disclosure document provided to the customer.
4.4 Initial disclosure requirements

Disclosure where initial contact is not made by telephone

(1) A firm must ensure that, on first making contact with a customer when it anticipates giving personalised information or advice on a regulated mortgage contract, it:

(a) establishes with the customer whether it will provide advice or information;

(b) establishes with the customer how much he will pay or, alternatively, the basis on which the firm will be remunerated, where appropriate; and

(c) provides the customer with either:

(i) an initial disclosure document; or

(ii) if the firm has reasonable grounds to be satisfied that the services which it is likely to provide to the customer will relate to a combination of different types of home finance transaction, or will relate to home finance transactions and one or more of non-investment insurance contracts or packaged products, a combined initial disclosure document;

in a durable medium.

(2) The requirement in (1)(c) does not apply where:

(a) an initial disclosure document has already been provided by the firm and that document is still likely to be accurate and appropriate for the customer; or

(b) an initial disclosure document has already been provided by the firm which first made contact with the customer in respect of the particular regulated mortgage contract, and the firm subsequently making contact with the customer:

(i) does not anticipate altering or replacing the service described in that document; or
(ii) is not making contact with a view to concluding a distance mortgage mediation contract; or

(c) initial contact is made by telephone.

(3) A firm may choose not to include the initial disclosure information required by sections 6, 7 and 8 of the initial disclosure document, and sections 5, 7 and 8 of the combined initial disclosure document, if it provides the customer with the information required by those sections in some other durable medium before the customer makes an application for a regulated mortgage contract.

(4) A firm must not use a combined initial disclosure document in relation to a combination of:

(a) regulated mortgage contracts (other than lifetime mortgages) or home purchase plans; and

(b) equity release transactions.

[4.4.2] MCOB 4.4.1 R (2)(b) means, for example, that a mortgage lender will provide the initial disclosure document in a direct sale but not where the sale involves a mortgage intermediary. If a number of different firms are involved in relation to the transaction, having regard to MCOB 2.5.4 R (2), those firms should take reasonable steps to establish that the customer has been provided with an initial disclosure document as required by MCOB 4.4.1 R.

[4.4.3] MCOB 4.4.1 R (1) means that the initial disclosure document will be provided at the time of the first contact between the firm and the customer. However, there may be circumstances, for example in relation to a loan for a business purpose, where the possibility of the customer entering into, or varying the terms of, a regulated mortgage contract is only identified after preliminary discussions. Disclosure, in the context of MCOB 4, is only required once this possibility is identified.

(2) In the FSA’s opinion, the requirements at MCOB 4.4.1 R and MCOB 4.4.7 R would not apply when a customer contacts a firm simply to arrange to receive personalised information or advice on a regulated mortgage contract at a later time, such as when a customer books an appointment. In such cases, initial disclosure should be made when the firm first makes contact with the customer with a view to actually giving the information or advice. However, firms should note the additional disclosure requirements in MCOB 4.5 (Additional disclosure for distance mortgage mediation contracts with retail customers), and, the need to ensure that the required information (to be provided with the initial disclosure document) is provided in good time (see MCOB 4.5.3 G (1)).

[4.4.4] If a firm has provided a customer with an appropriate initial disclosure document but subsequently discovers that the customer wants different services from those originally anticipated and described in the document, the firm will need to establish the details of the new service to be provided to the customer and provide the customer with a new initial disclosure document in accordance with MCOB 4.4.1 R or MCOB 4.4.7 R.
Uncertainty whether a mortgage is regulated

4.4.5 If at the point that initial disclosure must be made in accordance with MCOB 4.4.1 R or MCOB 4.4.7 R a firm is uncertain whether the contract will be a regulated mortgage contract, the firm must:

(a) provide the initial disclosure document; or

(b) seek to obtain from the customer information that will enable the firm to ascertain whether the contract will be a regulated mortgage contract.

(2) Where (1)(b) applies, the initial disclosure document must be provided unless, on the basis of the information provided by the customer, the firm has reasonable evidence that the contract is not a regulated mortgage contract.

Information to be provided to customers on request

4.4.6 If a firm’s scope of service is based on MCOB 4.3.1 R (1)(b) it must maintain, and keep up to date, in a durable medium and in a form which is appropriate for distribution to the customer, a list of the mortgage lenders whose regulated mortgage contracts it offers. This list must also confirm whether or not the firm provides services in relation to all of the regulated mortgage contracts generally available from each mortgage lender.

(2) The customer must be provided with a copy of the information described in (1) on request.

(3) A firm must take reasonable steps to ensure that its appointed representatives provide a copy of the record in (1) to a customer on request.

Disclosure where initial contact is by telephone

4.4.7 If the initial contact of a kind in MCOB 4.4.1 R (1) is by telephone, then unless MCOB 4.4.1 R (2)(a) applies, the following information must be given before proceeding further:

(a) the name of the firm and (if the call is initiated by or on behalf of the firm) the commercial purpose of the call;

(b) the scope of the service provided by the firm (within the meaning of MCOB 4.3.1 R);

(c) if the scope of the service is based on MCOB 4.3.1 R (1)(b), that the customer can request a copy of the list of mortgage lenders whose regulated mortgage contracts it offers and confirmation of whether the firm provides services in
relation to all of the regulated mortgage contracts generally available from each mortgage lender;

(d) whether or not the firm will provide the customer with advice on those regulated mortgage contracts within its scope; and

(e) that the information given under (a) to (d) will be confirmed in writing.

(2) Provided that the telephone call in (1) has not led the firm to conclude that the customer is ineligible for any of its regulated mortgage contracts, and that the customer has provided his contact details, the firm must send the customer a copy of an initial disclosure document or combined initial disclosure document and any other information required to be provided, in a durable medium within five business days of the telephone call (see also MCOB 4.5.2 R (2)(b) for the equivalent requirement in relation to distance mortgage mediation contracts).

(3) If the customer accepts the offer in (1)(c) of a list of the mortgage lenders whose regulated mortgage contracts the firm offers, that list must also be sent with the information required in (2).

4.4.8

Firms are reminded of the requirements in MCOB 3.8 (Form and content of real time qualifying credit promotions) in relation to telephone calls that may fall within the definition of a financial promotion and should also note the additional requirements that apply in relation to distance mortgage mediation contracts with retail customers in MCOB 4.5 (Additional disclosure for distance mortgage mediation contracts with retail customers).
4.5 Additional disclosure for distance mortgage mediation contracts and distance home purchase mediation contracts with retail customers

4.5.1 There are certain additional disclosure requirements laid down by the Distance Marketing Directive that will have to be provided by a mortgage intermediary and a home purchase intermediary to a consumer prior to the conclusion of a distance mortgage mediation contract or a distance home purchase mediation contract. The purpose of this section, MCOB 4.5, is to set out those additional requirements. MCOB 4.6 sets out the cancellation rights that apply in relation to such contracts.

(2) The FSA expects the requirements in MCOB 4.5 and MCOB 4.6 to be relevant only in a small minority of cases. Mediation at a distance (see MCOB 1.3.5 G and MCOB 1.3.6 G) is unlikely in the home finance market. MCOB 4.5 and MCOB 4.6 will only be relevant if a mortgage intermediary or a home purchase intermediary enters into a distance contract in respect of its mortgage mediation activities or home purchase mediation activities quite independent of any contractual arrangement with a consumer relating to a particular regulated mortgage contract or home purchase plan. An example of a distance mortgage mediation contract would be a distance contract under which a mortgage intermediary agreed to review and provide advice on a consumer’s mortgage needs from time to time.

4.5.2 If the initial contact of a kind in MCOB 4.4.1 R (1) is with a consumer with a view to concluding a distance mortgage mediation contract or a distance home purchase mediation contract, a firm must:

(1) in addition to initial disclosure information and any other required information, provide the consumer with the information in MCOB 4 Annex 3 R in a durable medium in good time before the conclusion of the distance mortgage mediation contract or distance home purchase mediation contract with that customer unless an exemption in (2), (3), (4) or (5) applies.

(2) Exemption: telephone sales

(a) This exemption applies if the service is being provided on the telephone and the customer wishes to enter into a contract with the firm. Provided the customer gives his explicit consent to receiving only limited information, the
firm may proceed on the basis of at least the following information:

(i) the name of the person in contact with the **customer** and his link with the **firm**;

(ii) the total price to be paid by the **customer** to the **firm** for the services, including all related **fees**, charges and expenses, and all taxes paid through the **firm** or, where an exact price cannot be indicated, the basis for the calculation of the price, enabling the **customer** to verify it;

(iii) notice of the possibility that other taxes or costs may exist that are not paid through the **firm** or imposed by it;

(iv) the information about cancellation rights set out in **MCOB 4 Annex 3 R(5)**; and

(v) that other information is available on request, and the nature of that information.

(aa) If the **customer** does not give his explicit consent to receiving limited information, and the parties wish to proceed by telephone, the **firm** must, prior to the conclusion of the contract, provide orally to the **customer** all of the information required by (1).

(b) Where (a) or (aa) applies, the **firm** must send the **consumer** without delay and, at the latest immediately after a contract is concluded, the information required by (1), in a **durable medium**.

(3) Exemption: certain other means of distance communication. This exemption applies if the contract is concluded at the **consumer's** request using a means of distance communication (other than telephone) which does not enable provision of the information referred to in **MCOB 4 Annex 3 R** in a **durable medium** before the conclusion of the contract. In that case, the **firm** must provide the **consumer** with the information in a **durable medium** immediately after its conclusion.

(4) Exemption: successive operations or separate operations under an initial service agreement. This exemption applies if the **firm** has an initial service agreement with the **consumer** and the contract is in relation to a successive operation or a separate operation of the same nature under that agreement.

(5) Exemption: other successive or separate operations This exemption applies if:

(a) the **firm** has no initial service agreement with the **consumer**; and
(b) the **firm** has performed an operation with the **consumer** within the last year; and

(c) the contract is in relation to a successive operation or separate operation of the same nature.

4.5.3

(1) The information in **MCOB 4 Annex 3 R** will be provided in 'good time' for the purposes of **MCOB 4.5.2 R (1)**, if provided in sufficient time to enable the **customer** to consider properly the services on offer.

(2) An example of the circumstances in which **MCOB 4.5.2 R (4) or (5)** may apply is given in **MCOB 4.4.4 G**. If the initial disclosure document and accompanying information (including that in **MCOB 4 Annex 3 R**) was previously provided to a **customer** and continues to be appropriate, there is no need to provide the information again. If additional information is required, this may be provided by a supplementary document. However, if a service of a different nature is proposed, the **firm** is expected to provide a fresh initial disclosure document and, in respect of **distance mortgage mediation contracts** and **distance home purchase mediation contracts** with **consumer**, this will need to be accompanied by the information in **MCOB 4 Annex 3 R**.

4.5.4

[deleted]

4.5.5

[deleted]
4.6 Cancellation of distance mortgage mediation contracts and distance home purchase mediation contracts

4.6.1 A consumer has no right to cancel a home finance transaction concluded with a firm but may have a right to cancel a distance contract concluded with a mortgage intermediary or a home purchase intermediary for the provision of his services. Whether a mortgage intermediary or a home purchase intermediary concludes a distance mortgage mediation contract or a distance home purchase mediation contract with a consumer will depend on the circumstances. For example, an intermediary may not, in advising on or arranging a regulated mortgage contract or home purchase plan, act contractually on behalf of, or for, the customer. In such circumstances, no distance mediation contract will arise for the firm’s services, and therefore no right to cancel. If there is a contract between the customer and the firm, however, and therefore there is a right to cancel, the firm is required by MCOB 4.5.2 R(1) to provide the information in MCOB 4 Annex 3 R(5).

4.6.2 The information provided in accordance with MCOB 4 Annex 3 R(5) should be sufficiently clear, prominent and informative to enable the consumer to understand the right to cancel.

4.6.3 Where the notice of the right to cancel forms part of another document, or is one of a number of documents sent to the consumer at the same time, a firm should ensure that the presence of the notice of the right to cancel is drawn to the consumer’s attention.

Cancellation period

4.6.4 (1) A consumer has a right to cancel a distance mortgage mediation contract or a distance home purchase mediation contract in accordance with this section.

(2) The right to cancel must be exercised within 14 days beginning on the later of:

(a) the day of the conclusion of the contract; or

(b) the day on which the consumer receives the contractual terms and conditions and other information required by MCOB 4.4 and MCOB 4.5.

Exercising the right to cancel

4.6.5 A consumer who has a right to cancel a distance mortgage mediation contract or a distance home purchase mediation contract may, without
giving any reason, cancel the contract by serving notice on the *firm*,
before the expiry of the cancellation period in **MCOB 4.6.4 R** either:

1. by serving on, or otherwise sending by post, notice to the *firm’s*
last known address, addressed to the *firm*, its appointed representative or on any agent of the *firm* with authority to accept notice on the *firm’s* behalf; or

2. in accordance with any other practical instructions for exercising that right provided to the *consumer* in accordance with **MCOB 4 Annex 3 R(5)**.

Where the notice of cancellation is in a durable medium and is served in accordance with **MCOB 4.6.5 R**, it must be treated as being served on the *firm* on the date it is despatched by the *consumer*.

In the event of any dispute, unless there is clear written evidence to the contrary, the *firm* should treat the date cited by the *consumer* as being the date when notice was given, posted or otherwise sent.

**Effects of cancellation**

By exercising a right to cancel under **MCOB 4.6.4 R** the *consumer* withdraws from the contract and the entire contract is terminated.

Regulation 11 (Automatic cancellation of an attached distance contract) of the *Distance Marketing Regulations*, has the effect that when notice of cancellation is given in relation to a contract, that notice also operates to cancel any attached contract, which is also a distance financial services contract. An example of such an attached contract might be a distance non-investment insurance contract.

When a *consumer* exercises a right to cancel under **MCOB 4.6.4 R**:

1. the *firm* must:
   
   a. pay to the *consumer* without delay, and no later than 30 days after the date on which the *firm* received notice of cancellation from him, any sums which he has paid to or for the benefit of the *firm* in connection with the contract (including sums paid by the *consumer* to agents of the *firm*) except for the amount referred to in (b);

   b. subject to (c), the *firm* is permitted to require the *consumer* to pay for the services it has actually provided in connection with the contract; the amount payable, however, must be in accordance with the sums which the *consumer* agreed to pay and must not:

   i. exceed an amount which is in proportion to the extent of the service already provided to the *consumer* by the *firm*; and
(ii) be such that it could be construed as a penalty;

(c) sub-paragraph (b) applies only if:

(i) where performance of the contract has commenced before expiry of the cancellation period, this was requested by the consumer; and

(ii) the firm can demonstrate that the consumer was provided with details of the amount which he may be required to pay if exercising his right to cancel in accordance with MCOB 4 Annex 3 R(5).

(2) The firm is entitled to receive without delay, and no later than 30 days after the date on which the consumer posted or otherwise sent notice of cancellation to the firm any property that became the consumer's under the contract and any sums payable to the firm under (1)(b).

Record keeping

Where notice of cancellation has been served on a firm (or its appointed representative or agent), the firm must make and retain a record (which includes a copy of any receipt of notice issued to the consumer and the consumer's original notice instructions) for three years from the date when the firm first became aware that notice of cancellation had been served.
4.7 Advised sales

Suitability

4.7.1 Principle 9 requires a firm to take reasonable care to ensure the suitability of its advice. In accordance with that principle, a firm should take reasonable steps to obtain from a customer all information likely to be relevant for the purposes of MCOB 4.7.

4.7.2 A firm must take reasonable steps to ensure that it does not make a personal recommendation to a customer to enter into a regulated mortgage contract, or to vary an existing regulated mortgage contract, unless the regulated mortgage contract is, or after the variation will be, suitable for that customer (see MCOB 4.3.4 R (2), MCOB 4.3.5 G and MCOB 4.3.6 G).

4.7.3 In MCOB 4.7, a reference to a recommendation to enter into a regulated mortgage contract is to be read as including a reference to a recommendation to vary an existing regulated mortgage contract if the context so requires.

4.7.4 For the purposes of MCOB 4.7.2 R:

(1) a regulated mortgage contract will be suitable if, having regard to the facts disclosed by the customer and other relevant facts about the customer of which the firm is or should reasonably be aware, the firm has reasonable grounds to conclude that:

(a) the customer can afford to enter into the regulated mortgage contract;

(b) the regulated mortgage contract is appropriate to the needs and circumstances of the customer; and

(c) the regulated mortgage contract is the most suitable of those that the firm has available to it within the scope of the service provided to the customer;

(2) no recommendation must be made if there is no regulated mortgage contract from within the scope of the service provided.
to the customer which is appropriate to his needs and circumstances; and

(3) if a firm is dealing with an existing customer in arrears and has concluded that there is no suitable regulated mortgage contract for the purposes of MCOB 4.7.2 R, the firm must nonetheless have regard to MCOB 13.3.2 E(1)(a), (e) and (f) (see also MCOB 13.3.4 G(1)(a) and (b)).

4.7.5 In relation to MCOB 4.7.4 R(1)(a), a firm must explain to the customer that the assessment of whether he can afford to enter into a regulated mortgage contract is based on:

(1) current interest rates, which might rise in the future; and

(2) the customer’s current circumstances, which might change in the future.

4.7.6 In relation to MCOB 4.7.4 R(1)(a) and (b), where a firm makes a personal recommendation to a customer to enter into a regulated mortgage contract where a main purpose is to consolidate existing debts it must also take account of the following, where relevant, in assessing whether the regulated mortgage contract is suitable for the customer:

(1) the costs associated with increasing the period over which a debt is to be repaid;

(2) whether it is appropriate for the customer to secure a previously unsecured loan; and

(3) where the customer is known to have payment difficulties, whether it would be more appropriate for the customer to negotiate an arrangement with his creditors than to take out a regulated mortgage contract.

4.7.7 (1) In assessing whether a customer can afford to enter into a particular regulated mortgage contract, a firm should give due regard to the following:

(a) information that the customer provides about his income and expenditure, and any other resources that he has available;

(b) any likely change to the customer’s income, expenditure or resources; and

(c) the costs that the customer will be required to meet once any discount period in relation to the regulated mortgage contract comes to an end (on the assumption that interest rates remain unchanged).
(2) Contravention of MCOB 4.7.7 E(1) may be relied upon as tending to show contravention of MCOB 4.7.4 R(1)(a).

4.7.8 A firm may generally rely on any information provided by the customer for the purposes of MCOB 4.7.4 R(1)(a) unless, taking a common-sense view of this information, it has reason to doubt it.

4.7.9 MCOB 4.7.4 R(3) explains that different considerations apply when making a personal recommendation to a customer in arrears. For example, the circumstances of the customer may mean that, viewed as a new transaction, a customer could not be recommended to enter into a regulated mortgage contract. In such cases, a firm will still be able to make a personal recommendation to that customer where this recommendation is, in the circumstances, a more suitable one than the customer’s existing regulated mortgage contract.

4.7.10 In complying with MCOB 4.7.4 R a firm is not required to consider whether it would be preferable for the customer to:

(1) purchase a property by using his own resources, rather than by borrowing under a regulated mortgage contract;

(2) rent a property, rather than purchase one; or

(3) delay entering into a regulated mortgage contract until a later date (on the grounds that property prices would have fallen in the intervening period, or that the interest rate in relation to the regulated mortgage contract would be lower, or both).

4.7.11 In assessing whether the regulated mortgage contract is appropriate to the needs and circumstances of the customer for the purposes of MCOB 4.7.4 R(1)(b), a firm should give due regard to the following:

(a) whether the customer’s requirements meet the eligibility criteria for the regulated mortgage contract (for example, the amount that the customer wishes to borrow, or the loan-to-value ratio);

(b) whether the customer should have an interest-only mortgage, a repayment mortgage, or a combination of the two;

(c) whether the customer has a preference for a particular term;

(d) whether the customer has a preference or need for stability in the amount of required payments, especially having regard to the impact on the customer of significant interest rate changes in the future;

(e) whether the customer has a preference or need for payments to be reduced at the outset (for example, a loan with an initial discount rate period);
(f) whether the customer intends to make early repayments; and
(g) whether the customer has a preference or need for any other features of a regulated mortgage contract (for example, payment holidays).

(2) Compliance with (1) may be relied upon as tending to show compliance with ■ MCOB 4.7.4 R(1)(b).

4.7.12 (1) ■ MCOB 4.7.11 E(1)(b) does not require a firm to provide advice on investments. Whether such advice should be given will depend upon the individual needs and circumstances of the customer. Where considered relevant, MCOB 4 does not restrict the ability of an adviser to refer the customer to another source of investment advice (for example, where the adviser is not qualified to provide advice on investments).

(2) Where the scope of the advice provided is based on a selection of regulated mortgage contracts from a single or limited number of lenders, the assessment of suitability should not be limited to the types of regulated mortgage contracts which the firm offers. A firm cannot recommend the ‘least worst’ regulated mortgage contract where the firm does not have access to products appropriate to the customer’s needs and circumstances. This means, for example, that a firm dealing solely in the sub-prime market should not recommend one of these regulated mortgage contracts if approached for advice by a customer with an unblemished credit record.

4.7.13 (1) A firm should, out of all the regulated mortgage contracts identified as being appropriate for that customer, recommend the one that is the least expensive for that customer taking into account those pricing elements identified by the customer as being most important to him.

(2) Compliance with (1) may be relied upon as tending to show compliance with ■ MCOB 4.7.4 R(1)(c).

4.7.14 (1) With regard to ■ MCOB 4.7.13 E(1) different customers are likely to identify different pricing elements as being of most importance. For example, it may be the overall cost, the cost over the first five years, or the absence of early repayment charges that a customer considers most important.

(2) ■ MCOB 4.7.13 E(1) does not prevent a firm from making a recommendation on other grounds. For example, it would be open to a firm to have regard to the speed or quality of service of different mortgage lenders, the policies of mortgage lenders on further lending or capital repayments, the underwriting stance of mortgage lenders or the customer’s wish for a regulated mortgage contract that is compliant with Islamic law. The obligation to satisfy ■ MCOB 4.7.4 R(1)(c) remains the same in such cases.

(3) If circumstances arise in which a firm has reasonable grounds to conclude that there are several regulated mortgage contracts that would satisfy the suitability requirement in ■ MCOB 4.7.4 R, the firm will act in conformity with that rule if it recommends only one of those regulated mortgage contracts.
(4) If for any reason a customer rejects a recommendation made by a firm (for example, on the grounds that the mortgage lender selected is unknown to him), the firm can make a further recommendation (in accordance with the requirements of MCOB 4.7) where there remains a regulated mortgage contract that is appropriate to the needs and circumstances of the customer.

Rejected recommendations

4.7.15 R

(1) If a customer has:

(a) rejected all of the personal recommendations made by a firm and requested information instead on a regulated mortgage contract that the firm does not consider suitable (and therefore could not recommend to the customer in accordance with MCOB 4.7.2 R); and

(b) been issued with a new initial disclosure document in accordance with MCOB 4.4.1 R or MCOB 4.4.7 R;

the firm may be able to provide information on that regulated mortgage contract in the light of the information on which the personal recommendations in (1) were made.

(2) If the firm needs to ask further questions regarding the needs and circumstances of the customer to be able to provide information on that regulated mortgage contract, the firm must obtain that information by asking scripted questions (in accordance with MCOB 4.8.1 R).

Record keeping

4.7.17 R

(1) A firm must make and retain a record:

(a) of the customer information, including that relating to the customer's needs and circumstances, that it has obtained for the purposes of MCOB 4.7; and

(b) that explains why the firm has concluded that any personal recommendation given in accordance with MCOB 4.7.2 R satisfies the suitability requirements in MCOB 4.7.4 R(1). This explanation must include, where this is the case, the reasons why a personal recommendation has been made on a basis other than that described in MCOB 4.7.13 E(1).

(2) The record in (1) must be retained for a minimum of three years from the date on which the personal recommendation was made.
4.8 Non-advised sales

4.8.1 If a firm arranges a regulated mortgage contract or a variation to an existing regulated mortgage contract without giving a personal recommendation, it must ensure that all the questions it asks the customer about the customer’s needs and circumstances are scripted in advance.

4.8.2 (1) MCOB 2.2.6 (Clear, fair and not misleading communications) applies to information provided to a customer in a non-advised sale, that is a sale of a regulated mortgage contract by a firm where the firm has not made a personal recommendation to the customer to enter into that particular regulated mortgage contract. In providing information on only a selection of the regulated mortgage contracts that it deals with, a firm will need to ensure that the selection is fair and unbiased. Where the non-advised sales process leads to the identification of only one regulated mortgage contract, a firm should have regard to the guidance on scripted questions in PERG 4.6.21 G to 4.6.25 G.

(2) In the course of a non-advised sale a firm may decide that a customer is considering a regulated mortgage contract that is inappropriate for that particular customer. Firms should note that, in such circumstances, although they are not providing advice to the customer, they are still conducting a regulated activity and are subject to the high-level standards, including PRIN. Principle 6 (Customers’ interests) requires a firm to pay due regard to the interests of its customers and treat them fairly. A firm selling what it considered to be an inappropriate product, would be in breach of Principle 6 as it would be conducting a regulated activity without regard to the customer’s interests. In the FSA’s opinion, the appropriate course in such cases would be for the firm to tell the customer to seek advice.

Where MCOB 4.8.1 R applies, the firm must ensure that staff using the scripted questions are:

(1) trained in the use of the script;
(2) trained in the difference between what constitutes a personal recommendation and what does not; and

(3) instructed not to give a personal recommendation unless they meet the TC requirements for advising on regulated mortgage contracts.

4.8.4 A firm must take reasonable steps to supervise staff who do not meet the TC requirements for advising on regulated mortgage contracts so that:

(1) they do not give personal recommendations; and

(2) when using scripted questions to comply with MCOB 4.8.1 R, they adhere to the script in all material respects.

4.8.5 (1) Scripted questions should be clear, fair and not misleading.

(2) A firm should ensure that the number of supervisory staff should be adequate for the size of the sales team, and supervisors should have the technical knowledge, assessment skills and coaching skills to act as a supervisor.

4.8.6 A firm which, after using scripted questions to help a customer select a regulated mortgage contract, makes a personal recommendation about a regulated mortgage contract to that customer will need to follow the rules governing the provision of advice in MCOB 4 (including, but not limited to, the suitability requirements in MCOB 4.7).

Record keeping

4.8.7 (1) A firm must make, and keep up to date, a record of the scripted questions required by MCOB 4.8.1 R. The record must be made on the date on which the scripted questions are first used.

(2) The record in (1) must be retained for one year from the date on which it was superseded by a more up-to-date record.
4.9 Business loans

4.9.1 For the purposes of the rules in MCOB 4 there is one market in regulated mortgage contracts for a business purpose. Within this market, a firm should describe its scope of service in accordance with MCOB 4.3.1 R.

4.9.1A Firms are reminded that in accordance with MCOB 1.2.3 R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 4.9 if it also follows all other tailored provisions in MCOB.

4.9.2 Where a personal recommendation is provided in connection with a regulated mortgage contract for a business purpose it is recognised that there may be additional considerations beyond those described in MCOB 4.7.11 E as part of the assessment of whether the regulated mortgage contract is appropriate to the needs and circumstances of the customer.

Initial disclosure document

4.9.3 As explained in MCOB 4.4.3 G(1) the requirement to provide an initial disclosure document is only triggered where the firm has identified the possibility that it will be giving personalised information or advice to a customer on a regulated mortgage contract for a business purpose.

4.9.4 (1) Firms are reminded that MCOB 1.2.7 R enables them to substitute an alternative for 'mortgage' in the initial disclosure document (except in relation to sections 6 and 8 of any initial disclosure document or sections 5 and 8 of any combined initial disclosure document).

(2) MCOB 1.2.7 R also means that a firm must amend any initial disclosure document so that the final sentence of prescribed text in section 4 states: 'You will receive an illustration which will tell you about any fees relating to a particular [term used by the firm to describe the borrowing, for example "mortgage"]').

(3) Where the initial disclosure document makes reference to the permitted business of a firm (for example, sections 6 and 8 of the initial disclosure document may refer to a firm advising on or arranging regulated mortgage contracts) a firm can add text explaining the relevance of these descriptions. One approach may be to add an additional sentence such as: 'Secured overdrafts are referred to here as "mortgages" because they involve a charge being taken over your property'.
Non-advised sales

4.9.5 R

MCOB 4.8.1 R does not apply in relation to a regulated mortgage contract for a business purpose.
4.10 Home purchase plans

Scope of service provided

A firm must comply with the scope of service requirements at
- MCOB 4.3.1 R and MCOB 4.3.2 R (Providing services within and beyond scope),
- MCOB 4.3.4A R (Whole of market) and MCOB 4.3.10 R (Appointed representatives).

Initial disclosure requirements

(1) A firm must, on first making contact with a customer when it anticipates giving personalised information or advice on entering into a new home purchase plan, ensure that the customer is, or has been, provided with an appropriate initial disclosure document or combined initial disclosure document in a durable medium.

(2) If the initial contact in (1) is by telephone, a firm must:
   (a) (if the call is with a view to concluding a distance home purchase mediation contract) give the following information before proceeding further:
      (i) the name of the firm and (if initiated by the firm) the commercial purpose of the call;
      (ii) the scope of the service provided by the firm; and
      (iii) whether or not the firm will provide the customer with advice on those home purchase plans within its scope; and
   (b) ensure that the customer is, or has been, provided with such a document in a durable medium as soon as is practicable.

(3) A firm must not use a combined initial disclosure document in relation to a combination of home purchase plans and equity release transactions.

In accordance with Principle 7, where a firm is likely to provide services in relation to both regulated mortgage contracts and home purchase plans, it should provide a combined initial disclosure document rather than two separate initial disclosure documents.
The guidance on initial disclosure requirements at MCOB 4.4.2 G to MCOB 4.4.4 G may be relevant.

Additional requirements for distance home purchase mediation contracts with retail customers

Note: The rules regarding additional disclosure requirements for, and cancellation of, distance home purchase mediation contracts are set out in MCOB 4.5 and MCOB 4.6 respectively.

**Advised sales: suitability**

In accordance with Principle 9, a firm should take reasonable steps to obtain from a customer all information likely to be relevant to ensuring the suitability of its advice.

A firm, before making a personal recommendation on a home purchase plan, must take reasonable steps to ensure that it is:

1. affordable;
2. appropriate to the customer's needs and circumstances; and
3. the most suitable of those home purchase plans that the firm has available to it within the scope of the service provided to the customer.

The guidance on suitability at MCOB 4.7.8 G to MCOB 4.7.10 G and MCOB 4.7.16 G may be relevant.

**Non-advised sales**

If a firm arranges a home purchase plan or a variation to an existing home purchase plan without giving a personal recommendation, it must ensure that the questions it asks about the customer's needs and circumstances are scripted in advance.

The guidance on non-advised sales at MCOB 4.8.2 G and on scripted questions at MCOB 4.8.5 G and MCOB 4.8.6 G may be relevant.

**Risks and features statement and tariff of charges**

A firm must, before making a personal recommendation to a customer of, or when a customer requests or selects, a home purchase plan, ensure that the customer is, or has been, provided with an appropriate risks and features statement about that plan.
A risks and features statement need not be personalised to the customer's circumstances but must:

1. include the keyfacts logo in a prominent position at the top of the statement;
2. state that the FSA requires a firm to provide the statement;
3. state that mortgages are available and that the customer should think carefully about the product appropriate to his needs;
4. describe the significant features of the plan, including:
   a. how the home purchase plan works;
   b. the nature of the customer’s commitment;
   c. when and how a customer’s commitment is reviewed;
   d. any significant restrictions of the plan; and
   e. the charges that a customer may incur under the plan, including the reason for, and amount of, each charge, when they are payable, whether they will be reimbursed and, if so, when;
5. describe the risks associated with the plan, including:
   a. the risks to the customer if he fails to keep up repayments and the circumstances in which this might occur; and
   b. risks to the customer of the home purchase provider failing or disposing of any of its obligations or rights (including its interest in the property) to a third party (taking into account steps that will be taken by the home purchase provider to mitigate such risks); and
6. state the importance of obtaining independent legal advice.

A firm may omit details of the charges that a customer may incur under a home purchase plan from the risks and features statement if they are included in a separate tariff of charges provided to the customer at the same time.
Initial disclosure document

This Annex belongs to MCOB 4.4.1 R (1) and MCOB 4.10.2 R.

This annex consists only of one or more forms. Forms are to be found through the following address:

Initial disclosure document - www.fsa.gov.uk/pubs/other/mcob_forms/mcob4_annex1.pdf
Combined initial disclosure document ■ [deleted - see ■ COBS 6 Annex 2]
**Additional information requirements in respect of distance mortgage mediation contracts and distance home purchase mediation contracts with consumers**

This table belongs to MCOB 4.5.2 R

<table>
<thead>
<tr>
<th>Additional information for distance contracts with retail customers consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>All the contractual terms and conditions on which the service will be provided including, in particular, the following information:</td>
</tr>
<tr>
<td>(1) where the <em>firm</em> has a representative established in the consumer's EEA State or other country of residence, the identity of that representative and the geographical address relevant to the consumer's relations with him;</td>
</tr>
<tr>
<td>(2) where the consumer's dealings are with any professional other than the <em>firm</em>, the identity of that professional, the capacity in which he is acting with respect to the consumer, and the geographical address relevant to the consumer's relations with that professional;</td>
</tr>
<tr>
<td>(3) in relation to the contract:</td>
</tr>
<tr>
<td>(a) any limitations of the period for which the information provided is valid;</td>
</tr>
<tr>
<td>(b) in relation to services performed permanently or recurrently, the minimum duration of the contract;</td>
</tr>
<tr>
<td>(4) in relation to the cost of the service:</td>
</tr>
<tr>
<td>(a) notice of the possibility that other taxes or costs may exist that are not paid through the <em>firm</em> or imposed by it; and</td>
</tr>
<tr>
<td>(b) any specific additional cost to the consumer, if any, for using a means of distance communication;</td>
</tr>
<tr>
<td>(5) the existence or absence of a right to cancel. Where there is such a right:</td>
</tr>
<tr>
<td>(a) its duration and the conditions for exercising the right to cancel, including information on the amount which the consumer may be required to pay (or which may not be returned to the consumer) if the contract is terminated early or unilaterally under its terms;</td>
</tr>
<tr>
<td>(b) the consequences of not exercising the right to cancel; and</td>
</tr>
<tr>
<td>(c) practical instructions for exercising the right to cancel, including as a minimum the method in MCOB 4.6.5 R (1), details of the address to which the cancellation notice should be sent and the fact that the notice must clearly indicate, however expressed, the consumer's intention to cancel the contract; and</td>
</tr>
</tbody>
</table>
### Additional information for distance contracts with retail customers consumers

(6) details of:

(a) the **EEA State** or States whose laws are taken by the **firm** as a basis for the establishment of relations with the **customer** prior to the conclusion of the *regulated mortgage contract* or *home purchase plan*;

(b) any contractual clause on law applicable to the *regulated mortgage contract* or *home purchase plan* or on competent court, or both; and

(c) the language in which the contract is supplied and in which the **firm** will communicate during the course of the *regulated mortgage contract* or *home purchase plan*. 

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**FSA Handbook**

**Release 084**

**December 2008**
Chapter 5

Pre-application disclosure
5.1 Application

Who?

5.1.1 This chapter applies to a firm in a category listed in column (1) of the table in MCOB 5.1.2 R in accordance with column (2) of that table.

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>whole chapter except MCOB 5.8</td>
</tr>
<tr>
<td>mortgage adviser</td>
<td></td>
</tr>
<tr>
<td>mortgage arranger</td>
<td></td>
</tr>
<tr>
<td>home purchase provider</td>
<td>MCOB 5.1.1 R to MCOB 5.1.3 R, MCOB 5.1.6 R to MCOB 5.1.8 G, MCOB 5.2, MCOB 5.3 and MCOB 5.8.</td>
</tr>
<tr>
<td>home purchase adviser</td>
<td></td>
</tr>
<tr>
<td>home purchase arranger</td>
<td></td>
</tr>
<tr>
<td>reversion provider</td>
<td>see MCOB 9.3 for the application of this chapter</td>
</tr>
<tr>
<td>reversion adviser</td>
<td></td>
</tr>
<tr>
<td>reversion arranger</td>
<td></td>
</tr>
</tbody>
</table>

What?

5.1.3 This chapter applies if a firm:

(a) makes a personal recommendation to a customer to enter into a home finance transaction; or

(b) provides information to a customer that is specific to the amount to be provided on a particular home finance transaction, including information provided in response to a request from a customer; or
(c) provides the means for a customer to make an application to it;

in connection with entering into, or agreeing to enter into, a home finance transaction provided by a home finance provider, other than an equity release transaction or a variation to an existing home finance transaction.

(2) In relation to further advances and other variations, MCOB 5 is modified by MCOB 7 (Disclosure at start of contract and after sale), regardless of whether they are variations to an existing home finance transaction, or are such that they involve the customer entering into a new home finance transaction.

(3) In relation to an equity release transaction, MCOB 5 is modified by MCOB 9 (Equity release: product disclosure).

5.1.4

The table in MCOB 5.1.5 G shows how the relevant rules and guidance in MCOB 5 apply to certain types of regulated mortgage contracts.

5.1.5

Table This table belongs to MCOB 5.1.4G

<table>
<thead>
<tr>
<th>Type of mortgage</th>
<th>Requirements that do not apply</th>
<th>Additional or alternative requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multi-part mortgages</td>
<td>MCOB 5.6.42 R (3)</td>
<td>MCOB 5.6.28 R</td>
</tr>
<tr>
<td></td>
<td>MCOB 5.6.46 R</td>
<td>MCOB 5.6.54 R - MCOB 5.6.57 G</td>
</tr>
<tr>
<td>Foreign currency mortgages</td>
<td>N/A</td>
<td>MCOB 5.6.127 R - MCOB 5.6.128 R</td>
</tr>
<tr>
<td>Shared appreciation mortgages</td>
<td>N/A</td>
<td>MCOB 5.6.129 R - MCOB 5.6.131 R</td>
</tr>
<tr>
<td>Deferred interest rate mortgages</td>
<td>N/A</td>
<td>MCOB 5.6.132 R</td>
</tr>
<tr>
<td>Mortgages without a term or regular payment plan</td>
<td>MCOB 5.6.31 R</td>
<td>MCOB 5.6.32 R</td>
</tr>
<tr>
<td></td>
<td>MCOB 5.6.40 R - MCOB 5.6.57 G</td>
<td>MCOB 5.6.134 R - MCOB 5.6.145 R</td>
</tr>
<tr>
<td></td>
<td>MCOB 5.6.59 R - MCOB 5.6.65 R</td>
<td></td>
</tr>
</tbody>
</table>

5.1.6

In this chapter, references to a home finance transaction include, where the context requires, references to arrangements which are capable of becoming a home finance transaction.

5.1.7

(1) MCOB 5.1.3 R means that this chapter applies where the customer can apply to enter into a home finance transaction. This includes circumstances where, for example, the means to apply is provided in person, by telephone, through a website or through an application pack sent through the post.
(2) The effect of this chapter is to require a customer to be provided with key information about a home finance transaction before he submits an application to a home finance provider.

5.1.8 Although an illustration is a financial promotion, the effect of MCOB 3.2.5 R(1), section 145(3) of the Act (Financial promotion rules) and article 28 of the Financial Promotion Order (One-off non-real time communications and solicited real time communications) is that an illustration is exempt from the provisions of MCOB 3 (Financial promotion). However, the general requirement to communicate information in a way which is clear, fair and not misleading applies to both an illustration and (in relation to a home purchase plan) a financial information statement (see MCOB 5.8.1 R).

5.1.9 In relation to a regulated mortgage contract, where part of the loan is not a regulated mortgage contract, for example it is a linked unsecured loan, the details of this loan can be shown in Section 12 of the illustration as an additional feature. It should not be added to the regulated mortgage contract loan amount in MCOB 5.6.6 R(2).

5.1.10 A firm that finds any rule in MCOB 5.6 (Content of illustrations) inappropriate for the particular kind of regulated mortgage contract that the mortgage lender provides will need to seek from the FSA a waiver of that rule. SUP 8 contains details of the waiver procedure.
5.2 Purpose

5.2.1 ■ MCOB 5 amplifies Principle 6 and Principle 7.

(2) ■ MCOB 5 is to ensure that, before a customer submits an application for a particular home finance transaction, he is supplied with information that makes clear:

(a) (in relation to a regulated mortgage contract) its features, any linked deposits, any linked borrowing and any tied products; and

(b) the price that the customer will be required to pay under that home finance transaction, to enable the customer to assess whether it is affordable to him.

(c) [deleted]

(3) ■ MCOB 5 requires information to be disclosed in a consistent way to facilitate comparison between products of different providers.
5.3 Applying for a home finance transaction

5.3.1 A home finance provider must not enter into a home finance transaction, or agree to do so, with a customer unless the customer has submitted an application for that particular home finance transaction.

5.3.2 (1) The purpose of MCOB 5.3.1 R, taken in conjunction with other rules in this chapter, is to ensure that the customer has received details of the particular home finance transaction for which he has applied, and has had the opportunity to satisfy himself that it is appropriate for him.

(2) In relation to a regulated mortgage contract, the application should identify the type of interest rate, rate of interest, and the mortgage lender at the point it is submitted by the customer (for how to describe interest rates see MCOB 5.6.26 R and MCOB 5.6.27 R).
5.4 Mortgage illustrations: general

Clear, fair and not misleading

5.4.1 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.

Accuracy

5.4.2 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 the regulated mortgage contract.

5.4.3 A mortgage intermediary must take reasonable steps to ensure that an illustration which it issues, or which is issued on its behalf, other than that provided by a mortgage lender:

(1) is accurate within the following tolerances:

(a) no more than one percent or £1, whichever is the greater, below the actual figures charged by the mortgage lender for the following:

(i) the total amount payable in Section 5 of the illustration;

(ii) the amount payable for every £1 borrowed in Section 5 of the illustration;

(iii) the amounts that the customer must pay by regular instalment in Section 6 of the illustration (or in Section 7 of the illustration for an interest rate with a floor or a ceiling); and

(iv) the amount by which the regular instalment (or the total amount payable for loans without a term or a regular repayment plan) would increase following a one percentage point increase in interest rates in Section 7;

(b) the APR in Section 5 of the illustration cannot be understated by more than 0.1%; and

(2) except in the case of conveyancing fees and insurance premiums (where estimates may be used), is accurate in respect of other figures.
quoted in the *illustration* including fees payable to the *mortgage lender* or *mortgage intermediary* in Section 8 of the *illustration* and cash examples of *early repayment charges*, calculated in accordance with the rules in ■ MCOB 5.6.84 R to ■ MCOB 5.6.88 R, in Section 10.

5.4.4 G

Given that the *APR* is presented as a percentage, and must be rounded to one decimal place in accordance with ■ MCOB 10 (Annual Percentage Rate), *firms* should note that the tolerance allowed for the *APR* in ■ MCOB 5.4.3 R(1)(b) means that, for example, where the actual *APR* is 5.0% the quoted *APR* must be no lower than 4.9%, or where the actual *APR* is 16.0%, the quoted *APR* must be no lower than 15.9%.

5.4.5 G

There are no restrictions on figures which are quoted as higher than those actually charged by the *mortgage lender* although this should not be purposely done in order to make one *regulated mortgage contract* look more expensive than another.

5.4.6 G

It is the responsibility of a *mortgage intermediary* to ensure compliance with ■ MCOB 5.4.3 R. However, where a *firm* can show that it was reasonable for it to rely on information provided to it by another *person*, other than the *mortgage lender*, that an *illustration* was within the tolerances described in ■ MCOB 5.4.3 R, he may be able to rely on ■ MCOB 2.5.2 R, if this turns out not to be the case.

5.4.7 G

An *offer document* may not always exactly match the *illustration* provided before application even when the loan requirements have not changed. For example, where a fixed rate has a defined end date, the *total amount payable* may be different because the number of payments at the fixed rate has reduced assuming a later date at which the *regulated mortgage contract* will start.

**Illustrations where customer ineligible**

5.4.8 R

A *firm* must not issue an *illustration* to a *customer* for a *regulated mortgage contract* for which the *customer* is clearly ineligible on the basis of the information that the *firm* has obtained from the *customer* or the *mortgage lender's* lending criteria.

5.4.9 G

The purpose of ■ MCOB 5.4.8 R is not to require a *firm* to ascertain whether a *customer* is eligible for a particular *regulated mortgage contract* before providing an *illustration*. Instead, the purpose is to ensure that the *firm* takes into account the information it has obtained from the *customer* before providing an *illustration* to the *customer*.

**Explaining the importance of an illustration**

5.4.10 R

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

5.4.11 G

A *firm* may satisfy ■ MCOB 5.4.10 R by drawing the *customer's* attention orally to the importance of reading and understanding the *illustration*, for example in a face-to-face meeting, or by referring to its importance in a covering letter or electronic communication or other written information that accompanies the *illustration*.
Any illustration provided to a customer by a firm must be in a durable medium.

A firm must not provide a customer with information that is specific to the amount that the customer wants to borrow on a particular regulated mortgage contract except in the following circumstances:

(1) when it is in the form of an illustration;

(2) when it is provided on screen, for example a computer screen;

(3) when supplementary information which is not contained within an illustration is provided after or at the same time as an illustration; or

(4) when it is provided orally, for example by telephone.

Where MCOB 5.4.13 R(2) applies:

(1) if the customer initiates the accessing of quotation information on screen (for example, by using the internet or interactive television), 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 key facts illustration before you make a decision.'; and

(2) a firm must not provide a customised print function where the information on the screen would not be in the form of an illustration if the information were printed in hard copy.

Where MCOB 5.4.13 R(3) applies, supplementary information must only be provided when it does not significantly duplicate information provided in the illustration.

MCOB 5.4.13 R places no restrictions on the provision of information that is not specific to the amount the customer wants to borrow, for example, marketing literature including generic mortgage repayment tables or graphs illustrating the benefits of making a regular overpayment on a flexible mortgage. Such literature may, however, constitute a financial promotion and be subject to the provisions of MCOB 3 (Financial promotion).

Where MCOB 5.4.13 R(2) and MCOB 5.4.13 R(4) apply, firms should encourage the customer to obtain a copy of an illustration in a durable medium. This could be done, for example, if the information was contained on the firm’s website, by a prompt which asked the customer whether he wished to print off an illustration.
(1) Unless (2) applies, where MCOB 5.4.13 R(2) or MCOB 5.4.13 R(4) apply, a firm must provide the means for the customer to obtain an illustration as soon as practicable, through a delivery channel acceptable to the customer.

(2) A firm does not need to provide an illustration if the customer refuses to disclose key information (for example, in a telephone conversation, his name or a communication address) or where the provision of an illustration is not appropriate, for example, because on the basis of discussions undertaken the customer is ineligible given the mortgage lender’s lending criteria, or is not interested in pursuing the enquiry.

Record keeping

A firm must make an adequate record of each illustration that it issues to a customer in accordance with MCOB 5.5.1 R where the customer applies for that particular regulated mortgage contract.

The record required by MCOB 5.4.19 R must be retained for a year from the date of the application made by the customer.

MCOB 5.4.19 R does not require a firm to keep records of illustrations that are issued to a customer where the customer does not apply to enter into that particular regulated mortgage contract.

The record maintained in accordance with MCOB 5.4.19 R should contain or refer to matters such as:

- the date on which the illustration was provided to the customer;
- the date of the application made by the customer; and
- details of the medium through which the illustration was provided.

Tied products

Where the illustration provided to the customer does not contain an accurate quotation or a reasonable estimate of the payments the customer will need to make in connection with any tied product that the customer must take out with the regulated mortgage contract, and the customer applies for that regulated mortgage contract:

- the firm must provide the customer with an accurate quotation as soon as possible after he has applied, and in good time before the offer document is provided;
- the customer has a right to withdraw his application for the regulated mortgage contract for a period of seven days from receipt of the quotation referred to in (1);
(3) the quotation for the *tied product* must be accompanied by a notice explaining that the *customer* can withdraw his application and receive a full refund of any fees paid in connection with the application for that *regulated mortgage contract* (excluding any fees paid in respect of the *regulated activity of arranging or advising on a regulated mortgage contract* by a *mortgage lender* or a *mortgage intermediary*) for a period of seven days from receipt of the quotation or acceptance of the *mortgage lender's* offer if sooner; and

(4) the *firm* must refund any fees paid by the *customer* (excluding any fees paid in respect of any advice provided by a *mortgage lender* or a *mortgage intermediary*) if the *customer* decides to exercise his right to withdraw his application in accordance with (2).

The *rules* on the content of an *illustration* at [MCOB 5.6](#) (Content of illustrations) mean that if the *regulated mortgage contract* requires the *customer* to take out a *tied product*, the *illustration* must include an accurate quotation or a reasonable estimate of the payments the *customer* would need to make for the *tied product* (see [MCOB 5.6.52 R(2)](#) on a *repayment vehicle* that is a *tied product* and [MCOB 5.6.74 R](#) on insurance that is a *tied product*). If it is not possible to include this cost information in the *illustration*, [MCOB 5.4.23 R](#) requires that the *customer* be provided with an accurate quotation of the payments associated with the *tied product* as soon as possible. If the quotation is provided after the *customer* has applied for the *regulated mortgage contract* the *customer* has the right to a refund of fees if he withdraws his application.
5.5 Provision of illustrations

Timing

5.5.1 (1) A firm must provide the customer with an illustration for a regulated mortgage contract before the customer submits an application for that particular regulated mortgage contract to a mortgage lender, unless an illustration for that particular regulated mortgage contract has already been provided.

(2) A firm must provide the customer with an illustration for a regulated mortgage contract when any of the following occurs, unless an illustration for that regulated mortgage contract has already been provided:

(a) the firm makes a personal recommendation to the customer to enter into one or more regulated mortgage contracts, in which case an illustration must be provided at the point the recommendation is made (and illustrations for all recommended regulated mortgage contracts must be provided), unless the personal recommendation is made by telephone, in which case the firm must provide an illustration within 5 business days;

(b) the firm provides written information that is specific to the amount that the customer wants to borrow on a particular regulated mortgage contract; or

(c) the customer requests written information from the firm that is specific to the amount that the customer wants to borrow on a particular regulated mortgage contract, unless the firm does not wish to do business with the customer.

(3) Subject to MCOB 5.5.4 R, the firm may comply with (1) and (2) by providing an offer document containing an illustration, if this can be done as quickly as providing an illustration.

The effect of the requirements at MCOB 5.3.1 R and MCOB 5.5.1 R(1) is that if a customer’s application to enter into a regulated mortgage contract with a mortgage lender, made via a mortgage intermediary, is subsequently passed by that mortgage intermediary to another mortgage lender, then the mortgage intermediary must ensure
that the application is amended and the customer is provided with an illustration for the other mortgage lender’s regulated mortgage contract before the application is passed to the other mortgage lender.

5.5.3 If a firm chooses to issue an offer document in place of an illustration in accordance with ■MCOB 5.5.1 R(3), it will need to comply with ■MCOB 6.4 (Content of the offer document), and in particular with ■MCOB 6.6 (Offer documents in place of illustrations).

5.5.4 A firm must not accept fees, commission a valuation, or undertake any other action that commits the customer to an application until the customer has had the opportunity to consider an illustration.

5.5.5 The effect of the requirements at ■MCOB 5.5.1 R(1) and ■MCOB 5.5.4 R is that a customer will be deemed to be committed to an application if, for example, he pays a product related fee (including a valuation fee) or provides electronic or verbal authority to process an application. It is not necessary for a customer to provide a mortgage lender with a completed application form to submit an application for a regulated mortgage contract.

5.5.6 Subject to ■MCOB 5.5.1 R and ■MCOB 5.5.15 R when an illustration is requested without delay, a firm may perform an internal credit score and obtain information on the customer’s credit record from a credit reference agency (subject to the consent of the customer), in order to provide a customer with an approval in principle for a regulated mortgage contract, without having to provide an illustration.

5.5.7 The firm dealing directly with the customer is responsible for ensuring compliance with the content and timing requirements, that is, a mortgage lender is not responsible for ensuring that a customer has received an illustration before accepting an application from a mortgage intermediary.

5.5.8 Where a firm has already provided an illustration in accordance with ■MCOB 5.5.1 R and the terms for the proposed regulated mortgage contract are subsequently materially altered, the firm must ensure that the customer is provided with a revised illustration, before acting on the amendment, when the change occurs at the point at which a customer submits an application for the regulated mortgage contract.

5.5.9 What constitutes ‘materially altered’ requires consideration of the facts of each individual case. For example, a change of product such that the underlying terms and conditions of the regulated mortgage contract have changed should normally be regarded as material, as would an additional charge, such as a higher lending charge, applying to the regulated mortgage contract when it did not previously.

5.5.10 Unless the customer requests a revised illustration, a firm is not required to provide one if the customer has already submitted an application, and an amendment is made subsequently. The mortgage lender should however ensure that any amendment is reflected in the offer document.
Uncertainty whether a mortgage is regulated

5.5.11  If, at the point an illustration must be provided in accordance with MCOB 5.5.1 R, a firm is uncertain whether the contract will be a regulated mortgage contract, the firm must:

(a) provide an illustration; or

(b) seek to obtain from the customer information that will enable the firm to ascertain whether the contract will be a regulated mortgage contract.

(2) Where (1)(b) applies, an illustration must be provided, unless, on the basis of the information the customer provides, the firm has reasonable evidence that the contract is not a regulated mortgage contract.

If the firm has reasonable evidence that the contract is not a regulated mortgage contract and has not provided an illustration before a customer submits an application, and it is subsequently found that the contract is a regulated mortgage contract, there is no requirement to provide a separate illustration at that stage. However, the requirement to integrate an illustration into the offer document at MCOB 6.4.1 R will apply.

No preference between repayment and interest-only

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

(1) provide an illustration for a repayment mortgage (except where the firm does not provide repayment mortgages, in which case it must provide only an illustration for an interest-only mortgage); and

(2) make the customer aware that it has provided the illustration on this basis.

Providing an illustration without delay in response to a customer request

Where the customer requests written information from the firm that is specific to the amount that the customer wants to borrow on a particular regulated mortgage contract under MCOB 5.5.1 R(2)(c), the purpose of MCOB 5.5.15 R, MCOB 5.5.16 R and MCOB 5.5.17 G is to ensure that the customer receives an illustration without unnecessary delay. These requirements do not restrict the information that the firm may obtain from the customer after it has provided the customer with an illustration.

5.5.15  In meeting a request under MCOB 5.5.1 R(2)(c), the firm must not delay the provision of the illustration by requesting information other than:

(1) the information necessary to personalise the illustration in accordance with MCOB 5.6.6 R, if the firm does not already know it;
(2) where the firm acts in accordance with MCOB 5.5.11 R(2), such information as is necessary to ascertain whether or not the contract will be a regulated mortgage contract;

(3) where the regulated mortgage contract involves any linked deposits and the firm chooses to provide an example in the illustration in accordance with MCOB 5.6.109 R(2) or MCOB 5.6.110 R(2), or both, such information as is necessary to produce the example;

(4) where the interest rates, payments or any other terms and conditions to be included in the illustration are dependent on the customer’s credit record, such information as is necessary to produce an illustration;

(5) where the firm includes a quotation for any tied products or compulsory insurance in the illustration, such information as is necessary to produce those quotations;

(6) where the customer agrees to receive a quotation for insurance in the illustration (other than that provided for in (5)), such information as is necessary to produce those quotations; and

(7) any of the following information where it affects the availability of the regulated mortgage contract that the customer has requested information on or affects the information to be included in the illustration:

(a) whether the customer is a first-time buyer, a subsequent buyer moving home or entering into a regulated mortgage contract without moving home;

(b) whether the regulated mortgage contract is required for a right-to-buy purchase or for a shared ownership purchase;

(c) whether the customer needs to self-certify his income;

(d) the location of the property to be purchased, where known; and

(e) whether the terms are dependent on a third party guarantee.

Where MCOB 5.5.15 R(4) applies:

(1) a firm must ask the customer relevant questions about his credit history or obtain information on his credit record from a credit reference agency;

(2) a credit reference agency must not be used unless:

(a) it would be quicker than asking the customer the relevant questions about his credit history; or
(b) the customer is not able to provide sufficient information on his credit history.

5.5.17 G A firm may use information that it already holds on the customer for the purpose of producing the illustration (for example, if it already holds the customer’s credit record), providing the use of this information does not delay the customer receiving the illustration and the customer’s consent is obtained where appropriate.

5.5.18 R If, on the basis of the information obtained from the customer or on the basis of information that the firm already holds on the customer, the firm would do business with the customer, but not on the terms requested, the firm may provide the customer with an illustration in respect of a different regulated mortgage contract if it chooses to do so.
5.6 Content of illustrations

Purpose

5.6.1 ■ MCOB 5.6 sets out the required content of an illustration provided to a customer by a firm.

Content, order, format etc

5.6.2 An illustration provided to a customer must:

(1) contain the material set out in ■ MCOB 5 Annex 1 R in the order and using the numbered section headings, sub-headings and prescribed text in ■ MCOB 5 Annex 1 R, except where provided for in ■ MCOB 5.6;

(2) follow the layout of the template in ■ MCOB 5 Annex 1 R with:

(a) prominent use of the keyfacts logo followed by the text 'about this mortgage';

(b) each section clearly separated;

(c) all the amounts to be paid in Sections 5, 6, 8 and 9 in columns that make the amounts of the payments clear; and

(d) no section split across different pages except where it is impractical not to do so;

(3) use font sizes and typefaces consistently throughout the illustration which are sufficiently legible so that the illustration can be read easily by a typical customer;

(4) ensure that the information within each section is clearly laid out (for example, through the use of bullet points or similar devices to separate information);

(5) include prominent headings with the numbered section headings clearly differentiated in some way from the other text in the illustration (for example, through the use of larger and more prominent fonts, the use of shading or colour);
Section 5.6 : Content of illustrations

(6) replace '[name of mortgage lender]' with the name of the mortgage lender providing the regulated mortgage contract: a trading name used by the mortgage lender may be stated, as long as the name of the mortgage lender is also disclosed in Section 4 of the illustration in accordance with MCOB 5.6.25 R(1);

(7) describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such charges; and

(8) describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such charges.

Section 13 in MCOB 5 Annex 1 R is required only where the illustration is provided to the customer by, or on behalf of, a mortgage intermediary. If this is not the case, Section 14 must be renumbered Section 13.

(1) Further requirements regarding the use of the keyfacts logo and the location of specimens are set out in GEN 5.1 and GEN 5 Annex 1 G.

(2) MCOB 5.6.2 R(3) does not prevent the use of different fonts and typefaces for headings and risk warnings. Its purpose is to prevent particular sections of the illustration from being made less prominent than other sections through the inconsistent use of font sizes and typefaces.

(3) The illustration can contain the mortgage lender’s or mortgage intermediary’s logo and other ‘brand’ information, so long as the requirements of MCOB 5.6 are satisfied.

(4) The illustration can contain page numbers and other references that aid understanding, record keeping and identification of a particular illustration, such as the date and time an illustration is produced or a unique reference number, provided these do not detract from the content of the illustration.

(5) Firms are reminded of their general obligation for communications to customers to be clear, fair and not misleading. Sections of the illustration may be split across pages where it is practical to do so. When splitting sections, firms should split the section at an appropriate place, for example at the end of a sub-section, and not split tables or risk warnings.

Content: required information

The illustration provided to customers must:

(1) contain only the material prescribed in MCOB 5.6 and no other material except where provided for elsewhere in MCOB 5.6; and

(2) be in a document separate from any other material that is provided to the customer.
As a minimum the illustration must be personalised to reflect the following requirements of the customer:

1. the specific regulated mortgage contract in which the customer is interested;

2. the amount of the loan required;

3. the price or value of the property on which the regulated mortgage contract would be secured (estimated where necessary);

4. the term of the regulated mortgage contract (where the customer is unable to suggest a date at which he expects to repay the loan, for example in the case of an open-ended secured bridging loan, secured overdraft or mortgage credit card, then a term of 12 months must be assumed and this assumption stated); and

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

A firm should not illustrate more than one regulated mortgage contract in the same illustration, for example by using one illustration to compare alternative products, repayment methods or repayment terms.

In relation to MCOB 5.6.6 R(3), in order for the firm to comply with the principle of 'clear, fair and not misleading' in MCOB 2.2.6, an estimated valuation, where the estimated valuation is not that provided by the customer, must be a reasonable assessment based on all the facts available at the time. For example, an overstated valuation could enable a more attractive regulated mortgage contract to be illustrated on the basis of a lower ratio of the loan amount to the property value - for example, one with a lower rate of interest, or without a higher lending charge.

The amount referred to in MCOB 5.6.6 R(2) is:

1. in cases where on the basis of the information obtained from the customer before providing the illustration it is clear that the customer would not be eligible to borrow the amount he requested, an estimate of the amount that the customer could borrow based on the information obtained from the customer; or

2. where the regulated mortgage contract is a revolving credit agreement such as a secured overdraft or mortgage credit card:

   a. (if it provides for an initial drawdown and linked borrowing facilities that would allow the customer to increase the amount of the loan without any further approval from the mortgage lender) the amount of the initial drawdown; or

   b. (in all other cases) the total borrowing that the firm is willing to provide under the regulated mortgage contract; or
(3) where it is known that the loan will be released in instalments, for example in the case of a self-build mortgage, the total amount of the loan required and not the amount of the initial instalment.

5.6.10 Firms are reminded that they must comply with MCOB 7.6.5 R in respect of the release of loan instalments after the start of the regulated mortgage contract.

5.6.11 MCOB 5.6.6 R sets out minimum requirements. The illustration may be personalised to a greater degree if the mortgage lender or mortgage intermediary wishes, subject to the restrictions on the information that can be obtained from the customer in MCOB 5.5.15 R when the illustration is provided in accordance with MCOB 5.5.1 R(2)(c).

5.6.12 MCOB 5.6.9 R(1) does not require information to be obtained from the customer before providing an illustration in order to ascertain the amount the customer is eligible to borrow. Instead, its purpose is to avoid a firm being in a position where it would otherwise have to provide a customer with an illustration for an amount it knew the customer would not be eligible for, based on whatever information it had obtained from the customer before providing the illustration.

5.6.13 Where the illustration relates to a regulated mortgage contract that is sub-divided into different parts with different types of interest rate or different rates of interest or different conditions, or a combination of these, the requirements in MCOB 5.6 may be adapted to accommodate this. The adaptations made must be limited to those that are necessary.

5.6.14 (1) MCOB 5.6.13 R applies where, for example, the illustration covers a regulated mortgage contract that is:

(a) divided so that a certain amount of the loan is payable on a fixed interest rate, and a certain amount on a discounted interest rate; or

(b) a combination of a repayment mortgage and an interest-only mortgage and the loan is subdivided into different types of interest rate and/or different rates of interest.

(2) MCOB 5.6.13 R does not apply where an illustration covers a regulated mortgage contract that is a combination of a repayment mortgage and an interest-only mortgage and the rate of interest charged, mortgage term and other conditions are the same. The treatment of such mortgages is covered in the relevant rules.

Information to be included at the head of the illustration

5.6.15 At the head of the illustration, the following information must be included:

(1) the customer’s name;
(2) the date of issue of the illustration;

(3) details of how long the illustration is valid and whether there is any date by which the regulated mortgage contract covered by the illustration needs to commence (for example, where a fixed interest rate is only available if the regulated mortgage contract commences before a certain date); and

(4) the prescribed text at the head of the illustration in

■ MCOB 5 Annex 1 R.

Section 1: 'About this illustration'

Under the section heading 'About this illustration', the prescribed text in

■ MCOB 5 Annex 1 R under this heading must be included.

Section 2: 'Which service are we providing you with?'

(1) Unless (2) applies, under the section heading 'Which service are we providing you with?' the prescribed text in ■ MCOB 5 Annex 1 R under this heading must be included, with a 'check box' for each statement, one of which must be marked prominently to indicate the level of service provided to the customer.

(2) If the level of service described in the illustration is provided by another firm, (1) may be replaced by the following: Under the section heading 'Which service are we providing you with?' the following text should be presented as two options, with a 'check box' for each option, one of which must be marked prominently to indicate the level of service provided to the customer: '[name of firm] recommends, having assessed your needs, that you take out this mortgage. [name of firm] is not recommending a particular mortgage for you. However, based on your answers to some questions, it is giving you information about this mortgage so that you can make your own choice'.

Section 3: 'What you have told us'

(1) Under the section heading 'What you have told us', the illustration must state the information that has been obtained from the customer under ■ MCOB 5.6.6 R (apart from ■ MCOB 5.6.6 R(1) which is provided for in Section 4 of the illustration), and can include brief details of any other information that has been obtained from the customer and used to produce the illustration.

(2) If the amount on which the illustration is based includes the amount that the customer wants to borrow plus charges and other payments that have been added to the loan:

(a) except where (b) applies, this section must include the following text after the loan amount from ■ MCOB 5.6.6 R(2): 'plus £[insert total amount of fees and other charges added to the loan] for
fees that will be added to the loan - see Section 8 for details.'; or

(b) where there are other fees or charges that the customer must pay that have not been added to the loan, this section must include the following text after the loan amount from MCOB 5.6.6 R(2): 'plus £[insert total amount of fees and other charges added to the loan] for fees that will be added to the loan. These and the additional fees that you need to pay are shown in Section 8.'

(3) If the amount on which the illustration is based includes the amount that the customer wants to borrow plus insurance premiums or insurance-related charges (other than a higher lending charge) that have been added to the loan:

(a) except where (b) applies, this section must include the following text after the loan amount from MCOB 5.6.6 R(2) (which may be combined with the prescribed text in (2) if applicable): 'plus £[insert amount of premium or charges, or both, to be added to the loan] for insurance [premiums] [and] [charges] that will be added to the loan - see Section 9 for details.'; or

(b) where there are other insurance premiums or insurance-related charges, or both, that the customer must pay that have not been added to the loan, this section must include the following text after the loan amount from MCOB 5.6.6 R(2) (which may be combined with the prescribed text in (2) if applicable): 'plus £[insert amount of premium or charges, or both, to be added to the loan] for insurance [premiums] [and] [charges] that will be added to the loan. These and any additional insurance [premiums] [and] [charges] that you need to pay are shown in Section 9.'

(4) If the amount on which the illustration is based does not involve any charges or payments being added to the amount to be borrowed, but there are charges that must be paid by the customer, Section 3 of the illustration must include the following text after the loan amount from MCOB 5.6.6 R(2): 'No fees have been added to this amount but the fees you need to pay are shown in Section 8. For details of any insurance charges, see Section 9.'

(5) If the regulated mortgage contract on which the illustration is based has no charges that must be paid by the customer, and no insurance premiums are being added to the loan, Section 3 of the illustration must include the following text after the loan amount from MCOB 5.6.6 R(2):
'We do not charge any fees for this mortgage.'

5.6.19 Where the same illustration covers a regulated mortgage contract that is a combination of a repayment mortgage and an interest-only mortgage, either:

(1) Section 3 of the illustration must state the amount the customer wishes to borrow as a repayment mortgage and the amount required as an interest-only mortgage; or

(2) Section 3 of the illustration must summarise the repayment method as partly an interest-only mortgage and partly a repayment mortgage, and Section 4 of the illustration must state the amount the customer wishes to borrow as a repayment mortgage and the amount required as an interest-only mortgage.

5.6.20 Where the same illustration covers a regulated mortgage contract that has different parts of the loan over a different term (that is, the final repayment date of the loan parts are different), either:

(1) Section 3 of the illustration must state the amount repayable over each term; or

(2) Section 3 of the illustration must state the longest term that applies and Section 4 of the illustration must state the amount repayable over each term.

5.6.21 For the purpose of illustrating to the customer the repayment method in Section 3 or Section 4 of the illustration, or the cost of the regulated mortgage contract in Section 5 of the illustration, if the illustration covers a regulated mortgage contract that is a combination of more than one interest-only part on the same product terms but with different repayment dates, the illustration must either treat it as one part by assuming the longest term, or alternatively treat it as a multi-part loan.

5.6.22 At the end of Section 3 of the illustration a statement must be included making clear that changes to any of the information obtained from the customer, and where appropriate to the valuation of the property, could alter the details elsewhere in the illustration, and encouraging the customer to ask for a revised illustration in this event.

5.6.23 An example of the type of statement that would satisfy MCOB 5.6.22 R is: 'The valuation that will be carried out on the property and changes to any of the information you have given us could alter the information in this illustration. If this is the case please ask for a revised illustration.'

5.6.24 The purpose of the illustration is to provide the customer with details of the cost of borrowing the amount required over the term specified in MCOB 5.6.6 R(2) and MCOB 5.6.6 R(4). Section 12 has been designed specifically to illustrate any additional
features of the regulated mortgage contract such as a linked current account, a linked savings account or the availability of unsecured lending. These features should therefore be shown in section 12 and not in section 3 of the illustration.

Section 4: 'Description of this mortgage'

Under the section heading 'Description of this mortgage' the illustration must:

(1) state the name of the mortgage lender providing the regulated mortgage contract to which the illustration relates (a trading name used by the mortgage lender may also be stated in accordance with MCOB 5.6.2 R(6)), and the name, if any, used to market the regulated mortgage contract;

(2) (a) provide a description of the interest rate type and rate of interest that applies in accordance with the format described in MCOB 5.6.26 R and MCOB 5.6.27 R;

(b) where there is more than one interest rate type or rate of interest, specify the amount of the loan to which each interest rate type and rate of interest applies;

(c) unless the interest rate applies for the full term of the loan, confirm what interest rate will apply, when it will apply and for how long it will apply after any initial interest rate ends, in accordance with the format described in MCOB 5.6.26 R and MCOB 5.6.27 R; and

(d) provide a clear explanation of the charging approach where different interest rates are applied to different items of debt (for example, for a mortgage credit card where a different interest rate applies to balances that are transferred from that charged on any additional borrowing);

(3) where MCOB 5.6.20 R(2) applies, state the different amounts repayable and the different terms over which the amounts are repayable;

(4) where MCOB 5.6.19 R(2) applies, state the amount repayable under an interest-only mortgage and the amount repayable under a repayment mortgage;

(5) include the following text if the regulated mortgage contract meets the Government’s mortgage CAT standards:'This mortgage meets the Government’s CAT standards. Further information on mortgage CAT standards is available from the FSA (www.fsa.gov.uk/consumer) or by calling 0845 606 1234.';

(6) if the customer is obliged to buy any tied products or to take out a linked current account, a linked savings account or any
linked borrowing under the regulated mortgage contract, include:

(a) details of the products required; and

(b) the following text: 'You are obliged to take out [insert details of the product(s)] through [insert name of mortgage lender or if relevant, name of mortgage intermediary] as a condition of this mortgage. Please refer to Section [insert applicable section number e.g. 6 or 9] of this illustration for further details.'

(7) state very briefly any restrictions that apply to the availability of the regulated mortgage contract (for example, if it is only available to certain types of customer or for certain types of loan);

(8) where the interest rate, payments or terms and conditions of the regulated mortgage contract in the illustration reflect a customer’s adverse credit history, include the following text: 'The terms of this mortgage reflect past or present financial difficulties.'; and

(9) where the intention of the regulated mortgage contract is solely to provide the customer with a mortgage credit card (rather than the mortgage credit card being an additional feature of a regulated mortgage contract) include the warning about the loss of statutory rights from ▼ MCOB 5.6.102 R(2) in Section 4 of the illustration rather than Section 12.

5.6.26 ▼ MCOB 5.6.27 R sets out some examples of descriptions of interest rate types and rates of interest which must be used in the illustration to comply with ▼ MCOB 5.6.25 R(2). If an interest rate is not described in ▼ MCOB 5.6.27 R, it must be presented in the illustration in a way that is consistent with the descriptions in ▼ MCOB 5.6.27 R.

5.6.27 ▼ Table Description of interest rate types and rates of interest. This table belongs to MCOB 5.6.26R:

<table>
<thead>
<tr>
<th>Description of the interest rate</th>
<th>Amount payable in each instalment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender’s base mortgage rate - must be described as the [Lender]'s standard variable rate, currently X%, [where applicable insert the date at which the interest rate ends or period for which the interest rate applies].</td>
<td>Amount based on X%.</td>
</tr>
<tr>
<td>Fixed rate - must be described as a fixed rate of X% [where applicable insert the date at which the interest rate ends or the period for which the interest rate applies].</td>
<td>Amount based on the fixed rate of X%.</td>
</tr>
<tr>
<td>Discounted rate - must be described as a variable rate, currently X%, with a discount of Y% [where applicable Z%].</td>
<td>Amount based on Z%.</td>
</tr>
<tr>
<td>Description of the interest rate</td>
<td>Amount payable in each instalment</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>----------------------------------</td>
</tr>
<tr>
<td>insert the date at which the discount ends or the period for which the discount applies, giving a current rate payable of Z%.</td>
<td></td>
</tr>
<tr>
<td>Capped rate - must be described as a variable rate, currently X%, which will not go above a ceiling of Y%, or above a ceiling of Z%</td>
<td>Amount based on the current interest rate payable (X%).</td>
</tr>
<tr>
<td>Capped and collared - must be described as a variable rate, currently X%, which will not go below a floor of Y%, or above a ceiling of Z%</td>
<td>Amount based on the current interest rate payable (X%).</td>
</tr>
<tr>
<td>Tracker rate - must be described as a variable rate which is [X% above/X% below/the same as] [insert interest rate tracked, currently Z%], to give a current rate payable of Y%. Details should also be provided of how soon after an interest rate change the mortgage interest rate is adjusted.</td>
<td>Amount based on Y%.</td>
</tr>
<tr>
<td>Deferred rate - must be described as a variable rate, currently X%, where Y% is not paid now but is added to your mortgage</td>
<td>Amount based on Z%.</td>
</tr>
<tr>
<td>Stepped rate where different interest rates apply over different time periods (for example, fixed interest rate in year 1 changes in year 2). Each element should be dealt with individually as above.</td>
<td>Amount for each of the 'steps'.</td>
</tr>
<tr>
<td>Combinations of the above must be treated in the same way as the descriptions above, (for example, if a discounted interest rate has a 'floor' then it must be described as such).</td>
<td>Follow the above treatment depending on the combination.</td>
</tr>
</tbody>
</table>

Where the loan under the regulated mortgage contract is divided into more than one part (for example where part of the loan is a fixed interest rate and part of the loan is a discounted variable interest rate) and the firm displays this in a tabular format in the illustration:
(1) the following text must be used to introduce the table 'As this mortgage is made up of more than one part, these parts are summarised below:';

(2) each part must be numbered for ease of reference in the illustration;

(3) the 'initial rate payable' must be displayed separately from the interest rate description;

(4) the loan amounts must be totalled; and

(5) immediately following the table, a statement of what interest rates will apply to each part, (and when they will apply) after any initial interest rate ends in accordance with MCOB 5.6.25 R(2)(c).

Further information about the regulated mortgage contract may be included in Section 4 of the illustration as long as it does not significantly:

(1) duplicate information contained elsewhere in the illustration; and

(2) extend the length of this section.

An example of further information that may be included in accordance with MCOB 5.6.29 R might be that an 'approval in principle' has been granted subject to valuation and satisfactory credit reference.

Section 5: 'Overall cost of this mortgage'

Under the section heading 'Overall cost of this mortgage' where the regulated mortgage contract has an agreed term for repayment and a regular payment plan (that is, it is not a revolving credit agreement such as a secured overdraft or mortgage credit card, or a regulated mortgage contract where all of the interest rolls up, such as an open-ended bridging loan):

(1) the following text must be included in the illustration: 'The overall cost takes into account the payments in Sections 6 and 8 below.';

(2) if all of the regulated mortgage contract to which the illustration relates is an interest-only mortgage, the following text must follow the text in (1):'However, it excludes any payments that you may need to make into a separate savings plan, to build up a lump sum to repay the amount borrowed, but assumes that you pay off the amount borrowed as a lump sum at the end of the mortgage.';

(3) where all of the regulated mortgage contract is a repayment mortgage, the following text must follow the text in (1):'With a repayment mortgage you gradually pay off the amount you have borrowed, as well as the interest, over the life of the mortgage.';
(4) if part of the regulated mortgage contract to which the illustration relates is an interest-only mortgage, and part is a repayment mortgage, the following text must follow the text in (1): 'However, it excludes any payments that you may need to make into a separate savings plan to build up a lump sum to repay the amount borrowed on an interest-only basis, but assumes that you pay off the amount borrowed on an interest-only basis, as a lump sum at the end of the mortgage.'; and

(5) reference must be made to any other payments that have been included in the APR but not included in Sections 6 and 8 of the illustration if these are relevant to the regulated mortgage contract that is the subject of the illustration.

Under the section heading 'Overall cost of this mortgage' where the regulated mortgage contract has no agreed term for repayment, (and a 12 month term has been assumed), or no regular payment plan, or both (for example, a revolving credit agreement such as a secured overdraft or mortgage credit card or a regulated mortgage contract where all the interest rolls up such as an open-ended bridging loan):

(1) the following text must be included in the illustration: 'The overall cost takes into account the payments in Sections 6 and 8 below.';

(2) where all the interest on the regulated mortgage contract rolls up and is repaid as a lump sum at the end of the regulated mortgage contract, for example a secured bridging loan, then the following text must follow the text in (1): 'It assumes that you pay back the total amount owing as a lump sum at the end of the mortgage term.';

(3) where the regulated mortgage contract is a revolving credit agreement and no regular payments are made, for example a secured overdraft, then the following text must follow the text in (1): 'It assumes that you borrow the maximum amount available, and pay back the total amount owing, as a lump sum at the end of the mortgage term.';

(4) where the regulated mortgage contract is a revolving credit agreement and regular minimum payments are made, for example, a mortgage credit card, then the following text must follow the text in (1): 'It assumes that you borrow the maximum amount available, make regular payments of the minimum amount, and pay back the remaining amount owing as a lump sum at the end of the mortgage term.'; and
(5) reference must be made to any other payments that have been included in the APR but not included in Sections 6 and 8 of the illustration if these are relevant to the regulated mortgage contract that is the subject of the illustration.

5.6.33

■ MCOB 5.6.31 R(5) and ■ MCOB 5.6.32 R(5) would require, for example, a reference to the fact that the overall cost takes into account mortgage payment protection insurance where this is required as a condition of the regulated mortgage contract to which the illustration relates. The requirement to take out such insurance must be stated in Sections 4 and 9 of the illustration in accordance with ■ MCOB 5.6.25 R(6), ■ MCOB 5.6.74 R or ■ MCOB 5.6.77 R.

5.6.34

The following text must be included after the text required by ■ MCOB 5.6.31 R or ■ MCOB 5.6.32 R with the relevant cost measures shown in the right-hand column of Section 5 in accordance with the layout shown in ■ MCOB 5 Annex 1 R:

(1) 'The total amount you must pay back, including the amount borrowed is £[insert total amount payable];'

(2) 'This means you pay back £[insert the total amount payable] divided by the amount on which the illustration is based from ■ MCOB 5.6.6 R(2) plus all fees, charges and insurance premiums added to the loan in accordance with ■ MCOB 5.6.18 R(2) and ■ MCOB 5.6.18 R(3) for every £1 borrowed'; and

(3) 'The overall cost for comparison is [insert the APR]% APR'.

5.6.35

(1) The APR and the total amount payable in ■ MCOB 5.6.34 R must be calculated on the basis of information obtained from the customer under ■ MCOB 5.6.6 R.

(2) Where there is a charge to be included in the APR and total amount payable and the precise amount of that charge is not known at the time that the illustration is provided, ■ MCOB 10.3 (Formula for calculating the APR) sets out a number of relevant assumptions to be used. If the method for including the charge is not addressed in MCOB 10 (Annual Percentage Rate), the charge must be estimated based on information which is known to be representative of the regulated mortgage contract to which the illustration relates.

(3) [deleted]

(4) Where the regulated mortgage contract is a revolving credit agreement and regular payments are made, for example, a mortgage credit card, then the APR and total amount payable must be based on the maximum amount that the customer could borrow and take into account any amounts that must be paid in regular instalments.
In relation to MCOB 5.6.35 R(2), the cost of conveyancing would be an example of a charge for which representative information may need to be used in the calculation of the APR and the total amount payable.

At the end of Section 5 of the illustration the following text must be included:

(1) unless the interest rate is fixed throughout the term of the regulated mortgage contract: 'The figures in this section will vary following interest rate changes and if you do not keep the mortgage for [insert term from MCOB 5.6.6 R(4)].'; and

(2) (a) where the regulated mortgage contract is a repayment mortgage: 'Only use the figures in this section to compare the cost with another repayment mortgage.'; or

(b) where the regulated mortgage contract is an interest-only mortgage: 'Only use the figures in this section to compare the cost with another interest-only mortgage.'; or

(c) where the regulated mortgage contract is a combination of a repayment mortgage and an interest-only mortgage: 'Only use the figures in this section to compare the cost with another mortgage that has the same proportions of the loan on repayment and interest-only as this one.'

The purpose of the illustration is to provide the customer with details of the cost of borrowing the amount required over the term specified from MCOB 5.6.6 R(2) and MCOB 5.6.6 R(4). Section 12 has been designed specifically to allow examples of the effect of any additional features of the regulated mortgage contract such as a linked current account or a linked savings account. Examples of these features should therefore be shown in Section 12 and not in Section 5 or Section 6 of the illustration.

Section 6: 'What you will need to pay each [insert frequency of payments from MCOB 5.6.40R]'

The heading for Section 6 of the illustration and the heading of the column on the right-hand side of this section must state the frequency with which payments must be made by the customer. (For example, if payments are to be made on a monthly basis, the heading for this section must be 'What you will need to pay each month' and the column must be headed 'Monthly payments'.)
All the payments in Section 6 of the illustration must be calculated based on the frequency used for the purposes of the headings in MCOB 5.6.40 R and must be shown in the column on the right-hand side of this section.

Section 6 of the illustration must contain the following information:

1. the loan amount on which the illustration is based. This figure should include all fees, charges and insurance premiums that have been added to the loan in accordance with MCOB 5.6.18 R(2) and MCOB 5.6.18 R(3), and the following text must follow the loan amount: 'and include[s] the [fees] [and] [insurance premiums] that are shown in [Section 8] [and] [Section 9] as being added to your mortgage.'

2. the assumed start date that has been used in the illustration to estimate the number of payments to be charged at given interest rates;

3. except where MCOB 5.6.54 R applies, for each of the interest rates charged on the regulated mortgage contract:
   (a) the number of payments at that interest rate;
   (b) whether the interest rate is fixed or variable;
   (c) the interest rate charged on the regulated mortgage contract at the time the illustration is issued; and
   (d) the amount that the customer must pay in each instalment at that interest rate, which must be recorded in the right-hand column of this section (see MCOB 5.6.48 R).

Where the illustration covers a regulated mortgage contract that automatically converts from one repayment method to another after a specified period, then the illustration must show the effect of this change on the regular payment, in the same way as the requirements in MCOB 5.6.42 R(3).

If appropriate, the two statements required by MCOB 5.6.42 R(1) and MCOB 5.6.42 R(2) may be merged, for example 'These payments are based on a loan amount of £x and assume that the mortgage will start on [dd/mm/yy].'

MCOB 5.6.42 R(3) applies to each interest rate charged on the regulated mortgage contract covered by the illustration. This means that it applies to different interest rates charged at different times, for example, where the interest rate changes at the end of any initial discounted, fixed or other special interest rate period.
5.6.46 The following information must be included in the description of the interest rate required by MCOB 5.6.42 R(3)(c) except where MCOB 5.6.54 R applies:

(1) where the interest rate can change, the word 'currently' must be used to illustrate the current interest rate payable; and

(2) where the interest rate changes after a given period the words 'followed by' must be used to indicate this.

5.6.47 An example of how the information required by MCOB 5.6.42 R(3) and MCOB 5.6.46 R may be presented when there is an initial fixed interest rate for a period of 22 months followed by the mortgage lender's standard variable interest rate for a period of 278 months is as follows: '22 payments at a fixed rate of [...]% followed by 278 payments at a variable rate, currently [...]%'.

5.6.48 The information required by MCOB 5.6.42 R(3)(d) must exclude:

(1) the cost of repaying the capital if the regulated mortgage contract is an interest-only mortgage: where part of the regulated mortgage contract is an interest-only mortgage, the cost of repaying the capital must be excluded only for that part; and

(2) the cost of any products which may be sold in conjunction with the regulated mortgage contract (whether tied products or not), unless the cost has been added to the mortgage.

5.6.49 If, because of the assumed start date of the regulated mortgage contract, the initial payment differs from the subsequent payments, the initial payment must be shown in this section in accordance with MCOB 5.6.42 R(3)(d).

5.6.50 Where the illustration covers a regulated mortgage contract that is a combination of a repayment mortgage and an interest-only mortgage, the payment amounts in MCOB 5.6.42 R(3)(d) must be the combination of the amount to be paid on the repayment mortgage and the amount to be paid on the interest-only mortgage, unless MCOB 5.6.13 R or MCOB 5.6.54 R apply in which case they must be stated separately.

5.6.51 Where the interest is deferred on the regulated mortgage contract, the following text must be included under the information on the deferred interest rate included in the illustration in accordance with MCOB 5.6.42 R(3): 'The interest deferred will be added to your mortgage. The table at Section [insert 6a or 6b if MCOB 5.6.55 R applies] of this illustration shows how this will affect the amount you owe.'
Where all or part of the regulated mortgage contract to which the illustration relates is an interest-only mortgage:

(1) the illustration must include the sub-heading 'Cost of repaying the capital' with the following text under it:'You will still owe [insert amount of loan on an interest-only basis] 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 any money that you may need to pay into a separate savings plan to build up a lump sum to repay this amount."

(2) if the regulated mortgage contract requires the customer to take out a repayment vehicle that is a tied product either through the mortgage lender or mortgage intermediary then:

(a) include a sub-heading 'Savings plan that you must take out through [insert name of mortgage lender or mortgage intermediary]';

(b) include an accurate quotation or a reasonable estimate of the payments the customer will need to make for the repayment vehicle; and

(c) if a quotation cannot be provided under (b), state that a quotation is not available at present, that a quotation will be provided as soon as possible and that in the event that this is provided after an application is made, and is found to be unacceptable to the customer, that the application may be cancelled with a full refund of all fees (in accordance with MCOB 5.4.23 R(3)).

(3) if the illustration includes a quotation for the payments that would need to be made into the repayment vehicle by the customer:

(a) unless (2) applies, the illustration must include the sub-heading 'Savings plan that you do not have to take out through [insert name of mortgage lender or mortgage intermediary]';

(b) the illustration must provide a brief description only of the type of repayment vehicle illustrated (full details of the repayment vehicle may be provided separately);

(c) the quotation must be based on the frequency of payments in MCOB 5.6.40 R and must be included in the column for payments alongside the description required by (b); and

(d) the illustration must refer the customer to the individual product disclosure documentation required by the Conduct of Business sourcebook (COBS).
(4) if a quotation for the repayment vehicle is not provided in the illustration, the illustration must include a '£' sign in the column for payments alongside the following text, which follows the text in (1):‘When you have found out what payments you need to make into a savings plan you may find it helpful to add these to your mortgage payments and put the total payment in the column opposite.’;

(5) unless MCOB 5.6.55 R applies, if a quotation for the repayment vehicle has been included in the illustration, Section 6 must be extended to illustrate the monthly cost inclusive of the savings plan and must have the sub-heading 'What you will need to pay each [insert frequency of payments from MCOB 5.6.40 R] including the cost of a savings plan to repay the capital' and must include:

(a) the information required by MCOB 5.6.42 R(3) for each interest rate charged on the regulated mortgage contract; and

(b) the sum of what the customer would need to pay in each instalment for the regulated mortgage contract and for the repayment vehicle in the payments column. For example if payments are made monthly, this would be the amount that the customer would need to pay each month for the regulated mortgage contract and the repayment vehicle. Where different interest rates are charged on the regulated mortgage contract the amount payable in each instalment at each interest rate must be shown in the payments column.

Table An example of how the information required by MCOB 5.6.52 R (1), MCOB 5.6.52 R (3) and MCOB 5.6.52 R (5) may be presented is as follows:

<table>
<thead>
<tr>
<th>Cost of repaying the capital</th>
<th>Monthly payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>You will still owe £Z 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 any money that you may need to pay into a separate savings plan to build up a lump sum to repay this amount.</td>
<td></td>
</tr>
<tr>
<td>Savings plan that you do not have to take out through [insert name of mortgage lender or mortgage intermediary]</td>
<td>£C</td>
</tr>
<tr>
<td>XYZ savings plan (see separate product disclosure document)</td>
<td></td>
</tr>
<tr>
<td>What you will need to pay each month including the cost of a savings plan to repay the capital</td>
<td>£(A+C)36 payments at a fixed rate currently x% followed by: £(B+C)264 payments at a variable rate currently y%.</td>
</tr>
<tr>
<td>36 payments at a fixed rate currently x% followed by:</td>
<td>£(A+C)</td>
</tr>
<tr>
<td>264 payments at a variable rate currently y%.</td>
<td>£(B+C)</td>
</tr>
</tbody>
</table>

Multi-part mortgages

Where the loan under the regulated mortgage contract is divided into more than one part (for example, where part of the loan is on a fixed
interest rate and part on a discounted variable interest rate) and the firm displays the initial cost of all parts, and the total cost, in a tabular format in the illustration, MCOB 5.6.42 R(3) and MCOB 5.6.46 R do not apply; instead:

(1) each part must be numbered for ease of reference in the illustration;
(2) the loan amounts must be totalled;
(3) the number and frequency of each payment must be stated;
(4) the repayment method for each part must be stated;
(5) the 'initial interest rate payable' for each part must be stated;
(6) whether the interest rate payable is fixed or variable for each part must be stated; and
(7) the regular payment for each part must be stated and the total payment for all parts highlighted (excluding the information listed in MCOB 5.6.48 R).

5.6.55 Unless all of the interest rates described in MCOB 5.6.54 R(5) apply for the term of the loan part to which they apply, then an additional section numbered as 6a and titled 'What you will need to pay in future' must be included to indicate the future stepped payments (if MCOB 5.6.51 R also applies then the section on deferred interest must be numbered 6b). This section must:

(1) state when a change in payment will occur;
(2) state the reason for the change in payment; and
(3) confirm that the payment illustrated assumes interest rates will not change.

5.6.56 Where MCOB 5.6.55 R applies and part of the regulated mortgage contract is an interest-only mortgage:

(1) if a quotation for the repayment vehicle has been included in the illustration in accordance with MCOB 5.6.52 R(3) then MCOB 5.6.52 R(5) does not apply.
(2) a statement is required to indicate that these payments do not include the cost of any savings plan.

5.6.57 An example of a statement which would meet the requirements of MCOB 5.6.56 R(2) would be 'Remember to add the cost of any savings plan to these monthly payments'.
Section 7: 'Are you comfortable with the risks?'

5.6.58 R  ■ MCOB 5.6.59 R to ■ MCOB 5.6.65 R do not apply to loans without a term or regular repayment plan where some or all of the interest rolls up, for example, secured bridging loans, secured overdrafts or mortgage credit cards. In these cases ■ MCOB 5.6.140 R to ■ MCOB 5.6.145 R apply.

5.6.59 R  Under the section heading 'Are you comfortable with the risks?':

(1) under the sub-heading 'What if interest rates go up?' the illustration must include the following:

(a) if the interest rate is fixed throughout the term of the regulated mortgage contract, an explanation that the payments will not vary because the interest rate is fixed;

(b) if the interest rate is fixed for part of the term of the regulated mortgage contract, an explanation of when or how increases in the interest rate charged on the regulated mortgage contract affect the customer's payments;

(c) if the interest rate cannot go above a certain level or below a certain level, or both, and this applies throughout the term of the regulated mortgage contract, an explanation that this is the case;

(d) if the interest rate cannot go above or below a certain level for part of the term of the regulated mortgage contract, an explanation that this is the case and of when or how increases in the interest rate charged on the regulated mortgage contract affect the customer's payments;

(e) if (c) or (d) apply, the maximum or minimum interest rate, or both, and the payments at each of these interest rates; and

(ii) where a repayment vehicle has been included in the illustration in accordance with ■ MCOB 5.6.52 R(3), the payments quoted in (i) must include the cost of the repayment vehicle and state that this is the case;

(f) if the regulated mortgage contract is made up of a number of different parts including different types of interest rate and different rates of interest, an explanation of when or how increases in the interest rate charged on the regulated mortgage contract affect the customer's payments for each part (or combination of parts);

(g) except where (2)(a) or (2)(b) apply, the following text: 'The [frequency of payments from ■ MCOB 5.6.40 R] payments shown in this illustration could be considerably different if interest rates change. For example, for one percentage point increase in [describe the interest rate that applies], your
[insert frequency of payments] payment will increase by around £[insert amount by which payment will increase]; and

(h) except where (2)(a) or (2)(b) apply, if (f) applies the following additional text after the text in (g), for each part (or combination of parts), where the amounts by which the customer's payments would increase are different: 'After the [describe the interest rate that applies, the part (or parts) to which it applies, and date or period for which it applies] then for one percentage point increase in [describe the interest rate that applies], your [insert frequency of payments] payment will increase by around £[insert amount by which payment will increase].'.

(2) paragraphs (1)(g) and (1)(h) do not apply where:

(a) the interest rate is fixed throughout the term of the regulated mortgage contract; or

(b) the difference between the interest rate included in the illustration in accordance with ■ MCOB 5.6.42 R and the maximum interest rate that can be charged on the regulated mortgage contract is less than one percentage point.

(3) under the sub-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.'

The amount by which the customer's payments would increase in accordance with ■ MCOB 5.6.59 R(1)(g) and (h) must be calculated as follows:

(1) the firm must use the total amount borrowed, or assume that all payments due on the regulated mortgage contract have actually been paid, all additional fees and payments due have been paid, and no underpayments or overpayments have been made;

(2) where all or part of the regulated mortgage contract is a repayment mortgage, the calculation must be based on:

(a) the total amount borrowed; or

(b) the amount of the loan outstanding from the earliest point at which the interest rate charged on the regulated mortgage contract can vary (for example, if the regulated mortgage contract has an initial fixed interest rate, this will be from the point at which the fixed interest rate ends); and

(3) the interest rate from which the increase is calculated must be the variable interest rate charged on the regulated mortgage contract.
at the date that the \textit{illustration} is issued (that is, the variable interest rate quoted in Section 4 of the \textit{illustration}); where the variable interest rate changes after a set period or on a set date, it must be based on the initial variable interest rate charged on the \textit{regulated mortgage contract} at the date the \textit{illustration} is issued (for example, if the initial interest rate is discounted, it must be based on the discounted rate).

5.6.61 Although the effect of a one percentage point increase in interest rates on the customer’s payments is not completely linear, the purpose of MCOB 5.6.59 R(1)(g) and (h) is to show the approximate effect of such an increase.

\textbf{Risk warning}

5.6.62 Unless MCOB 5.6.59 R(2)(a) or (b) apply, the following words must be prominently displayed at the end of the sub-section 'What if interest rates go up?': 'Rates may increase by much more than this so make sure you can afford the [insert frequency of payments from MCOB 5.6.40 R] payment'.

5.6.63 The following words must be prominently displayed at the end of the sub-section 'What if your income goes down?': 'Make sure you can afford your mortgage if your income falls'.

5.6.64 For guidance on prominence see MCOB 2.2.9 G.

5.6.65 The following text must be included at the end of Section 7 'Are you comfortable with the risks?': 'The FSA's information sheet "You can afford your mortgage now, but what if...?" will help you consider the risks. You can get a free copy from www.fsa.gov.uk/consumer, or by calling 0845 456 1555.'

\textbf{Section 8: 'What fees must you pay?'}

5.6.66 Under the section heading 'What fees must you pay?' the \textit{illustration} must:

\begin{enumerate}
\item itemise all the fees that are included in the calculation of the \textit{APR} in accordance with MCOB 10 (Annual Percentage Rate), excluding any charges for insurance set out in Section 9 in accordance with MCOB 5.6.73 R; and
\item include a statement at the end of the section using the following text: 'You may have to pay other taxes or costs in addition to any fees shown here.'
\end{enumerate}

5.6.67 An example of a fee that would normally be included in Section 8 would be a fee to re-inspect a property after completion of works if it is known that this fee will be charged at the time the \textit{illustration} is produced. An example of a fee that would not be included would be a fee payable by the \textit{customer} to insure their property elsewhere...
(however this would need to be stated in Section 9 of the illustration 'Insurance', as required by MCOB 5.6.77 R(2)). Fees payable upon repayment of the regulated mortgage contract at the end of the mortgage term would need to be included. Where fees are payable only on early repayment of the regulated mortgage contract, they should not be stated here (however these fees would need to be stated in Section 10 of the illustration 'What happens if you do not want this mortgage any more', as required by MCOB 5.6.88 R(2)).

5.6.68 R

The fees included in this section in accordance with MCOB 5.6.66 R must be itemised under the relevant sub-headings as follows:

(1) the fees that are payable by the customer to the mortgage lender must be itemised under the sub-heading 'Fees payable to [name of mortgage lender]';

(2) the remaining fees must be itemised under the sub-heading 'Other fees'; and

(3) (a) if there are no fees to be itemised in accordance with (1), the sub-heading must be retained and a statement must be included stating that no fees apply; and

(b) if there are no fees to be itemised in accordance with (2), then the sub-heading must be retained and only the text in MCOB 5.6.66 R(2) applies.

5.6.69 R

The following information must be provided for each fee included in this section of the illustration in accordance with MCOB 5.6.66 R(1):

(1) a description of the fee;

(2) the amount payable by the customer recorded in a column headed 'Fee amount' on the right-hand side of this section;

(3) for fees included under the sub-heading 'Other fees', to whom the fee is payable;

(4) when the fee is payable;

(5) whether or not the fee is refundable, and if so, the extent to which it is refundable; and

(6) which fees (if any) are estimated in accordance with MCOB 5.6.35 R(2) and based on representative information; and

(7) if any fee is payable after the start of the regulated mortgage contract and subject to change in the future, for example a fee payable on final repayment of the regulated mortgage contract,
the amount of that fee, along with a statement that this is the 'current fee'.

5.6.70  

(1) If a higher lending charge is payable by the customer, the following text must be used to describe such a charge for the purposes of MCOB 5.6.69 R: 'A higher lending charge is payable because you are borrowing [insert the ratio of the mortgage amount (from MCOB 5.6.6 R(2)) to the property's price or value (from MCOB 5.6.6 R(3))] of the property's [estimated] [price/value].'

(2) If the customer has asked for any fees to be added to the loan, this must be stated alongside each fee.

(3) If the customer has the option of adding to the loan amount any of the fees included in this section, the following text must be included:'If you wish you can add [this/these/the (type of fee)] fee(s) to the mortgage. This would increase the amount you borrow to [insert amount of the mortgage with the fee(s) included] and would increase the payments shown in Section 6. If you want to do this, you should ask for another illustration that shows the effect of this on your [insert frequency of payments from MCOB 5.6.40 R] payments.'

(4) Any fees that are estimated based on representative information in accordance with MCOB 5.6.35 R(2) must include an appropriate explanation of what the fee represents. For example, if this section includes an estimated fee for the legal work that a customer might be charged by his conveyancer for carrying out work on behalf of the mortgage lender, the illustration must explain that the fee is estimated, and that it only covers part of the costs of legal work that the customer might need to pay.

5.6.71  

'Other fees' will include any fee charged by a mortgage intermediary, or another third party, for advising on or arranging a regulated mortgage contract but not commission or procuration fees (which are dealt with in Section 13 of the illustration).

5.6.72  

A mortgage lender must provide a tariff of charges to the customer, if the customer so requests.

Section 9: 'Insurance'

5.6.73  

(1) Under the section heading 'Insurance' the illustration must include details of:

(a) insurance which is a tied product; and

(b) insurance which is required as a condition of the regulated mortgage contract which is not a tied product.
(2) A firm may also provide details of insurance which it is optional for the customer to take out under this section heading.

(3) It must be clear to the customer which products he is required to purchase under which circumstances (for example, where both a tied product and a mortgage intermediary are involved, whether the policy must be purchased from the mortgage lender or the mortgage intermediary).

Under the sub-heading 'Insurance you must take out through [insert name of mortgage lender or where relevant the name of the mortgage intermediary, or both]' the following information must be included if the regulated mortgage contract requires the customer to take out insurance that is a tied product either through the mortgage lender or where relevant the mortgage intermediary:

1. details of which insurance is a tied product;
2. for how long the customer is obliged to purchase the insurance;
3. an accurate quotation or a reasonable estimate of any payments the customer needs to make for the insurance;
4. where a quotation is provided for insurance in accordance with (3) on the basis of an estimated sum insured, because the actual required sum insured is unknown, the fact that it is estimated should be stated along with confirmation of the level of cover that has been assumed;
5. details of when the customer's payments for such insurance change, for example, if premiums are reviewed annually; and
6. where a quotation is not provided in accordance with (3) a statement of when and how a quotation will be provided (for example, separately and as soon as possible).

Firms are reminded that MCOB 5.4.23 R requires a firm to provide a customer with an accurate quotation for any tied products. Where the level of cover the firm requires the customer to take up is known at the outset, then the quotation should reflect that level of cover.

If the regulated mortgage contract does not require the customer to take out insurance as a tied product, the sub-heading 'Insurance you must take out through [insert the name of the mortgage lender, and where relevant the name of the mortgage intermediary]' must be retained and a statement must be provided under this heading that the customer is not obliged to take out any insurance through the mortgage lender or, where relevant, the mortgage intermediary.
The following information must be included under the sub-heading 'Insurance you must take out as a condition of this mortgage but that you do not have to take out through [insert the name of the mortgage lender, or where relevant the name of the mortgage intermediary, or both]':

(1) if the regulated mortgage contract requires the customer to take out an insurance policy (other than that which is a tied product which the customer is obliged to purchase through the mortgage lender, or where relevant the mortgage intermediary), a brief statement of the type of insurance the firm requires; a quotation for the insurance that the firm issuing the illustration wishes to promote to the customer may be included in the illustration (estimated where necessary);

(2) if the mortgage lender or the mortgage intermediary makes a charge in cases where the customer does not arrange insurance that is a condition of the regulated mortgage contract through the mortgage lender or the mortgage intermediary, this must be stated, together with the amount of the charge and the frequency with which this charge is payable; and

(3) if no insurance policies are required (other than that which is a tied product), the sub-heading 'Insurance you must take out as a condition of this mortgage but that you do not have to take out through [insert name(s) of mortgage lender and, where relevant the mortgage intermediary]' must be retained in the illustration and a statement must be provided under this heading that no such insurance is required.

Under the sub-heading '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 where relevant the name of the mortgage intermediary, or both]' the illustration should not include any insurance policy that may be taken out by a mortgage lender itself to protect its own interests rather than the customer's interests, for example, because of the ratio of the loan amount to the property value.

If the cost of any insurance that the mortgage lender might take out to protect its own interests, because of the ratio of the loan amount to the property value, is passed on to the customer, it will be shown elsewhere in the illustration, for example, as a higher lending charge or in the interest rate charged.

A firm may include in the illustration, under the sub-heading 'Optional insurance', quotations (estimated where necessary) for any insurance products (other than the insurance products covered elsewhere in the illustration in accordance with MCOB 5.6.74 R and MCOB 5.6.77 R) that the firm issuing the illustration wishes to promote to the customer.
5.6.81 If no quotations are included in the illustration in accordance with MCOB 5.6.80 R, the sub-heading 'Optional insurance' must not be included in the illustration.

5.6.82 (1) If any quotations for insurance are included in the illustration in accordance with MCOB 5.6.74 R(3), MCOB 5.6.77 R(1) or MCOB 5.6.80 R, the illustration:

(a) must include a brief description only of the type of insurance (full details of the insurance cover may however be provided separately); and

(b) (i) must include the total price to be paid by the customer in a column on the right hand side of the illustration under the heading '[insert frequency of payments quoted] payments'; and

(ii) may refer the customer to the individual insurance product disclosure documentation.

(2) If the customer has asked to add any insurance premiums or insurance-related charges to the amount borrowed in accordance with MCOB 5.6.18 R(3), the illustration must state that this is the case.

5.6.83 The terms on which an insurance premium has been calculated should be presented to the customer in the format determined by the relevant regulatory requirements.

Section 10: 'What happens if you do not want this mortgage any more?'

5.6.84 Under the heading 'What happens if you do not want this mortgage any more?', the illustration must include the following information on the regulated mortgage contract:

(1) under the sub-heading 'Early repayment charges':

(a) an explanation that the customer cannot repay the regulated mortgage contract early, if this is the case;

(b) an explanation of whether early repayment charges are payable;

(c) an explanation of when early repayment charges are payable;

(d) an explanation of any other fees that are payable if the regulated mortgage contract is repaid early, and the current level of these fees;

(e) a basic explanation of the basis on which early repayment charges are calculated (for example, as a percentage of the loan or as so many months' interest), including where appropriate details of any cashback or other incentives that must be repaid.
The illustration may refer to a separate document for full details of all terms and conditions relating to the charges that apply if the regulated mortgage contract is repaid early;

(f) example cash amounts of any early repayment charges indicating the range of charges that apply over the period during which such charges apply calculated in accordance with MCOB 5.6.88 R, which must be described in the illustration as cash examples;

(g) the maximum early repayment charge that the customer could be charged in accordance with MCOB 12.3 (Early repayment charges), plus the cost of any other fees, which must be shown as cash amounts and described in the illustration as 'the maximum charge you could pay' [add if applicable, 'plus (a) fee(s) which (is/are) currently £x']; and

(2) under the sub-heading 'What happens if you move house?' details of whether or not the regulated mortgage contract is portable on moving house and a brief explanation of any conditions or restrictions that apply including whether there are any restrictions on changing the terms of the regulated mortgage contract during the period in which any early repayment charges apply (a reference to another document may be made in order to provide the customer with further details of the conditions or restrictions).

5.6.85 The requirements in MCOB 5.6.84 R(1) may be presented in a tabular format.

5.6.86 Where MCOB 5.6.84 R(1)(f) would result in more than three cash amounts being shown in the illustration, the cash amounts shown in the illustration may be restricted to three examples. These examples must be representative of the full range of charges that apply and not be limited to the lowest charges that apply. These three examples are in addition to:

1. any statement of the amount of any fees described in MCOB 5.6.84 R(1)(d); and

2. the maximum early repayment charge required by MCOB 5.6.84 R(1)(g).

5.6.87 An example which would comply with MCOB 5.6.86 R would be if a five year fixed rate mortgage had a charge which reduced linearly by 1% each year from 5% in the first year to 1% in the final year and cash examples were used based on 5% in year 1, 3% in year 3 and 1% in year 5.

5.6.88 (1) In calculating example cash amounts in accordance with MCOB 5.6.84 R(1)(f), it must be assumed that:
(a) the *regulated mortgage contract* is repaid in full;
(b) unless the original amount borrowed is used, that all payments due on the *regulated mortgage contract* are actually paid;
(c) additional fees and charges such as insurance premiums have been paid; and
(d) no underpayments or overpayments have been made.

(2) If:
(a) *cashbacks* or other incentives need to be repaid; or
(b) fees need to be paid;
the amounts that would need to be repaid or paid must be included in the example cash amounts.

(3) Where the calculation of the *early repayment charge* is based on the interest rate charged on the *regulated mortgage contract* or on interest rates generally, the interest rates used for the calculation of the example cash amounts must be those in force at the date that the *illustration* is issued to the *customer*.

(4) The example cash amounts must reflect the maximum charge in a particular year. Where it is possible to state exact *early repayment charges* (that is, where all such charges are based on the original amount borrowed), the *illustration* must do so.

Where the cash examples from MCOB 5.6.88 R included in the *illustration* would vary either if the interest rate charged on the *regulated mortgage contract* changed or with changes in interest rates generally, an appropriate warning that the *early repayment charges* may vary from the cash examples must be included in the *illustration*.

**Section 11: 'What happens if you want to make overpayments?**

(1) Under the section heading 'What happens if you want to make overpayments?', the *illustration* must include details of any restrictions on lump sum and regular overpayments on the *regulated mortgage contract*, together with a statement as to whether or not the amount on which the interest charged is recalculated is reduced immediately on receipt of any lump sum or regular overpayment.

(2) Where such recalculation does not take place immediately (for example, if an annual rest method is used), then this statement must be accompanied by an explanation of when the amount on which the interest charged is recalculated is reduced following a lump sum or regular overpayment.
(3) Where early repayment charges apply, this section must not repeat the details provided in Section 10 of the illustration, but may refer to Section 10.

Where the interest recalculation described in MCOB 5.6.90 R takes place immediately, firms may add a statement in this section explaining that the customer will get the benefit of the overpayment immediately, and firms may refer to supplementary information to illustrate further, the benefits of making regular overpayments.

Section 12: 'Additional features'

Under the section heading 'Additional features' the illustration must include, where relevant, details of any additional features or facilities under the various sub-headings in MCOB 5.6.94 R.

(1) If none of the features at MCOB 5.6.94 R are applicable to the regulated mortgage contract to which the illustration relates, the section headed 'Additional features' must be retained, but the sub-headings must not be included and a statement must be added to explain that there are no additional features.

(2) Only those features available on the regulated mortgage contract need be included in the illustration.

(3) If a firm provides a customer with supplementary information about any additional features or facilities over and above the information required under MCOB 5.6.92 R to MCOB 5.6.112 G, the firm may include a reference to that supplementary information in Section 12.

The relevant sub-headings are as follows:

(1) 'Underpayments';
(2) 'Payment holidays';
(3) 'Borrow back';
(4) 'Incentives';
(5) 'Additional borrowing available without further approval';
(6) 'Additional secured borrowing';
(7) 'Credit card';
(8) 'Unsecured borrowing';
(9) 'Linked current account'; and
(10) 'Linked savings account'.

5.6.95 Under the sub-heading 'Underpayments', the illustration must include details of circumstances in which the customer can make underpayments and a brief statement of any conditions that apply.

5.6.96 Under the sub-heading 'Payment holidays', the illustration must include details of circumstances in which the customer can take payment holidays and a brief statement of any conditions that apply.

5.6.97 Under the sub-heading 'Borrow back', the illustration must include details of circumstances in which the customer can borrow back any monies overpaid and a brief statement of any conditions that apply.

5.6.98 Under the sub-heading 'Incentives', the illustration must include:

(1) any incentives including cashbacks; and

(2) if a cashback is provided, the amount of the cashback and details of when it is paid to the customer.

5.6.99 Under the sub-heading 'Additional borrowing available without further approval', the illustration must provide details of circumstances in which there are any linked borrowing facilities that would allow the customer to increase the amount of the loan on which the illustration is based without any further approval from the mortgage lender (for example, if there are additional drawdown facilities).

5.6.100 Under the sub-heading 'Additional secured borrowing', the illustration must provide details of circumstances in which additional secured lending is offered with the regulated mortgage contract that would allow the customer, subject to certain conditions, to increase the amount of the loan on which the illustration is based.

5.6.101 Under the sub-heading 'Unsecured borrowing', the illustration must provide details of circumstances in which unsecured lending is offered with the regulated mortgage contract that would allow the customer to increase the amount of the loan on which the illustration is based.

5.6.102 Under the sub-heading 'Credit card', the illustration must:

(1) state if a credit card is offered with the regulated mortgage contract; and

(2) if a credit card is offered and it is a mortgage credit card:

    (a) unless (b) applies, include the following text: 'This card will not give you a number of the statutory rights associated with traditional credit cards. Your mortgage offer will tell you more about the differences.'; or
(b) where the mortgage lender provides the customer with contractual rights in relation to a mortgage credit card equal to or greater than those provided under the Consumer Credit Act 1974, include the following text: 'This card will not give you a number of the statutory rights associated with traditional credit cards. However, [insert name of mortgage lender] will ensure that you will be treated no differently from the user of a traditional credit card. Your mortgage offer will tell you more about this.'

Where any of the additional features under MCOB 5.6.99 R to MCOB 5.6.102 R inclusive apply, then the following must also be stated if the amount of additional borrowing that would be available to the customer is stated in the illustration:

1. the maximum additional amount available;
2. if the interest rate payable on any additional borrowing is different to the interest rate in Section 4 and Section 6 of the illustration, the interest rate and the APR charged on the additional borrowing. The APR must be calculated in accordance with MCOB 10 (Annual Percentage Rate), based on the maximum amount of additional borrowing that would be permitted for the customer and the term of the loan from MCOB 5.6.6 R(4);
3. the total resulting debt the customer could incur (including the original loan amount);
4. (where there is a regular payment plan) the payments on this total debt based on the frequency of payments in MCOB 5.6.40 R and the current interest rate(s) applying on the date the illustration is issued;
5. whether this additional borrowing must be repaid in full if the original loan is repaid in full, along with details of any conditions that apply;
6. if early repayment charges apply to the additional amount borrowed:
   a. that early repayment charges are payable;
   b. an explanation of when early repayment charges are payable; and
   c. the maximum early repayment charge that the customer could be charged in accordance with MCOB 12.3 (Early repayment charges) which must be shown as a cash amount; and
if it is the case, that the maximum amount of borrowing available, or the terms and conditions, may change depending on factors such as ratio of the loan amount to the property value.

Where more than one additional borrowing facility from MCOB 5.6.99 R to MCOB 5.6.102 R applies, the total debt and total payments due under all these linked borrowing facilities must be included under a separate sub-section titled 'Total additional borrowing'.

The purpose of MCOB 5.6.104 R is to show the total amount of any additional borrowing facilities that would be available to the customer and the cost of utilising these facilities. It must combine the amount available under any linked borrowing facilities including additional secured lending, credit cards and unsecured lending.

Where additional features are included in accordance with MCOB 5.6.92 R and these are credit facilities that do not meet the definition of a regulated mortgage contract, the relevant parts of Section 12 of the illustration must include the following text:

'This additional feature is not regulated by the FSA'.

Where additional features are included in accordance with MCOB 5.6.92 R and these are credit facilities regulated by the Consumer Credit Act 1974, the relevant parts of Section 12 of the illustration must include the following text after the text in (1):'but is regulated under the Consumer Credit Act 1974. You will receive a separate credit agreement with any offer document for this additional feature, describing the detailed terms on which this feature is available.'

Where all or part of the maximum amount of additional borrowing is secured on the customer's home, a prominent warning must be included that additional borrowing increases the amount of credit secured on the customer's home.

Suitable wording for the warning contained in MCOB 5.6.107 R would be:'This will increase the amount of borrowing secured on your home'.

Under the sub-heading 'Linked current account', the illustration must include the following information:

(a) whether a linked current account is a compulsory or optional product (if the current account is a compulsory product this must also be stated in Section 4 of the illustration in accordance with MCOB 5.6.25 R(6));

(b) an explanation of the interest rates that apply under different circumstances to the linked current account, if different from the interest rate charged on the regulated mortgage contract.
(for example, if a different interest rate applies if the account is overdrawn); and

(c) the firm providing the linked current account if it is not the mortgage lender.

(2) If an example to show the effect of the linked current account on the regulated mortgage contract is included in the illustration, it must be based on the actual or likely amount that the customer intends to pay into the linked current account on a regular basis and the actual or likely expenditure profile of the customer concerned.

1. Under the sub-heading 'Linked savings account', the illustration must include the following information:

(a) whether a linked savings account is a compulsory or optional product (if the savings account is a compulsory product this must also be stated in Section 4 of the illustration in accordance with MCOB 5.6.25 R(6));

(b) the interest rate paid on the linked savings account if it differs from the interest rate charged on the regulated mortgage contract; and

(c) the firm providing the linked savings account if it is not the mortgage lender.

(2) If an example to show the effect of the linked savings account on the regulated mortgage contract is included in the illustration, it must be based on the actual or likely level of relevant savings for the customer concerned.

If an example is included in the illustration in accordance with MCOB 5.6.109 R(2) or MCOB 5.6.110 R(2), it must be based on information obtained from the customer and the amounts that are intended to be paid into the current or savings account on a regular basis; the amounts that it is intended are saved; and the actual or likely expenditure profile. The amounts involved and the expenditure profile should not be standard assumptions made by the firm, but should be those of the customer or the relevant person who would hold the accounts, or both, and be of a conservative nature. These assumptions should be stated in the illustration. For example, it should not be assumed that the customer will make lump sum payments unless he has indicated that he intends to do so, and in the case of linked current accounts it should not be assumed that the customer or person holding the account leaves monies in the current account at the end of each month unless he actually does so, or intends to do so. In this case, a conservative assumption might be that the customer spends all the money paid into his current account evenly over the month.

If a linked current account and a linked savings account are offered as part of the regulated mortgage contract, the examples in MCOB 5.6.109 R(2) and MCOB 5.6.110 R(2) can be combined into one example.
Section 13: 'Using a mortgage intermediary'

Where the illustration is issued to a customer by, or on behalf of, a mortgage intermediary, Section 13 'Using a mortgage intermediary' must be included in the illustration and must include the following:

(1) unless MCOB 5.6.114 R applies, a clear statement of the amount payable (either directly or indirectly) by the mortgage lender to the mortgage intermediary, or to any third parties; and

(2) the name of the mortgage lender who will make the payment, the name of the mortgage intermediary and the names of any third parties who will be paid.

If the amount payable by the mortgage lender to the mortgage intermediary and to third parties is £250 or less, the mortgage intermediary need only state that the amount of the payment is 'no more than £250', unless the customer requests the actual amount.

If the mortgage intermediary will pass to the customer all or part of the amount payable to the mortgage intermediary under MCOB 5.6.113 R(1) or MCOB 5.6.114 R, that fact may be stated in this section, along with the amount payable to the customer.

If the mortgage lender will make no payment to the mortgage intermediary or any third party, this section may state that the mortgage intermediary will receive no payment.

The amount payable in MCOB 5.6.113 R(1) or MCOB 5.6.114 R must include, but is not limited to:

(1) any procuration fee; and

(2) a cash value for any material non-cash inducements that the mortgage lender provides to a mortgage intermediary or third party, whether payable directly or indirectly.

MCOB 2.3.7 R requires any material inducements provided by a mortgage lender, whether directly or indirectly, to a mortgage intermediary or third party (unless the payment only reflects the cost of outsourcing work relating to the processing of mortgage applications by a firm unconnected to the mortgage intermediary) to be quantified in cash terms, which will enable the cash values to be included in the illustration in accordance with MCOB 5.6.117 R.

An example of a statement which would comply with MCOB 5.6.113 R and MCOB 5.6.117 R would be: '[name of mortgage lender] will pay [name of mortgage intermediary] an amount of £350 in cash and benefits if you take out this mortgage.'
Section 14: 'Where can you get more information about mortgages?'

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

5.6.121 **R** Under the section heading 'Where can you get more information about mortgages?', the prescribed text under this heading in MCOB 5 Annex 1 R must be included.

**Contact details**

5.6.122 **R** This section must follow the section 'Where can you get further information about mortgages?' and must include the name, address and contact point of the firm providing the illustration.

5.6.123 **G** An example of wording which would comply with MCOB 5.6.122 R would be: 'If you wish to discuss this mortgage illustration please contact [name of firm] at [address] or on [telephone number].'

**Risk warning**

5.6.124 **R** (1) The following words must be prominently displayed in the illustration, after the contact details: 'Your home may be repossessed if you do not keep up repayments on your mortgage'.

(2) If the loan may be secured on property which is not the customer's home the statement in (1) may be amended but only to the extent necessary in order to reflect that fact.

5.6.125 **G** For guidance on prominence see MCOB 2.2.9 G.

**Amortisation table**

5.6.126 **G** (1) An amortisation table may be added to the end of the illustration after the information required by MCOB 5.6.124 R if the mortgage lender or mortgage intermediary wishes. A firm may find that this is particularly appropriate to illustrate certain types of regulated mortgage contract, for example, a regulated mortgage contract with more than one part.

(2) The purpose of (1) is to permit a firm to add an amortisation table in accordance with the European Commission’s 'Recommendation of 1 March 2001 on pre-contractual information to be given to consumers by lenders offering home loans' (C(2001) 477 final).
If the customer's liability under a regulated mortgage contract is in a currency other than sterling, MCOB 5.6 applies to the illustration for that regulated mortgage contract with the following amendments:

1. All cash amounts must be given in the relevant currency except where otherwise required in (2)(a) and (3);

2. The following information must be stated under Section 4 'Description of this mortgage':
   - the amount in sterling on which the illustration is based from MCOB 5.6.6 R(2) based on the exchange rate in (2)(b);
   - the exchange rate used; and
   - when the exchange rate quoted applied;

3. The following text must be added at the end of Section 4 'Description of this mortgage': 'This illustration is based on the sterling equivalent of [insert details from (2)(a)] based on [insert details from (2)(b)] as at [insert details from (2)(c)]. Exchange rates can vary significantly. The effect of a 5% decrease in the value of sterling to the [insert name of relevant currency] would increase your total borrowing to [insert amount to which the amount borrowed from MCOB 5.6.6 R(2) would increase in sterling]. This would increase your [insert frequency of payments from MCOB 5.6.40 R] payments by the sterling equivalent of £[insert amount in sterling]. The following information must be added to this text:
   - the cash amount to which the amount borrowed would increase in sterling if there was a decline of 5% in the value of sterling when compared to the relevant currency; and
   - the amount by which (2)(b) would increase the customer's payments based on the frequency of payments from MCOB 5.6.40 R, shown as a sterling equivalent cash amount.

Risk warning

The text at MCOB 5.6.124 R must be immediately followed by the following additional text, prominently displayed (see MCOB 2.2.9 G): 'Changes in the exchange rate may increase the sterling equivalent of your debt.'
If the regulated mortgage contract is a shared appreciation mortgage, MCOB 5.6 applies to the illustration with the following amendments:

(1) Section 4 'Description of this mortgage' must contain the following additional information and text in this order after the details required by MCOB 5.6.25 R to MCOB 5.6.29 R:

(a) "This mortgage involves [name of mortgage lender] taking a percentage share in any increase in the value of your property [insert details of all occasions when the share will be payable to the mortgage lender, for example, "after x years, or when this mortgage comes to an end or is terminated early"]; The amount [name of mortgage lender] will take depends on any increase in the value of your property.' [Include if relevant: 'If your property falls in value between now and the end of this mortgage you will be required to pay [add details of what the customer will need to pay the mortgage lender if the property falls in value.];"

(b) (i) a basic explanation of how the amount of the share payable to the mortgage lender is calculated including the proportions of any given increase in the value of the property and whether this is dependent on the level of growth (for example, that the share payable to the mortgage lender is all of the increase in value of the property for the first 5% increase in value, plus half of the additional increase in the value of the property above this);

(ii) a reference to a separate document for full details of the terms and conditions relating to the amount of the share payable followed by: 'The example below shows how this works. EXAMPLE: Based on the current [estimated] value of your property of [insert details from MCOB 5.6.6 R(3)], the example(s) below show(s) what your property value would be and what share of that value [name of mortgage lender] would take after [insert term of the loan in accordance with MCOB 5.6.6 R(4) or the term after which the equity share becomes payable if less] if the value of your property increased. [Include if relevant: "and what would happen if your property decreased in value."] Please note that you should add this payment to the amount of any early repayment charges that may be payable - see Section 10';

(c) except where (g) applies, example cash amounts for the value of the property and the corresponding amount of the equity share payable assuming an average annual increase, in the value of the property secured by the regulated
mortgage contract of 1%, 5% and 10% over the term from (i);

(d) if the customer would be required to pay the mortgage lender an amount because the value of the property on which the regulated mortgage contract would be secured had decreased from its value at the start of the term of the regulated mortgage contract, include example cash amounts for the value of the property and the corresponding amount payable assuming an average annual decrease, in the value of the property secured by the regulated mortgage contract of 1%, 5% and 10% over the term from (i);

(e) if the amount of the equity share payable cannot go above or below a certain level, an explanation that this is the case along with a cash example described as 'the maximum amount you could pay';

(f) include this text after the cash examples in (c) (or, if applicable, after the cash examples in (d) or (e)): 'This is not an indication of how the actual value of your property may change.';

(g) where (c) or (d) apply and the maximum percentage equity share payable is less than the example percentages in (c) or (d), only cash examples for those percentages required by (c) or (d) which are below this maximum need be quoted, along with the maximum in accordance with (e);

(h) if there are no restrictions on the amount of the equity share payable, the following text should follow the text in (f): 'The amount you will need to pay could be much higher than this.';

(i) for the purposes of the examples required by (c) or (d), the term used must be stated and must be the term of the regulated mortgage contract in accordance with MCOB 5.6.6 R(4) or the term after which the equity share becomes payable, if less;

(2) Section 5 'Overall cost of this mortgage' of the illustration must contain the following text at the end of the section: 'The APR and the total amount you must pay do not take account of the share that [insert name of mortgage lender] takes in any increase in the value of your property as described in Section 4. So you should not use these measures to compare this mortgage with other mortgages that do not involve [insert name of mortgage lender] taking a share in any increase in the value of your property.';

(3) Section 10 'What happens if you do not want this mortgage any more?' must contain the following text at the end of the first sub-heading 'Early repayment charges': 'Remember to add the cost of paying any share in the value of the property to [insert name of mortgage lender] - see Section 4.'
The requirements in MCOB 5.6.129 R(1)(c) and (d) may be presented in a tabular format.

### Risk warning

The requirements at MCOB 5.6.129 R(1) must be immediately followed by the following additional text, prominently displayed (see MCOB 2.2.9 G): 'You will need to pay this share in the value of your property either as a lump sum or through extra loan payments. Think carefully about whether you can afford this.'

### Deferred interest rate mortgages

If the interest rate charged on the regulated mortgage contract is deferred, MCOB 5.6 applies with the following additions:

1. A section headed: 'Effect of deferring interest on the amount you owe' must be included in the illustration after Section 6.

2. This section must be numbered 6a so that the numbering follows on consecutively from the preceding section unless MCOB 5.6.55 R applies in which case it should be numbered 6b.

3. Under the section heading the following text must be included: 'This table shows the effect of the deferred interest being added to the amount you owe'; and if the interest rate is variable: 'The amounts shown in this table could be considerably different if the interest rate changes.'

4. Under the text in (3), a table must be included showing each year or part year that the interest rate charged on the regulated mortgage contract is deferred, in the format set out in MCOB 5 Annex 1 R and containing the following information in the columns under the following headings:

   (a) 'Year': This must list the years as 1, 2, 3 and so on for each year or part year that the interest charged on the regulated mortgage contract is deferred. Where the interest rate charged on the regulated mortgage contract changes at a particular date rather than annually, the table may be adapted to accommodate this (for example, by including details of more than one interest rate each year).

   (b) 'Interest deferred': This must show the percentage of interest deferred based on the rates charged on the regulated mortgage contract at the date the illustration is issued.

   (c) 'Amount of deferred interest added to the mortgage': This must show the cumulative amount that is added to the loan.
as a cash amount as a result of deferring the payment of interest.

(d) 'Remaining debt before deferred interest is added': This must show the amount of loan outstanding on the regulated mortgage contract before any deferred interest is added.

(e) 'Remaining debt with deferred interest added': This must show the amounts from (4)(c) and (4)(d) added together.

Alternative requirements for loans without a term or a regular repayment plan Section 6: 'What you will need to pay each [insert frequency of payments from MCOB 5.6.40R']

Section 6 of the illustration must contain the following information:

(1) the loan amount on which the illustration is based. Where fees are being added to the loan then this figure should include all fees, charges and insurance premiums that have been added to the loan in accordance with MCOB 5.6.18 R(2) and MCOB 5.6.18 R(3), and the following text must follow the loan amount: 'and include[s] the fees [and insurance premiums] that are shown in Section 8 [and Section 9] as being added to your mortgage.';

(2) the assumed start date that has been used in the illustration must be stated using the following text: 'This illustration assumes that the mortgage will start on [insert assumed start date].';
(3) where no payments are required (or no payments are allowed), for example a secured bridging loan or secured overdraft, then section 6 of the illustration should state if no payments are required or no payments can be made; or

(4) where a minimum payment is required, for example on a mortgage credit card:

(a) a statement that a minimum payment will be required;

(b) an explanation of the basis on which this has been calculated, for example a percentage of the loan amount;

(c) if this monthly payment is insufficient on its own to repay the regulated mortgage contract over the term specified, the following text: 'This payment will not be sufficient to repay the mortgage over the term specified'; and

(d) the amount that the customer must pay, recorded in the right-hand column of this section.

5.6.137 An example of the statement required by MCOB 5.6.136 R(3) would be: 'You [do not need to/cannot] make regular payments on this mortgage.'

5.6.138 An example of MCOB 5.6.136 R(4) would be: 'You need to make minimum payments as follows: 3% of the amount outstanding £x.xx This payment will not be sufficient to repay the mortgage over the term specified.'

Section 7: 'Are you comfortable with the risks?'

5.6.139 MCOB 5.6.140 R to MCOB 5.6.145 R apply only to loans without a term or regular payment plan where some or all of the interest rolls up, for example secured bridging loans, secured overdrafts or mortgage credit cards.

5.6.140 Under the section heading 'Are you comfortable with the risks?':

(1) under the sub-heading 'What if interest rates go up?' the illustration must include the following:

(a) if the interest rate is fixed throughout the term of the regulated mortgage contract, an explanation that the interest rate will not vary because the interest rate is fixed;

(b) if the interest rate is fixed for part of the term of the regulated mortgage contract, an explanation of when or how increases in the interest rate charged on the regulated mortgage contract affect the amount the customer must pay back;
(c) if the interest rate cannot go above or below a certain level, or both, throughout the term of the regulated mortgage contract, an explanation that this is the case;

(d) if the interest rate cannot go above or below a certain level for part of the term of the regulated mortgage contract, an explanation that this is the case and of when or how increases in the interest rate charged on the regulated mortgage contract affect the amount the customer must pay back;

(e) except where (2)(a) or (2)(b) apply, Section 7 of the illustration must include the following text: 'The total amount you must pay back shown in this illustration could be considerably different if interest rates change. For example, for one percentage point increase in [describe the interest rate that applies], the total amount you must pay back will increase by around £[insert amount by which the total amount payable will increase].'

(2) paragraph (1)(e) does not apply:

(a) where the interest rate is fixed throughout the term of the regulated mortgage contract; or

(b) where the difference between the interest rate included in the illustration in accordance with ■ MCOB 5.6.25 R(2) and the maximum interest rate that can be charged on the regulated mortgage contract is less than one percentage point.

(3) under the sub-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.'

The amount by which the total amount payable would increase in accordance with ■ MCOB 5.6.140 R(1)(e) must be calculated as follows:

(1) unless the total amount borrowed is used, it must be assumed that all payments due on the regulated mortgage contract have actually been paid, all additional fees and payments due have been paid, and no under or overpayments have been made;

(2) unless the total amount borrowed is used, the calculation must be based on the amount of the loan outstanding from the earliest point at which the interest rate charged on the regulated mortgage contract can vary; for example, if the regulated mortgage contract has an initial fixed interest rate, this will be from the point at which the fixed interest rate ends;
the interest rate from which the increase is calculated must be the variable interest rate charged on the regulated mortgage contract at the date that the illustration is issued (that is, the variable interest rate quoted in Section 4 of the illustration); where the variable interest rate changes after a set period or on a set date, it must be based on the initial variable interest rate charged on the regulated mortgage contract at the date the illustration is issued. (For example, if the initial interest rate is discounted, it must be based on the discounted rate.)

**Risk warning**

5.6.142 R

Unless MCOB 5.6.140 R(2)(a) or (b) applies, the following words must be prominently displayed at the end of the sub-section 'What if interest rates go up?': 'Rates may increase by much more than this so make sure you can afford this loan.'

5.6.143 R

The following words must be prominently displayed at the end of the sub-section 'What if your income goes down?': 'Make sure you can afford your mortgage if your income falls'.

5.6.144 G

For guidance on prominence see MCOB 2.2.9 G.

5.6.145 R

The following text must be included at the end of Section 7 'Are you comfortable with the risks?': 'The FSA's information sheet "You can afford your mortgage now, but what if...?" will help you consider the risks. You can get a free copy from www.fsa.gov.uk/consumer, or by calling 0845 456 1555.'
5.7 Business loans

5.7.1 Where the regulated mortgage contract is for a business purpose, a firm may choose to provide a business illustration (in compliance with MCOB 5.7.2 R) instead of complying with MCOB 5.6.

5.7.1A Firms are reminded that, in accordance with MCOB 1.2.3 R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 5.7 if it also follows all other tailored provisions in MCOB.

5.7.2 A business illustration provided to a customer must:

(1) use the headings and prescribed text in MCOB 5 Annex 1 R (except as provided in MCOB 5.7) but need not follow the format;

(2) include the content required by MCOB 5.6.3 R to MCOB 5.6.130 G (except MCOB 5.6.5 R, MCOB 5.6.101 R, MCOB 5.6.109 R to MCOB 5.6.112 G, MCOB 5.6.120 R and MCOB 5.6.121 R);

(3) use the key facts logo followed by the text 'about this [term used by the firm to describe the borrowing, for example 'mortgage']';

(4) use font sizes and typefaces consistently throughout the business illustration which are sufficiently legible so that the business illustration can be easily read by a typical customer;

(5) ensure that the information is clearly laid out (for example, through the use of bullet points or similar devices to separate information);

(6) describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such charges;

(7) describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such charges; and
(8) include the risk warning described in MCOB 5.6.124 R, or an equally clear and effective variation of this reflecting the nature of the regulated mortgage contract.

5.7.3

(1) ■ MCOB 5.7.2 R(1) means that firms do not have to follow the ordering of sections set down in ■ MCOB 5.6, although they may choose to do so.

(2) In accordance with ■ MCOB 5.7.2 R(8) an example of an appropriate variation to the risk warning would be: 'Your home may be repossessed if you are unable to fulfil the terms of this secured overdraft'.

(3) A firm may also choose to include other information beyond that required by ■ MCOB 5.6. However, when adding additional material a firm should have regard to:

(a) the intended use of the business illustration as an aid to comparison by customers; and

(b) the requirement in ■ MCOB 2.2.6 that any communication should be clear, fair and not misleading.

(4) The business illustration provided in accordance with ■ MCOB 5.7.2 R should be based upon the total borrowing that the firm is willing to provide under the regulated mortgage contract. This means that there is no requirement for a firm to provide a further business illustration (or business offer document) where a customer redraws against payments made under the regulated mortgage contract, providing this redrawing does not exceed the borrowing described in the original business offer document.

(5) ■ MCOB 5.6.6 R(4) requires that where the term of the regulated mortgage contract is open-ended, the business illustration must be based on an assumed term of 12 months and that this assumption must be stated. This does not mean that a firm is limited in the actual term of the regulated mortgage contract. A firm is able to include in the business illustration an explanation that while a 12-month term has been assumed for the purpose of the business illustration, the regulated mortgage contract itself will be open-ended.

5.7.4

Any business illustration provided by a firm must be limited to facilities provided under a regulated mortgage contract.

5.7.5

■ MCOB 5.6.31 R(2), ■ MCOB 5.6.52 R(1) and ■ MCOB 5.6.52 R(4) prescribe text that should be used to remind a customer with an interest-only mortgage that there is a need to separately arrange for the repayment of capital. The options for repayment of capital may be different where the regulated mortgage contract is for a business purpose, and a firm must vary the prescribed wording in the business illustration to reflect this. One approach may be for the firm to revise the wording to reflect how the customer has said he will repay the capital.

5.7.6

(1) When providing a business illustration in accordance with ■ MCOB 5.7.2 R a firm should describe facilities provided under
the regulated mortgage contract that are not a loan within section 12 (Additional features) of the business illustration.

(2) In complying with (1), a firm should follow the requirements in
■ MCOB 5.6.92 R ■ MCOB 5.6.108 G where these are relevant. Where the facility is of a type not considered in
■ MCOB 5.6.92 R ■ MCOB 5.6.108 G the firm should provide in section 12:
   (a) a brief description of the facility involved;
   (b) the term of the facility if different from the term described elsewhere in the business illustration; and
   (c) a summary of any charges, including any early repayment charges, which apply to the operation of the facility.

(3) Full information on any facility described in section 12 must be provided in supplementary materials that accompany the business illustration.

5.7.7

(1) In accordance with ■ MCOB 5.7.6 R(1), where the regulated mortgage contract includes a loan, the facilities described in section 12 of the business illustration should include the existence of, and a simple explanation of, any all monies charge, any contingent liabilities such as guarantees and so on.

(2) Where the regulated mortgage contract includes more than one loan facility (such as a secured loan and a separate secured overdraft facility) the business illustration should be based upon the primary facility and describe any other loan within section 12.
5.8 Home purchase plans

Applying for a home purchase plan

Note: The rules regarding applying for a home purchase plan are set out in MCOB 5.3.

Financial information statement: timing

A firm dealing directly with a customer must ensure that the customer is, or has been, provided with an appropriate financial information statement for a home purchase plan in a durable medium:

(1) before the customer submits an application for that particular plan to a home purchase provider; and

(2) without undue delay when any of the following occurs:

(a) the firm makes a personal recommendation to the customer to enter into a home purchase plan (unless the personal recommendation is made by telephone, in which case a firm must ensure the financial statement is or has been provided as soon as practicable after the telephone call);

(b) the firm provides written information that is specific to the amount of finance to be provided on a particular plan; or

(c) the customer requests written information from the firm that is specific to the amount of finance to be provided on a particular plan, unless the firm does not wish to do business with the customer.

(3) A firm may comply with (1) and (2) by providing an offer document if this can be done as quickly as providing a financial information statement.

5.8.2 In ensuring that the customer is provided with an appropriate financial information statement, a firm need not provide another when one that remains appropriate has already been provided for that particular home purchase plan. If a financial information statement ceases to be appropriate, for example because the terms of the proposed plan are subsequently materially altered, a new appropriate statement must be provided.
The guidance on the timing of mortgage illustrations may be relevant (see \textsection{} MCOB 5.5).

**Financial information statement: format**

A financial information statement must:

1. be personalised to reflect the customer's requirements;
2. contain only the material prescribed or permitted in this section;
3. contain that material in the order set out in this section; and
4. present the material concisely, clearly and consistently.

A financial information statement, if not set out in a separate document, must be:

1. in a prominent place within the other document and clearly identifiable as key information that the customer should read; and
2. separate from the other content of the document in which it is included.

The guidance on the content, order and format of illustrations may be relevant (see \textsection{} MCOB 5.6.4 G).

**Financial information statement: content**

A financial information statement must contain:

1. a prominent keyfacts logo at the top of the statement;
2. the term of the home purchase plan;
3. the overall cost of the plan, comprising:
   
   a. the purchase price of the property;
   b. the deposit payable;
   c. the amount of the plan required;
   d. the amount of any fees added to the plan;
   e. the total amount payable; and
   f. the amount the customer must pay per £1 provided under the plan;
4. details of the payments the customer must make, including:
   
   a. the assumed start date;
(b) all rental rates that will apply;
(c) when the rental rates will apply and for how long;
(d) for each rental rate, the number, frequency and amount of the periodic payments that will apply;
(e) in relation to the first periodic payment, the amount of the purchase payment and of the rental payment;
(f) the amount of any insurance rent payments;
(g) a summary total; and
(h) details of when the summary total will change.

5.8.8  R  A financial information statement may contain a figure equivalent to an APR after the amount the customer must pay per £1 provided under the home purchase plan. A firm must use an approach equivalent to the APR rules when calculating an APR equivalent.

5.8.9  G  See the keyfacts logo provisions for further requirements regarding the use of the keyfacts logo and the location of specimens.

5.8.10  G  The details of the rental rate charged should be based on information available to a firm at the time of producing the financial information statement. For example, if a rental rate cannot be ascertained at that time because it is based on a fluctuating rate of interest, a firm should base the information on the current fluctuating rate.

Opportunity to consider pre-application disclosure

5.8.11  R  A firm must ensure that the customer has had a reasonable opportunity to consider the financial information statement and risks and features statement before committing the customer to an application.
The mortgage illustration: table of contents, prescribed text and prescribed section headings and subheadings.

This annex consists only of one or more forms. Forms are to be found through the following address:

The mortgage illustration - www.fsa.gov.uk/pubs/other/mcob_forms/mcob5_annex1.pdf
Chapter 6
Disclosure at the offer stage
6.1 Application

Who?

6.1.1 This chapter applies to a firm in a category listed in column (1) of the table in MCOB 6.1.2 R in accordance with column (2) of that table.

6.1.2 Table This table belongs to MCOB 6.1.1R

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>whole chapter except MCOB 6.8</td>
</tr>
<tr>
<td>home purchase provider</td>
<td>MCOB 6.1 (except MCOB 6.1.6 G), MCOB 6.2 and MCOB 6.8</td>
</tr>
<tr>
<td>reversion provider</td>
<td>see MCOB 9.5 for the application of this chapter</td>
</tr>
</tbody>
</table>

What?

6.1.3 This chapter applies with respect to an offer made by a firm to a customer with a view to the firm:

(1) entering into a home finance transaction;

(2) varying the terms of a home finance transaction entered into by the customer in any of the following ways:
   (a) adding or removing a party;
   (b) making a further advance; or
   (c) switching all or part of the regulated mortgage contract from one interest rate to another;

(whether or not the customer agrees to enter into the home finance transaction or variation).

6.1.4 In relation to a lifetime mortgage, this chapter, MCOB 6, is modified by MCOB 9 (Equity release: product disclosure).
In MCOB 6, a reference to an offer to enter into a *home finance transaction* is to be read as including a reference to an offer to vary an existing *home finance transaction* in a manner specified in this section if the context so requires.

Firms may diverge from the requirements in MCOB 5.6 (Content of illustrations) where necessary to reflect the fact that they are providing an illustration for a variation as part of an *offer document*. 
6.2 Purpose

6.2.1 MCOB 6 amplifies Principle 6 and Principle 7. The purpose of MCOB 6 is to ensure that a customer receives a clear offer document to enable him to check the features and price of the home finance transaction before he enters into it. The offer document should include an updated and suitably adapted illustration (for a regulated mortgage contract) or financial information statement (for a home purchase plan) so that the customer can compare it with the one he received before he applied for the home finance transaction.

(2) [deleted]
6.3 General

6.3.1 MCOB 2.2.6 R (Clear, fair and not misleading communication) applies to information provided to a customer by a firm in accordance with this chapter.

6.3.2 Any communication required by MCOB 6 to be provided to a customer by a firm must be in a durable medium.
6.4 Mortgages: content of the offer document

6.4.1

(1) If a firm offers to entering into a regulated mortgage contract with a customer, it must provide the customer with an offer document containing an illustration.

(2) The firm's offer in the offer document must be on the basis of the information set out in the illustration provided in accordance with (1).

Accuracy of the offer document

6.4.2

MCOB 5.4.7 G acknowledges that the offer document and illustration provided before an application may not always be the same, even where the customer's requirements have not changed. However, the FSA expects the offer document to be an accurate reflection of the actual costs of the regulated mortgage contract.

Records

6.4.3

(1) A firm must make an adequate record of each offer document which it issues to a customer in accordance with MCOB 6.

(2) The record required by (1) must be retained for a year from the date that the offer document is issued to the customer.

(3) If, in accordance with MCOB 6.5 (Information to be provided in the offer document or separately), information is included in a separate document that is sent with the offer document, that information must also be retained as part of the record required by (1).

Modifications to the illustration

6.4.4

The illustration provided as part of the offer document in accordance with MCOB 6.4.1 R (1) must meet the requirements of MCOB 5.6 (Content of illustrations) with the following modifications:

(1) the illustration must be suitably adapted and revised to reflect the fact that the firm is making an offer to a customer and updated to reflect changes to, for example, the interest rate,
charges, the exchange rate or the APR required by MCOB 10 (Annual Percentage Rate), at the date the illustration is issued;

(2) MCOB 5.6.2 R (2) (a) does not apply;

(3) MCOB 5.6.15 R (Information to be included at the head of the illustration) does not apply;

(4) MCOB 5.6.16 R (Section 1: 'About this illustration') is replaced by the following: "Section 1: 'About this offer document':Under the section heading 'About this offer document', the following text must be included:

(a) 'You are not bound by the terms of this offer document until [insert relevant circumstances, including the names of any documents that must be signed. For example "you have signed the legal charge and the funds are released for your mortgage"]. We are required by the Financial Services Authority (FSA) - the independent watchdog that regulates financial services - to provide you with this offer document.'; and

(b) (unless MCOB 6.6.1 R applies)"You should compare this offer document with the key facts illustration given to you before you applied for this mortgage, to see how the details may have changed.'";

(5) Unless (b) applies, MCOB 5.6.17 R (Section 2: 'Which service are we providing you with?') is replaced with the following: "Section 2: 'Which service did we provide you with?'

(a) Under the section heading 'Which service did we provide you with?' the following text should be presented as two options each with a 'check box', one of which must be marked prominently to indicate the level of service provided to the customer: '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.'";

(b) If the service described in MCOB 5.6.17 R (Section 2: 'Which service are we providing you with?') was provided by another firm, MCOB 5.6.17 R is replaced by the following: "Section 2: 'Which service were you provided with? Under the section heading 'Which service were you provided with?' the following text should be presented as two options each with a 'check box' one of which must be marked prominently to indicate the level of service provided to the customer: '[name of firm] recommended that you take out this mortgage. [name of firm] did not recommend a particular mortgage for you. You must make your own choice whether to accept this mortgage offer.'";
(6) **MCOB 5.6.29 R (2)** does not apply;

(7) **MCOB 5.6.52 R to MCOB 5.6.53 G** is replaced by the following:

Where all or part of the *regulated mortgage contract* is an interest-only mortgage, the *illustration* in the *offer document* must:

(a) clearly state that the payments on the *regulated mortgage contract* cover only interest, and not the capital borrowed;

(b) state the *repayment vehicle* the *customer* intends to use where the *firm* knows details of the specific *repayment vehicle* from the application by the *customer*; if the *firm* does not know how the *customer* intends to repay the capital borrowed, the *firm* must clearly state that the *repayment vehicle* is unknown, and must provide the *customer* with a clear reminder of the need to put suitable arrangements in place; and

(c) include a statement reminding the *customer* to check regularly the performance of any *investment* used as a *repayment vehicle*, to see whether it is likely to be adequate to repay the capital at the end of the term of the *regulated mortgage contract*;

(8) the fees recorded in the *illustration* that is part of the *offer document* in accordance with **MCOB 5.6.66 R (1)** must include any fees paid or payable by the *customer*;

(9) **MCOB 5.6.69 R (5)** is replaced by the following: 'where the fee is payable or has been paid to the *mortgage lender*, whether or not the fee is refundable, and if so, the extent to which it is refundable;'

(10) [deleted]

(11) where additional features are included in accordance with **MCOB 5.6.92 R** and these are credit facilities regulated by the Consumer Credit Act 1974, the relevant parts of Section 12 of the *illustration* that is part of the *offer document* must include the following text: "This credit facility is regulated under the Consumer Credit Act 1974. Please refer to the separate credit agreement which describes the facility and the terms on which the credit is available";

(12) The text required by **MCOB 5.6.102 R (2) (a) or (b)** should be adapted to include, or tell the *customer* where they can find, the information required by **MCOB 6.5.4 R**; and
6.4.5 (1) One consequence of MCOB 6.4.4 R(5)(b) is that the mortgage lender will need to know, for each individual transaction arranged by a mortgage intermediary, whether or not the customer has received advice from that mortgage intermediary.

(2) When complying with MCOB 6.4.4 R(5)(b), mortgage lenders may wish to include a statement after the level of service in Section 2 confirming that the level of service described was given by another firm, and explaining that they, as the mortgage lender, are not responsible for the level of service given, and that the customer should contact the other firm if they have any queries about the level of service provided. For example: "If you have any queries about this service, you should contact [Name of firm]. [Name of lender] is not responsible for the advice or information you received."

6.4.6 In adapting and revising the illustration that is part of the offer document in accordance with MCOB 6.4.4 R(1) a firm must:

(1) avoid amending the format of the information required by MCOB 5.6 (Content of illustrations) where possible, since this could result in the illustration in the offer document being difficult to compare with the illustration originally provided to the customer in accordance with MCOB 5.5.1 R;

(2) use, where possible, the same headings, ordering of information, and language that appeared in the illustration provided in accordance with MCOB 5.6 (Content of illustrations); and

(3) only change section headings where necessary (for example 'What you have told us' could be renamed 'Your mortgage requirements').

6.4.7 In adapting and revising the illustration in accordance with MCOB 6.4.4 R(1), a firm may:

(1) add extra information at the beginning and end of the illustration, such as conditions which are not covered by the illustration;

(2) include greater detail within each of the specified sections than that included in an illustration provided in accordance with MCOB 5 (Pre-application disclosure); and

(3) leave blank, except for the text 'not applicable', sections that are irrelevant, such as:

(a) the section on insurance (see MCOB 5.6.73 R to MCOB 5.6.83 G), where the customer is not buying insurance...
from the *firm* and the *firm* does not require insurance to be in place; and

(b) the section and sub-sections on additional features (see ■ MCOB 5.6.92 R to ■ MCOB 5.6.112 G) if there are no additional features available.

6.4.8 Examples of the additional information that should be included in the *offer document* in accordance with ■ MCOB 6.4.7 R (1) or ■ MCOB 6.4.7 R (2) is information about any retentions or reinspections that will be required by the *firm*.

6.4.9 A *firm* must ensure that the *illustration* forms the main, and an integral, part of the *offer document*.

6.4.10 ■ MCOB 6.4.9 R prevents a *firm* from preparing a separate *illustration* and simply adding it to the existing material provided to the *customer* at the offer stage.

**Other information contained in the offer**

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

(1) of the period for which the offer is valid;

(2) explaining, where the *regulated mortgage contract* contains features, such as additional unsecured borrowing facilities, which could result in the *customer* borrowing more money, that where such features are used, the amount of the *customer’s* debt will increase;

(3) explaining when any interest rate change on the *regulated mortgage contract* takes effect. This statement must be used, for example, to explain cases where an annual review system is used;

(4) explaining the consequences that might arise from the *customer* not entering into the *regulated mortgage contract*, including any fees that the *customer* has paid which will not be reimbursed;

(5) explaining that once the *regulated mortgage contract* is concluded there will be no right of withdrawal; and

(6) explaining that although no right of withdrawal exists the *customer* will have a right to repay the *regulated mortgage contract* in accordance with the terms of the *regulated mortgage contract*. 

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In complying with MCOB 6.4.11 R (6) the firm is not required to repeat in this section of the offer document the cash amounts of the early repayment charges set out in the illustration provided as part of the offer document. The firm may instead insert a reference to the relevant section of that illustration.

A firm must ensure that the contact details section of the offer document (as required by MCOB 5.6.122 R) also includes information on how to comply with the services provided by the firm in relation to the regulated mortgage contract and whether or not complaints may subsequently be referred to the Financial Ombudsman Service.

DISP 1 requires a firm to deal promptly and fairly with complaints, including referring to another firm complaints about that other firm’s services.

In addition to the information required by MCOB 6.4.13 R, a firm may include information about how to comply with any other firm about the services that firm provided to the customer in relation to the regulated mortgage contract. For example, where the customer received advice from another firm, a mortgage lender may include contact details for the firm that provided the advice.

If the firm knows at the point that the offer is made to the customer that its interest in the regulated mortgage contract will be assigned (by sale or transfer) and the firm will no longer be responsible for setting interest rates and charges, the offer document must:

1. state this; and
2. state, where known, who will be responsible for setting interest rates and charges after the sale or transfer.

Where MCOB 6.4.16 R applies, if the name of the party who will be responsible for setting interest rates and charges after the sale or transfer is not known at the point the offer is made, the firm must notify the customer of this as soon as it becomes known.

MCOB 6.4.16 R and MCOB 6.4.17 R could apply where the ownership of a regulated mortgage contract is transferred to a third party through securitisation.
6.5 Mortgages: information to be provided in the offer document or separately

Tariff of charges

6.5.1 If a firm makes an offer to a customer with a view to entering into a regulated mortgage contract, it must provide the customer, along with the offer document, with a tariff of charges that could be incurred on the regulated mortgage contract.

6.5.2 If the regulated mortgage contract has any linked borrowing or linked deposits, details of the charges on these linked facilities, for example charges payable on a linked current account, must be included in the firm’s tariff of charges.

6.5.3 A firm may include the tariff of charges as an integral part of the offer document, or provide it separately along with the offer document.

Mortgage credit cards

6.5.4 If a firm makes an offer to a customer with a view to entering into a regulated mortgage contract that includes a mortgage credit card, it must provide the customer with information explaining that the card will not give the customer the statutory rights associated with traditional credit cards.

6.5.5 A firm may include the information described in MCOB 6.5.4 R as an integral part of the offer document, or provide it separately along with the offer document.

Distance contracts with retail customers

6.5.6 If a firm makes an offer to a consumer with a view to entering into a regulated mortgage contract which is a distance contract, it must provide the consumer with the following information with the offer document:

(1) the EEA State or States whose laws are taken by the firm as a basis for the establishment of relations with the customer prior to the conclusion of the regulated mortgage contract;
(2) any contractual clause on law applicable to the regulated mortgage contract or on competent court, or both;

(3) the language in which the contract is supplied and in which the firm will communicate during the course of the regulated mortgage contract; and

(4) if not provided previously:
   (a) all of the contractual terms and conditions of the regulated mortgage contract to which the offer document relates; and
   (b) (i) confirmation that the mortgage lender is authorised and regulated by the FSA;
       (ii) the mortgage lender's FSA register number; and
       (iii) confirmation that the customer can check the FSA register on the FSA's website www.fsa.gov.uk/register/ or by contacting the FSA on 0845 606 1234.
If a firm provides a customer with an offer document in place of an illustration in accordance with MCOB 5.5.1 R (3), it must take reasonable steps to ensure that it provides the offer document in accordance with the requirements for providing an illustration in MCOB 5.4 (Illustrations: general) and MCOB 5.5 (Provision of illustrations).
6.7 Business loans

6.7.1 R (1) Where the regulated mortgage contract is for a business purpose, a firm may choose to provide a customer with a business offer document instead of the offer document referred to in MCOB 6.4.1 R.

(2) If a firm provides a customer with a business offer document in accordance with (1), it must ensure that:

(a) an updated business illustration, as required by MCOB 5.7 (Pre-application disclosure for business loans), forms part of the business offer document; and

(b) subject to the tailoring required by MCOB 5.7 (Pre-application disclosure for business loans), the business offer document complies with MCOB 6.4 (Content of the offer document).

6.7.1A Firms are reminded that in accordance with MCOB 1.2.3 R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 6.7 if it also follows all other tailored provisions in MCOB.

6.7.2 G MCOB 6.7.1 R (2) means, for example, that the required text in MCOB 6.4.4 R (7) should be replaced by text that satisfies the requirements for business illustrations in MCOB 5.7.5 R.

6.7.3 G A firm may supplement the first paragraph of text prescribed in MCOB 6.4.4 R (5)(a) to clarify that, while the regulated mortgage contract is not binding until the relevant mortgage document has been signed and funds have been released, the business offer document may form part of a wider set of negotiated facilities and that the customer is separately bound by these.
6.8 Home purchase plans

Offer document

(1) If a firm offers to enter into a home purchase plan with a customer, it must ensure that the customer is, or has been provided with an appropriate offer document in a durable medium which includes:

   (a) the period for which the offer is valid;
   
   (b) an explanation of the consequences that might arise from the customer not entering into the home purchase plan including details of any fees that the customer has paid which will not be refunded;
   
   (c) an explanation of when the customer will become bound by the offer and the implications of this;
   
   (d) the charges that a customer may incur under the plan, including the reason for, and amount of, each charge, when they are payable, whether they will be refunded and, if so, when;
   
   (e) a financial information statement;
   
   (f) the firm’s contact details, including its name and address; and
   
   (g) how to complain to the firm and whether or not complaints may subsequently be referred to the Financial Ombudsman Service.

(2) A firm may omit details of the charges that a customer may incur under a home purchase plan from the offer document if they are included in a separate tariff of charges provided to the customer at the same time.

Although an offer document may not match information given in a financial information statement before an offer is made, an offer document should be an accurate reflection of the actual costs of the home purchase plan.
A firm should bear in mind its obligations under Principle 6. For example, if a firm knows that its interest in a home purchase plan will be assigned and the firm will no longer be responsible for setting rental payments and charges, the offer document should state this fact and who will become responsible after the assignment (if this is not known at the offer stage the customer should be notified as soon as it becomes known).

A firm must ensure that the financial information statement forms the main, and an integral, part of the offer document.

**Distance contracts with retail customers**

(1) A firm must communicate to a consumer the distance marketing information in a durable medium available and accessible to the consumer in good time before the consumer is bound by any distance contract or offer to enter into a home purchase plan.

(2) If the distance contract or offer has been concluded at the consumer’s request using a means of distance communication which does not enable providing the information in accordance with (1) then it must be communicated no later than immediately after the conclusion of the home purchase plan.

[Note: article 5 Distance Marketing Directive]

Distance contract information may be included in an offer document provided that it does not significantly increase its length.
Distance home purchase plans: information to be provided to retail customers.

This table belongs to MCOB 6.8.5 R.

1.1 R Distance home purchase plans: information to be provided to retail customers

(1) the identity and the main business of the home purchase provider, the geographical address at which the home purchase provider is established and any other geographical address relevant for the consumer's relations with the home purchase provider;

(2) the identity of the representative of the home purchase provider established in the consumer's EEA State of residence and the geographical address relevant for the customer's relations with the representative, if such a representative exists;

(3) when the consumer's dealings are with any professional other than the home purchase provider, the identity of this professional, the capacity in which he is acting vis-à-vis the consumer, and the geographical address relevant for the customer's relations with this professional;

(4) Details of the FSA Register and any other trade register in which the home purchase provider is entered and his registration number or an equivalent means of identification in that register;

(5) confirmation that the home purchase provider is authorised and regulated by the FSA;

(6) the total price to be paid by the consumer to the home purchase provider for the financial service, including all related fees, charges and expenses, and all taxes paid via the home purchase provider or, when an exact price cannot be indicated, the basis for the calculation of the price enabling the consumer to verify it;

(7) notice of the possibility that other taxes and/or costs may exist that are not paid via the home purchase provider or imposed by him;

(8) any specific additional cost for the consumer of using the means of distance communication, if such additional cost is charged;

(9) the absence of a right of withdrawal;

(10) information on any rights the parties may have to terminate the contract early or unilaterally by virtue of the terms of the distance contract, including any penalties imposed by the contract in such cases;

(11) the EEA State or States whose laws are taken by the home purchase provider as a basis for the establishment of relations with the retail customer prior to the conclusion of the distance contract;
(12) any contractual clause on law applicable to the distance contract and/or on competent court;

(13) in which language, or languages, the contractual terms and conditions, and the prior information referred to in this table are supplied, and furthermore in which language, or languages, the home purchase provider, with the agreement of the consumer, undertakes to communicate during the duration of this distance contract; and

(14) whether or not there is an out-of-court complaint and redress mechanism for the consumer that is party to the distance contract and, if so, the methods for having access to it;

(15) whether or not compensation may be available from the compensation scheme should the firm be unable to meet its liabilities, and information about any other applicable named compensation scheme; and, for each applicable scheme, the extent and level of cover and how further information can be obtained; and

(16) all the contractual terms and conditions of the home purchase plan to which the offer document relates.

[Note: articles 3 and 5 Distance Marketing Directive]

1.2 G A firm is not required to provide this information if it has already done so, for example in an initial disclosure document, and that information remains accurate.
Chapter 7

Disclosure at start of contract and after sale
7.1 Application

Who?

7.1.1 This chapter applies to a firm in a category listed in column (1) of the table in MCOB 7.1.2 R in accordance with column (2) of that table.

Table This table belongs to MCOB 7.1.1R

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>whole chapter except MCOB 7.8</td>
</tr>
<tr>
<td>mortgage administrator</td>
<td>MCOB 7.1 - MCOB 7.3 and MCOB 7.5 - MCOB 7.7.</td>
</tr>
<tr>
<td>mortgage adviser and mortgage arranger</td>
<td>MCOB 7.1 - MCOB 7.3 and MCOB 7.6.7 R - MCOB 7.7.4 R</td>
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<tr>
<td>home purchase provider</td>
<td>MCOB 7.1.1 R to MCOB 7.1.4 R, MCOB 7.2, MCOB 7.3 and MCOB 7.8</td>
</tr>
<tr>
<td>home purchase administrator</td>
<td>As for a home purchase provider except MCOB 7.8.1 R and MCOB 7.8.2 G do not apply</td>
</tr>
<tr>
<td>home purchase adviser and home purchase arranger</td>
<td>MCOB 7.1.1 R to MCOB 7.1.4 R, MCOB 7.2 and MCOB 7.8.7 G</td>
</tr>
<tr>
<td>reversion provider</td>
<td>see MCOB 9.6 for the application of this chapter</td>
</tr>
<tr>
<td>reversion administrator</td>
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<tr>
<td>reversion adviser</td>
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</tr>
<tr>
<td>reversion arranger</td>
<td></td>
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</tbody>
</table>

What?

7.1.3 This chapter applies if a firm:

(1) enters into a home finance transaction with a customer; or
(2) administers a home finance transaction which was entered into with a customer; or

(3) arranges or advises on or makes a further advance or other variation to the terms of a home finance transaction entered into with a customer.

7.1.4 This chapter applies in relation to further advances and other variations (as specified in ▼ MCOB 7.6.7 R - ▼ MCOB 7.7.4 R in relation to a regulated mortgage contract) regardless of whether they are variations to an existing home finance transaction or are such that they involve the customer entering into a new home finance transaction.

7.1.5 This chapter also applies in relation to regulated mortgage contracts in circumstances where the original mortgage lender has passed on ownership of the loan to a third party through securitisation. In such a case, the rules in ▼ MCOB 7.5 - ▼ MCOB 7.7.4 R will apply to the firm which administers the regulated mortgage contract.

7.1.6 In ▼ MCOB 7.6.7 R (Further advances), ▼ MCOB 7.6.18 R (Rate switches) and ▼ MCOB 7.6.22 R (Addition or removal of a party to the contract), if a customer submits an informal application as his first contact with a firm, the illustration required to be provided to a customer in accordance with those rules must be provided and the transaction must not proceed until the customer has made a formal application confirming that it should proceed.

7.1.7 [deleted]

7.1.8 In relation to a lifetime mortgage, this chapter is modified by ▼ MCOB 9 (Equity release : product disclosure).
7.2 Purpose

(1) This chapter amplifies Principle 6 and Principle 7.

(1A) This chapter requires information to be supplied to customers at the start of a regulated mortgage contract to enable them to check that the regulated mortgage contract has been set up in accordance with their requirements and to notify them of the first and subsequent payments.

(2) Where a firm provides services to a customer in relation to a further advance, rate switch, or addition or removal of a party to a regulated mortgage contract, this chapter also requires that the customer is provided with an illustration to make clear the price and features associated with that variation.

(3) This chapter also ensures that customers are supplied with information which enables them to check the payments and charges on a home finance transaction, to keep track of the transactions on, and the features of, a home finance transaction and to be kept informed of material changes.

(4) To ensure that a customer has a record of the information required by this chapter, MCOB 7.3.2 R requires the information to be provided to the customer in a durable medium.
7.3 General

7.3.1 MCOB 2.2.6 (Clear, fair and not misleading communication) applies to information provided to a customer by a firm in accordance with this chapter.

7.3.2 A firm must provide all of the information required by this chapter in a durable medium.

Information provided in more than one document

7.3.3 The information required by this chapter, MCOB 7, may be provided in more than one document, provided the use of several documents does not materially diminish the significance of any information the firm is required to give the customer, or the ease with which this can be understood.
7.4 Mortgages: disclosure at the start of the contract

Disclosure requirements

7.4.1 (Subject to MCOB 7.7.5 R) a firm that enters into a regulated mortgage contract with a customer must provide the customer with the following information before the customer makes the first payment under that regulated mortgage contract:

1. the amount of the first payment required;
2. the amount of the subsequent payment(s) if different from the first payment;
3. the method by which the payment will be collected (for example, by direct debit) and the date of collection of the first and subsequent payment;
4. confirmation of whether, in connection with the regulated mortgage contract, insurance or investments (such as a repayment vehicle, term assurance, buildings and contents insurance or payment protection insurance) have been purchased through the firm;
5. the first premium (and subsequent premium where different) for any insurance or investments purchased through the firm in connection with the regulated mortgage contract;
6. confirmation of whether the insurance or investment premiums in (5) are to be collected with the mortgage payment or separately (where the latter applies, the firm must give details or state that these will be confirmed separately);
7. confirmation of whether the regulated mortgage contract is a repayment mortgage or interest-only mortgage, or a combination of both;
8. if all or part of the regulated mortgage contract is an interest-only mortgage, a reminder to the customer to check
that a repayment vehicle is in place, if the repayment vehicle is not provided by the firm;

(9) what to do if the customer falls into arrears, explaining the benefit of making early contact with the firm, providing the address and telephone number of a contact point for the firm, and drawing the customer's attention to the arrears charges set out in the tariff of charges;

(10) confirmation of any linked borrowing and linked deposits; and

(11) whether the regulated mortgage contract permits the customer to make any overpayments or underpayments of the amounts due.

7.4.2 The information in MCOB 7.4.1 R must be provided to the customer in a single communication, except (4), (5) and (6) which may be provided separately.

7.4.3 In the case of a regulated mortgage contract under which the loan is advanced to the customer in separate tranches, the amount required under MCOB 7.4.1 R(1) will be the repayment relating to the first tranche. The amount(s) required under MCOB 7.4.1 R(2) will need to reflect the fact that when each subsequent tranche is advanced, the payment that the customer will need to make will change.

Record keeping

7.4.4 (1) A firm must make and retain an adequate record of the information that it provides to each customer at the start of the regulated mortgage contract in accordance with this section.

(2) The record required by (1) must be maintained for a year from the date that the information is provided to the customer.
7.5 Mortgages: statements

**Annual statement: requirement**

7.5.1 R Subject to MCOB 7.5.2 R, a firm must provide the customer with a statement at least once a year (or, in relation to the first statement, within the first 13 months):

(1) covering the regulated mortgage contract and any tied product purchased through the firm; and

(2) giving information about the existence of any linked borrowing or linked deposits, or any other products purchased through the firm where the payments for those products are combined with the payments on the regulated mortgage contract.

7.5.2 R Where a tied product is operated separately from the regulated mortgage contract, for example where the premiums on a tied insurance product are not combined with payments on the regulated mortgage contract, the statement required by MCOB 7.5.1 R in relation to the tied product may be provided in a separate communication.

**Annual statement: content**

7.5.3 R The statement required by MCOB 7.5.1 R must contain the following:

(1) except in the case of mortgage credit cards, information on the type of regulated mortgage contract, including:

(a) a clear statement of whether the regulated mortgage contract is an interest-only mortgage, or repayment mortgage, or a combination of both; and

(b) a prominent reminder, where all of the regulated mortgage contract is an interest-only mortgage, that:

(i) the customer’s payments to the firm do not include the costs of any repayment vehicle (if that is the case); and

(ii) the customer should have in place arrangements to pay off the capital, and should check the performance of
any investments they might have in place for this purpose;

using the following text: 'This is an interest-only mortgage. Your mortgage payments [include the costs of a savings plan/an investment that you] [do not include the costs of any savings plan or other investment you may] have arranged to build up a lump sum to repay the amount you borrowed. It is important to check regularly that your savings plan or other investment is on track to repay this mortgage at the end of the term.'

(c) a prominent reminder, where only part of the regulated mortgage contract is an interest-only mortgage, that:

(i) the customer’s payments to the firm do not include the costs of any repayment vehicle (if that is the case); and

(ii) the customer should have in place arrangements to pay off the amount of the loan that is on an interest-only basis, and should check the performance of any investments they might have in place for this purpose;

using the following text: 'This mortgage includes [insert amount] borrowed on interest-only terms. Your mortgage payments [include the costs of a savings plan/an investment that you] [do not include the costs of any savings plan or other investment you may] have arranged to build up a lump sum to repay this amount. It is important to check regularly that your savings plan or other investment is on track to repay the interest-only part of your mortgage at the end of the term.'

(2) details of the following transactions and information on the regulated mortgage contract during the period since the last statement (or, where the statement is the first statement, since the customer entered into the regulated mortgage contract):

(a) the date and amount of each payment made;

(b) the amount of each payment that was due during the statement period;

(c) the rate(s) of interest applicable to the regulated mortgage contract during the statement period and, if applicable, the date(s) on which the rate(s) of interest changed;

(d) the amount of interest charged under the regulated mortgage contract during the statement period; and

(e) any other amounts charged under the regulated mortgage contract during the statement period, including fees and any amounts due in relation to tied products;
(3) a reminder that the customer should contact the firm if they are unable to make their regular payments under the regulated mortgage contract; and

(4) information at the date the statement is issued on:
  (a) the amount owed by the customer under the regulated mortgage contract;
  (b) the actual remaining term of the regulated mortgage contract (but if the term of the regulated mortgage contract is open-ended this should be clearly stated);
  (c) the date at which any early repayment charges on the regulated mortgage contract cease to apply;
  (d) where applicable, the early repayment charge that applies, expressed as a monetary amount (see MCOB 5.6.84 R);
  (e) the cost of redeeming the regulated mortgage contract (this must be shown as the sum of MCOB 7.5.3 R(4)(a) and MCOB 7.5.3 R(4)(d) plus any linked borrowing that cannot be retained (including the outstanding balances) plus any other charges that can be quantified at the date the statement is issued); if additional charges are payable that cannot be quantified at the point that the statement is issued (for example if the customer is in arrears) a warning must be included to that effect; and
  (f) where applicable, the date on which the requirement for the customer to purchase any tied products from the firm comes an end.

7.5.4 In the limited circumstances where it would be unlikely for a repayment vehicle to be set up for an interest-only mortgage (for example, a short term bridging loan) the text in MCOB 7.5.3 R(1)(b)(ii) or MCOB 7.5.3 R(1)(c)(ii) is replaced with the following: "As all or part of your mortgage is an interest-only mortgage, it assumes that you pay back the total amount borrowed on an interest-only basis as a lump sum at the end of the mortgage term."

7.5.5 Where a firm provides a customer with a statement containing the information set out in MCOB 7.5.3 R(2) more frequently than once a year, the information set out in MCOB 7.5.3 R(1), MCOB 7.5.3 R(3) and MCOB 7.5.3 R(4) may be provided in a separate communication, but must be provided at least once a year.

7.5.6 Whether a firm is likely to provide the information set out in MCOB 7.5.3 R(2) more frequently than once a year will depend on the nature of the regulated mortgage contract. In determining how frequently to provide that information, a firm should take into account the need to keep the customer informed of any changes in the amount they owe, the customer’s expectations and, where appropriate, the duration of the
loan. For example, for a mortgage credit card the information might be provided monthly.

7.5.7 [deleted]

**Annual statement - additional content for customers in arrears**

If a firm chooses to use the annual statement to provide a customer with a regular written statement in accordance with ■ MCOB 13.5.1 R (Statements of charges), as described in ■ MCOB 13.5.2 G(4), it will need to include the actual payment shortfall in the annual statement.

7.5.9 In some circumstances, a firm may agree a temporary payment plan with a customer that does not involve the customer paying the full amount he owes in each payment period. Where an account in arrears is subject to such a payment plan, and the amount that falls due each payment period is greater than the agreed payment, the firm will still need to show the payments that were due in accordance with ■ MCOB 7.5.3 R(2)(b). However, in these circumstances, the firm may wish to add information to acknowledge that a temporary payment plan is in place.

**Annual statement: additional content if tariff of charges has changed**

7.5.10 If the tariff of charges has changed since the last annual statement was sent to the customer (or, where the annual statement is the first statement, since the customer entered into the regulated mortgage contract) and a firm has not already sent a revised tariff of charges to the customer, it must include one with the annual statement.
7.6 Mortgages: event-driven information

Notification of payment changes and other material changes to terms and conditions

A firm must give the customer reasonable notice, in advance, of:

7.6.1

(1) any changes to the payments that the customer is required to make resulting from interest rate changes; and

(2) any material change by the firm (other than changes which come within MCOB 7.6.2 R) to the terms and conditions of the regulated mortgage contract, where that change is permitted without the customer’s prior consent.

Notification where the regulated mortgage contract is sold, assigned or transferred

7.6.2

A firm must notify a customer, as soon as the details are known, of who will be responsible for setting interest rates and charges on the regulated mortgage contract if any interest in the regulated mortgage contract is to be sold, assigned, or transferred, and the firm will no longer be responsible for this.

7.6.3

For the purposes of MCOB 7.6.2 R the firm may be treated as continuing to be responsible for setting interest rates and charges if, under the terms of the sale, assignment or transfer, it is expected that the rates and charges will continue to be set by reference to, and be no higher than, those set by the firm for other contracts of the same kind.

7.6.4

MCOB 7.6.2 R and MCOB 7.6.3 R may be relevant where a regulated mortgage contract is transferred to a third party through securitisation.

Notification where additional borrowing taken up

7.6.5

Where the customer has, in accordance with the terms of the regulated mortgage contract, taken up an additional tranche of borrowing on a mortgage that is released in tranches and this did not require any further approval of the mortgage lender, a firm must provide confirmation as soon as possible of:
(1) the new amount owed by the customer under the regulated mortgage contract;

(2) the amount of each payment that is due; and

(3) the interest rate charged.

7.6.6 Examples of where MCOB 7.6.5 R will apply are the release of tranches of money to the customer in relation to a self-build mortgage or other instalment mortgage.

7.6.7 Before a customer submits an application to a firm for a further advance on an existing regulated mortgage contract or for a further advance that is a new regulated mortgage contract, if the further advance requires the approval of the mortgage lender, the firm must provide the customer with an illustration that complies with the requirements of MCOB 5 (Pre-application disclosure) and MCOB 7.6.9 R to MCOB 7.6.17 R for the further advance, unless an illustration has already been provided or the regulated mortgage contract is for a business purpose (see MCOB 7.7 (Business loans)).

7.6.8 If a number of different firms are involved in relation to the transaction referred to in MCOB 7.6.7 R, having regard to MCOB 2.5.4 R(2), those firms should take reasonable steps to establish which one of them is responsible for providing the customer with the illustration required by MCOB 7.6.7 R.

7.6.9 The illustration provided in accordance with MCOB 7.6.7 R must:

(1) be based on the amount of the further advance only;

(2) use the term 'additional borrowing' in place of the term 'mortgage' where appropriate throughout the titles and text of the illustration;

(3) include an additional section headed: 'Total borrowing' and numbered '7a' after Section 7, including the following text:

(a) "This section gives you information about how your mortgage will be affected by taking out this additional borrowing. Talk to [your mortgage lender] [insert name of mortgage lender] if you are not sure of the details of your current mortgage."; and

(b) a clear statement explaining the total amount that the customer will owe if he takes out the additional borrowing and what the customer's new payments will be.

(4) include a clear statement, where all or part of the regulated mortgage contract is an interest-only mortgage and the amount paid in each instalment does not include the cost of a repayment.
vehicle, to indicate that these payments do not include the cost of any savings plan or other investment.

7.6.10 In order to comply with MCOB 7.6.9 R(1), a firm should calculate the APR required by MCOB 5.6.34 R on the basis of the further advance amount only.

7.6.11 For the purposes of MCOB 7.6.9 R(3) and (4):

(1) a customer’s existing mortgage includes a mortgage entered into prior to 31 October 2004 as well as a regulated mortgage contract;

(2) the frequency of payments is that in MCOB 5.6.40 R; and

(3) a firm may generally rely on information provided by the customer unless, taking a common-sense view of this information, it has reason to doubt it.

7.6.12 An example of the total borrowing section referred to in MCOB 7.6.9 R(3) is in MCOB 7 Annex 1 G.

7.6.13 Where not all of the mortgage interest rates described in accordance with MCOB 5.6.25 R(2)(a) apply for the term of the loan part to which they apply, the firm must disclose the amount that will be paid in each instalment when complying with MCOB 7.6.9 R(3)(b), including the following information:

(1) when a change in payment will occur;

(2) the reason for the change in payment; and

(3) confirmation that the payment illustrated assumes rates will not change.

7.6.14 The illustration provided in accordance with MCOB 7.6.7 R may diverge from the requirements of MCOB 5 (Pre-application disclosure) where it is necessary to do so in order to reflect the fact that the illustration is being provided for a further advance.

7.6.15 MCOB 7.6.14 R allows the firm to make changes to wording and to add, remove or alter information that would otherwise be misleading for the customer. For example, the firm may add text to let the customer know if conditions applying to the original mortgage do not apply to the additional borrowing, such as 'The early repayment charges applying to your existing loan do not apply to this additional borrowing.'

7.6.16 (In the case of a business illustration), MCOB 5.6.16 R is replaced with the following: 'Section 1: 'About this illustration' Under the section heading 'About this illustration', the following text must be included: We are required by the Financial Services Authority (FSA) - the independent watchdog
that regulates financial services - to provide you with this illustration."

(2) (In all other cases), MCOB 5.6.16 R is replaced with the following:

"Section 1: 'About this illustration' Under the section heading 'About this illustration, the following text must be included: '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 illustrations like this one, that contain similar information presented in the same way.'"

7.6.17

(1) Where the further advance for which the customer has applied is in the form of an annual insurance premium secured by a first legal charge, a firm:

(a) may, instead of providing an illustration in accordance with MCOB 7.6.7 R, provide confirmation of the matters required by MCOB 7.6.5 R; and

(b) where (a) applies use the following text: "Your annual insurance premium has been/will be added to your mortgage account [unless you pay it by dd/mm/yy]. If you choose to pay it in full on or before dd/mm/yy there will be no extra cost. If you do not, interest will be charged on the amount outstanding at [insert details of the applicable interest rate e.g. 'the same rate as your mortgage' or 'the standard variable rate which is currently x%']."

(2) If the insurance premium described in (1) is not an annual premium, (1)(a) and (b) apply but a firm must amend the text in (1)(b) to reflect the length of the contract.

7.6.18

Rate switches

Before a customer submits an application to a firm to change all or part of a regulated mortgage contract from one interest rate to another (for example, a transfer from a variable rate regulated mortgage contract to a fixed rate regulated mortgage contract, or from one fixed rate regulated mortgage contract to another fixed rate regulated mortgage contract), the firm must provide the customer with an illustration for the whole loan that complies with the requirements of MCOB 5 (Pre-application disclosure), unless such an illustration has already been provided.

7.6.19

If a number of different firms are involved in relation to the transaction referred to in MCOB 7.6.18 R, having regard to MCOB 2.5.4 R(2), those firms should take reasonable steps to establish which one of them is responsible for providing the customer with the illustration required by MCOB 7.6.18 R.
The *illustration* provided in accordance with § MCOB 7.6.18 R may diverge from the requirements of § MCOB 5 where it is necessary to do so in order to reflect the fact that the *illustration* is being provided for a rate switch.

§ MCOB 7.6.20 R allows a *firm* to make changes to wording and to add, remove or alter information that would otherwise be misleading to the *customer*. For example, a *firm* could replace the statement in Section 3 of the *illustration*, explaining that if information provided by the *customer* changes, the *illustration* may be affected, with a statement explaining that the *illustration* is based on information gathered in the past, which may no longer be accurate.

### Addition or removal of a party to the contract

Before a *customer* submits an application to add or remove a party to a *regulated mortgage contract*, a *firm* must provide any *customer* who will remain or become a party to the contract with an *illustration* for the whole loan that complies with the requirements of § MCOB 5 (Pre-application disclosure).

The FSA would not view:

1. a simple notification of the death of a party to the *regulated mortgage contract* as an application for the purposes of § MCOB 7.6.22 R; or

2. a guarantor as a party to a *regulated mortgage contract*;

so § MCOB 7.6.22 R does not mean that someone becoming a surviving joint borrower on or a guarantor to the *regulated mortgage contract* should receive an *illustration*.

If a number of different *firms* are involved in relation to the transaction referred to in § MCOB 7.6.22 R, having regard to § MCOB 2.5.4 R(2), those *firms* should take reasonable steps to establish which one of them is responsible for providing the *customer* with the *illustration* required by § MCOB 7.6.22 R.

The *illustration* provided in accordance with § MCOB 7.6.22 R may diverge from the requirements of § MCOB 5 (Pre-application disclosure) where it is necessary to do so in order to reflect the fact that the *illustration* is being provided in respect of the addition or removal of a party to the contract.

§ MCOB 7.6.25 R allows the *firm* to make changes to wording and to add, remove or alter information that would otherwise be misleading to the *customer*. For example, a *firm* may choose not to include a property valuation in the 'What you have told us' section of the *illustration* if the property value does not have a bearing on the terms of the *regulated mortgage contract*.

[deleted]
Changes to the amount of each payment due

If a customer requests, or agrees to, a change to a regulated mortgage contract (other than a change as described in MCOB 7.6.7 R to MCOB 7.6.27 R) that changes the amount of each payment due, a firm must provide the customer with the following information, in a single communication, before the change takes effect:

(1) the amount outstanding on the regulated mortgage contract at the date the change is requested;

(2) the payment due and the frequency of payments; where it is known that the payment will change (for example at the end of a fixed rate period), the new payment and the date of the change must also be shown;

(3) the rate of interest applying to the regulated mortgage contract; where it is known that the rate of interest will change, the new rate and the date of the change must also be shown;

(4) the type of interest rate (for example fixed, or discounted); where it is known that the type of interest rate will change the new type and the date of the change must also be shown;

(5) where the regulated mortgage contract will change to an interest-only mortgage, a prominent reminder that the customer should have in place arrangements to repay the capital, using the following text: 'You will still owe [insert amount borrowed or, where part of the regulated mortgage contract is an interest-only mortgage, insert the amount borrowed under the interest-only mortgage] at the end of the mortgage term. You will need to make separate arrangements to repay this. When comparing the new payments on this mortgage with your previous payments, remember to add any money you may need to pay into a separate savings plan to build up a lump sum to repay the amount you have borrowed.'; and

(6) details of any charges that apply for changing the regulated mortgage contract.

Examples of where MCOB 7.6.28 R will apply are where the customer requests a change from an interest-only mortgage to a repayment mortgage, requests a change to the term of his mortgage or agrees to his arrears being capitalised.

If a number of different firms are involved in relation to the transaction referred to in MCOB 7.6.28 R, having regard to MCOB 2.5.4 R(2), those firms should take reasonable steps to establish which one of them is responsible for providing the customer with the information required by MCOB 7.6.28 R.
Use of illustrations in place of information under MCOB 7.6.28R

7.6.31 Where MCOB 7.6.28 R applies, a firm may issue an illustration in accordance with MCOB 5 (Pre-application disclosure) in place of the information set out in MCOB 7.6.28 R.

7.6.32 Where MCOB 7.6.28 R applies and the customer simultaneously requests a rate switch or the addition or removal of a party to the contract, a firm will not be required to provide the information in accordance with MCOB 7.6.28 R where it is provided as part of an illustration issued in accordance with MCOB 7.6.18 R or MCOB 7.6.22 R.

Simultaneous request for a rate switch and addition or removal of a party to a contract

7.6.33 Where a customer simultaneously requests a rate switch and the addition or removal of a party to the loan, a firm will not be required to provide the customer with a separate illustration for each in accordance with MCOB 7.6.18 R and MCOB 7.6.22 R. The firm may provide the customer with a single illustration that complies with the requirements of MCOB 5 (Pre-application disclosure) for both.
7.7 Business loans

Further advances

7.7.1 (1) Where, in relation to a regulated mortgage contract for a business purpose, a customer either:

(a) seeks an immediate increase in the borrowing provided under the regulated mortgage contract; or

(b) overdraws on the borrowing under the regulated mortgage contract;

the further advance rules in MCOB 7.6.7 R to MCOB 7.6.17 R do not apply.

(2) Where (1) applies, the firm must within five business days provide the customer with either:

(a) a business illustration for the new total borrowing; or

(b) the following information, in a single communication:

(i) the new amount outstanding on the regulated mortgage contract;

(ii) details of any changes in the repayment arrangements or interest rate charged as a result of the change;

(iii) where there is a new early repayment charge or a change to the existing early repayment charge, the maximum amount payable as an early repayment charge in respect of the regulated mortgage contract; and

(iv) details of any charges that apply for changing the regulated mortgage contract.

Firms are reminded that in accordance with MCOB 1.2.3 R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 7.7 if it also follows all other tailored provisions in MCOB.
Where a customer remains in breach, for more than one month, of an agreed borrowing limit or of an obligation to repay where the regulated mortgage contract does not have a regular repayment plan, firms are reminded that MCOB 13 (Arrears and repossessions) applies.

Where a customer applies for a further advance that is a regulated mortgage contract for a business purpose and MCOB 7.7.1 R does not apply:

(1) the business illustration must be based upon the total borrowing; and

(2) MCOB 7.6.9 R to MCOB 7.6.10 G and MCOB 7.6.12 G do not apply.

Arrangements to repay capital

Where MCOB 7.6.28 R(5) applies, a firm may omit the final sentence of the required text where it is aware, in the context of an interest-only mortgage, that the customer’s intention is not to use a savings plan as a repayment vehicle.

Disclosure

MCOB 7.4 (Disclosure at the start of the contract) does not apply in relation to a regulated mortgage contract that is for a business purpose.
General

Note: The rules in this chapter regarding how a firm must provide information required by this section apply (see MCOB 7.3).

Post-sale disclosure

7.8.1 R A firm that enters into a home purchase plan with a customer must ensure that before making the first payment the customer is provided with a prominent reminder that the customer should check that his right to occupy the property has been properly safeguarded.

7.8.2 G A firm is reminded of its obligation to ensure that its customer’s interests are protected to a reasonable standard (see MCOB 2.6A).

Annual statement

7.8.3 R A firm must provide the customer with a statement at least once a year (or, in relation to the first statement, within the first 13 months of the plan term) covering the home purchase plan and including information about:

1. payments due and made during the period since the last statement (or, where the statement is the first statement, since the customer entered into the home purchase plan), including:
   (a) whether the payment is a rental payment or a purchase payment;
   (b) the applicable rental rate(s);
   (c) where relevant, the customer’s beneficial interest in the property;
2. the remaining acquisition amount;
3. the actual remaining term;
4. the ability of the customer to terminate it early and sell the property, together with any charges that would apply.
Annual statement - additional content for customers in arrears

7.8.4 If a firm uses the annual statement to provide a customer with a written statement relating to arrears, it will need to include the actual payment shortfall in the annual statement (see MCOB 13.5.2 G (4)).

7.8.5 In some circumstances, a firm may agree a temporary payment plan with a customer that does not involve the customer paying the full amount he owes in each payment period. Where an account in arrears is subject to such a payment plan, and the amount that falls due each payment period is greater than the agreed payment, the firm will still need to show the payments that were due during the period since the last statement. However, in these circumstances, the firm may wish to add information to acknowledge that a temporary payment plan is in place.

Tariff of charges

7.8.6 A firm must include a tariff of charges with the annual statement if it has changed since the previous version provided.

Event-driven information

7.8.7 When a post-sale variation of the home purchase plan is proposed or takes place, a firm should have regard to the Principles (in particular, Principles 6 and 7) in determining the action it should take and what information to provide to the customer.
This Annex belongs to MCOB 7.6.12G

### 7a. Total Borrowing

This section gives you information about how your mortgage will be affected by taking out this additional borrowing. Talk to your mortgage lender if you are not sure of the details of your current mortgage.

When this additional borrowing is added to your existing mortgage, the total amount you owe will be £x and your monthly payments based on this amount will be

<table>
<thead>
<tr>
<th>Monthly Payment</th>
<th>£a</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial monthly payment</td>
<td>£a</td>
</tr>
<tr>
<td>After 12 months the discount period on your further borrowing will end, and assuming rates do not change, your new monthly payment will be</td>
<td>£b</td>
</tr>
<tr>
<td>After 26 months the fixed rate period on a portion of your mortgage will end, and assuming rates do not change, your new monthly payment will be</td>
<td>£c</td>
</tr>
</tbody>
</table>

Remember to add the cost of any savings plan to these monthly payments.
Chapter 8

Equity release: advising and selling standard
8.1 Application

Who?

8.1.1 R
This chapter applies to a firm in a category listed in column (1) of the table in MCOB 8.1.2 R in accordance with column (2) of that table.

8.1.2 R
Table This table belongs to MCOB 8.1.1 R

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>equity release provider</td>
<td>whole chapter except MCOB 8.5 and MCOB 8.7</td>
</tr>
<tr>
<td>equity release adviser</td>
<td>whole chapter except MCOB 8.6. MCOB 8.7 does not apply in relation to a lifetime mortgage</td>
</tr>
<tr>
<td>equity release arranger</td>
<td>whole chapter except MCOB 8.5. MCOB 8.7 does not apply in relation to a lifetime mortgage</td>
</tr>
</tbody>
</table>

What?

8.1.3 R

(1) This chapter applies to a firm in the course of carrying on an equity release activity:

(a) makes, or anticipates making, a personal recommendation about; or

(b) gives, or anticipates giving, personalised information relating to;

the customer;

(c) entering into an equity release transaction; or

(d) varying the terms of an equity release transaction entered into by the customer.

(2) In respect of arranging or advising on a home reversion plan for a customer who is acting in his capacity as an unauthorised
reversion provider, only ■ MCOB 8.1, ■ MCOB 8.2 and ■ MCOB 8.7 apply.

8.1.4 R

(1) Initial disclosure requirements apply only in relation to varying the terms of an equity release transaction entered into by the customer in any of the following ways:

(a) adding or removing a party;

(b) taking out a further advance; or

(c) switching all or part of the lifetime mortgage from one interest rate to another.

(2) Otherwise, this chapter applies in relation to any form of variation of an equity release transaction.

8.1.5 G

If a firm is an authorised professional firm, ■ MCOB 1.2.10 R (3) has the effect that when the firm conducts non-mainstream regulated activities with a customer, ■ MCOB 4.4 (Initial disclosure requirements) (as modified by ■ MCOB 8) applies. The firm is only required to provide the initial disclosure information in section 7 (What to do if you have a complaint) and section 8 (Are we covered by the Financial Services Compensation Scheme (FSCS)?) of the initial disclosure document or combined initial disclosure document.
The purpose of this chapter for equity release transactions is the same as that for regulated mortgage contracts and home purchase plans in MCOB 4.
8.3 Application of rules in MCOB 4

8.3.1 (1) (a) MCOB 4.1 to MCOB 4.6 and MCOB 4.8 (with the modifications stated in MCOB 8.3.3 R and MCOB 8.3.4 R) apply to a firm where the home finance transaction is a lifetime mortgage.

(b) MCOB 4.1 to MCOB 4.4 and MCOB 4.8 (with the modifications stated in MCOB 8.3.3 R and MCOB 8.3.4 R) apply to a firm where the home finance transaction is a home reversion plan, except for those provisions that by their nature are only relevant to regulated mortgage contracts.

(2) The table in MCOB 8.3.3 R shows how the relevant rules and guidance in MCOB 4 must be modified by replacing the cross-references in that chapter with the relevant cross-references to rules and guidance in MCOB 8.

(3) The table in MCOB 8.3.4 R replaces certain rules and guidance in MCOB 4 with rules and guidance from MCOB 8.

(4) The terms that by their nature are relevant only to regulated mortgage contracts must be replaced with the appropriate equivalent terms and expressions for home reversion plans.

8.3.1A Firms should substitute equivalent home reversion terminology for lifetime mortgage terminology, where appropriate. Examples of terms and expressions that should be replaced in relation to home reversion plans are 'loan' or 'amount borrowed', which should be replaced with 'amount released' or 'amount to be released', as appropriate, and 'mortgage lender' and 'mortgage intermediary' which should be replaced with 'reversion provider' and 'reversion intermediary'.

8.3.2 In applying initial disclosure requirements to equity release transactions, the market for equity release transactions should be treated as one single market with two separate sectors. References to the 'whole market' must
be read as references to the whole market for equity release transactions. This is unless the firm only gives personalised information or advice to customers on products in one market sector, in which case references to the 'whole market' must be read as references to the whole market for lifetime mortgages or home reversion plans as the case may be.

The effect of the rules on independence is that a firm that sells lifetime mortgages and home reversion plans from the whole market and enables the customer to pay a fee for the provision of the service, can hold itself out as being 'independent' for the equity release market (see ▪ MCOB 4.3.7 R). If the firm offers a service on this basis for only one of these market sectors, then it can only describe itself as 'independent' for that sector.

### Table 8.3.3

Table of modified cross-references to other rules: This table belongs to ▪ MCOB 8.3.1 R.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Rule or guidance</th>
<th>Reference in rule or guidance</th>
<th>To be read as a reference to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advice or information from the whole market</td>
<td>MCOB 4.3.4R(2)</td>
<td>MCOB 4.7.2R</td>
<td>MCOB 8.5.2R</td>
</tr>
<tr>
<td>Initial disclosure requirement (for equity release transactions only)</td>
<td>MCOB 4.4.1R(1)(c) and (3)</td>
<td>MCOB 4 Ann 1R</td>
<td>MCOB 8 Ann 1R</td>
</tr>
<tr>
<td>Initial disclosure requirements</td>
<td>MCOB 4.4.3G</td>
<td>MCOB 4</td>
<td>MCOB 4 as modified by MCOB 8</td>
</tr>
<tr>
<td>Initial disclosure requirements where initial contact is by telephone (for equity release transactions only)</td>
<td>MCOB 4.4.7R(2)</td>
<td>MCOB 4 Ann 1R</td>
<td>MCOB 8 Ann 1R</td>
</tr>
<tr>
<td>Additional disclosure for distance mortgage mediation contracts</td>
<td>MCOB 4.5</td>
<td>MCOB 4</td>
<td>MCOB 4 as modified by MCOB 8</td>
</tr>
<tr>
<td>Non-advised sales</td>
<td>MCOB 4.8.6G</td>
<td>MCOB 4.7</td>
<td>MCOB 8.5</td>
</tr>
</tbody>
</table>

### Table 8.3.4

Table of rules in ▪ MCOB 4 replaced by rules in ▪ MCOB 8: This table belongs to ▪ MCOB 8.3.1 R.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Rule(s)</th>
<th>Rule(s) replaced by</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advised sales</td>
<td>MCOB 4.7</td>
<td>MCOB 8.5</td>
</tr>
</tbody>
</table>
8.4 [deleted]

8.4.1 [deleted]
8.5 Advised sales

Suitability: general

8.5.1 Principle 9 requires a firm to take reasonable care to ensure the suitability of its advice. In accordance with that principle, a firm should take reasonable steps to obtain from a customer all information likely to be relevant for the purposes of MCOB 8.5.

8.5.2 A firm must take reasonable steps to ensure that it does not make a personal recommendation to a customer to enter into an equity release transaction, or to vary an existing equity release transaction, unless it is, or after the variation will be, suitable for that customer (see MCOB 4.3.4 R(2), MCOB 4.3.5 G and MCOB 4.3.6 G).

8.5.3 In this section, a reference to a recommendation to enter into an equity release transaction is to be read as including a reference to a recommendation to vary an existing equity release transaction if the context so requires.

8.5.4 (1) An equity release transaction will be suitable if, having regard to the facts disclosed by the customer and other relevant facts about the customer of which the firm is or should reasonably be aware, the firm has reasonable grounds to conclude that:

(a) the benefits to the customer outweigh any adverse effect on:

   (i) the customer’s entitlement (if any) to means-tested benefits; and

   (ii) the customer’s tax position (for example the loss of an Age Allowance);

(b) alternative methods of raising the required funds such as, in particular:

   (i) an equity release transaction from the other market sector; or

   (ii) (where relevant) a local authority (or other) grant; are less suitable;
(c) where the equity release transaction requires that payments are made to the equity release provider (for example an interest-only mortgage), the customer can afford to enter into the transaction;

(d) the equity release transaction is appropriate to the needs, objectives and circumstances of the customer; and

(e) the equity release transaction is the most suitable of those that the firm has available to it within the scope of the service provided to the customer;

(2) No recommendation must be made if there is no equity release transaction from within the scope of the service provided to the customer which is appropriate to his needs and circumstances; and

(3) If a firm is dealing with an existing customer in arrears and has concluded that there is no suitable lifetime mortgage for the purposes of MCOB 8.5.2 R, the firm must nonetheless have regard to MCOB 13.3.2 E(1)(a), (e) and (f) (see also MCOB 13.3.4 G(1)(a) and (b)).

Suitability: means-tested benefits, customer’s tax position and alternative methods of finance

8.5.5 R

In determining whether MCOB 8.5.4 R(1)(a) applies, where a firm has insufficient knowledge of means-tested benefits and tax allowances to reach a conclusion, the firm must refer a customer to an appropriate source or sources such as the Pension Service, HM Revenue and Customs or Citizens Advice Bureau (or other similar agency) to establish the required information.

8.5.6 A

(1) In determining whether MCOB 8.5.4 R(1)(b)(ii) applies a firm should:

(a) establish, on the basis of information given by the customer about his needs and objectives, whether these appear to be within the general scope of a local authority (or other) grant (for example where the customer requires funds for essential repairs to his property); and

(b) refer a customer to an appropriate source such as his local authority or Citizens Advice Bureau (or other similar agency) to identify whether such a grant is available to him.

(2) Compliance with (1) may be relied upon as tending to show compliance with MCOB 8.5.4 R(1)(b)(ii).
If for any reason a customer:

(1) declines to seek further information on means-tested benefits, tax allowances or the scope for local authority (or other) grants; or

(2) rejects the conclusion of a firm that alternative methods of raising the required funds are more suitable;

a firm can make a personal recommendation (in accordance with the remaining requirements of this chapter) where there is an equity release transaction (or more than one equity release transaction) that is appropriate to the needs and circumstances of the customer, but must confirm to the customer, in a durable medium, the basis on which the personal recommendation has been made.

In determining whether an equity release transaction from the other market sector is less suitable, and the appropriateness of the transaction to the customer’s needs, objectives and circumstances, a firm must consider:

(1) whether the customer’s requirements meet the eligibility criteria for the equity release transaction (for example, the amount that the customer wishes to borrow or to release, the loan-to-value ratio, the age of the customer, the value of the property, as appropriate);

(2) the customer’s preferences for his estate (for example, whether the customer wishes to be certain of leaving a bequest to his family or others);

(3) the customer’s health and life expectancy;

(4) the customer’s future plans and needs (for example, whether the customer is likely to need to raise further funds or is likely to move house);

(5) whether the customer has a preference or need for stability in the amount of payments (where payments are required) especially having regard to the impact on the customer of significant interest rate changes in the future; and

(6) whether the customer has a preference or need for any other features of an equity release transaction.

Where a firm sells only lifetime mortgages it is not required to assess the suitability of individual home reversion plans, and vice-versa. However, where a firm sells products from both market sectors, it should assess the suitability of all equity release transactions within its range.
Suitability: affordability

In relation to MCOB 8.5.4 R(1)(c), a firm must explain to the customer that the assessment of whether he can afford to enter into a lifetime mortgage is based on:

1. current interest rates, which might rise in the future; and
2. the customer's current circumstances, which might change in the future.

In relation to whether the equity release transaction is affordable and appropriate to the customer's needs, objectives and circumstances, where a firm makes a personal recommendation to a customer to enter into an equity release transaction where a main purpose is to consolidate existing debts, it must also take account of the following, where relevant, in assessing whether the equity release transaction is suitable for the customer:

1. the costs associated with increasing the period over which a debt is to be repaid;
2. whether it is appropriate for the customer to secure a previously unsecured loan; and
3. where the customer is known to have payment difficulties, whether it would be more appropriate for the customer to negotiate an arrangement with his creditors than to enter into an equity release transaction.

In assessing whether a customer can afford to enter into a particular equity release transaction, a firm should give due regard to the following:

(a) information that the customer provides about his income and expenditure, and any other resources that he has available;
(b) any likely change to the customer's income, expenditure or resources; and
(c) the costs that the customer will be required to meet once any discount period in relation to the lifetime mortgage comes to an end (on the assumption that interest rates remain unchanged).

Contravention of MCOB 8.5.12 E(1) may be relied upon as tending to show contravention of MCOB 8.5.4 R(1)(c).

A firm may generally rely on any information provided by the customer for the purposes of MCOB 8.5.4 R(1)(c) and (d) and MCOB 8.5.8 R(2) to MCOB 8.5.8 R(6) unless, taking a common-sense view of this information, it has reason to doubt it.
Different considerations apply when making a personal recommendation to a customer in arrears. For example, the circumstances of the customer may mean that, viewed as a new transaction, a customer could not be recommended to enter into an equity release transaction. In such cases, a firm will still be able to make a personal recommendation to that customer where this recommendation is, in the circumstances, a more suitable one than the customer’s existing equity release transaction.

In complying with MCOB 8.5.4 R a firm is not required to consider whether it would be preferable for the customer to:

1. trade down (that is release funds by selling his existing property and purchasing a less expensive property) rather than enter into an equity release transaction;
2. rent a property, rather than purchase one or enter into an equity release transaction on his existing property; or
3. delay entering into an equity release transaction until a later date on the grounds that property prices would have changed in the intervening period, or that the interest rate in relation to a lifetime mortgage would be lower, or both.

Suitability: appropriate to the customer’s needs, objectives and circumstances

(1) MCOB 8.5.4 R(1)(d) does not require a firm to provide advice on investments. Whether such advice should be given will depend upon the individual needs and circumstances of the customer. Where considered relevant, MCOB 8 does not restrict the ability of an adviser to refer the customer to another source of investment advice (for example, where the adviser is not qualified to provide advice on investments).

(2) Where the scope of the advice provided is based on a selection of equity release transactions from a single or limited number of providers, the assessment of suitability should not be limited to the equity release transactions which the firm offers. A firm cannot recommend the ‘least worst’ equity release transaction where the firm does not have access to products appropriate to the customer’s needs and circumstances. This means, for example, that a firm dealing solely in the sub-prime market should not recommend one of these equity release transactions if approached for advice by a customer with an unblemished credit record.

In assessing whether a home reversion plan is appropriate to the needs, objectives and circumstances of its customer, matters that a firm should take into account include:

1. the duration of the right to occupy the property; and
2. where an unauthorised reversion provider will provide the plan, the loss of those protections of the regulatory system that apply when a customer enters into a home reversion plan with an authorised reversion provider.
8.5.17 A

Suitability: most suitable

(1) A firm should, out of all the equity release transactions identified as being appropriate for that customer, recommend the one that is the least expensive for that customer taking into account those pricing elements identified by the customer as being most important to him.

(2) Compliance with (1) may be relied upon as tending to show compliance with MCOB 8.5.4 R(1)(e).

8.5.18 G

(1) With regard to MCOB 8.5.17 E(1) different customers are likely to identify different pricing elements as being of most importance. For example, it may be the overall cost, a fixed or capped rate of interest, the inclusion of a 'no negative equity' guarantee, or the absence of early repayment charges that a customer considers most important.

(2) A firm is not prevented from making a recommendation on grounds other than price. For example, it would be open to a firm to have regard to the speed or quality of service of different equity release providers, the policies of equity release providers on further lending or capital repayments, the underwriting stance of equity release providers or the customer's wish for an equity release transaction that is compliant with Islamic law. The obligation to have reasonable grounds to conclude that the transaction is the most suitable remains the same in such cases.

8.5.19 G

(1) If circumstances arise in which a firm has reasonable grounds to conclude that there are several equity release transactions that would be suitable, the firm may recommend only one of those equity release transactions.

(2) If for any reason a customer rejects a recommendation made by a firm (for example, on the grounds that the equity release provider selected is unknown to him), the firm can make a further suitable recommendation where there remains an equity release transaction that is appropriate to the needs and circumstances of the customer.

Rejected recommendations

8.5.20 R

(1) If a customer has:

(a) rejected all of the personal recommendations made by a firm and requested information instead on an equity release transaction that the firm does not consider suitable (and therefore could not recommend to the customer); and

(b) been issued with a new initial disclosure document or combined initial disclosure document;

the firm may be able to provide information on that equity release transaction in the light of the information on which the personal recommendations in (1) were made.

(2) If the firm needs to ask further questions regarding the needs and circumstances of the customer to be able to provide information
on that equity release transaction, the firm must obtain that information by asking scripted questions (in accordance with the rules on non-advised sales).

8.5.21 A firm may consider it prudent to record any cases where, after all personal recommendations it has made to a customer have been rejected, it changes the nature of the service it provides and provides the customer with information about an equity release transaction.

Record keeping

8.5.22 (1) A firm must make and retain a record:

(a) of the customer information, including that relating to the customer's needs and circumstances, that it has obtained for the purposes of MCOB 8.5; and

(b) that explains why the firm has concluded that any personal recommendation given in accordance with MCOB 8.5.2 R satisfies the suitability requirements in MCOB 8.5.4 R(1). This explanation must include, where this is the case, the reasons why a personal recommendation has been on a basis other than that described in MCOB 8.5.17 E(1).

(2) The record in (1) must be retained for a minimum of three years from the date on which the personal recommendation was made.
8.6 Non-advised sales

The questions used to help a customer select an equity release transaction must cover the following:

1. the matters regarding eligibility criteria, customer's preferences for his estate, customer's health and life expectancy, customer's future plans and needs, customer's preference or need for stability in the amount of payments, and whether the customer has a preference or need for any other features, set out in MCOB 8.5.8 R;

2. whether the customer has considered alternative methods of raising the required funds, and in particular;
   a. an equity release transaction from the other market sector; and
   b. where relevant, grant assistance from his local authority (or other provider); and

3. whether the customer has established whether either his entitlement to means-tested benefits or his tax position or both will be adversely affected.

A firm should encourage a customer to seek advice on an equity release transaction if the customer is unsure about making their own choice. In relation to grant assistance, means-tested benefits and the customer's tax position, a firm should, where relevant, encourage the customer to seek further information from an appropriate source such as their local authority or Citizens Advice Bureau (or other similar agency).

Firms are reminded that the Training and Competence sourcebook sets out requirements for:

1. employees designing scripted questions for use with customers in non-advised sales of equity release transactions; and

2. employees overseeing on a day-to-day basis the non-advised sales to customers of equity release transactions.
8.7 Initial disclosure information: unauthorised reversion provider

8.7.1 A firm must ensure that, on first making contact with a customer who is an individual and an unauthorised reversion provider, when it anticipates giving personalised information or advice on a home reversion plan, it must provide the customer with the following warnings in a durable medium:

(1) that a home reversion plan is a long-term investment; and

(2) that a home reversion plan is a complex legal arrangement, and that expert independent legal advice should be obtained before entering into any agreement.
Initial disclosure document

This annex belongs to ■ MCOB 4.4.1 R (as modified by ■ MCOB 8 )

This annex consists only of one or more forms. Forms are to be found through the following address:

Combined initial disclosure document [deleted]
Chapter 9

Equity release: product disclosure
9.1 Application

Who?

9.1.1 R This chapter applies to a firm in a category listed in column (1) of the table in MCOB 9.1.2 R in accordance with column (2) of that table, except that those provisions that by their nature are only relevant to regulated mortgage contracts do not apply to home reversion plans.

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>MCOB 9.1 - MCOB 9.4.132 R, MCOB 9.5 - MCOB 9.8</td>
</tr>
<tr>
<td>mortgage administrator</td>
<td>MCOB 9.1, MCOB 9.2, MCOB 9.6 and MCOB 9.8</td>
</tr>
<tr>
<td>mortgage adviser; mortgage arranger</td>
<td>MCOB 9.1 - MCOB 9.4.132 R and MCOB 9.8.5 R - MCOB 9.8.10 R</td>
</tr>
<tr>
<td>reversion provider</td>
<td>MCOB 9.1 - MCOB 9.4.17A R, MCOB 9.4.133 R - MCOB 9.6; MCOB 9.9</td>
</tr>
<tr>
<td>reversion administrator</td>
<td>MCOB 9.1, MCOB 9.6 and MCOB 9.9</td>
</tr>
<tr>
<td>reversion adviser; reversion arranger</td>
<td>MCOB 9.1 - MCOB 9.4.17A R, MCOB 9.4.133 R - MCOB 9.4.176 G; MCOB 9.9.8 R</td>
</tr>
</tbody>
</table>

9.1.2A G The rules and guidance that are not relevant to home reversion plans are those related, for example, to interest rates, APR, higher lending charge, mortgage credit cards, multi-part mortgages and foreign currency mortgages.

What?

9.1.3 R This chapter applies in the circumstances set out in other rules in this sourcebook, but in relation to an equity release transaction, in accordance with the table in MCOB 9.1.4 R.
9.1.4 | Applies in relation to an equity release transaction as set out in the following rules:

<table>
<thead>
<tr>
<th>Section of MCOB 9</th>
<th>Applies in relation to an equity release transaction as set out in the following rules:</th>
</tr>
</thead>
<tbody>
<tr>
<td>MCOB 9.1, MCOB 9.2</td>
<td>all of the rules below in this column</td>
</tr>
<tr>
<td>MCOB 9.3, MCOB 9.4</td>
<td>MCOB 5.1.3 R</td>
</tr>
<tr>
<td>MCOB 9.5</td>
<td>MCOB 6.1.3 R</td>
</tr>
<tr>
<td>MCOB 9.6</td>
<td>MCOB 7.1.3 R</td>
</tr>
</tbody>
</table>

9.1.5 | In this chapter, references to an equity release transaction include, where the context requires, references to arrangements which are capable of becoming an equity release transaction.

9.1.6 | This chapter does not apply in relation to arranging, advising on or administering a home reversion plan for a customer acting in his capacity as an unauthorised reversion provider.
The purpose of the requirements in this chapter is the same as that in MCOB 5.2, MCOB 6.2 and MCOB 7.2 in respect of equity release transactions.
9.3 Pre-application disclosure

9.3.1

(1) MCOB 5.1 to MCOB 5.5 (with the modifications stated in MCOB 9.3.2 R to MCOB 9.3.12 R) apply to a firm where the home finance transaction is an equity release transaction, except that those provisions that by their nature are only relevant to regulated mortgage contracts do not apply to home reversion plans (see MCOB 9.1.2A G).

(2) The table in MCOB 9.3.2 R shows how the relevant rules and guidance in MCOB 5 must be modified by replacing the cross-references with the relevant cross-references to rules and guidance in MCOB 9.3 and MCOB 9.4.

(3) The table in MCOB 9.3.3 R replaces certain rules and guidance in MCOB 5 with rules and guidance from MCOB 9.3 and MCOB 9.4.

(4) The table in MCOB 9.3.4 R disapplies certain rules in MCOB 5 for the purposes of MCOB 9.

(5) The terms that by their nature are relevant only to regulated mortgage contracts must be replaced with the appropriate equivalent terms and expressions for home reversion plans.

9.3.1A

The provisions in this sourcebook that apply to home reversion plans should be read in a purposive way. This means that firms should substitute equivalent home reversion terminology for lifetime mortgage terminology, where appropriate. Examples of terms and expressions that must be replaced are ‘loan’ or ‘amount borrowed’, which should be replaced with ‘amount released’ or ‘amount to be released’, as appropriate, and ‘mortgage lender’ and ‘mortgage intermediary’ which should be replaced with ‘reversion provider’ and ‘reversion intermediary’.

9.3.2

Table Table of modified cross-references to other rules.

This table belongs to MCOB 9.3.1 R.
## MCOB 9 : Equity release: product disclosure

### Section 9.3 : Pre-application disclosure

<table>
<thead>
<tr>
<th>Subject</th>
<th>Rule or guidance</th>
<th>Reference in rule or guidance</th>
<th>To be read as a reference to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Variations</td>
<td>MCOB 5.1.3R(2)</td>
<td>MCOB 7</td>
<td>MCOB 7 as modified by MCOB 9</td>
</tr>
<tr>
<td>Part of loan not an equity release transaction</td>
<td>MCOB 5.1.9G</td>
<td>MCOB 5.6.6R(2)</td>
<td>MCOB 9.4.6R(2)</td>
</tr>
<tr>
<td>Waiver of provisions</td>
<td>MCOB 5.1.10G</td>
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</tr>
<tr>
<td>Purpose</td>
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<td>MCOB 5</td>
<td>MCOB 5 as modified by MCOB 9</td>
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<tr>
<td>Applying for a lifetime mortgage</td>
<td>MCOB 5.3.2G</td>
<td>MCOB 5.6.26R and MCOB 5.6.27R</td>
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</tr>
<tr>
<td>Tied products</td>
<td>MCOB 5.4.24G</td>
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</tr>
<tr>
<td>Issue of offer document in place of illustration</td>
<td>MCOB 5.5.3G</td>
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<tr>
<td>Customer's credit record</td>
<td>MCOB 5.5.16R</td>
<td>MCOB 5.5.15R(4)</td>
<td>MCOB 9.3.12R(3)</td>
</tr>
</tbody>
</table>

#### Table 9.3.3

Table of rules in MCOB 5 replaced by rules in MCOB 9: This table belongs to MCOB 9.3.1R.

<table>
<thead>
<tr>
<th>Subject</th>
<th>Rule(s) or guidance</th>
<th>Rule(s) or guidance replaced by:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accuracy of the illustration</td>
<td>MCOB 5.4.2R - MCOB 5.4.7G</td>
<td>MCOB 9.3.5R - MCOB 9.3.10G</td>
</tr>
<tr>
<td>Information that is not an illustration</td>
<td>MCOB 5.4.14R</td>
<td>MCOB 9.3.11R</td>
</tr>
<tr>
<td>Providing an illustration</td>
<td>MCOB 5.5.15R - MCOB 9.3.12R</td>
<td>MCOB 9.4</td>
</tr>
<tr>
<td>Content of illustration</td>
<td>MCOB 5.6</td>
<td>MCOB 9.4</td>
</tr>
</tbody>
</table>

#### Table 9.3.4

Table of rules in MCOB 5 which do not apply to MCOB 9: This table belongs to MCOB 9.3.1R.
9.3.5  
An illustration on a particular equity release transaction issued by, or on behalf of an equity release provider, must be an accurate reflection of the costs of the equity release transaction.

9.3.6  
A mortgage intermediary must take reasonable steps to ensure that an illustration which it issues, or which is issued on its behalf, other than that provided by a mortgage lender:

(1) is accurate within the following tolerances:

(a) no more than one percent or £1, whichever is the greater, below the actual figures charged by the mortgage lender for the following:

(i) the total amount payable in Section 15 of the illustration;
(ii) the amounts that the customer must pay by regular instalment (where payments are required), or the amounts of interest charged, in Section 8 of the illustration; and
(iii) the amount by which the regular instalment, or the estimated amount owed, would increase following a one percentage point increase in interest rates in Section 9 of the illustration.

(b) the APR in Section 15 of the illustration cannot be understated by more than 0.1%; and

(2) except in the case of conveyancing fees and insurance premiums (where estimates may be used), is accurate in respect of other figures quoted in the illustration including fees payable to the mortgage lender or mortgage intermediary in Section 11 and cash examples of early repayment charges, calculated in accordance with the rules at MCOB 9.4.83 R to MCOB 9.4.88 R, in Section 13.

9.3.6A  
A reversion intermediary must take reasonable steps to ensure that an illustration which it issues, or which is issued on its behalf, other than that provided by a reversion provider, is accurate, except in the case of conveyancing fees and insurance premiums (where estimates may be used).

9.3.7  
Given that the APR is presented as a percentage, and must be rounded to one decimal place in accordance with MCOB 10 (Annual Percentage Rate), firms should note that the tolerance allowed for the APR in MCOB 9.3.6 R(1)(b) means that, for example, where the actual APR is 5.0%, the quoted APR must be no lower than 4.9%, or where the actual APR is 16.0%, the quoted APR must be no lower than 15.9%.
There are no restrictions on figures which are quoted as higher than those actually charged by the equity release provider although this should not be purposely done in order to make one equity release transaction look more expensive than another.

It is the responsibility of an equity release intermediary to ensure an illustration is accurate. However, where a firm can show that it was reasonable for it to rely on information provided to it by another person, other than the equity release provider, he may be able to rely on that person (see MCOB 2.5.2 R).

An offer document may not always exactly match the illustration provided before application even when the equity release requirements have not changed. For example, where a fixed rate has a defined end date, the total amount payable may be different because the number of payments at the fixed rate has reduced, or the estimated amount of interest to be charged has changed, assuming a later date at which the lifetime mortgage will start.

Where a firm provides a customer with information specific to an equity release transaction on a screen:

1. if the customer initiates the accessing of quotation information on screen (for example, by using the internet or interactive television), the following warning must be displayed equally prominently on each page on screen: This information does not contain all of the details you need to choose an equity release product. Make sure that you read the separate key facts illustration before you make a decision.

2. a firm must not provide a customised print function where the information on the screen would not be in the form of an illustration if the information were printed in hard copy.

In meeting a request for written information specific to the customer’s requirements on a particular equity release transaction (see MCOB 5.5.1 R (2)(c)), the firm must not delay the provision of the illustration by requesting information other than:

1. the information necessary to personalise the illustration, if the firm does not already know it;

2. where the firm is uncertain whether the transaction will be an equity release transaction, such information as is necessary to ascertain this;

3. where the interest rates, payments (if required) or any other terms and conditions to be included in the illustration are dependent on the customer’s credit record, such information as is necessary to produce an illustration;
(4) where the firm includes a quotation for any tied products or compulsory insurance in the illustration, such information as is necessary to produce those quotations; and

(5) where the customer agrees to receive a quotation for insurance in the illustration (other than that provided for in (4)), such information as is necessary to produce those quotations.
9.4 Content of illustrations

Purpose
This section sets out the required content of an illustration for an equity release transaction provided to a customer by a firm. The template of an illustration for a lifetime mortgage is set out in MCOB 9 Annex 1 R and for a home reversion plan, in MCOB 9 Annex 2 R.

Content, order, format etc
An illustration provided to a customer must:

1. contain the material set out in the relevant annex to this chapter in the order and using the numbered section headings, sub-headings and text prescribed, except where this section provides otherwise;

2. follow the format of the template in the relevant annex to this chapter, with:
   (a) prominent use of the keyfacts logo followed by the text 'about this lifetime mortgage' or 'about this home reversion plan';
   (b) each section clearly separated;
   (c) all the amounts set out in Sections 6, 8, 11, 12 and 15 in columns that make the amounts clear; and
   (d) no section split across different pages except where it is impractical not to do so;

3. use font sizes and typefaces consistently throughout the illustration which are sufficiently legible so that the illustration can be read easily by a typical customer;

4. ensure that the information within each section is clearly laid out (for example, through the use of bullet points or similar devices to separate information);
(5) include prominent headings with the numbered section headings clearly differentiated in some way from the other text in the illustration (for example, through the use of larger and more prominent fonts, the use of shading or colour);

(6) replace "[name of mortgage lender]" or "[name of reversion provider]" with the name of the equity release provider; a trading name used by the equity release provider may be stated;

(7) describe any early repayment charge as an "early repayment charge" and not use any other expression to describe such charges;

(8) describe any higher lending charge as a "higher lending charge" and not use any other expression to describe such charges; and

(9) describe any lifetime mortgage 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.

9.4.3

(1) Further requirements regarding the use of the keyfacts logo and the location of specimens are set out in GEN 5.1 and GEN 5 Annex 1 G.

(2) MCOB 9.4.2 R(3) does not prevent the use of different fonts and typefaces for headings and risk warnings. Its purpose is to prevent particular sections of the illustration from being made less prominent than other sections through the inconsistent use of font sizes and typefaces.

(3) The illustration can contain the equity release provider’s or equity release intermediary’s logo and other “brand” information.

(4) The illustration can contain page numbers and other references that aid understanding, record keeping and identification of a particular illustration such as the date and time an illustration is produced or a unique reference number, provided these do not detract from the content of the illustration.

(5) Firms are reminded of their general obligation for communications to customers to be clear, fair and not misleading. Sections of the illustration may be split across pages where it is practical to do so. When splitting sections, firms should split the section at an appropriate place, for example at the end of a sub-section, and not split risk warnings or tables (unless the length of the table is greater than one page).

9.4.4

A firm must include in the illustration all prescribed section headings, except that:

(1) in Section 8 of the lifetime mortgage illustration (What you owe and when):

(a) Section 8 (A) (details of mortgage payments) is only required where the customer is required to make payments to the
mortgage lender in respect of the capital or all or part of the interest charged on the lifetime mortgage;

(b) Section 8(B) (projection of roll-up of interest) is only required where all or part of the interest on the lifetime mortgage is rolled-up;

(2) Section 16 of the lifetime mortgage illustration (Using a mortgage intermediary) or section 12 of the home reversion plan illustration (Using a home reversion intermediary) is required only where the illustration is provided to the customer by, or on behalf of, an equity release intermediary; and

(3) where the illustration is issued in connection with a further advance, an additional section "Total borrowing" must be inserted after Section 8 of a lifetime mortgage illustration, and must be numbered "9", with all subsequent sections renumbered accordingly.

Content: required information

The illustration provided to a customer must:

(1) contain only the material specified in MCOB 9.4 and no other material except where provided for elsewhere in MCOB 9.4; and

(2) be in a document separate from any other material that is provided to the customer.

As a minimum the illustration must be personalised to reflect the following:

(1) the specific equity release transaction in which the customer is interested;

(2) the amount of the loan or equity required by the customer, or for drawdown mortgages and instalment reversion plans, the amount the customer wishes to draw down or to receive on a monthly (or such frequency that amounts are available) basis. Where the amount the customer can draw down is variable, the firm must agree with the customer an expected amount to be drawn down per year (see MCOB 9.4.13 R);

(3) the price or value of the property on which the equity release amount is based (estimated where necessary);

(4) such information relating to the customer, or the property, or both as is necessary to determine that the customer would qualify for the equity release transaction in question; and
(5) the term of the instalment reversion plan or, in the case of a lifetime mortgage and an open-ended instalment reversion plan, the estimated term.

9.4.7 A firm should not illustrate more than one equity release transaction in the same illustration, for example by using one illustration to compare alternative products.

9.4.8 These are minimum requirements. The illustration may be personalised to a greater degree if the equity release provider or equity release intermediary wishes, subject to the restrictions on the information that can be obtained from the customer when he requests written information on a particular transaction (see MCOB 5.5.1 R (2)(c)).

9.4.9 In relation to the price or value of the property, in order for the firm to comply with the principle that an illustration should be clear, fair and not misleading, an estimated valuation, where the estimated valuation is not that provided by the customer, must be a reasonable assessment based on all the facts available at the time. For example, an overstated valuation could enable a more attractive lifetime mortgage to be illustrated on the basis of a lower ratio of the loan amount to the property value - for example, one with a lower rate of interest.

9.4.10 (1) In estimating the term of a lifetime mortgage or an open-ended instalment reversion plan, a firm must:

(a) use the following mortality table: PMA92(C=2010) and PFA92(C=2010) for males and females respectively, derivable from the Continuous Mortality Investigation Report 17, published by the Institute of Actuaries and the Faculty of Actuaries in 1999; and

(b) for the purposes of the illustration, where the table does not result in a life expectancy expressed in whole years, the term should be rounded up to the next whole year (for example, if the result is between fifteen and sixteen years, an estimated term of sixteen years should be used in the illustration).

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

9.4.12 If the customer requests an illustration showing a term of the customer’s choice, that illustration must be issued in addition to the illustration showing the term calculated in accordance with these rules. The term chosen should be stated in Section 4 of the illustration "What you have told us".
The amount to be specified in the *illustration* and referred to in **MCOB 9.4.6 R** (2) is:

1. the amount that the *customer* has asked to borrow, release or draw down; or

2. where the *lifetime mortgage* is a revolving credit agreement such as a secured overdraft or *mortgage credit card*:
   (a) (if it provides for an initial drawdown and *linked borrowing* facilities that would allow the *customer* to increase the amount of the loan without any further approval from the *mortgage lender*) the amount of the initial drawdown; or
   (b) (in all other cases) the total borrowing that the *firm* is willing to provide under the *lifetime mortgage*; or

3. in cases where, on the basis of the information obtained from the *customer* before providing the *illustration*, it is clear that the *customer* would not be eligible to borrow, release or draw down the amount he requested, an estimate of the amount that the *customer* could borrow, release or draw down, based on the information obtained from the *customer*.

**MCOB 9.4.13 R** (3) does not require information to be obtained from the *customer* before providing an *illustration* in order to ascertain the amount the *customer* is eligible to borrow or to release from the property. Instead, its purpose is to avoid a *firm* being in a position where it would otherwise have to provide a *customer* with an *illustration* for an amount it knew the *customer* would not be eligible for, based on whatever information it had obtained from the *customer* before providing the *illustration*.

Where the *illustration* relates to a *lifetime mortgage* that is sub-divided into different parts with different types of interest rate or different rates of interest or different conditions, or a combination of these, the requirements in **MCOB 9.4** may be adapted to accommodate this. The adaptations made must be limited to those that are necessary.

**MCOB 9.4.15 R** applies where, for example, the *lifetime mortgage* is divided so that a certain amount is payable on a fixed interest rate, and a certain amount on a discounted interest rate.

### Information to be included at the head of the *illustration*

The following information must be included at the head of the *illustration*:

1. the *customer’s* name;

2. the date of issue of the *illustration*;
9.4.17A

(1) The requirements for a *lifetime mortgage illustration* are set out in ■ MCOB 9.4.18 R to ■ MCOB 9.4.132 R.

(2) The requirements for a *home reversion plan illustration* are set out in ■ MCOB 9.4.133 R to ■ MCOB 9.4.176 G.

Section 1 of a lifetime mortgage illustration: "About this information"

Under the section heading "About this information", the prescribed text in ■ MCOB 9 Annex 1 R under this heading must be included.

Section 2 of a lifetime mortgage illustration: "Which service are we providing you with?"

(1) Unless (2) applies, under the section heading "Which service are we providing you with?" the prescribed text in ■ MCOB 9 Annex 1 R under this heading must be included with a "check box" for each statement, one of which must be marked prominently to indicate the level of service provided to the *customer*:

(2) If the level of service described in the *illustration* is provided by another *firm*, (1) may be replaced by the following: Under the section heading "Which service are we providing you with?" the following text should be presented as two options with a "check box" for each option, one of which must be marked prominently to indicate the level of service provided to the *customer": [name of firm] recommends, having assessed your needs, that you take out this lifetime mortgage. [name of firm] is not recommending a particular lifetime mortgage for you. However, based on your answers to some questions, it is 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."

Section 3 of a lifetime mortgage illustration: "What is a lifetime mortgage?"

Under the section heading "What is a lifetime mortgage?", the prescribed text in ■ MCOB 9 Annex 1 R under this heading must be included.

Section 4 of a lifetime mortgage illustration: "What you have told us"

(1) Under the section heading "What you have told us", the *illustration* must state the information that has been obtained from the *customer* under ■ MCOB 9.4.6 R and ■ MCOB 9.3.12 R (apart
from MCOB 9.4.6 R(1) and MCOB 9.4.6 R(5) which are provided for in Section 5 of the illustration, and can include brief details of any other information that has been obtained from the customer and used to produce the illustration.

(2) Where the customer requests an additional illustration showing a term of their choice, the term chosen by the customer must be stated in this section, together with a statement to the effect that the term is the customer's choice.

(3) If the amount on which the illustration is based includes the amount that the customer wants to borrow or draw down plus charges and other payments that have been added to the loan or amount to be drawn down:

(a) except where (b) applies, this section must include the following text after the loan amount or amount to be drawn down from MCOB 9.4.13 R(1): "plus £ [insert total amount of fees and other charges added to the loan] for fees that have been added to the loan [or amount drawn down] - see Section 11 for details."; or

(b) where there are other fees or charges that the customer must pay that have not been added to the loan this section must include the following text after the loan amount or amount to be drawn down from MCOB 9.4.13 R(1): "plus £ [insert total amount of fees and other charges added to the loan] for fees that have been added to the loan [or amount drawn down]. These and the additional fees that you need to pay are shown in Section 11.".

(4) If the amount on which the illustration is based includes the amount that the customer wants to borrow plus insurance premiums or insurance-related charges (other than a higher lending charge) that have been added to the loan or amount to be drawn down:

(a) except where (b) applies, this section must include the following text after the loan amount or amount to be drawn down from MCOB 9.4.13 R(1) (which may be combined with the prescribed text in (3) if applicable): "plus £ [insert amount of premium or charges, or both, to be added to the loan] for insurance [premiums] [and] [charges] that have been added to the loan [or amount drawn down] " see Section 12 for details."; or

(b) where there are other insurance premiums or insurance-related charges, or both, that the customer must pay that have not been added to the loan this section must include the following text after the loan amount or amount to be drawn down from MCOB 9.4.13 R(1) (which may be
combined with the prescribed text in (3) if applicable): "plus £ [insert amount of premium or charges, or both, to be added to the loan] for insurance [premiums] [and] [charges] that have been added to the loan [or amount drawn down]. These and any additional insurance [premiums] [and] [charges] that you need to pay are shown in Section 12."

(5) If the amount on which the illustration is based does not involve any charges or payments being added to the amount to be borrowed or amount to be drawn down, but there are charges that must be paid by the customer, Section 4 of the illustration must include the following text after the loan amount from MCOB 9.4.13 R(1): "No fees have been added to this amount but the fees you need to pay are shown in Section 11. For details of any insurance charges, see Section 12."

(6) If the lifetime mortgage on which the illustration is based has no charges that must be paid by the customer, and no insurance premiums are being added to the loan, Section 4 of the illustration must include the following text after the loan amount from MCOB 9.4.13 R(1): "We do not charge any fees for this lifetime mortgage."

At the end of Section 4 of the illustration a statement must be included making clear that changes to any of the information obtained from the customer, and where appropriate to the valuation of the property, could alter the details elsewhere in the illustration and encouraging the customer to ask for a revised illustration in this event.

An example of the type of statement that would satisfy MCOB 9.4.22 R is:"The valuation that will be carried out on the property, and changes to any of the information you have given us, could alter the information in this illustration. If this is the case please ask for a revised illustration."

Section 5 of a lifetime mortgage illustration: "Description of this mortgage"

Under the section heading "Description of this mortgage" the illustration must:

(1) state the name of the mortgage lender providing the lifetime mortgage to which the illustration relates (a trading name used by the mortgage lender may also be stated in accordance with MCOB 9.4.2 R(6)), and the name, if any, used to market the lifetime mortgage;

(2) include a statement describing the lifetime mortgage;
(3) if the *lifetime mortgage* is linked to an *investment*, and payments required on the *lifetime mortgage* will be deducted from the income from the *investment*, include a statement that this is the case;

(4) (a) provide a description of the interest rate type and rate of interest that applies in accordance with the format described in □ MCOB 9.4.26 R and □ MCOB 9.4.27 R;

(b) where there is more than one interest rate type or rate of interest, specify the amount of the loan to which each interest rate type and rate of interest applies;

(c) unless the interest rate applies for the full life of the loan, confirm what interest rate will apply, when it will apply and for how long it will apply after any initial interest rate ends, in accordance with the format described in □ MCOB 9.4.26 R and □ MCOB 9.4.27 R; and

(d) provide a clear explanation of the charging approach where different interest rates are applied to different items of debt (for example, for a mortgage credit card where a different interest rate applies to balances that are transferred from that charged on any additional borrowing);

(5) include a statement regarding the term of the *lifetime mortgage* using the following text: "We have based this illustration on an estimated term of [insert number of years] years, but remember that the term of this lifetime mortgage is not fixed and could be longer or shorter than [insert number of years] years. If you are still living in your home at the end of [insert number of years] years, the lifetime mortgage will continue to run.";

(6) include a statement of the maximum amount the *customer* may borrow from the *mortgage lender* and the circumstances (if any) in which the *customer* may be able to borrow additional funds at a future date;

(7) if the *customer* is obliged to buy any *tied products* under the *lifetime mortgage* include the following information:

(a) details of the *tied products* required;

(b) the following text: "You are obliged to take out [insert details of the *tied product(s)*] through [insert name of *mortgage lender* or if relevant, name of *mortgage intermediary*] as a condition of this lifetime mortgage. Please refer to Section 12 of this illustration for further details.";
(8) state very briefly any restrictions that apply to the availability of the *lifetime mortgage* (for example, if it is only available to certain types of *customer*);

(9) where the interest rate, payments (if required) or terms and conditions of the *lifetime mortgage* in the *illustration* reflect a *customer*’s adverse credit history, include the following text: "The terms of this lifetime mortgage reflect past or present financial difficulties."; and

(10) where the intention of the *lifetime mortgage* is solely to provide the *customer* with a *mortgage credit card* (rather than the *mortgage credit card* being an additional feature of a *lifetime mortgage*) include the warning about the loss of statutory rights from *MCOB 9.4.102 R(2)(a) or (b)* in Section 5 of the *illustration* rather than Section 14.

Examples of types of statement that would satisfy *MCOB 9.4.24 R(2)* are as follows (more than one may apply to particular types of *lifetime mortgage*):

1. For a *roll-up of interest mortgage*: "You do not have to make any repayments during the life of this lifetime mortgage. The loan, all of the interest and charges due to [name of mortgage lender] will be repaid from the sale of your home. This will happen on your death [or the death of the last borrower] or if you move home (either into another property or into sheltered accommodation or residential care). Any money left over would be paid to you or your beneficiaries." [If only a part of the interest is rolled up the statement should specify the amount or proportion of the loan on which the interest will be rolled-up].

2. For a *drawdown mortgage*: "This lifetime mortgage provides you with a cash sum every month [or such other frequency as is applicable, including "on request"] until it is repaid. [Include if applicable: You will also receive a lump sum payment at the start of the lifetime mortgage].".

3. For an *interest-only mortgage*: "This is an interest only lifetime mortgage, which means that you have to make [insert frequency of payments] payments to [name of mortgage lender] until the lifetime mortgage is repaid. The amount you owe will stay the same over the life of the mortgage unless fees or charges have to be added. The mortgage will be repaid from the sale of your home on your death [or the death of the last borrower] or if you move home (either into another property or into sheltered accommodation or residential care). Any money left over would be paid to you or your beneficiaries.".

*MCOB 9.4.27 R* sets out some examples of descriptions of interest rate types and rates of interest that must be used in the *illustration* to comply with *MCOB 9.4.24 R(4)*. If an interest rate is not described in *MCOB 9.4.27 R*, it must be presented in the *illustration* in a way that is consistent with the descriptions in *MCOB 9.4.27 R*.

Table Description of interest rate types and rates of interest. This table belongs to *MCOB 9.4.26R*:
<table>
<thead>
<tr>
<th>Description of the interest rate</th>
<th>Amount payable in each instalment (if applicable)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lender's base mortgage rate - must be described as the [Lender]'s standard variable rate, currently X%, [where applicable insert the date at which the interest rate ends or period for which the interest rate applies].</td>
<td>Amount based on X%.</td>
</tr>
<tr>
<td>Fixed rate - must be described as fixed rate of X% [where applicable insert the date at which the interest rate ends or the period for which the interest rate applies].</td>
<td>Amount based on the fixed rate of X%.</td>
</tr>
<tr>
<td>Discounted rate - must be described as a variable rate, currently X%, with a discount of Y% [where applicable insert the date at which the discount ends or the period for which the discount applies], giving a current rate payable of Z%.</td>
<td>Amount based on Z%.</td>
</tr>
<tr>
<td>Capped rate - must be described as a variable rate, currently X%, which will not go above a ceiling of Y% [where applicable insert the date at which the capped interest rate ends or the period for which the capped interest rate applies].</td>
<td>Amount based on the current interest rate payable (X%).</td>
</tr>
<tr>
<td>Capped and collared - must be described as a variable rate, currently X%, which will not go below a floor of Y% or above a ceiling of Z% [where applicable insert the date at which the capped and collared interest rate ends or the period for which the capped and collared interest rate applies].</td>
<td>Amount based on the current interest rate payable (X%).</td>
</tr>
<tr>
<td>Tracker rate - must be described as a variable rate which is [X% above/X% below/the same as] [insert interest rate tracked, currently Z%], [where applicable insert the date at which the interest rate ends or the period for which the interest rate applies], to give a current rate payable of Y%. Details should also be provided of how soon after an interest rate change the mortgage interest rate is adjusted.</td>
<td>Amount based on Y%.</td>
</tr>
<tr>
<td>Deferred rate - must be described as a variable rate, currently X%, where Y% is not paid now but is added to your mortgage [where applicable insert the date at which the deferred interest rate ends or the period for which the deferred</td>
<td>Amount based on Z%.</td>
</tr>
<tr>
<td>Description of the interest rate</td>
<td>Amount payable in each instalment (if applicable)</td>
</tr>
<tr>
<td>----------------------------------</td>
<td>--------------------------------------------------</td>
</tr>
<tr>
<td>interest rate applies, to give a current rate payable of Z%.</td>
<td></td>
</tr>
<tr>
<td>Stepped rate where different interest rates apply over different time periods (for example, fixed interest rate in year 1 changes in year 2). Each element should be dealt with individually as above.</td>
<td>Amount for each of the 'steps'.</td>
</tr>
<tr>
<td>Combinations of the above must be treated in the same way as the descriptions above, (for example, if a discounted interest rate has a 'floor' then it must be described as such).</td>
<td>Follow the above treatment depending on the combination.</td>
</tr>
</tbody>
</table>

Where the loan under the *lifetime mortgage* is divided into more than one part (for example where part of the loan is a fixed interest rate and part of the loan is a discounted variable interest rate) and the firm displays this in a tabular format in the *illustration*:

1. the following text must be used to introduce the table "As this lifetime mortgage is made up of more than one part, these parts are summarised below;"

2. each part must be numbered for ease of reference in the *illustration*;

3. the "initial rate payable" must be displayed separately from the interest rate description;

4. the loan amounts must be totalled; and

5. immediately following the table, a statement of what interest rates will apply to each part, (and when they will apply) after any initial interest rate ends in accordance with MCOB 9.4.24 R(4)(c).

Further information about the *lifetime mortgage* may be included in Section 5 of the *illustration* as long as it does not significantly:

1. duplicate information contained elsewhere in the *illustration*; and

2. extend the length of this section.

An example of further information that may be included in accordance with MCOB 9.4.27 R might be that an "approval in principle" has been granted subject to valuation and satisfactory credit reference.
Section 6 of a lifetime mortgage illustration: "Benefits"

Under the section heading "Benefits", the illustration must include:

1. a description of the monetary amount(s), and in a box aligned to the right of the document, the monetary amount(s) that the customer will receive as a lump sum and/or as a monthly [or such other frequency as is applicable] payment;

2. where the lifetime mortgage is linked to an investment and the payments required on the lifetime mortgage will be deducted from the income from the investment, the monetary amount of the net income the customer will receive. This must be shown in a box immediately underneath that required in (1) and containing the subheading "Your net income"; and

3. if applicable, statements of any other benefits, incentives and guarantees that apply to the lifetime mortgage. This must be shown under the subheading "Other benefits and incentives'.

Examples of text that would satisfy MCOB 9.4.31 R(1), depending on the nature of the lifetime mortgage, are:

1. "This lifetime mortgage will provide a lump sum of £[x].";

2. "The amount you are borrowing will automatically be used to purchase a [name of linked investment product] from [name of provider]. The amount is £[x]."; and

3. "You will receive a monthly [or such other frequency as is applicable] payment from the start of your lifetime mortgage. This will be £ [state amount].".

Section 7 of a lifetime mortgage illustration: "Risks - important things you must consider"

The illustration must include under the heading "Risks - important things you must consider" statements and warnings on the following:

1. a brief statement of the specific circumstances in which the mortgage lender is able to repossess the property;

2. a statement of how the mortgage lender will treat any negative equity arising during the life of the lifetime mortgage and at the time the amount borrowed under the lifetime mortgage is due to be repaid in full;

3. a statement of the effect of the customer wanting or needing to move home (either into another property or into sheltered accommodation or long term care or residential care), covering the circumstances in which the lifetime mortgage is portable,
and whether *early repayment charges* are payable (the *illustration* is not required to include under this heading the exact amount of any *early repayment charges*);

(4) a statement of the effect on the *lifetime mortgage* of another party moving into the property (for example on marriage or the formation of a civil partnership or where a family member acts as a carer);

(5) a brief statement of the *mortgage lender's* requirements for repair and maintenance of the property, including the *mortgage lender's* right (if any) to enter the property to effect essential repairs, and the circumstances in which this may occur;

(6) a warning that taking out this *lifetime mortgage* may affect the *customer's* tax and welfare benefits position, that tax and welfare benefits can change and that the *customer* should consider seeking further information from HM Revenue and Customs, Benefits Agency or another source of advice such as a Citizens' Advice Bureau;

(7) a brief statement as to whether the *customer* can secure borrowing from any other source on the property in the future (and if applicable a warning that an increasing debt may mean that it may not be possible to borrow more in the future); and

(8) a statement included prominently at the end of Section 7: "Risks " important things you must consider" using the following specified text: "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".

For guidance on prominence see ■ MCOB 2.2.9 G.

Under the heading "Risks - important things you must consider" the *illustration* must also include the following if they apply:

(1) for *drawdown mortgages* where there is a monthly (or such other frequency as may apply) cash sum payable, a statement that inflation can erode the value of the cash sum over time;

(2) where:

(a) the *lifetime mortgage* is linked to an *investment*; and

(b) the payments required on the *lifetime mortgage* will be deducted from the income from the *investment*; and

(c) the *customer* will receive a fixed net income;
a statement that inflation can erode the value of the cash sum over time;

(3) for drawdown mortgages, details of any circumstances where the mortgage lender may alter or discontinue payments to the customer without their prior consent; and

(4) for all lifetime mortgage, a statement or warning with regard to any material issue not covered elsewhere in ■ MCOB 9.4.33 R and ■ MCOB 9.4.35 R.

Section 8 of a lifetime mortgage illustration: 'What you will owe and when' (A) 'Details of mortgage payments'

The section headed "What you will owe and when" (A) 'Details of mortgage payments' will apply only where the customer is required to make payments to the mortgage lender during the life of the lifetime mortgage in respect of all or part of the interest, or part of the capital, charged on the lifetime mortgage. This will include those cases where the interest payment is deducted from the income provided by a linked investment product (such as an annuity) such that the customer receives the net income.

The heading of the column on the right-hand side of Section 8 of the illustration must state the frequency with which payments must be made by the customer. (For example, if payments are to be made on a monthly basis, the heading for this section must be "What you will owe and when" and the column must be headed "Monthly payments".

All the payments in Section 8 of the illustration must be calculated based on the frequency used for the purposes of the heading in ■ MCOB 9.4.37 R and must be shown in the column on the right-hand side of this section.

Section 8 of the illustration must contain the following information:

(1) the loan amount on which the illustration is based. This figure should include all fees, charges and insurance premiums that have been added to the loan in accordance with ■ MCOB 9.4.21 R(3) and ■ MCOB 9.4.21 R(4), and the following text must follow the loan amount: "which include[s] the [fees] [and] [insurance premiums] that are shown in [Section 11] [and] [Section 12] as being added to your lifetime mortgage."

(2) the assumed start date that has been used in the illustration to estimate the number of payments to be charged at given interest rates;

(3) except where ■ MCOB 9.4.47 R applies, for each of the interest rates charged on the lifetime mortgage:

(a) the number of payments at that interest rate;
(b) whether the interest rate is fixed or variable;
(c) the interest rate charged on the lifetime mortgage at the time the illustration is issued; and

(d) the amount that the customer must pay in each instalment at that interest rate, which must be recorded in the right-hand column of this section (see MCOB 9.4.38 R); and

(4) where the payment due to the mortgage lender is to be deducted from the income provided by a linked investment product (such as an annuity) such that the customer receives the net income, a clear statement to this effect.

9.4.40 If appropriate, the two statements required by MCOB 9.4.39 R(1) and MCOB 9.4.39 R(2) may be merged, for example "These payments are based on a loan amount of £x and assume that the lifetime mortgage will start on [dd/mm/yy].".

9.4.41 MCOB 9.4.39 R(3) applies to each interest rate charged on the lifetime mortgage covered by the illustration. This means that it applies to different interest rates charged at different times, for example, where the interest rate changes at the end of any initial discounted, fixed or other special interest rate period.

9.4.42 The firm may determine the assumed start date in MCOB 9.4.39 R(2).

9.4.43 The following information must be included in the description of the interest rate required by MCOB 9.4.39 R(3)(c) except where MCOB 9.4.47 R applies:

(1) where the interest rate can change, the word "currently" must be used to illustrate the current interest rate payable; and

(2) where the interest rate changes after a given period the words "followed by" should be used to indicate this.

9.4.44 An example of how the information required by MCOB 9.4.39 R(3) and MCOB 9.4.43 R may be presented when there is an example term of fifteen years, and an initial fixed interest rate for a period of 22 months followed by the mortgage lender's standard variable interest rate for a period of 158 months, is as follows: "22 payments at a fixed rate of [...]% followed by 158 payments at a variable rate, currently [...]%.".

9.4.45 The information required by MCOB 9.4.39 R(3)(d) must exclude the cost of any products which may be sold in conjunction with the lifetime mortgage (whether tied products or not) unless the cost has been added to the lifetime mortgage.

9.4.46 If, because of the assumed start date of the lifetime mortgage, the initial payment differs from the subsequent payments, the initial payment must be shown in this section in accordance with MCOB 9.4.39 R(3)(d).
Multi-part mortgages

Where the loan under the lifetime mortgage is divided into more than one part (for example, where part of the loan is on a fixed interest rate and part on a discounted variable interest rate) and the firm displays the initial cost of all parts, and the total cost, in a tabular format in the illustration, MCOB 9.4.39 R(3) and MCOB 9.4.43 R do not apply; instead:

1. each part must be numbered for ease of reference in the illustration;
2. the loan amounts must be totalled;
3. the number and frequency of each payment must be stated;
4. the "initial interest rate payable" for each part must be displayed;
5. whether the interest rate payable is fixed or variable for each part must be stated; and
6. the regular payment for each part must be stated and the total payment for all parts highlighted (excluding the information listed in MCOB 9.4.45 R).

Unless all of the interest rates described in MCOB 9.4.47 R(4) apply for the life of the loan part to which they apply, then an additional subsection titled "What you will owe in future" must be included to indicate the future stepped payments. This section must:

1. state when a change in payment will occur;
2. state the reason for the change in payment; and
3. confirm that the payment illustrated assumes that interest rates will not change.

Section 8 of a lifetime mortgage illustration: "What you will owe and when" (B) Projection of roll-up of interest

Section 8 headed "What you will owe and when" (B) "Projection of roll-up of interest" applies only where all or part of the interest due over the life of the lifetime mortgage is added to the loan and paid to the mortgage lender on repayment of the loan. The projection should be based on the term of the lifetime mortgage estimated in accordance with MCOB 9.4.10 R (and if required, MCOB 9.4.12 R).

An explanation of the table required in accordance with MCOB 9.4.51 R must be shown in a box immediately under the heading using the following text: "This shows how the amount(s) paid to you and the
interest and any fees that we charge mount up over [insert number of years estimated in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R] years. It has been calculated using the current interest rate(s) of [insert interest rate(s)]. Interest is added to the amount you owe [insert frequency of roll-up of interest - e.g. monthly]. Remember that the mortgage could run for a longer or shorter time than [insert number of years estimated in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R] years, and if it runs for longer, the amount you owe will carry on increasing."

The table showing the projection in the section headed "Projection of roll-up of interest" should show annual details in columns under the following headings:

1. "Year": this should list the years as 1,2,3... etc. The start date for year one must be an assumed date of completion of the lifetime mortgage. The table must show each year of the term estimated in accordance with MCOB 9.4.10 R (or if required, MCOB 9.4.12 R).

2. "Balance at start of year": this must show the estimated amount outstanding on the lifetime mortgage at the beginning of each year. For year one this balance would include any lump sum advanced on completion.

3. (where the lifetime mortgage is a drawdown mortgage) "Amount paid to you during the year": this must include all amounts to be drawn down during the year in question. Where the amount the customer can draw down is variable, the mortgage lender must agree with the customer an expected amount to be drawn down per year.

4. "Interest charged at [insert percentage(s)]": this must be the interest charge for the year in question, calculated on the balance at the start of the year plus the amount drawn down (if applicable) and any fees added to the loan during the year. The percentage(s) used must be as follows:

(a) for a fixed interest rate that applies throughout the term, the fixed interest rate available at the date the illustration is issued;

(b) for a variable interest rate, the interest rate that is available at the time the illustration is issued; and

(c) for a capped interest rate, the actual interest rate that is available at the time the illustration is issued, where this is lower than the interest rate at which the cap is set.

Where more than one interest rate applies (e.g. fixed for part of the term, followed by variable), the mortgage lender must use the rates that are available at the time the illustration is issued.
(5) "Fees charged during the year": this must include all fees that can be added to the loan during the life of the *lifetime mortgage*. In year one this will include any fees due to the *mortgage lender* unless the *customer* has confirmed that he wishes to pay them separately. The fees for the final year shown must include any fees required on repayment in full of the *lifetime mortgage*.

(6) "What you owe at the end of the year": this is the total of:

(a) the balance at start of the year;
(b) total drawn down (if applicable);
(c) interest charged for the year; and
(d) fees for the year.

The balance at the end of the final year of the term (estimated in accordance with ■ MCOB 9.4.10 R (or if required, ■ MCOB 9.4.12 R)) must therefore be the estimated amount required to repay in full the *lifetime mortgage* at the end of that year.

The firm may determine the assumed date of completion in ■ MCOB 9.4.51 R(1).

**Section 9 of a lifetime mortgage illustration: "Will the interest rate change?"**

(1) if the interest rate is fixed throughout the life of the *lifetime mortgage*, an explanation that the payments will not vary because the interest rate is fixed;

(2) if the interest rate is fixed for part of the life of the *lifetime mortgage*, an explanation of when or how increases in the interest rate charged on the *lifetime mortgage* affect the *customer's* payments;

(3) if the interest rate cannot go above a certain level or below a certain level, or both, and this applies throughout the life of the *lifetime mortgage*, an explanation that this is the case;

(4) if the interest rate cannot go above a certain level for part of the life of the *lifetime mortgage*, an explanation that this is the case and of when or how increases in the interest rate charged on the *lifetime mortgage* affect the *customer's* payments;

(5) if (3) or (4) apply the maximum or minimum interest rate, or both, and the payments at each of these interest rates; and
(6) if the lifetime mortgage is made up of a number of different parts including different types of interest rate and different rates of interest, an explanation of when or how increases in the interest rate charged on the lifetime mortgage affect the customer’s payments for each part (or combination of parts).

9.4.54

(1) Except where (3) applies, where the customer is required to make payments to the mortgage lender on the lifetime mortgage, and the customer’s payments can vary with changes in interest rates at any time during the life of the lifetime mortgage, Section 9: "Will the interest rate change?" must also contain the following text:"The [frequency of payments from MCOB 9.4.37 R] payments shown in this illustration could be considerably different if interest rates change. For example, for one percentage point increase in [describe the interest rate that applies], your [frequency of payments] payment will increase by around £ [insert amount by which payment will increase].".

(2) If MCOB 9.4.53 R(6) applies the following additional text must be included after the text in (1), for each part (or combination of parts), where the amounts by which the customer's payments would increase are different:"After the [describe the type of interest rate that applies, the part (or parts) to which it applies and date or period for which it applies] then for one percentage point increase in [describe the interest rate that applies], your [insert frequency of payments] payment will increase by around £ [insert amount by which payment will increase].".

(3) Paragraph (1) does not apply where the difference between the interest rate included in the illustration in accordance with MCOB 9.4.39 R and the maximum interest rate that can be charged on the lifetime mortgage is less than one percentage point.

9.4.55

The amount by which the customer's payments would increase in accordance with MCOB 9.4.54 R(1) must be calculated as follows:

(1) the firm must use the total amount borrowed, or assume that all payments due on the lifetime mortgage have actually been paid, all additional fees and payments due have been paid, and no underpayments or overpayments have been made; and

(2) the interest rate from which the increase is calculated must be the variable interest rate charged on the lifetime mortgage at the date that the illustration is issued (that is, the variable interest rate quoted in Section 5 of the illustration); where the variable interest rate changes after a set period or on a set date it must be based on the initial variable interest rate charged on the lifetime mortgage at the date the illustration is issued (for example, if the initial interest rate is discounted, it must be based on the discounted rate).
Although the effect of a one percentage point increase in interest rates on the customer’s payments is not completely linear, the purpose of MCOB 9.4.54 R(1) and (2) is to show the approximate effect of such an increase.

Where the customer is not required to make payments to the mortgage lender on the lifetime mortgage and therefore all or part of the interest is rolled up, the following information must be included under the section heading "Will the interest rate change?":

1. If the interest rate is fixed throughout the life of the lifetime mortgage, an explanation that the estimated debt shown in accordance with MCOB 9.4.51 R(6) will not vary because the interest rate is fixed;

2. If the interest rate is fixed for part of the life of the lifetime mortgage, an explanation of when or how increases in the interest rate charged on the lifetime mortgage affect the estimated debt shown in accordance with MCOB 9.4.51 R(6);

3. If the interest rate cannot go above a certain level or below a certain level, or both, and this applies throughout the life of the lifetime mortgage, an explanation that this is the case; and

4. If the interest rate cannot go above a certain level for part of the life of the lifetime mortgage, an explanation of when or how increases in the interest rate charged on the lifetime mortgage affect the estimated debt shown in accordance with MCOB 9.4.51 R(6).

Where the customer is not required to make payments to the mortgage lender on the lifetime mortgage and therefore all or part of the interest is rolled up, Section 9: "Will the interest rate change?" must also contain (if applicable):

1. If the interest rate is variable, the following text: "If the interest rate increases, the amount you owe will also increase. If the interest rate was [one percentage point higher than shown in MCOB 9.4.51 R(4)(b)] throughout the example term of [insert number of years] see MCOB 9.4.10 R or MCOB 9.4.12 R] years, the amount you would owe at the end of that time would be: [insert amount]."; or

2. If the interest rate will become variable at the end of a fixed or capped rate period, the following text: "If the interest rate increases after the [insert as applicable: fixed rate period or capped rate period] ends, the amount you owe will also increase. If the interest rate was [one percentage point higher than shown in MCOB 9.4.51 R(4)(b) above] throughout the remainder of the example term of [insert number of years] - see
MCOB 9.4.10 R or MCOB 9.4.12 R] years, the amount you would owe us at the end of that time would be: [insert amount].”; or

(3) if a capped rate applies throughout the life of the lifetime mortgage and the interest rate at the date of issue of the illustration is lower than the capped rate, the following text: "If the interest rate increases, the amount you owe will also increase. The interest rate on this lifetime mortgage cannot be higher than [rate at which interest is capped] If the interest rate was [rate at which interest is capped] throughout the example term of [insert number of years - see MCOB 9.4.10 R and MCOB 9.4.12 R] years, the amount you would owe us at the end of that time would be: [insert amount].”.

Risk warning

9.4.59 R

Where MCOB 9.4.54 R(1) applies, the following words must also be prominently displayed at the end of the sub-section "Will the interest rate change?" "Rates may increase by much more than this so make sure you can afford the [insert frequency of payments from MCOB 9.4.37 R] payment.”.

9.4.60 R

Where MCOB 9.4.58 R(1) or (2) applies, the following words must also be prominently displayed at the end of the sub-section "Will the interest rate change?" "Your debt may increase significantly.”

9.4.61 G

For guidance on prominence see MCOB 2.2.9 G.

Section 10 of a lifetime mortgage illustration: "How the value of your home could change"

9.4.62 R

Where the customer is required to make payments to the mortgage lender on the lifetime mortgage in respect of the interest payable, and therefore the amount outstanding on the lifetime mortgage will broadly remain unchanged, Section 10: "How the value of your home could change" must contain the following text: "The amount you owe will usually stay the same over the life of the mortgage so the amount due to [name of mortgage lender] when the mortgage is repaid will be [amount of loan], unless charges have to be added.”.

9.4.63 R

Where the customer is not required to make payments to the mortgage lender on the lifetime mortgage and therefore all or part of the interest is rolled up, Section 10: "How the value of your home could change" must contain the following text: "When you look at how the amount you owe goes up, remember also that property prices can go up or down, and this can affect the amount of money left over for you or your estate after the mortgage is repaid to [name of mortgage lender].”.

9.4.64 R

Section 10: "How the value of your home could change" must contain the following text in addition to the text in accordance with MCOB 9.4.62 R or MCOB 9.4.63 R:"Based on the estimated value of your home now of
[insert amount from $\text{MCOB 9.4.6 R}(3)$] this example shows what the value of your home would be after [insert term from $\text{MCOB 9.4.10 R}$ or $\text{MCOB 9.4.12 R}$] years if the value went up by 1% each year or went down by 1% each year. Remember also that the mortgage may run for more or less than [insert term from $\text{MCOB 9.4.10 R}$, or $\text{MCOB 9.4.12 R}$] years. This is an example only and gives no guide to how much the value of your home will actually change. If your home went up in value by 1% each year it would be worth [insert amount] after [insert term from $\text{MCOB 9.4.10 R}$, or $\text{MCOB 9.4.12 R}$] years. If your home went down in value by 1% each year - it would be worth [insert amount] after [insert term from $\text{MCOB 9.4.10 R}$ or $\text{MCOB 9.4.12 R}$] years."

Section 11 of a lifetime mortgage illustration: "What fees must you pay?"

Under the section heading "What fees must you pay?" the illustration must:

1. itemise all the fees that are included in the calculation of the APR in accordance with $\text{MCOB 10}$ (Annual Percentage Rate), excluding any charges for insurance set out in Section 12 in accordance with $\text{MCOB 9.4.72 R}$; and

2. include a statement at the end of the section using the following text: "You may have to pay other taxes or costs in addition to any fees shown here."

An example of a fee that would be included in Section 11 would be an administrative charge to redeem the lifetime mortgage. An example of a fee that would not be included would be a fee payable by the customer to insure their property elsewhere (however this would need to be stated in the separate "Insurance" section as required by $\text{MCOB 9.4.72 R}$). Where fees are payable only on early repayment of the lifetime mortgage, they should not be stated here (however these fees would need to be stated in Section 13 of the illustration "What happens if you do not want this mortgage any more", as required by $\text{MCOB 9.4.83 R}(1)(c)$).

The fees included in this section in accordance with $\text{MCOB 9.4.65 R}$ must be itemised under the relevant sub-headings as follows:

1. the fees that are payable by the customer to the mortgage lender must be itemised under the sub-heading "Fees payable to [name of mortgage lender]";

2. the remaining fees must be itemised under the sub-heading: "Other fees"; and

3. (a) if there are no fees to be itemised in accordance with (1), the sub-heading must be retained and a statement must be included that no fees apply;
(b) if there are no fees to be itemised in accordance with (2), the sub-heading must be retained and only the text in MCOB 9.4.65 R(2) applies.

The following information must be provided for each fee included in this section of the illustration in accordance with MCOB 9.4.65 R(1):

1. a description of the fee;
2. the amount payable by the customer recorded in a column headed "Fee amount" on the right-hand side of this section;
3. for fees included under the sub-heading "Other fees", to whom the fee is payable;
4. when the fee is payable;
5. whether or not the fee is refundable, and if so, the extent to which it is refundable;
6. which fees (if any) are estimated in accordance with MCOB 9.4.114 R(2) and based on representative information; and
7. if any fee is payable after the start of the lifetime mortgage and subject to change in the future, for example a fee payable on final repayment of the lifetime mortgage, the amount of that fee, along with a statement that this is the 'current fee'.

1. If a higher lending charge is payable by the customer, the following text must be used to describe such a charge for the purposes of MCOB 9.4.68 R: "A higher lending charge is payable because you are borrowing [insert ratio of the mortgage amount (from MCOB 9.4.13 R) to the property's price or value (from MCOB 9.4.6 R(3))] of the property's [estimated] [price/value]."

2. If the customer has asked for any fees to be added to the loan, this must be stated alongside each fee.

3. If the customer has the option of adding to the loan amount any of the fees included in this section, the following text must be included: "If you wish you can add [this/these/the {type of fee}] fee(s) to the lifetime mortgage. This will increase the amount you owe to [insert amount of the lifetime mortgage with the fee(s) included] and will increase the amount you owe shown in Section 8. If you want to do this, you should ask for another illustration that shows the effect of this on the amount you owe."

4. Any fees that are estimated based on representative information in accordance with MCOB 9.4.114 R(2) must include an
appropriate explanation of what the fee represents. For example, if this section includes an estimated fee for the legal work that the customer might be charged by his conveyancer for carrying out work on behalf of the mortgage lender, the illustration must explain that the fee is estimated, and that it only covers part of the costs of legal work that the customer might need to pay.

"Other fees" will include any fee charged by a mortgage intermediary, or another third party, for advising on or arranging a lifetime mortgage, but not commission or procuration fees (which are dealt with in Section 16 of the illustration).

A mortgage lender must provide a tariff of charges to the customer, if the customer so requests.

Section 12 of a lifetime mortgage illustration: "Insurance"

(1) Under the section heading "Insurance" the illustration must include details of:

(a) insurance which is a tied product and

(b) insurance which is required as a condition of the lifetime mortgage which is not a tied product

(2) Under this section heading a firm may also provide details of insurance which is optional for the customer to take out.

(3) It must be clear to the customer which products he is required to purchase under which circumstances (for example, where both a tied product and a mortgage intermediary are involved, whether the policy must be purchased from the mortgage lender or the mortgage intermediary).

Under the sub-heading 'Insurance you must take out through [insert name of mortgage lender or where relevant the name of the mortgage intermediary, or both]’ the following information must be included if the lifetime mortgage requires the customer to take out insurance that is a tied product either through the mortgage lender or where relevant the mortgage intermediary:

(1) details of which insurance is a tied product;

(2) for how long the customer is obliged to purchase the insurance;

(3) an accurate quotation or a reasonable estimate of any payments the customer needs to make for the insurance;

(4) where a quotation is provided for insurance in accordance with (3) on the basis of an estimated sum insured, because the actual required sum insured is unknown, the fact that it is estimated
should be stated along with confirmation of the level of cover that has been assumed;

(5) details of when the customer's payments for such insurance change, for example, if premiums are reviewed annually; and

(6) where a quotation is not provided in accordance with (3), a statement of when and how a quotation will be provided (for example, separately and as soon as possible).

Firms are reminded that MCOB 5.4.23 R requires a firm to provide a customer with an accurate quotation for any tied products. Where the level of cover the firm requires the customer to take up is known at the outset, then the quotation should reflect that level of cover.

If the lifetime mortgage does not require the customer to take out insurance as a tied product, the sub-heading "Insurance you must take out through [insert name of mortgage lender and where relevant the name of the mortgage intermediary] " must be retained and a statement must be provided under this heading that the customer is not obliged to take out any insurance through the mortgage lender or, where relevant, the mortgage intermediary.

The following information must be included under the sub-heading "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 where relevant the name of the mortgage intermediary, or both]":

(1) if the lifetime mortgage requires the customer to take out an insurance policy (other than that which is a tied product which the customer is obliged to purchase through the mortgage lender or where relevant the mortgage intermediary), a brief statement of the type of insurance the firm requires; a quotation for such insurance may be included in the illustration, estimated where necessary;

(2) if the mortgage lender or the mortgage intermediary makes a charge in cases where the customer does not arrange insurance that is a condition of the mortgage through the mortgage lender or the mortgage intermediary, this must be stated, together with the amount of the charge and the frequency with which this charge is payable; and

(3) if no insurance policies are required (other than that which is a tied product), the sub-heading "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 and, where relevant the mortgage intermediary] " must be retained in the illustration and
a statement must be provided under this heading that no such insurance is required.

9.4.77 Under the sub-heading "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 where relevant the name of the mortgage intermediary, or both]", the illustration should not include any insurance policy that may be taken out by a mortgage lender itself to protect its own interests rather than the customer's interests, for example, because of the ratio of the loan amount to the property value.

9.4.78 If the cost of any insurance that the mortgage lender might take out to protect its own interests because of the ratio of the loan to the property value is passed on to the customer, it will be shown elsewhere in the illustration, for example as a higher lending charge or in the interest rate charged.

9.4.79 A firm may include in the illustration, under the sub-heading "Optional insurance", quotations (estimated where necessary) for any insurance products (other than the insurance products covered elsewhere in the illustration in accordance with MCOB 9.4.72 R and MCOB 9.4.76 R) that the firm issuing the illustration wishes to sell to the customer.

9.4.80 If no quotations are included in the illustration in accordance with MCOB 9.4.79 R, the sub-heading "Optional insurance" must not be included in the illustration.

9.4.81 (1) If any quotations for insurance are included in the illustration in accordance with MCOB 9.4.73 R(3), MCOB 9.4.76 R(1) or MCOB 9.4.79 R, the illustration:

(a) must include a brief description only of the type of insurance (full details of the insurance cover may however be provided separately); and

(b) (i) must include the total price to be paid by the customer in a column on the right hand side of the illustration under the heading "[insert frequency of payments quoted] payments"; and

(ii) may refer the customer to the individual insurance product disclosure documentation.

(2) If the customer has asked to add any insurance premiums or insurance-related charges to the amount borrowed in accordance with MCOB 9.4.21 R(4), the illustration must state that this is the case.

9.4.82 The terms on which an insurance premium has been calculated should be presented to the customer in the format determined by the relevant regulatory requirements.
Under the heading "What happens if you do not want this mortgage any more?", the illustration must include the following information on the lifetime mortgage:

(1) under the sub-heading "Early repayment charges":

(a) an explanation of whether early repayment charges are payable;

(b) an explanation of when early repayment charges are payable;

(c) an explanation of any other fees that are payable if the lifetime mortgage is repaid early, and the current level of these fees;

(d) a basic explanation of the basis on which early repayment charges are calculated (for example, as a percentage of the loan or as so many months' interest), including, where appropriate, details of any cashback or other incentives that must be repaid. The illustration may refer to a separate document for full details of all terms and conditions relating to the charges that apply if the lifetime mortgage is repaid early;

(e) example cash amounts of any early repayment charges indicating the range of charges that apply over the period during which such charges apply calculated in accordance with MCOB 9.4.88 R, which must be described in the illustration as "cash examples";

(f) the maximum early repayment charge that the customer could be charged in accordance with MCOB 12.3 (Early repayment charges), which must be shown as a cash amount and described in the illustration as "the maximum charge you could pay" [add if applicable, "plus (a) fee(s) which is/are currently £x"];

and

(g) details of whether or not the lifetime mortgage is portable on moving house and a brief explanation of any conditions or restrictions that apply including whether there are any restrictions on changing the terms of the lifetime mortgage during the period in which any early repayment charges apply (a reference to another document may be made in order to provide the customer with further details of the conditions or restrictions);

(2) under the sub-heading "Circumstances in which early repayment charges do not apply", a clear statement of the circumstances in which no early repayment charges will be payable by the customer. (This may include moving to another property, or into sheltered accommodation or residential care.) Where the lifetime mortgage is portable on moving house but no early repayment charges are
payable by the customer, the remaining information required by MCOB 9.4.83 R(1)(g) should be included here.

9.4.84 The requirements in MCOB 9.4.83 R(1) may be presented in a tabular format.

9.4.85 Where a firm does not impose an early repayment charge, it may delete the sub heading 'Circumstances in which early repayment charges do not apply'.

9.4.86 Where MCOB 9.4.83 R(1)(e) would result in more than three cash amounts being shown in the illustration, the cash amounts shown in the illustration may be restricted to three examples. These three examples are in addition to the maximum early repayment charge required by MCOB 9.4.83 R(1)(f). These examples must be representative of the full range of charges that apply and not be limited to the lowest charges that apply. These three examples are in addition to:

1. any statement of the amount of any fees described in MCOB 9.4.83 R(1)(c); and

2. the maximum early repayment charge required by MCOB 9.4.83 R(1)(f).

9.4.87 An example which would comply with MCOB 9.4.86R would be if a five year fixed rate mortgage had a charge which reduced linearly by 1% each year from 5% in the first year to 1% in the final year and cash examples were used based on 5% in year 1, 3% in year 3 and 1% in year 5.

9.4.88 In calculating example cash amounts in accordance with MCOB 9.4.83 R(1)(e), it must be assumed that:

1. the lifetime mortgage is repaid in full;
   
2. all payments due (if applicable) on the lifetime mortgage are actually paid;
   
3. additional fees and charges such as insurance premiums have been paid; and
   
4. no underpayments or overpayments (if applicable) have been made.

2. If:
   
1. cashbacks or other incentives need to be repaid; or
   
2. fees need to be paid;

   the amounts that would need to be repaid or paid must be included in the example cash amounts.
(3) Where the calculation of the *early repayment charge* is based on the interest rate charged on the *lifetime mortgage*, or on interest rates generally, the interest rate(s) used for the calculation of the example cash amounts must be those in force at the date that the *illustration* is issued to the *customer*.

(4) The example cash amounts must reflect the maximum charge in a particular year. Where it is possible to state exact *early repayment charges* (that is, where all such charges are based on the original amount borrowed), the *illustration* must do so.

Where the cash examples from MCOB 9.4.88 R included in the *illustration* would vary either if the interest rate charged on the *lifetime mortgage* changed or with changes in interest rates generally, an appropriate warning that the *early repayment charges* may vary from the cash examples must be included in the *illustration*.

Where the *early repayment charge* could be higher than those stated in the *illustration* if the *lifetime mortgage* continued after the end of the term estimated in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R, Section 13 of the *illustration* must include a clear statement to that effect.

Section 14 of a *lifetime mortgage illustration*: "Additional features"

Under the section heading "Additional features" the *illustration* must include, where relevant, details of how the *mortgage lender* would treat any payments by the *customer* in excess of those required, and details of any additional features or facilities under the various sub-headings in MCOB 9.4.93 R.

(1) If none of the features at MCOB 9.4.93 R are applicable to the *lifetime mortgage* to which the *illustration* relates, the section headed 'Additional features' must be retained, but the sub-headings must not be included and a statement must be added to explain that there are no additional features.

(2) Only those features available on the *lifetime mortgage* need be included in the *illustration*.

(3) If a *firm* provides a *customer* with supplementary information about any additional features or facilities over and above the information required under MCOB 9.4.91 R to MCOB 9.4.110 R, the *firm* may include a reference to that supplementary information in Section 14.

The relevant sub-headings are as follows:

(1) "Overpayments"

(2) "Underpayments"
(3) "Payment holidays"
(4) "Borrow back"
(5) "Additional borrowing available without further approval"
(6) "Additional secured borrowing"
(7) "Credit card"
(8) "Unsecured borrowing"
(9) "Linked current account" and
(10) "Linked savings account".

| 9.4.94 R | Under the sub-heading 'Overpayments', the **illustration** must include details of any restrictions on lump sum and regular overpayments (if payments are required) on the **lifetime mortgage**, together with a statement as to whether or not the amount on which the interest is recalculated is reduced immediately on receipt of any lump sum or regular overpayment.

| 9.4.95 G | Where the interest recalculation described in MCOB 9.4.94 R takes place immediately, **firms** may add a statement in this section explaining that the **customer** will get the benefit of the overpayment immediately.

| 9.4.96 R | Under the sub-heading "Underpayments", the **illustration** must include details of whether the **customer** can make underpayments and a brief statement of any conditions that apply.

| 9.4.97 R | Under the sub-heading "Payment holidays", the **illustration** must include details of circumstances in which the **customer** can take payment holidays and a brief statement of any conditions that apply.

| 9.4.98 R | Under the sub-heading "Borrow back", the **illustration** must include details of circumstances in which the **customer** can borrow back any monies overpaid and a brief statement of any conditions that apply.
Under the sub-heading "Additional borrowing available without further approval", the *illustration* must provide details of circumstances in which additional *secured lending* is offered with the *lifetime mortgage* that would allow the *customer*, subject to certain conditions, to increase the amount of the loan on which the *illustration* is based.

Under the sub-heading "Additional secured borrowing", the *illustration* must provide details of circumstances in which additional *secured lending* is offered with the *lifetime mortgage* that would allow the *customer*, subject to certain conditions, to increase the amount of the loan on which the *illustration* is based.

Under the sub-heading "Unsecured borrowing", the *illustration* must provide details of circumstances in which *unsecured lending* is offered with the *lifetime mortgage* that would allow the *customer* to increase the amount of the loan on which the *illustration* is based.

Under the sub-heading "Credit card", the *illustration* must:

1. state whether a credit card is offered with the *lifetime mortgage*; and
2. if a credit card is offered and it is a *mortgage credit card*:
   a. unless (b) applies, include the following text: "This card will not give you a number of the statutory rights associated with traditional credit cards. Your lifetime mortgage offer will tell you more about the differences." or
   b. where the *mortgage lender* provides the *customer* with contractual rights in relation to a *mortgage credit card* equal to or greater than those provided under the Consumer Credit Act 1974, include the following text: "This card will not give you a number of the statutory rights associated with traditional credit cards. However, [insert name of mortgage lender] will ensure that you will be treated no differently from the user of a traditional credit card. Your lifetime mortgage offer will tell you more about this."

Where any of the additional features under MCOB 9.4.99 R to MCOB 9.4.102 R inclusive apply, then the following must also be stated if the amount of additional borrowing that would be available to the *customer* is stated in the *illustration*:

1. the maximum additional amount available;
2. if the interest rate payable on any additional borrowing is different to the interest rate in Section 5 and Section 8 of the *illustration*, the interest rate and the APR charged on the additional borrowing. The APR must be calculated in accordance with MCOB 10 (Annual
Percentage Rate), based on the maximum amount of additional borrowing that would be permitted for the customer and the term of the loan from MCOB 9.4.10 R or MCOB 9.4.12 R;

(3) the total resulting debt the customer could incur (including the original loan amount);

(4) the payments on this total debt based on the frequency of payments in MCOB 9.4.37 R (if payments are required) and the current interest rate(s) applying on the date the illustration is issued;

(5) whether this additional borrowing must be repaid in full if the original loan is repaid in full, along with details of any conditions that apply;

(6) if early repayment charges apply to the additional amount borrowed:
   (a) that early repayment charges are payable;
   (b) an explanation of when early repayment charges are payable; and
   (c) the maximum early repayment charge that the customer could be charged in accordance with MCOB 12.3 which must be shown as a cash amount; and

(7) if it is the case, that the maximum amount of borrowing available, or the terms and conditions, may change depending on other factors such as ratio of the loan amount to the property value.

Where more than one additional borrowing facility from MCOB 9.4.99 R to MCOB 9.4.102 R applies, the total debt and total payments due (if payments are required) under all these linked borrowing facilities must be included under a separate sub-section titled 'Total additional borrowing'.

The purpose of MCOB 9.4.104 R is to show the total amount of any additional borrowing facilities that would be available to the customer and the cost of utilising these facilities. It must combine the amount available under any linked borrowing facilities including additional secured lending, credit cards and unsecured lending.

(1) Where additional features are included in accordance with MCOB 9.4.91 R and these are credit facilities that do not meet the definition of a regulated mortgage contract, the relevant parts of Section 14 of the illustration must include the following text:
"This additional feature is not regulated by the FSA."

(2) Where additional features are included in accordance with MCOB 9.4.91 R and these are credit facilities regulated by the Consumer Credit Act 1974, the relevant parts of Section 14 of the illustration must include the following text after the text in (1): “but is regulated under the Consumer Credit Act 1974. You will receive a separate credit agreement with any offer document for this additional feature, describing the detailed terms on which this feature is available.”

9.4.107 Where all or part of the maximum amount of additional borrowing is secured on the customer's home, a prominent warning must be included that additional borrowing increases the amount of credit secured on the customer's home.

9.4.108 Suitable wording for the warning contained in MCOB 9.4.107 R would be: "This will increase the amount of borrowing secured on your home.”.

9.4.109 Under the sub-heading "Linked current account" the illustration must include the following information:

(1) whether a linked current account is a compulsory or optional product (if the current account is a compulsory product this must also be stated in Section 5 of the illustration in accordance with MCOB 9.4.24 R(7));

(2) an explanation of the interest rates that apply under different circumstances to the linked current account, if different from the interest rate charged on the lifetime mortgage (for example, if a different interest rate applies if the account is overdrawn); and

(3) the firm providing the linked current account if it is not the mortgage lender.

9.4.110 Under the sub-heading "Linked savings account" the illustration must include the following information:

(1) whether a linked savings account is a compulsory or optional product (if the savings account is a compulsory product this must also be stated in Section 5 of the illustration in accordance with MCOB 9.4.24 R(7));

(2) the interest rate paid on the linked savings account if it differs from the interest rate charged on the lifetime mortgage; and

(3) the firm providing the linked savings account if it is not the mortgage lender.
Section 15 of a lifetime mortgage illustration: "Overall cost of this mortgage"

Under the section heading "Overall cost of this mortgage":

(1) the following text must be included in the illustration: "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 example term is used."

(2) where the customer is required to make payments on the lifetime mortgage the following text must also be included in the illustration: "The overall cost takes into account the payments in Sections 8 and 11 above."; and

(3) reference must be made to any other payments that have been included in the APR but not included in Sections 8 and 11 of the illustration if these are relevant to the lifetime mortgage that is the subject of the illustration.

9.4.112 MCOB 9.4.111 R(3) would require, for example, a reference to the fact that the overall cost takes into account mortgage payment protection insurance where this is required as a condition of the lifetime mortgage to which the illustration relates. The requirement to take out such insurance must be stated in Sections 5 and 12 of the illustration in accordance with MCOB 9.4.24 R(7), MCOB 9.4.72 R or MCOB 9.4.76 R.

9.4.113 The following text must be included after the text required by MCOB 9.4.111 R with the relevant cost measures shown in the right-hand column of Section 15 in accordance with the layout shown in MCOB 9 Annex 1 R:

(1) "The total amount you would pay back over the example term of [insert number of years in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R] including the amount borrowed is £ [insert total amount payable]", and

(2) "The overall cost for comparison is [insert the APR]% APR."

9.4.114 R(1) The APR and the total amount payable in MCOB 9.4.113 R must be calculated on the basis of information obtained from the customer in accordance with MCOB 9.4.6 R.

(2) Where there is a charge to be included in the APR and total amount payable and the precise amount of that charge is not known at the time that the illustration is provided, MCOB 10.3
(Formula for calculating the APR) sets out a number of relevant assumptions to be used. If the method for including the charge is not addressed in MCOB 10 (Annual Percentage Rate), the charge must be estimated based on information which is known to be representative of the lifetime mortgage to which the illustration relates.

(3) Where the lifetime mortgage is a roll-up of interest mortgage, the total amount payable must be based on the total amount that the customer would owe at the end of the example term.

9.4.115 In relation to ■ MCOB 9.4.114 R(2), the cost of conveyancing would be an example of a charge for which representative information may need to be used in the calculation of the APR and the total amount payable.

9.4.116 At the end of Section 15 the following text must be included, if relevant: "The figures in this section will vary following interest rate changes."

9.4.117 The prescribed text at ■ MCOB 9.4.116 R would not be relevant if the illustration is for a lifetime mortgage that has a fixed interest rate throughout the life of the mortgage.

9.4.118 The purpose of the illustration is to provide the customer with details of the cost of borrowing the amount required over the example term from ■ MCOB 9.4.6 R and ■ MCOB 9.4.10 R (or ■ MCOB 9.4.12 R). Section 14 has been designed specifically to allow examples of the effect of any additional features of the lifetime mortgage such as a linked current account. Examples of these features should therefore be shown in Section 14 and not in Section 15 or Section 8 of the illustration.

Section 16 of a lifetime mortgage illustration: "Using a mortgage intermediary"

9.4.119 Where the illustration is issued to a customer by, or on behalf of, a mortgage intermediary, Section 16 "Using a mortgage intermediary" must be included in the illustration and must include the following:

(1) unless ■ MCOB 9.4.120 R applies, a clear statement of the amount payable (either directly or indirectly) by the mortgage lender to the mortgage intermediary, or to any third parties; and

(2) the name of the mortgage lender who will make the payment, the name of the mortgage intermediary and the names of any third parties who will be paid.

9.4.120 If the amount payable by the mortgage lender to the mortgage intermediary and to third parties is £250 or less, the mortgage intermediary need only state that the amount of the payment is "no more than £250", unless the customer requests the actual amount.
If the mortgage intermediary will pass to the customer all or part of the amount payable to the mortgage intermediary under MCOB 9.4.119 R(1) or MCOB 9.4.120 R, that fact may be stated in this section, along with the amount payable to the customer.

If the mortgage lender will make no payment to the mortgage intermediary or any third party, this section may state that the mortgage intermediary will receive no payment.

The amount payable in MCOB 9.4.119 R(1) or MCOB 9.4.120 R must include, but is not limited to:

1. any procuration fee; and
2. a cash value for any material non-cash inducements that the mortgage lender provides to a mortgage intermediary or third party, whether payable directly or indirectly.

MCOB 2.3.7 R requires any material inducements provided by a mortgage lender, whether directly or indirectly, to a mortgage intermediary or third party (unless the payment only reflects the cost of outsourcing work relating to the processing of mortgage applications by a firm unconnected to the mortgage intermediary) to be quantified in cash terms, which will enable the cash values to be included in the illustration in accordance with MCOB 9.4.123 R.

An example of a statement which would comply with MCOB 9.4.119 R and MCOB 9.4.123 R would be: "[name of mortgage lender] will pay [name of mortgage intermediary] an amount of £350 in cash and benefits if you take out this lifetime mortgage."

Contact details

This section must:

1. follow Section 15 "Overall cost of this mortgage", unless the illustration is issued by a mortgage intermediary, in which case it must follow Section 16 "Using a mortgage intermediary"; and
2. include the name, address and contact point of the firm providing the illustration.

An example of wording which would comply with MCOB 9.4.126 R(2) would be: "If you wish to discuss this lifetime mortgage illustration please contact [name of individual] at [address] or on [telephone number]."
If the customer's liability under a lifetime mortgage is in a currency other than sterling, MCOB 9.4 applies to the illustration for that lifetime mortgage with the following modifications:

(1) all cash amounts must be given in the relevant currency except where otherwise required by (2)(a) and (3);

(2) the following information must be stated under Section 5 "Description of this mortgage"

   (a) the amount in sterling on which the illustration is based from MCOB 9.4.13 R based on the exchange rate in (2)(b);
   (b) the exchange rate used; and
   (c) when the exchange rate quoted applied;

(3) the following text must be added at the end of Section 5 "Description of this mortgage": "This illustration is based on the sterling equivalent of [insert details from (2)(a)] based on [insert details from (2)(b)] as at [insert details from (2)(c)]. Exchange rates can vary significantly. The effect of a 5% decrease in the value of sterling to the [insert name of relevant currency] would increase your total borrowing to [insert amount to which the amount borrowed from MCOB 9.4.13 R would increase in sterling]. [Insert if payments are required: This would increase your [insert frequency of payments from MCOB 9.4.37 R] payments by the sterling equivalent of £ [insert amount in sterling]]." The following information must be added to this text:

   (a) the cash amount to which the amount borrowed would increase in sterling if there was a decline of 5% in the value of sterling when compared to the relevant currency; and
   (b) if payments are required, the amount by which (2)(b) would increase the customer's payments based on the frequency of payments from MCOB 9.4.37 R, shown as a sterling equivalent cash amount.

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The text at MCOB 9.4.33 R(8) must be immediately followed by the following additional text, prominently displayed (for guidance on prominence see MCOB 2.2.9 G): "Changes in the exchange rate may increase the sterling equivalent of your debt."
If the *lifetime mortgage* is a *shared appreciation mortgage*, MCOB 9.4 applies to the *illustration* with the following modifications:

1. Section 5 "Description of this mortgage" must contain the following additional information and text in this order after the details required by MCOB 9.4.24 R to MCOB 9.4.29 R:
   
   (a) "This lifetime mortgage involves [name of mortgage lender] taking a percentage share in any increase in the value of your property [insert details of all occasions when the share will be payable to the mortgage lender, for example, "after x years, or when this lifetime mortgage comes to an end or is terminated early"]). The amount [name of mortgage lender] will take depends on any increase in the value of your property." [Include if relevant: "If your property falls in value between now and the end of this lifetime mortgage you will be required to pay [add details of what the customer will need to pay the mortgage lender if the property falls in value]."

   (b) (i) a basic explanation of how the amount of the share payable to the mortgage lender is calculated including the proportions of any given increase in the value of the property and whether this is dependent on the level of growth (for example, that the share payable to the mortgage lender is all of the increase in value of the property for the first 5% increase in value, plus half of the additional increase in the value of the property above this);

   (ii) a reference to a separate document for full details of the terms and conditions relating to the amount of the share payable followed by: "The example below shows how this works. EXAMPLE: Based on the current [estimated] value of your home of [insert details from MCOB 9.4.6 R(3)], the example(s) below show(s) what the value of your home would be and what share of that value [name of mortgage lender] would take after [insert example term of the loan in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R or the term after which the equity share becomes payable if less] if the value of your home increased. [Include if relevant: "and what would happen if your home decreased in value".]

   Please note that you should add this payment to the amount of any *early repayment charges* that may be payable " see Section 13"

   (c) except where (g) applies, example cash amounts for the value of the property and the corresponding amount of the
equity share payable, assuming an average annual increase in the value of the property secured by the lifetime mortgage of 1%, 5% and 10% over the example term from (i) below;

(d) if the customer would be required to pay the mortgage lender an amount because the value of the property on which the lifetime mortgage would be secured had decreased from its value at the start of the term of the lifetime mortgage, include example cash amounts for the value of the property and the corresponding amount payable assuming an average annual decrease, in the value of the property secured by the lifetime mortgage of 1%, 5% and 10% over the term from (i) below;

(e) if the amount of the equity share payable cannot go above or below a certain level, an explanation that this is the case along with a cash example described as "the maximum amount you could pay";

(f) include this text after the cash examples in (c) (or, if applicable, after the cash examples in (d) or (e)): "This is not an indication of how the actual value of your home may change."

(g) where (c) or (d) apply and the maximum percentage equity share payable is less than the example percentages in (c) or (d), only cash examples for those percentages required by (c) or (d) which are below this maximum need be quoted, along with the maximum in accordance with (e);

(h) if there are no restrictions on the amount of the equity share payable, the following text should follow the text in (f): "The amount you will need to pay could be much higher than this."

(i) for the purposes of the examples required by (c) or (d), the example term used must be stated and must be the estimated term of the lifetime mortgage in accordance with MCOB 9.4.10 R or MCOB 9.4.12 R or the term after which the equity share becomes payable, if less;

(2) Section 10: "How the value of your home could change" of the illustration must contain the following text at the end of the section: "You also need to think about the cost of paying any share in the value of your home to [insert name of mortgage lender] - see Section 5."

(3) Section 13 " What happens if you do not want this mortgage any more?" must contain the following text at the end of the first sub-heading "Early repayment charges": "Remember to add the cost of paying any share in the value of your home to [insert name of mortgage lender] " see Section 5."
(4) Section 15 "Overall cost of this mortgage" of the *illustration* must contain the following text at the end of the section: "The APR and the total amount you must pay do not take account of the share that [insert name of mortgage lender] takes in any increase in the value of your home as described in Section 3. So you should not use these measures to compare this lifetime mortgage with other lifetime mortgages that do not involve [insert name of mortgage lender] taking a share in any increase in the value of your home."

The requirements in MCOB 9.4.130 R(1)(c) and (d) may be presented in a tabular format.

**Risk warning**

The requirements at MCOB 9.4.130 R(1) must be immediately followed by the following additional text, prominently displayed (see MCOB 2.2.9 G): "You will need to pay this share in the value of your home to [name of mortgage lender] [insert time at which share must be paid - for example 'when your lifetime mortgage is repaid']. Think carefully about how this will affect the amount left over for you or your estate."

**Section 1 of a home reversion plan illustration: "About this information"**

Under the section heading "About this information", the prescribed text under this heading in the *home reversion plan illustration* must be included.

**Section 2 of a home reversion plan illustration: "Which service are we providing you with?"**

(1) Unless (2) applies, under the section heading "Which service are we providing you with?" the prescribed text in the *home reversion plan illustration* under this heading must be included with a "check box" for each statement, one of which must be marked prominently to indicate the level of service provided to the *customer*;

(2) If the level of service described in the *illustration* is provided by another *firm*, (1) may be replaced by the following: under the section heading "Which service are we providing you with?" the following text should be presented as two options with a "check box" for each option, one of which must be marked prominently to indicate the level of service provided to the *customer*: "[name of the *firm*] recommends, having assessed your needs, that you take out this home reversion plan. " *[name of the *firm*] is not recommending a particular home reversion plan for you. However, based on your answers to some questions, it is giving you information about this home reversion plan 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."

Section 3 of a home reversion plan illustration: "What is a home reversion plan?"

Under the section heading "What is a home reversion plan?", the prescribed
text in the home reversion plan illustration under this heading must be
included.

Section 4 of a home reversion plan illustration: "What you have told us"

(1) Under the section heading "What you have told us", the
illustration must state the minimum information a firm must obtain
from the customer (apart from details of the plan that the customer
is interested in, which is in Section 5 of the illustration), and can
include brief details of any other information that has been
obtained from the customer and used to produce the illustration.

(2) For an instalment reversion plan, where the customer requests an
additional illustration showing a term of their choice, the term
chosen by the customer must be stated in this section, together
with a statement to the effect that the term is the customer's choice.

(3) If the amount on which the illustration is based includes the
amount that the customer wants to release less charges and other
payments that have been deducted from the amount to be released:

(a) except where there are some fees or charges that have not been
deducted, this section must include the following text after the
amount to be released: "less £ [insert total amount of fees and
other charges deducted from the amount to be released] for
fees that have been deducted from the amount to be released
- see Section 9 for details."; or

(b) where there are other fees or charges that the customer must
pay that have not been deducted this section must include the
following text after the amount to be released: "less £ [insert
total amount of fees and other charges deducted from the
amount to be released] for fees that have been deducted from
the amount to be released. These and the additional fees that
you need to pay are shown in Section 9.".

(4) If the amount on which the illustration is based includes the
amount that the customer wants to release less insurance premiums
or insurance-related charges that have been deducted from the
amount to be released:

(a) except where there are other insurance premiums or
insurance-related charges that have not been deducted, this
section must include the following text after the amount to be
released (which may be combined with the prescribed text in
(3) if applicable): "less £ [insert amount of premium or charges, or both, to be deducted from the amount to be released] for insurance [premiums] [and] [charges] that have been deducted from the amount to be released - see Section 10 for details."; or

(b) where there are other insurance premiums or insurance-related charges, or both, this section must include the following text after the amount to be released (which may be combined with the prescribed text in (3) if applicable): "less £ [insert amount of premium or charges, or both, to be deducted from the amount to be released] for insurance [premiums] [and] [charges] that have been deducted from the amount to be released. These and any additional insurance [premiums] [and] [charges] that you need to pay are shown in Section 10.".

(5) If the amount on which the illustration is based does not involve any charges or payments being deducted from the amount to be released, but there are charges that must be paid by the customer, Section 4 of the illustration must include the following text after the amount to be released: "No fees have been deducted from this amount but the fees you need to pay are shown in Section 9. For details of any insurance charges, see Section 10.".

(6) If the home reversion plan on which the illustration is based has no charges that must be paid by the customer, and no insurance premiums are being deducted from the amount to be released, Section 4 of the illustration must include the following text after the amount to be released: "We do not charge any fees for this home reversion plan.".

At the end of Section 4 of the illustration a statement must be included making clear that changes to any of the information obtained from the customer, and where appropriate to the valuation of the property, could alter the details elsewhere in the illustration and encouraging the customer to ask for a revised illustration in this event.

An example is: "An independent valuation will be carried out and this, or changes to any of the information that you have given us, could alter the information in this illustration. If this is the case please ask for a revised illustration."
Section 5 of a home reversion plan illustration: "Description of this home reversion plan"

Under the section heading "Description of this home reversion plan" the illustration must:

1. state the name of the reversion provider providing the home reversion plan to which the illustration relates (a trading name used by the reversion provider may also be stated), and the name, if any, used to market the home reversion plan;

2. include a statement describing the home reversion plan;

3. if the home reversion plan is linked to an investment, and payments required from the customer on the home reversion plan will be deducted from the income from the investment, include a statement that this is the case;

4. if the customer is obliged to buy any tied products under the home reversion plan, include the following information:
   a. details of the tied products required;
   b. the following text: "You are obliged to take out [insert details of the tied product(s)] through [insert name of reversion provider or reversion intermediary] as a condition of this home reversion plan", and if the tied product is an insurance policy, "Please refer to Section 10 of this illustration for further details [of the insurance policies].";

5. state the term or estimated term of the home reversion plan;

6. state very briefly any restrictions that apply to the availability of the home reversion plan (for example, it is only available to certain types of customer or cannot be transferred to another property).

Further information about the home reversion plan may be included as long as it does not significantly:

1. duplicate information contained elsewhere in the illustration; and

2. extend the length of this section.

An example of further information that may be included might be that an "approval in principle" has been granted subject to valuation.
Section 6 of a home reversion plan illustration: "Benefits"

Under the section heading "Benefits", the illustration must include:

1. a description of the monetary amount(s), and in a box aligned to the right of the document, the monetary amount(s), that the customer will receive as a lump sum and/or as a regular payment;

2. if the home reversion plan is linked to an investment and the payments required from the customer on the home reversion plan will be deducted from the income from the investment, the monetary amount of the net income the customer will receive;

3. if applicable, statements of any other benefits, incentives and guarantees that apply to the home reversion plan;

4. an explanation of how the monetary amount that the customer will receive was calculated; and

5. if the home reversion plan is an instalment reversion plan:
   a. whether the monetary amount that the customer will receive is guaranteed or variable (for example, because it is linked to the performance of another investment);
   b. an explanation of what happens to the monetary amount(s) not yet paid by the reversion provider if the customer (and, in the case of a joint plan, the surviving spouse or civil partner) dies; and
   c. if the monetary amount that the customer will receive is subject to the customer selling further parts of a qualifying interest in land to the reversion provider, whether these further sales are optional or compulsory.

Examples that may be appropriate to describe what the customer will receive are:

1. "Subject to the independent valuation, this home reversion plan will provide you with a lump sum of £[x] [or [state number of instalments] lump sums of £[x]].";

2. "The amount you are releasing will automatically be used to purchase a [name of linked investment product] from [name of provider]. The amount is £[x]."; and

3. "Subject to the independent valuation, this home reversion plan will provide you with a monthly payment from the start of your plan for [state period]. This will be £[x].".
An example that may be appropriate to explain how the amount the customer will receive was calculated is: "How we calculate this sum: Your property is worth about £[x]. Taking the information in Section 4 above into consideration, this plan will pay you [x] % [the amount, as a percentage, that the reversion provider will pay for the property] of the full market value of any portion of the property you decide to sell. For a lump sum of about £[x] [insert the amount that the customer wants to release from the property], you will need to sell [x]% [state the proportion of the property, as a percentage, that the customer needs to sell to release the amount required] of your home. This will leave you with [x]% [state the proportion of the property, as a percentage, that will still be owned by the customer] of your property. At current values, this would be worth £[x] though the value of property may rise or fall in the future."

Section 7 of a home reversion plan illustration: "Risks - important things you must consider"

The illustration must include under the heading "Risks - important things you must consider" brief statements and warnings on all material risks involving a home reversion plan, including:

(1) prominently at the beginning of the section: "A home reversion is a complex property transaction. You should seek legal advice to ensure that you fully understand all of the implications for you and your home and for anyone who might otherwise inherit the property.");

(2) the effect of the customer wanting or needing to move home (whether into another property, sheltered accommodation, long-term care or residential care), covering the circumstances in which the home reversion plan is portable;

(3) the effect on the home reversion plan of another party moving into the property (for example on marriage or the formation of a civil partnership or where a family member acts as a carer);

(4) the reversion provider's requirements for repair and maintenance of the property, including the reversion provider's right (if any) to enter the property to effect essential repairs, and the circumstances in which this may occur;

(5) a warning that taking out the home reversion plan may affect the customer's tax and welfare benefits position, that tax and welfare benefits can change and that the customer should consider seeking further information from HM Revenue and Customs, Benefits Agency or another source of advice such as a Citizens' Advice Bureau;

(6) a warning that under a home reversion plan the customer will cease to own any part of the property sold to the reversion provider, and so will neither benefit from any increase in the value of that part nor be able to leave his home to his beneficiaries on his death;
(7) a warning (where appropriate) that the right to occupy the
property will depend on the customer fulfilling the terms of the
home reversion plan;

(8) that the illustration contains a statement about the duration of
the home reversion plan, and that the customer should ensure
that the duration will be adequate given the customer’s
circumstances;

(9) whether the customer can, in the future, secure borrowing from
any other source on the property (and if applicable a warning
that an increasing debt may mean that it may not be possible
to borrow more in the future); and

(10) if the provider is an unauthorised reversion provider, a warning
that:

(a) the provider is not authorised or regulated by the FSA, and
that key protections under the regulatory system will not
apply; and

(b) the provider is not subject to the jurisdiction of the Financial
Ombudsman Service, and that the customer will not be
entitled to refer complaints against the provider to the
Financial Ombudsman Service.

For guidance on prominence see MCOB 2.2.9 G.

Under the heading "Risks - important things you must consider" the
illustration must also include the following if they apply:

(1) for an instalment reversion plan, a statement that if the customer
dies in the early years of the plan, income payments will cease
and therefore the full expected benefits of the plan will not be
obtained;

(2) (a) for an instalment reversion plan where there is a regular
cash sum payable; and

(b) where:

(i) the home reversion plan is linked to an investment; and

(ii) the payments required from the customer on the home
reversion plan will be deducted from the income from
the investment; and

(iii) the customer will receive a fixed net income;

a statement that inflation can erode the value of the cash sum
over time; and
(3) for all home reversion plans, a statement or warning with regard to any material issue not covered elsewhere in this section of the illustration.

Section 8 of a home reversion plan illustration: "What you will have to pay and when"

The heading of the right-hand column of Section 8 of the illustration must state the frequency with which payments must be made by the customer. (For example, if payments are to be made on a monthly basis, the heading for this section must be "What you will have to pay and when" and the column must be headed "Monthly payments").

All the payments in Section 8 must be calculated based on the frequency used for the purposes of the heading in the right-hand column of the section and must be shown in that column.

Section 8 of the illustration must contain the following information:

1. a statement at the beginning of the section regarding rent and charges using the following text: "A home reversion plan is not a loan. Once you have paid the fees shown in section 9, you will only have to pay the charges shown below."

2. the amount and frequency of annual rent, if any, to be paid by the customer; and

3. a description and the amount of other periodic charges to be paid by the customer.

Where the payment due to the reversion provider is to be deducted from the income provided by a linked investment product (such as an annuity) such that the customer receives the net income, the firm must make a clear statement to this effect.

Section 9 of a home reversion plan illustration: "What fees must you pay?"

Under the section heading "What fees must you pay?" the illustration must:

1. itemise all the fees that the customer must pay, excluding any charges for insurance set out in Section 10 of the illustration; and

2. include a statement regarding taxes and costs using the following text: "You may have to pay other taxes or costs in addition to any fees shown here.

An example of a fee that would not be included would be a fee payable by the customer to insure their property elsewhere (however this would need to be stated in the separate "Insurance" section).
The fees included in this section must be itemised under the relevant sub-headings as follows:

(1) the fees that are payable by the customer to the reversion provider must be itemised under the sub-heading "Fees payable to [name of reversion provider];"

(2) the remaining fees must be itemised under the sub-heading: "Other fees"; and

(3) (a) if there are no fees to be itemised in accordance with (1), the sub-heading must be retained and a statement must be included that no fees apply;

(b) if there are no fees to be itemised in accordance with (2), the sub-heading must be retained and only the text in MCOB 9.4.152 R (2) applies.

The following information must be provided for each fee included in this section of the illustration:

(1) a description of the fee;

(2) the amount payable by the customer specified in the column on the right-hand side of the section;

(3) for fees included under the sub-heading "Other fees", to whom the fee is payable;

(4) when the fee is payable;

(5) whether or not the fee is refundable, and if so, the extent to which it is refundable;

(6) which fees (if any) are estimated and based on representative information; and

(7) if any fee is payable after the start of the home reversion plan and subject to change in the future, the amount of that fee, along with a statement that this is the 'current fee'.

If any fees are to be deducted from the amount to be released, this must be stated alongside each fee.

If the customer has the option of deducting from the amount to be released any of the fees included in this section, the following text must be included: "If you wish you can deduct [this/these/the {type of fee}] fee(s) from the amount to be released under this home reversion plan. This will reduce the
amount you get to £ [insert amount of the amount to be released minus the fee(s)]. If you want to do this, you should ask for another illustration that shows the effect of this on the amount you will get."

"Other fees" will include any fee charged by a reversion intermediary, or another third party, for advising on or arranging a home reversion plan, but not commission or procuration fees (which are dealt with in Section 12 of the illustration).

A reversion provider must provide a tariff of charges to the customer, if the customer so requests.

Section 10 of a home reversion plan illustration: "Insurance"

(1) Under the section heading "Insurance" the illustration must include details of:

(a) insurance which is a tied product; and

(b) insurance which is required as a condition of the home reversion plan which is not a tied product.

(2) Under this section heading a firm may also provide details of insurance which is optional for the customer to take out.

(3) It must be clear to the customer which products he is required to purchase under which circumstances (for example, where both a tied product and a reversion intermediary are involved, whether the policy must be purchased from the reversion provider or the reversion intermediary).

The following information must be included if the home reversion plan requires the customer to take out insurance that is a tied product either through the reversion provider or the reversion intermediary:

(1) details of which insurance is a tied product;

(2) the name of the firm imposing the requirement for the insurance;

(3) for how long the customer is obliged to purchase the insurance;

(4) an accurate quotation or a reasonable estimate of any payments the customer needs to make for the insurance;

(5) where a quotation is provided for insurance on the basis of an estimated sum insured, because the actual required sum insured is unknown, the fact that it is estimated should be stated along with the level of cover that has been assumed;
(6) details of when the customer's payments for such insurance change, for example, if premiums are reviewed annually; and

(7) where a quotation is not provided, a statement of when and how a quotation will be provided (for example, separately and as soon as possible).

9.4.161 A firm must provide a customer with an accurate quotation for any tied products (see MCOB 5.4.23 R). Where the level of cover the firm requires the customer to take up is known at the outset, then the quotation should reflect that level of cover.

9.4.162 If the home reversion plan does not require the customer to take out insurance as a tied product, a statement must be provided under this section that the customer is not obliged to take out insurance through the reversion provider or the reversion intermediary.

9.4.163 The following information must be included if the insurance required, as a condition of the home reversion plan, is not a tied product:

(1) a brief statement of the type of insurance the firm requires; a quotation for such insurance may be included in the illustration, estimated where necessary; and

(2) if a charge is made if the customer does not arrange insurance through the reversion provider or the reversion intermediary, this must be stated, together with the amount of the charge and the frequency with which this charge is payable.

9.4.164 A firm may include in the illustration, quotations (estimated where necessary) for any insurance products (other than the insurance products covered elsewhere in the illustration) that the firm issuing the illustration wishes to sell to the customer.

9.4.165 (1) If any quotations for insurance are included in the illustration it:

(a) must include a brief description of the type of insurance;

(b) must include the total price to be paid by the customer in a column on the right hand side of the illustration under the heading "[insert frequency of payments quoted] payments"; and

(c) may refer the customer to the relevant insurance product disclosure documentation.

(2) If the customer has asked to deduct any insurance premiums or insurance-related charges from the amount released, the illustration must state that this is the case.
The terms on which an insurance premium has been calculated should be presented to the customer in the format determined by the relevant regulatory requirements.

Section 11 of a home reversion plan illustration: "What happens if you do not want this home reversion plan any more?" 

Under the heading "What happens if you do not want this home reversion plan any more?", the illustration must set out whether the customer can cancel the home reversion plan and if so, explain any relevant conditions attached and costs.

Section 12 of a home reversion plan illustration: "Using a home reversion intermediary"

Where the illustration is issued to a customer by, or on behalf of, a reversion intermediary Section 12 "Using a home reversion intermediary" must be included in the illustration and must include the following:

1. a clear statement of the amount payable (either directly or indirectly) by the reversion provider to the reversion intermediary, or to any third parties; and
2. the name of the reversion provider who will make the payment, the name of the reversion intermediary and the names of any third parties who will be paid.

If the amount payable by the reversion provider to the reversion intermediary and to third parties is £250 or less, the reversion intermediary need only state that the amount of the payment is "no more than £250", unless the customer requests the actual amount.

If the reversion intermediary will pass to the customer all or part of the amount payable to the reversion intermediary by the reversion provider, that fact may be stated in this section, along with the amount payable to the customer.

If the reversion provider will make no payment to the reversion intermediary or any third party, this section may state that the reversion intermediary will receive no payment.

The amount disclosed as payable to the reversion intermediary or third parties must include, but is not limited to:

1. any procuration fee; and
2. a cash value for any material non-cash inducements that the reversion provider provides, whether payable directly or indirectly.

Any material inducements provided by a reversion provider, whether directly or indirectly, to a reversion intermediary or third party (unless the payment only reflects the cost of outsourcing work relating to the processing of home reversion applications by a firm
unconnected to the *reversion intermediary*) must be quantified in cash terms (see MCOB 2.3.7 R). This enables the cash values to be included in the *illustration*.

9.4.174 An example of a statement which would comply with MCOB 9.4.168 R would be: "[name of reversion provider] will pay [name of reversion intermediary] £[x] in cash and benefits, if you proceed with this home reversion plan."

**Contact details**

9.4.175 This section must:

(1) follow Section 11 "What happens if you do not want this home reversion plan any more?", unless the *illustration* is issued by a *reversion intermediary*, in which case it must follow Section 12 "Using a home reversion intermediary"; and

(2) include the name, address and contact point of the *firm* providing the *illustration*.

9.4.176 An example would be: "If you wish to discuss this home reversion plan illustration, please contact [name of individual] at [address] or call [him/her] on [telephone number]."
9.5 Disclosure at the offer stage for equity release transactions

9.5.1

(1) ■ MCOB 6.1 to ■ MCOB 6.6 (with the modifications stated in ■ MCOB 9.5.2 R to ■ MCOB 9.5.4 R) apply to an equity release provider where the home finance transaction is an equity release transaction, except that those provisions that by their nature are only relevant to regulated mortgage contracts do not apply to home reversion plans (see ■ MCOB 9.1.2A G).

(2) The table in ■ MCOB 9.5.2 R shows how the relevant rules and guidance in ■ MCOB 6 must be modified by replacing the cross-references with the relevant cross-references to rules and guidance in ■ MCOB 9.4, and ■ MCOB 9.5.

(3) The table in ■ MCOB 9.5.3 R replaces certain rules and guidance in ■ MCOB 6 with rules and guidance from ■ MCOB 9.5.

(4) The terms and expressions in the rules and guidance in ■ MCOB 6 that by their nature are only connected to regulated mortgage contracts must be replaced with the appropriate equivalent terms and expressions for home reversion plans (see ■ MCOB 9.3.1A G).

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#### 9.5.3

Table 9.5.3

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#### 9.5.4

The illustration provided as part of the offer document in accordance with MCOB 6.4.1 R(1) must meet the requirements of MCOB 9.4, with the following modifications:

(1) the illustration must be suitably adapted and revised to reflect the fact that the firm is making an offer to a customer and updated to reflect changes to, for example, for a lifetime mortgage the interest rate, charges, the exchange rate or the...
APR required by MCOB 10 (Annual Percentage Rate) at the date the illustration is issued;

(2) the illustration must be based on the example term estimated in accordance with MCOB 9.4.10 R;

(3) MCOB 9.4.2 R(2)(a) does not apply;

(4) MCOB 9.4.17 R (Information to be included at the head of the illustration) does not apply;

(5) Section 1: 'About this information' is replaced by the following:

"Section 1: 'About this offer document'. Under the section heading 'About this offer document', the following text must be included:

(a) "You are not bound by the terms of this offer document until [insert relevant circumstances, including the names of any documents that must be signed. For example "you have signed the legal charge and the funds are released for your lifetime mortgage"] or "you have signed the agreement to sell your property to the reversion provider"][2]. We are required by the Financial Services Authority (FSA) - the independent watchdog that regulates financial services - to provide you with this offer document."

(b) (unless the offer document is being provided in place of an illustration )"You should compare this offer document with the key facts illustration given to you before you applied for this [lifetime mortgage] [home reversion plan], to see how the details may have changed."

(6) either:

(a) The heading for Section 2 is replaced with 'Which service did we provide you with?' and the following text should be presented as two options each with a 'check box', one of which must be marked prominently to indicate the level of service provided to the customer: "We have recommended, having assessed your needs, that you take out this [lifetime mortgage] [home reversion plan]." "We have not recommended a particular [lifetime mortgage] [home reversion plan] for you. You must make your own choice whether to accept this [lifetime mortgage] [home reversion] offer."; or

(b) if the service described in Section 2 of the earlier illustration was provided by another firm, the heading for Section 2 is replaced by 'Which service were you provided with?' and the following text should be presented as two options each with a 'check box' one of which must be marked prominently to indicate the level of service provided to the customer: "[name of firm] recommended that you take out this [lifetime mortgage]
"[name of firm] did not recommend a particular [lifetime mortgage] [home reversion plan], for you. You must make your own choice whether to accept this [mortgage] [home reversion] offer."

(7) the fees recorded in the illustration that is part of the offer document must include any fees paid or payable by the customer;

(8) any requirements to disclose whether a fee is refundable must be read as including fees that have already been paid;

(9) [deleted]

(10) for a lifetime mortgage:

(a) where additional features are included in accordance with MCOB 9.4.91 R and these are credit facilities regulated by the Consumer Credit Act 1974, the relevant parts of Section 14 of the illustration that is part of the offer document must include the following text: "This credit facility is regulated under the Consumer Credit Act 1974. Please refer to the separate credit agreement which describes the facility and the terms on which the credit is available."

(b) The text required by MCOB 9.4.102 R (2)(a) or MCOB 9.4.102 R (2)(b) should be adapted to include, or tell the customer where they can find, the information required by MCOB 6.5.4 R; and

(c) MCOB 9.4.119 R and MCOB 9.4.120 R apply to the illustration that is part of the offer document if the illustration given out in accordance with MCOB 9 was issued by, or on behalf of, a mortgage intermediary.

For home reversion plans, the firm must provide the customer with copies of the valuation report for the property and the terms of the home reversion plan including the terms on which he will occupy the property, together with the offer document.
9.6 Disclosure at the start of the contract and after sale for equity release transactions

9.6.1

(a) MCOB 7.1 to MCOB 7.3, MCOB 7.5 and MCOB 7.6 (as modified by this section) apply to a firm where the home finance transaction is a lifetime mortgage.

(b) MCOB 7.1 to MCOB 7.3 (as modified by this section) apply to a firm where the home finance transaction is a home reversion plan, except that those provisions that by their nature are only relevant to regulated mortgage contracts do not apply to home reversion plans (see MCOB 9.1.2A G).

(2) The table in MCOB 9.6.2 R shows how the relevant rules and guidance in MCOB 7 must be modified by replacing the cross-references with the relevant cross-references to rules and guidance in MCOB 9.4 to MCOB 9.8.

(3) The table in MCOB 9.6.3 R replaces certain rules and guidance in MCOB 7 with rules and guidance from MCOB 9.7 and MCOB 9.8.

(4) The table in MCOB 9.6.4 R disapplies certain rules in MCOB 7 for the purposes of MCOB 9.

(5) The terms and expressions in MCOB 7 that by their nature are only connected to regulated mortgage contracts must be replaced with the appropriate equivalent terms and expressions for home reversion plans (see MCOB 9.3.1A G).

9.6.2

Table Table of modified cross-references to other rules:

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Disclosure at the start of the contract: 
lifetime mortgages

9.7 Disclosure at the start of the contract:

lifetime mortgages

9.7.1 MCOB 9.7 applies to a firm when it enters into a lifetime mortgage.

Disclosure requirements where interest payments are required

9.7.2 A firm that enters into a lifetime mortgage with a customer where interest payments are required (whether or not they will be collected by deduction from the income from an annuity or other linked investment product) must provide the customer with the following information before the customer makes the first payment under the contract:

1. the amount of the first payment required;
2. the amount of the subsequent payments;
3. the method by which the payments will be collected (for example, by direct debit or by deduction from a linked investment product such as an annuity) and the frequency of such payments and the date of collection of the first and subsequent payments;
4. the net amount which the customer will receive, where the interest payment is deducted from the income generated by a linked investment product such as an annuity, and the method by which this amount will be paid to the customer;
5. confirmation of whether in connection with the lifetime mortgage insurance products such as buildings and contents insurance or payment protection insurance) have been purchased through the firm;
6. the first premium (and subsequent premiums where different) for insurance products purchased through the firm in connection with the lifetime mortgage;
7. confirmation of whether the insurance premiums are to be collected with the mortgage payment or separately (where the latter applies, the firm must give details or state that these will be confirmed separately);
(8) confirmation that the lifetime mortgage is on an interest-only basis, and details of how the firm expects the capital to be repaid (for example, from the proceeds of the sale of the property);

(9) if it is possible for arrears to occur, what to do if the customer falls into arrears, explaining the benefit of making early contact with the firm, providing the name, address and telephone of a contact point with the firm, and drawing the customer's attention to the arrears charges set out in the tariff of charges;

(10) confirmation of any linked borrowing and linked deposits that are available; and

(11) whether the lifetime mortgage permits the customer to make any overpayments or underpayments of the amounts due.

The information in ■ MCOB 9.7.2 R must be provided to the customer in a single communication, except (5), (6) and (9) which may be provided separately.

Disclosure requirements where the regulated lifetime mortgage contract is a drawdown mortgage with fixed payments to the customer

A firm that enters into a lifetime mortgage which is a drawdown mortgage, with fixed payments to the customer, must provide the customer with the following information before the first payment is drawn down by the customer:

(1) the amount of the first payment to be made;

(2) the amount of subsequent payments, if different;

(3) the method by which the payment will be made (for example, by transfer to the customer's bank account) and the date of issue of the first and subsequent payments;

(4) confirmation of whether in connection with the lifetime mortgage insurance products such as buildings and contents insurance or payment protection insurance) have been purchased through the firm;

(5) the first premium (and subsequent premiums where different) for insurance products purchased through the firm in connection with the lifetime mortgage;

(6) confirmation of the method and date of collection of the premiums for insurance products purchased through the firm;
(7) details of how the firm expects the capital and interest to be repaid (for example from the proceeds of the sale of the property);

(8) confirmation of any linked borrowing and linked deposits that are available; and

(9) whether the lifetime mortgage permits the customer to make any repayments on the lifetime mortgage.

9.7.5 The information in MCOB 9.7.4 R must be provided to the customer in a single communication, except (4), (5) and (6) which may be provided separately.

9.7.6 Disclosure requirements where the regulated lifetime mortgage contract is a drawdown mortgage without fixed payments to the customer. Where the lifetime mortgage is a drawdown mortgage and the customer can choose the amount and frequency of the payments they receive, or the amount and frequency of payments can vary for other reasons (for example in line with interest rates) the firm must provide the customer with the following information before the first payment is drawn down by the customer:

(1) (a) where the customer can choose the amount and frequency of the payments they receive, details of any limitations to the amount and frequency of the payments which the customer may request; or

(b) where the amount and frequency of payments can vary for other reasons (for example in line with interest rates), the amount of the first payment and details of how the amount and frequency of the payments can be varied in future;

(2) the method by which the payment will be made (for example, by transfer to the customer’s bank account);

(3) confirmation of whether in connection with the lifetime mortgage insurance products such as buildings and contents insurance or payment protection insurance) have been purchased through the firm.

(4) the first premium (and subsequent premiums where different) for insurance products purchased through the firm in connection with the lifetime mortgage;

(5) confirmation of the method and date of collection of the premiums for insurance products purchased through the firm;

(6) details of how the firm expects the capital and interest to be repaid (for example from the proceeds of the sale of the property;
(7) confirmation of any linked borrowing and linked deposits that are available; and

(8) whether the lifetime mortgage permits the customer to make any repayments on the lifetime mortgage.

The information in MCOB 9.7.6 R must be provided to the customer in a single communication, except (3), (4) and (5) which may be provided separately.

Disclosure requirements where a lump sum payment is made to the customer and interest is rolled up

Where the lifetime mortgage provides for a lump sum payment to be made to the customer, and all or part of the interest will be rolled up during the life of the mortgage, the firm must provide the customer with the following information before the customer makes the first payment under the contract, or if no payments are required from the customer, within seven days of completion of the mortgage:

(1) if no payments are required from the customer, confirmation that no payments are required and details of how the firm expects the capital and interest to be repaid (for example from the proceeds of the sale of the property);

(2) if payments are required from the customer:

(a) the amount of the first payment required;
(b) the amount of the subsequent payments;
(c) the method by which the payments will be collected, the frequency of such payments and the date of collection of the first and subsequent payments; and
(d) what to do if the customer falls into arrears, explaining the benefit of making early contact with the firm, providing the name, address and telephone of a contact point with the firm, and drawing the customer’s attention to the arrears charges set out in the tariff of charges;

(3) confirmation of whether in connection with the lifetime mortgage insurance products such as buildings and contents insurance or payment protection insurance have been purchased through the firm.

(4) the amount of the first premium (and subsequent premiums where different) for insurance products purchased through the firm in connection with the lifetime mortgage;
(5) confirmation of the method and date of collection of the premiums for insurance products purchased through the firm in connection with the lifetime mortgage;

(6) confirmation of any linked borrowing and linked deposits that are available; and

(7) whether the lifetime mortgage permits the customer to make any overpayments or underpayments of the amounts due.

The information in MCOB 9.7.8 R must be provided to the customer in a single communication, except (3) (4) and (5) which may be provided separately.

**Record keeping requirements**

(1) A firm must make and retain an adequate record of the information that it provides to each customer at the start of the lifetime mortgage in accordance with this section.

(2) The record required by (1) must be maintained for a year from the date that the information is provided to the customer.
9.8 Disclosure after sale: lifetime mortgages

Annual statements: content

The statement required by MCOB 7.5.1 R must contain the following information:

(1) except in the case of mortgage credit cards, information on the type of lifetime mortgage, (for example, fixed rate or variable rate) including a clear statement of how the firm expects the capital, or capital and interest (whichever is applicable) to be repaid (for example, from the proceeds of the sale of the property);

(2) details of the following transactions and information on the lifetime mortgage during the period since the last statement (or, where the statement is the first statement, since the customer entered into the lifetime mortgage):

(a) (if applicable) the date and amount of each payment made by the customer;

(b) (if applicable) the amount of each payment that was due from the customer during the statement period;

(c) for drawdown mortgages, the date and amount of each payment made to the customer;

(d) the rates(s) of interest applicable to the lifetime mortgage during the statement period and, if applicable, the date(s) on which the rate(s) of interest changed;

(e) the amount of interest charged under the lifetime mortgage during the statement period; and

(f) any other amounts charged under the lifetime mortgage during the statement period, including fees and any amounts due in relation to tied products;

(3) where it is possible for arrears to occur, a reminder that the customer should contact the firm if they are unable to make their regular payments under the lifetime mortgage; and
(4) information at the date the statement is issued on:

(a) the amount owed by the customer under the lifetime mortgage;

(b) the date at which any early repayment charges on the lifetime mortgage cease to apply, and the circumstances under which they will not apply;

(c) where applicable, the early repayment charge that applies, expressed as a monetary amount (see MCOB 9.4.83 R);

(d) the cost of redeeming the lifetime mortgage at the date that the statement is issued (this must be shown as the sum of MCOB 9.8.1 R(4)(a) and MCOB 9.8.1 R(4)(c) plus any linked borrowing that cannot be retained (including the outstanding balances) plus any other charges that can be quantified at the date the statement is issued). If additional charges are payable that cannot be quantified at the point that the statement is issued (for example if the customer is in arrears) a warning must be included to that effect; and

(e) where applicable, the date on which the requirement for the customer to purchase any tied products from the firm comes an end.

Where a firm provides a customer with a statement containing the information set out in MCOB 9.8.1 R(2) more frequently than once a year, the information set out in MCOB 9.8.1 R(1), MCOB 9.8.1 R(3) and MCOB 9.8.1 R(4) may be provided in a separate communication, but must be provided at least once a year.

Event driven information

A firm must give the customer reasonable notice, in advance, of any of the following:

(1) any changes to the payments that the customer is required to make (where payments are required, and whether or not they are collected by deduction from the income provided by a linked investment product such as annuity) resulting from interest rate changes;

(2) the exercising of the firm’s right (if allowed by the terms of the lifetime mortgage) to enter the property to carry out essential repairs and maintenance (the cost must be confirmed to the customer where this will be added to the mortgage debt); and

(3) any material change by the firm (other than changes which come within MCOB 7.6.2 R or are included in MCOB 9.8.3 R(1) and (2)) to the terms and conditions of the lifetime mortgage, where that change is permitted without the customer’s prior consent.
9.8.4  Examples of where MCOB 7.6.5 R will apply are the release of tranches of money to the customer in relation to a self-build mortgage or other instalment mortgage, but not a drawdown mortgage.

Further advances

9.8.5  The illustration provided in accordance with MCOB 7.6.7 R must;

(1) be based on the amount of the further advance only;

(2) use the term 'additional borrowing' in place of the term 'lifetime mortgage' where appropriate throughout the titles and text of the illustration;

(3) include an additional section headed: 'Total borrowing' and numbered '9' after Section 8, (with subsequent sections of the illustration renumbered accordingly) including the following text:

(a) "This section gives you information about how your lifetime mortgage will be affected by taking out this additional borrowing. Talk to [your mortgage lender] [insert name of mortgage lender] if you are not sure of the details of your current lifetime mortgage."

(b) a clear statement explaining the total amount that the customer will owe if he takes out the additional borrowing; and,

(i) where payments are required on the lifetime mortgage, what the customer's new payments will be; or

(ii) where the lifetime mortgage is a roll-up of interest mortgage, the effect on the amount the customer would owe at the end of the estimated term and details of the estimated term that has been used (see MCOB 9.8.6 G for guidance on the estimated term).

9.8.6  The estimated term required at MCOB 9.8.5 R(3)(b)(ii) may be:

(1) the term originally estimated in accordance with MCOB 9.4.10 R; or

(2) where the term originally estimated in accordance with MCOB 9.4.10 R has expired, a revised estimate in accordance with MCOB 9.4.10 R; or

(3) a term of the customer's choice, if the customer expresses a preference.

9.8.7  MCOB 9.4.18 R is replaced with the following:"Section 1: 'About this information'Under the section heading 'About this information', the
following text must be included: "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 illustrations, like this one, that contain similar information presented in the same way."

9.8.8 R
[deleted]

Changes to payments, amounts drawn down and amount owed

9.8.9 R
If a customer requests, or agrees to, a change to a lifetime mortgage (other than a change as described in MCOB 7.6.7 R to MCOB 7.6.27 R (as modified by MCOB 9)) that changes the amount of each payment due (where payments are required), a firm must provide the customer with the following information, in a single communication, before the change takes effect:

(1) the amount outstanding on the lifetime mortgage at the date the change is requested;

(2) the payment due and the frequency of payments; where it is known that the payment will change (for example at the end of a fixed rate period), the new payment and the date of the change must also be shown;

(3) the rate of interest applying to the lifetime mortgage; where it is known that the rate of interest will change, the new rate and the date of the change must also be shown;

(4) the type of interest rate (for example fixed, or discounted); where it is known that the type of interest rate will change the new type and the date of the change must also be shown;

(5) details of any charges that apply for changing the lifetime mortgage.

9.8.10 R
If a customer requests, or agrees to, a change to a lifetime mortgage (other than a change as described in MCOB 7.6.7 R to MCOB 7.6.27 R (as modified by MCOB 9)) that changes the amount paid to the customer under a drawdown mortgage, or the amount that the customer will owe under a roll-up of interest mortgage, or both, a firm must provide the customer with the following information, in a single communication, before the change takes effect:

(1) the amount outstanding on the lifetime mortgage at the date the change is requested;

(2) (if applicable) the revised amount to be paid to the customer under the drawdown mortgage and the frequency of payments;
(3) (a) an estimate of the revised amount that will be owed at the end of the term; or

(b) (if the original term has expired) a revised estimate;

in accordance with MCOB 9.4.10 R;

(4) the rate of interest applying to the lifetime mortgage; where it is known that the rate of interest will change, the new rate and the date of the change must also be shown;

(5) the type of interest rate (for example fixed, or discounted); where it is known that the type of interest rate will change the new type and the date of the change must also be shown; and

(6) details of any charges that apply for changing the lifetime mortgage.
9.9 Disclosure after sale: home reversion plans

Provision of statements: instalment reversion plans

9.9.1 (1) In relation to an instalment reversion plan, a firm must provide the customer with a statement at least once a year (or, in relation to the first statement, within the first 13 months of the plan term):

(a) covering the instalment reversion plan and any tied product purchased through the firm; and

(b) giving information of any other product purchased through the firm where the payments for those products are combined with amounts released under the instalment reversion plan.

(2) A firm need not provide a statement if it has provided an offer document to the customer in respect of the instalment reversion plan within the previous year.

Where a tied product is operated separately from the instalment reversion plan, for example where the premiums on a tied insurance product are not combined with amounts released under the instalment reversion plan, the statement relating to the tied product may be provided in a separate communication.

Annual statement for instalment reversion plans: content

9.9.3 The statement must contain:

(1) details of the following transactions during the period since the last statement (or, where it is the first statement, since the customer entered into the instalment reversion plan):

(a) the date and amount of each payment made by the reversion provider; and

(b) any amounts charged under the instalment reversion plan during the statement period, including fees and any amounts due in relation to tied products;

(2) information at the date the statement is issued on:
(a) the amount owed by the reversion provider to the customer under the instalment reversion plan;

(b) if the amount to be received by the customer under the instalment reversion plan is linked to the performance of another investment, the amount to be received (or estimated amount likely to be received) by the customer;

(c) the actual remaining term of the instalment reversion plan (but if the term of the instalment reversion plan is open-ended this should be clearly stated);

(d) where applicable, the date on which the requirement for the customer to purchase any tied products from the firm ends; and

(e) the proportion of the property that is owned by the reversion provider and reversion occupier respectively.

Annual statement for instalment reversion plans: additional content if tariff of charges has changed

If the tariff of charges has changed since the last annual statement was sent to the customer (or, where it is the first statement, since the customer entered into the instalment reversion plan) and a firm has not already sent a revised tariff of charges, it must include one with the annual statement.

Event-driven information for instalment reversion plans: material changes

A firm must give the customer reasonable notice of any material change by the firm to the terms of the instalment reversion plan, where the change is permitted without the customer’s prior consent.

Responsibilities of reversion providers and administrators: instalment reversion plans

The reversion administrator and reversion provider may agree who will be responsible for producing and providing to the customer the statement and information required by this section.

The reversion administrator is solely responsible for producing and providing to the customer the information required by this section if the provider is an unauthorised reversion provider.

Further releases: all home reversion plans

If the customer wants to release further equity from the property through a home reversion plan, the firm must treat this transaction as a new home reversion plan, even if the parties to the arrangement are the same.
This annex consists only of one or more forms. Forms are to be found through the following address:

*The illustration: table of contents, prescribed text and prescribed section headings and subheadings (R) - [www.fsa.gov.uk/pubs/other/mcob_forms/mcob9_annex1.pdf](http://www.fsa.gov.uk/pubs/other/mcob_forms/mcob9_annex1.pdf)*
This annex forms part of MCOB 9.4.2 R.

This annex consists only of one or more forms. Forms are to be found through the following address:

The illustration: table of contents, prescribed text and prescribed section headings and sub-headings - www.fsa.gov.uk/pubs/other/mcob_forms/mcob9_annex2R.pdf
10.1 Application

10.1.1 This chapter applies to a firm which, under rules elsewhere in MCOB, is required to calculate an annual percentage rate of charge (APR) or is required to use an approach equivalent to that set out in this chapter in calculating a comparative cost measure equivalent to an APR.
The purpose of this chapter is to establish the requirements for the proper calculation of the APR. As a cost measure which facilitates comparisons between similar mortgages offered on a similar basis, the APR is an integral element of the rules relating to qualifying credit promotions and disclosure.
10.3 Formula and assumptions for calculating the APR

The APR must be calculated so that, subject to MCOB 10.3.1B R(3), the *annual percentage rate* of charge is the rate for \( i \) which satisfies the equation set out in MCOB 10.3.1A R, expressed as a percentage.

**Formula for calculating the APR**

\[
\sum_{k=1}^{m} \frac{A_k}{(1+i)^k} = \sum_{k=1}^{m'} \frac{A'_{k'}}{(1+i)^k'}
\]

where:
- \( k \) is the number identifying a particular advance of credit;
- \( k' \) is the number identifying a particular instalment;
- \( A_k \) is the amount of advance \( k \);
- \( A'_{k'} \) is the amount of instalment \( k' \);
- \( \sum \) represents the sum of all the terms indicated;
- \( m \) is the number of advances of credit;
- \( m' \) is the total number of instalments;
- \( i \) is the interval, expressed in years, between the *relevant date* and the date of the second advance and those of any subsequent advances numbered three to \( m \) and
- \( i' \) is the interval, expressed in years, between the *relevant date* and the dates of instalments numbered one to \( m' \).

(1) In MCOB 10.3.1A R, references to instalments are references to any payment made by or on behalf of the *customer* which comprise:

(a) a repayment of all or part of the credit under the contract; or

(b) a payment of all or part of the *total charge for credit*; or

(c) both a repayment of all or part of the credit and a payment of all or part of the *total charge for credit*. 
(2) Where more than one rate is given under MCOB 10.3.1 R, the APR is the positive rate nearest to zero or, if no positive rate is given, the negative rate nearest to zero.

This calculation method is the same (with the exception of MCOB 10.3.8 R(1) and (2)) as that described in the Consumer Credit (Total Charge for Credit) Regulations 1980 (SI 1980/51) as amended. Because of this, some of the terminology is different from that used elsewhere in MCOB, e.g. the references to 'transactions' should be read as relating to secured lending. As a guide for firms, MCOB 10 Annex 1 lists the substantively identical provisions in MCOB 10 and the 1980 Regulations.

APR calculation: assumptions as to the credit provided

(1) The APR must be calculated on the basis of the following assumptions:

(a) the assumption that the customer will not be entitled to any income tax relief relating to the transaction other than relief under sections 266-7 of the Income and Corporation Taxes Act 1988 and Schedule 14-15 to the same Act without any deduction under section 274 of the Income and Corporation Taxes Act 1988;

(b) the assumption that no assistance is given under the Home Purchase Assistance and Housing Corporation Guarantee Act 1978;

(c) (i) in the case of a transaction which provides for repayment of the credit or of the total charge for credit at or not later than a specified time or times, the assumption that the mortgage lender or mortgage administrator will not exercise any right under the transaction to require repayment at any other time or times; and

(ii) in any other case, the assumption that the mortgage lender or mortgage administrator will not exercise any right under the transaction to require payment; the customer, in any case, performing all his obligations under the transaction;

(d) unless (e) applies, in the case of a transaction which provides for variation of the rate or amount of any item included in the total charge for credit in consequence of the occurrence after the relevant date of any event, the assumption that the event will not occur; and, in this sub-paragraph, 'event' means an act or omission of the customer or of the mortgage lender or mortgage administrator or any other event (including, where the transaction makes provision for variation upon the continuation of any circumstance, the continuation of that circumstance) but does not include an event which is certain to occur and of which the date of occurrence, or the earliest date of occurrence, can be ascertained at the date of the making of the agreement; and
(e) in the case of a secured lending contract which provides for the possibility of any variation of the rate of interest in consequence of the occurrence after the relevant date of any event (being an event which is certain to occur and of which the date of occurrence, or the earliest date of occurrence, can be ascertained at the date of the making of the agreement), the assumption that such a variation will, when the event occurs, take place.

(2) For the purposes of this chapter:

(a) an item included in the total charge for credit must not be treated as credit, even if time is allowed for its payment;

(b) subject to (c) and to MCOB 10.3.13 R, in the case of any agreement, each provision of credit and each repayment of the credit and of the total charge for credit must be taken to be made:

(i) at the earliest time provided under the transaction; and

(ii) in a case where any such provision or repayment is to be made at or not later than a specified time, at that time;

and, where any such repayment is to be made before the relevant date, it must be taken to be made on the relevant date;

(c) where, under an agreement for running-account credit or an agreement for fixed-sum credit where the credit is not repayable at specified intervals or in specified amounts, a constant period rate of charge in respect of periods of equal or of nearly equal length is charged, it must be assumed, despite MCOB 10.3.12 R, that:

(i) the amount of credit outstanding at the beginning of a period is to remain outstanding throughout the period;

(ii) the amount of any credit provided during a period is provided immediately after the end of the period; and

(iii) any repayment of credit or of the total charge for credit made during a period is made immediately after the end of the period; and

(d) it must be assumed that the amount of any repayment of credit or of the total charge for credit will, at the time when the repayment is made, be the smallest for which the agreement provides.
Where the APR, as calculated in accordance with MCOB 10.3.1 R, has more than one decimal place it must be rounded to one decimal place as follows:

1. Where the figure at the second decimal place is greater than or equal to five, the figure at the first decimal place must be increased by one and the decimal place (or places) following the first decimal place must be disregarded; and

2. Where the figure at the second decimal place is less than five, that decimal place and any decimal places following it must be disregarded.

For the purposes of calculations under this chapter, the length of any period must be calculated as follows:

1. A period which is not a whole number of calendar months or a whole number of weeks must be counted in years and days;

2. Subject to (3), a period which is a whole number of calendar months or a whole number of weeks must be counted in calendar months or in weeks, as the case may be;

3. Where a period is both a whole number of calendar months and a whole number of weeks and:
   a. One repayment only is to be made, the period must be counted in calendar months,
   b. More than one repayment is to be made:
      i. If all such repayments are to be made at intervals from the relevant date of one or more weeks, the period must be counted in weeks; and
      ii. In any other case, the period must be counted in calendar months;

4. A period which is to be counted:
   a. In calendar months must be taken to be of a length equal to the relevant number of twelfth parts of a year;
   b. In weeks, must be taken to be of a length equal to the relevant number of fifty-second parts of a year.

5. A day may be taken to be either:
(a) one three hundred and sixty-fifth part of a year or, if it is a leap year, one three hundred and sixty-sixth part of a year; or

(b) one three hundred and sixty-fifth and a quarter part of a year.

(6) Every day must be taken to be a business day.

**APR calculation: necessary assumptions**

10.3.6 R

(1) **MCOB 10.3.7 R** to **MCOB 10.3.13 R** apply for the purpose of the calculation of the total charge for credit and of the rate of that charge in respect of matters necessary for the calculation which cannot be ascertained by the mortgage lender or mortgage administrator at the date of the making of the agreement.

(2) In a case where **MCOB 10.3.7 R** and one or more of **MCOB 10.3.8 R** to **MCOB 10.3.13 R** are applicable, **MCOB 10.3.7 R** must be applied first.

**APR calculation: assumptions as to the amount of credit**

10.3.7 R

(1) Where the amount of the credit to be provided under the agreement cannot be ascertained at the date of the making of the agreement:

(a) in the case of an agreement for running-account credit under which there is a credit limit, that amount must be taken to be that credit limit; and

(b) in any other case, that amount shall be taken to be £100.

(2) Where a mortgage lender makes a further advance to the customer in addition to the amount originally borrowed under the regulated mortgage contract, the APR for the further advance must be calculated in respect of the further advance alone (and any related charges), and not in respect of the total amount borrowed.

**APR calculation: assumptions as to the period for which credit is provided**

10.3.8 R

(1) In relation to a lifetime mortgage, where the APR is calculated for the purpose of a financial promotion it must be assumed that the credit is being provided for a period of 15 years beginning with the relevant date.

(2) In relation to a lifetime mortgage, where the APR is calculated for the purpose of an illustration, the period for which the credit is to be provided must be calculated in accordance with **MCOB 9.4.10 R** or **MCOB 9.4.12 R**.
(3) Where, in any other case, the period for which credit is to be provided is not ascertainable at the date of the making of the agreement, it must be assumed that credit is provided for one year beginning with the **relevant date**.

**APR calculation: assumption where rate or amount is referenced to another factor**

Subject to MCOB 10.3.10 R, where the rate or amount of any item included in the total charge for credit, or the amount of any repayment of credit under a transaction, is to be ascertained by reference to the level of any index or other factor in accordance with a specified formula, the rate or amount must be taken to be the rate or amount so ascertained. The formula must be applied as if the level of the index or other factor subsisting at the date of the making of the agreement were that subsisting at the date by reference to which the formula is to be applied.

**APR calculation: assumptions where secured lending contracts provide for the variation in the rate of interest**

(1) The assumptions in MCOB 10.3.10 R(3) and (4) apply to any secured lending contracts which provide for the possibility of any variation of the rate of interest if it is to be assumed, under MCOB 10.3.3 R(1)(e), that the variation will take place but the amount of the variation cannot be ascertained at the date of the making of the agreement.

(2) In this paragraph:

(a) 'initial standard variable rate' means:

(i) the standard variable rate of interest which would be applied by the mortgage lender or mortgage administrator to the agreement on the date of the making of the agreement if the agreement provided for interest to be paid at the mortgage lender or mortgage administrator's standard variable rate with effect from that date; or

(ii) if there is no such rate, the standard variable rate of interest applied by the mortgage lender or mortgage administrator on the day of the making of the agreement in question to other secured lending contracts or, where there is more than one such rate, the highest such rate; taking no account of any discount or other reduction to which the customer would or might be entitled; and

(b) 'varied rate' means any rate of interest charged when a variation of the rate of interest under MCOB 10.3.3 R(1)(e) is to be assumed.

(3) Where a secured lending contract provides a formula for calculating a varied rate by reference to a standard variable rate of interest...
applied by the firm, or any other fluctuating rate of interest, but does not enable the varied rate to be ascertained at the date of the making of the agreement because it is not known on that date what the standard variable rate will be or (as the case may be) at what level the fluctuating rate will be fixed when the varied rate falls to be calculated, it must be assumed that that rate or level will be the same as the initial standard variable rate.

(4) Where a secured lending contract provides for the possibility of any variation in the rate of interest (other than a variation referred to in MCOB 10.3.10 R(3)) which it is to be assumed, under MCOB 10.3.3 R(1)(e), will take place, but does not enable the amount of that variation to be ascertained at the date of the making of the agreement, it must be assumed that the varied rate will be the same as the initial standard variable rate.

**APR calculation: further assumptions**

Where:

10.3.11 Where:

(1) the period for which the credit, or any of it, is to be or may be provided cannot be ascertained at the date of the making of the agreement; and

(2) the rate or amount of any item included in the total charge for credit will change at a time provided in the transaction within one year beginning with the relevant date; the rate or amount must be taken to be the highest rate or amount under the transaction at any time in that year.

10.3.12 Where the earliest date on which credit is to be provided cannot be ascertained at the date of making of the agreement, it must be assumed that credit is provided on that date.

10.3.13 In the case of any transaction, it must be assumed:

(1) that a charge payable at a time which cannot be ascertained at the date of the making of the agreement is to be payable on the relevant date or, where it may reasonably be expected that a customer will not make payment on that date, on the earliest date at which it may reasonably be expected that he will make payment; or

(2) where more than one payment of a charge of the same description is to be made at times which cannot be ascertained at the date of the making of the agreement, that the first such payment will be payable on the relevant date (or, where it may reasonably be expected that a customer will not make payment on that date, at the earliest date on which it may reasonably be
expected that he will make payment), that the last such payment will be payable at the end of the period for which credit is provided and that all other such payments (if any) will be payable at equal intervals between those times.
10.4 Total charge for credit

Make up of the total charge for credit

10.4.1
For the purposes of this chapter, the total charge for credit which may be provided under an actual or prospective agreement is the total (determined as at the date of the making of the agreement) of the charges specified in MCOB 10.4.2 R which apply in relation to the agreement, but excluding the charges specified in MCOB 10.4.4 R.

Items included in the total charge for credit

10.4.2
The amounts of the following charges are included in the total charge for credit in relation to an agreement, with the exceptions in MCOB 10.4.4 R:

1. the total of the interest on the credit which may be provided under the agreement;
2. other charges at any time payable under the transaction by or on behalf of the customer, whether to the firm or any other person; and
3. a premium under a contract of insurance, payable under the transaction by the customer, where the making or maintenance of the contract of insurance is required by the firm:
   a. as a condition of making the agreement; and
   b. for the sole purpose of ensuring complete or partial repayment of the credit, and complete or partial payment to the firm of such of those charges included in the total charge for credit as are payable to him under the transaction, in the event of the death, invalidity, illness or unemployment of the customer;

notwithstanding that the whole or part of the charge may be repayable at any time or that the consideration therefore may include matters not within the transaction or subsisting at a time not within the duration of the agreement.
10.4.3 (1) MCOB 10.4.2 R means, for example, that the following charges must be included within the total charge for credit:

(a) any fee payable to a mortgage intermediary for arranging the contract (see MCOB 10.4.2 R(2)); and

(b) any higher lending charge.

(2) The FSA takes the view that charges required to be included within the total charge for credit should not be excluded on the basis of these charges being refundable in certain circumstances.

(3) The FSA also takes the view that the total charge for credit and APR should not reflect the 'value' of any cashback or similar incentive linked to the contract.

Exclusions from the total charge for credit

10.4.4 (1) The amounts of the following items are not included in the total charge for credit in relation to an agreement:

(a) any charge payable under the transaction to the firm upon failure by the customer to do or to refrain from doing anything which he is required to do or to refrain from doing;

(b) any charge:

(i) which is payable by the firm to any person upon failure by the customer to do or to refrain from doing anything which he is required under the transaction to do or to refrain from doing; and

(ii) which the firm may under the transaction require the customer to pay to him or to another person on his behalf;

(c) any charge relating to a regulated restricted-use credit agreement to finance a transaction between the customer and the firm (whether forming part of that agreement or not), or to finance a transaction between the customer and a person (the "supplier") other than the firm which would be payable if the transaction were for cash;

(d) any charge (other than a fee or commission charged by a credit-broker or mortgage intermediary) not within MCOB 10.4.4 R(1)(c):

(i) of a description which relates to services or benefits incidental to the agreement and also to other services or benefits which may be supplied to the customer; and

(ii) which is payable to fulfil an obligation incurred by the customer under arrangements which were effected before he applied to enter into the agreement and are not arrangements under which the customer is bound to enter into any personal credit agreement;
(e) any charge under arrangements for the care, maintenance or protection of any land or goods (except as in MCOB 10.4.4 R(2));

(f) charges for money transmission services relating to an arrangement for a current account under which the customer may, by cheques or similar orders payable to himself or to any other person, obtain or have the use of money held or made available by the firm and which records alterations in the financial relationship between the firm and customer, being charges which vary with the use made by the customer of the arrangement;

(g) any charge for a guarantee other than a guarantee:
   (i) which is required by the firm as a condition of making the agreement; and
   (ii) the purpose of which is to ensure complete or partial repayment of the credit, and complete or partial payment to the firm of such of those charges included in the total charge for credit as are payable to him under the transaction, in the event of death, invalidity, illness or unemployment of the customer;

(h) charges for the transfer of funds (other than charges within MCOB 10.4.4 R(1)(f)) and charges for keeping an account intended to receive payments towards the repayment of the credit and the payment of interest and other charges, except where the customer does not have reasonable freedom of choice in the matter and where such charges are abnormally high; this does not exclude from the total charge for credit charges for collection of the payments to which it refers, whether such payments are made in cash or otherwise; and

(i) a premium under a contract of insurance other than a contract of insurance referred to in MCOB 10.4.2 R(3).

(2) In the case of a charge within MCOB 10.4.4 R(1)(e), (1) has effect only:

(a) where under the arrangement:
   (i) the services are to be performed if, after the date of the making of the agreement, the condition of the land or goods becomes or is in immediate danger of becoming such that the land or goods cannot reasonably be enjoyed or used; and
   (ii) the charge will not accrue unless the services are performed; or

(b) where:
(i) provision of substantially the same description as that to which the arrangements relate is available under comparable arrangements from a person who is not the firm or a supplier or a credit-broker or a mortgage intermediary who introduced the customer and the firm;

(ii) the arrangements are made with a person chosen by the customer; and

(iii) (if, in accordance with the transaction, the consent of the firm or of a supplier or of the mortgage intermediary or credit-broker who introduced the customer and the firm is required to the making of the agreement), where the transaction provides that such consent may not be unreasonably withheld whether because no incidental benefit will or may accrue to the firm or to the supplier or to the credit-broker or to the mortgage intermediary or on any other ground.

(3) References in MCOB 10.4.4 R (2) to the firm, a supplier, a mortgage intermediary and a credit-broker include references to his near relative, his partner and a member of a group of which he is a member, to any person nominated by him or any such person in relation to the arrangements, and to a near relative of his partner; and 'near relative' means, in relation to any person, the husband, wife, civil partner, father, mother, brother, sister, son or daughter of that person and 'group' means the person (including a company) having control of a company together with all the companies directly or indirectly controlled by him.
This annex is intended as a reference aid for firms familiar with the existing consumer credit legislation regarding the calculation of the APR. This chapter is drafted to be substantively identical to this legislation (the primary differences being the adoption of FSA handbook terminology and the substitution of different internal references). The table gives the appropriate cross-reference for requirements in this chapter and the Total Charge for Credit Regulations.

### Substantively Identical Provisions

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Chapter 11

Responsible lending, and responsible financing of home purchase plans
11.1 Application

Who?

11.1.1 This chapter applies to a firm in a category listed in column (1) of the table in MCOB 11.1.2 R in accordance with column (2) of that table.

11.1.2 Table This table belongs to MCOB 11.1.1 R

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</table>

What?

11.1.3 This chapter applies if a firm:

(1) enters into a regulated mortgage contract or home purchase plan with a customer; or

(2) makes a further advance or varies an existing regulated mortgage contract or home purchase plan to make a further advance to a customer.
This chapter reinforces Principle 6 by requiring a firm to take account of a customer's ability to repay before deciding to enter into, or make a further advance on, a regulated mortgage contract or home purchase plan. The FSA regards it as important that customers should not be exploited by firms that lend in circumstances where they are self-evidently unable to repay through income and yet have no alternative means of repayment.
11.3 Responsible lending, and responsible financing of home purchase plans

Customer's ability to pay

11.3.1 R

(1) A firm must be able to show that before deciding to enter into, or making a further advance on, a regulated mortgage contract, or home purchase plan, account was taken of the customer's ability to repay.

(2) A mortgage lender must make an adequate record to demonstrate that it has taken account of the customer's ability to repay for each regulated mortgage contract that it enters into and each further advance that it provides on a regulated mortgage contract. The record must be retained for a year from the date at which the regulated mortgage contract is entered into or the further advance is provided.

Self-certification of income

11.3.2 R

In taking account of a customer's ability to repay, a firm may rely upon self-certification of income by the customer in circumstances where the firm considers it to be appropriate, having regard to the interests of the customer, and where the firm has no reasonable grounds for doubting the information provided.

11.3.3 G

(1) Examples of the circumstances where the firm may consider self-certification of income to be appropriate for the purposes of MCOB 11.3.2 R include:

(a) where the customer is an existing customer of the firm, with an established and good payment history;

(b) where proof of income is not readily available by virtue of the nature of the customer's employment, the basis of their remuneration, or the sources of their income; or

(c) where the customer has a deadline for entering into the regulated mortgage contract (for example, in an auction sale) and therefore there is insufficient time for the firm to complete its usual enquiries.

(2) The examples in (1) are not exhaustive. There may be other circumstances in which a firm may consider self-certification to be appropriate. It will depend on the circumstances of each case. However, in considering whether self-certification is appropriate, a firm should have regard to its responsibilities to its customers and, in particular, should guard against...
taking any action that would be contrary to Principle 6 and in breach of MCOB 11.3.1 R and MCOB 11.3.2 R.

**Responsible lending policy**

**11.3.4 R**

(1) 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 repay.

(2) A mortgage lender must make and keep up-to-date an adequate record of the policy in (1). When the policy is changed, a record of the previous policy must be retained for a year from the date of change.

**11.3.5 G**

(1) In determining the written policy in accordance with MCOB 11.3.4 R(1), a firm should assume (in the absence of evidence to the contrary) that any regular payments under a regulated mortgage contract will be met from the customer’s income. A firm should therefore take account of the customer’s actual or reasonably anticipated income, or both, in reaching a decision on whether to enter into a regulated mortgage contract with that customer or make a further advance.

(2) Other factors that the FSA would expect to be considered by a firm in taking account of the customer’s ability to repay include:

(a) the level of both initial and subsequent repayments, where known (including, for interest-only mortgages, the cost of any associated repayment vehicle). This means, for example, that where the mortgage cost is significantly discounted for the initial period of a regulated mortgage contract, a mortgage lender should also consider the level of repayments the customer is expected to make at the end of that period, based on interest rates applicable at the time the mortgage lender is considering whether to enter into the regulated mortgage contract or make a further advance; and

(b) whether the customer has the ability to, and intends to, repay, either wholly or partly, from resources other than income. Such resources could include the realisation of investments, or the planned sale of the mortgaged property as in the case of a regulated lifetime mortgage contract.

**11.3.6 G**

Where the regulated mortgage contract is an interest-only mortgage, and the firm is unable to establish the cost of the associated repayment vehicle, the repayments described in MCOB 11.3.5 G(2)(a) may be based on an equivalent repayment mortgage.

**11.3.7 G**

Where MCOB 11.3.5 G(2)(b) applies, the firm should be able to demonstrate the customer’s intention to repay (for example, by reference to information given by the customer on an application form or to correspondence with the customer).

**11.3.8 G**

The record maintained in accordance with MCOB 11.3.1 R(2) should include or provide reference to matters such as:

(1) what checks, if any, the firm has carried out, regarding the customer’s ability to repay; or
(2) evidence that demonstrates the customer’s ability and intention to repay the loan, from resources other than income.
Chapter 12
Charges
12.1 Application

Who?

12.1.1 Table This table belongs to MCOB 12.1.1 R

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<thead>
<tr>
<th>(1) Category of firm</th>
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<tr>
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<td>MCOB 12.1 (except MCOB 12.1.6 R)</td>
</tr>
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<td>mortgage arranger</td>
<td>MCOB 12.2 and</td>
</tr>
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<td>mortgage administrator</td>
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<td>home purchase arranger</td>
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<tr>
<td>home purchase administrator</td>
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<tr>
<td>reversion provider</td>
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(1) Category of firm  
reversion adviser
reversion arranger
reversion administrator

(2) Applicable section
MCOB 12.1, MCOB 12.2, MCOB 12.5.2 R and MCOB 12.5.3 G

What?
This chapter applies where a firm:

(1) enters into, or makes a further advance on, a home finance transaction; or

(2) administers a home finance transaction; or

(3) arranges or advises on a home finance transaction or a variation to the terms of a home finance transaction.

12.1.4 R
The arrears charges and excessive charges requirements in this chapter will continue to apply to a firm after a regulated mortgage contract has come to an end following the sale of a repossessed property. The excessive charges requirements will continue to apply to a firm after a home reversion plan has ended. References in this chapter to 'customer' will include references to a former customer as appropriate.

12.1.5 G
The FSA will expect a firm to ensure that charges made to a customer arising from the sale of a repossessed property and charges arising in relation to a sale shortfall are not excessive and are subject to the same considerations as apply with respect to arrears charges under this chapter.

12.1.6 R
This chapter does not apply to a firm carrying on reversion activities in respect of a customer acting in his capacity as an unauthorised reversion provider.
12.2 Purpose

Principle 6 requires a firm to pay due regard to the interests of its customers and treat them fairly. A firm is also under an obligation, as a consequence of this sourcebook’s disclosure requirements, to make charges transparent to customers. This chapter reinforces these requirements by preventing a firm from imposing unfair and excessive charges.

The level of charges under a regulated mortgage contract or home reversion plan is not typically a matter for regulation. However, in certain limited circumstances, the FSA believes that customers should be protected from unfair and excessive charging practices. This chapter considers four specific circumstances, where:

(a) the charges imposed upon a customer seeking to terminate a regulated mortgage contract before the end of the term of the contract do not reflect the cost of termination to the firm;

(b) the charges imposed on a customer in payment difficulties are not based upon the costs incurred by the firm;

(c) the charges (including rates of interest) imposed on a customer under a regulated mortgage contract or home reversion plan are excessive and contrary to the customer’s interests; and

(d) the charges made to a customer in connection with a firm entering into, making a further advance on, administering, arranging or advising on a regulated mortgage contract or home reversion plan, or arranging or advising on a variation to the terms of a regulated mortgage contract or home reversion plan are excessive.
12.3 Early repayment charges: regulated mortgage contracts

Early repayment charges to be expressed as cash and to be reasonable

12.3.1 A firm must ensure that any regulated mortgage contract that it enters into does not impose, and cannot be used to impose, an early repayment charge other than one that is:

(1) able to be expressed as a cash value; and

(2) a reasonable pre-estimate of the costs as a result of the customer repaying the amount due under the regulated mortgage contract before the contract has terminated.

12.3.2 A firm can choose the method it employs for calculating early repayment charges in accordance with MCOB 12.3.1 R. A firm should not use the 'Rule of 78' (as contained in Schedule 2 of the Consumer Credit (Rebate on Early Settlement) Regulations 1983), which is not appropriate as it effectively overstates the cost to the mortgage lender.

12.3.3 A firm may calculate the same level of early repayment charge for all regulated mortgage contracts of a similar type (for example a tranche of regulated mortgage contracts offering a particular fixed rate of interest), rather than on the basis of the individual regulated mortgage contract with the particular customer.

Early repayment charges to be disclosed in illustrations

12.3.4 Before:

(1) entering into a regulated mortgage contract with a customer; or

(2) making a further advance on an existing regulated mortgage contract; or

(3) changing all or part of a regulated mortgage contract from one interest rate to another; a firm must disclose to the customer:

(a) in the illustration provided in accordance with MCOB 5,
   ■ MCOB 7.6.7 R, ■ MCOB 7.6.18 R, ■ MCOB 7.6.22 R,
   ■ MCOB 7.6.31 R, or ■ MCOB 9; and
(b) in the *illustration* provided as part of the offer document in accordance with MCOB 6.4.1 R(1) and MCOB 9.5;

the maximum amount payable as an *early repayment charge* in respect of that *regulated mortgage contract*, if an *early repayment charge* applies.
12.4 Arrears charges: regulated mortgage contracts

12.4.1 (1) A firm must ensure that any regulated mortgage contract that it enters into does not impose, and cannot be used to impose, a charge for arrears on a customer except where that charge is a reasonable estimate of the cost of the additional administration required as a result of the customer being in arrears.

(2) Paragraph (1) does not prevent a firm from entering into a regulated mortgage contract with a customer under which the firm may change the rate of interest charged to the customer from a fixed or discounted rate of interest to the firm’s standard variable rate if the customer goes into arrears, providing that this standard variable rate is not a rate created especially for customers in arrears.

12.4.2 A firm may calculate the same level of arrears charges for all regulated mortgage contracts where the customer is in arrears, rather than on the basis of the individual regulated mortgage contract with the particular customer.

12.4.3 Firms are also subject to requirements on information provision and standards relating to arrears and repossessions (see MCOB 13 (Arrears and repossessions)).
12.5 Excessive charges: regulated mortgage contracts and home reversion plans

12.5.1 A firm must ensure that any regulated mortgage contract or home reversion plan that it enters into does not impose, and cannot be used to impose, excessive charges upon a customer.

12.5.2 A firm must ensure that its charges to a customer in connection with the firm entering into, making a further advance or further release on, administering, arranging or advising on a regulated mortgage contract or home reversion plan, or arranging or advising on a variation to the terms of a regulated mortgage contract or home reversion plan are not excessive.

12.5.3 When determining whether a charge is excessive, a firm should consider:

(1) the amount of its charges for the services or products in question compared with charges for similar products or services on the market;

(2) the degree to which the charges are an abuse of the trust that the customer has placed in the firm; and

(3) the nature and extent of the disclosure of the charges to the customer.

12.5.4 Mortgage lenders are also subject to requirements relating to responsible lending (see MCOB 11).
12.6 Business loans

12.6.1 *Firms* are reminded that, in relation to a *regulated mortgage contract* for a business purpose in circumstances where MCOB 7.7.1 R applies, if there is a new *early repayment charge* or a change to the existing *early repayment charge*, MCOB 7.7.1 R(2) requires a *firm* to notify the *customer* within five *business days* of the maximum amount payable as an *early repayment charge*.

12.6.2 *Firms* are also reminded that in accordance with MCOB 1.2.3 R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans.
12.7 Home purchase plans

Who?

The FSA believes that Principle 7 requires charges imposed by a firm on customers to be transparent and that imposing unfair or excessive charges is inconsistent with Principle 6.

Note: A firm should also have regard to its obligations under the Unfair Terms Regulations and may find material on the FSA website concerning the FSA’s consumer protection powers useful.
Chapter 13

Arrears and repossessions: regulated mortgage contracts and home purchase plans
13.1 Application

Who?

13.1.1 This chapter applies to a firm in a category listed in column (1) of the table in MCOB 13.1.2 R in accordance with column (2) of that table.

13.1.2 Table: This table belongs to MCOB 13.1.1 R

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<th>(2) Applicable section</th>
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<td>MCOB 13.1-MCOB 13.3, except for MCOB 13.9 R to MCOB 13.3.11 G</td>
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<td>mortgage administrator, and a firm that was a mortgage administrator before the sale of a repossessed property</td>
<td>whole chapter except for MCOB 13.8</td>
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<tr>
<td>home purchase provider, and a firm that was a home purchase provider before the sale of a repossessed property</td>
<td>As for a mortgage lender</td>
</tr>
<tr>
<td>home purchase administrator, and a firm that was a home purchase administrator before the sale of a repossessed property</td>
<td>As for a mortgage lender, plus: MCOB 13.6 and MCOB 13.8; and MCOB 13.4 and MCOB 13.5 in accordance with MCOB 13.8</td>
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</tbody>
</table>

What?

13.1.3 This chapter applies with respect to administering a regulated mortgage contract, administering a home purchase plan and administering a sale shortfall.

13.1.4 The requirements in this chapter will continue to apply to a firm after a regulated mortgage contract or home purchase plan has come to an end following the sale of a repossessed property. References in this chapter to "customer" will include references to a former customer as appropriate.
The FSA expects a firm to treat a sale shortfall in the same way that it treats a payment shortfall.

A firm may have entered into a mix of regulated mortgage contracts and non-regulated mortgage contracts with a customer secured on the same property. In such circumstances, if the regulated mortgage contract is in arrears, notwithstanding that the overall position in respect of the mortgages generally is not in arrears, the firm will need to comply with all the requirements of MCOB 13 in respect to the regulated mortgage contract. Where this involves providing the customer with information, a firm should explain, if it is the case, that whilst the overall position on the mortgages is not in arrears, no action will be taken in respect of the regulated mortgage contract.

If a firm has entered into more than one regulated mortgage contract or home purchase plan with the same customer relating to the same property, the firm may treat them all as one for the purposes of this chapter.
13.2 Purpose

13.2.1 This chapter amplifies Principle 6 in respect of the information and service provided to customers who have payment difficulties or face a sale shortfall.

13.2.2 There may be occasions where a customer enters into a regulated mortgage contract or home purchase plan with no intention of meeting his payment obligations. Where the intention is to defraud, this chapter does not prevent early action to recover sums due.
13.3 Dealing fairly with customers in arrears: policy and procedures

13.3.1 (1) A firm must deal fairly with any customer who:

(a) is in arrears on a regulated mortgage contract or home purchase plan;

(b) has a sale shortfall; or

(c) is otherwise in breach of a home purchase plan.

(2) A firm must put in place, and operate in accordance with, a written policy (agreed by its respective governing body) and procedures for complying with (1).

Policy and procedures: content

13.3.2 (1) A firm should ensure that its written policy and procedures include:

(a) using reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall or sale shortfall, in the case of the former having regard to the desirability of agreeing with the customer an alternative to taking possession of the property;

(b) liaising, if the customer makes arrangements for this, with a third party source of advice regarding the payment shortfall or sale shortfall;

(c) adopting a reasonable approach to the time over which the payment shortfall or sale shortfall should be repaid, having particular regard to the need to establish, where feasible, a payment plan which is practical in terms of the circumstances of the customer;

(d) granting, unless it has good reason not to do so, a customer’s request for a change to:

(i) the date on which the payment is due (providing it is within the same payment period); or

(ii) the method by which payment is made;
and giving the customer a written explanation of its reasons if it refuses the request;

e) giving consideration, where no reasonable payment arrangement can be made, to the customer being allowed to remain in possession to effect a sale; and

(f) repossessing the property only where all other reasonable attempts to resolve the position have failed.

(2) Contravention of (1) may be relied on as tending to show contravention of MCOB 13.3.1 R(2).

The requirement in MCOB 13.3.1 R(2) for a written policy and procedures is intended to ensure that a firm has addressed the need for internal systems to deal fairly with any customer in financial difficulties. MCOB 13.3.1 R(2) does not oblige a firm to provide customers with a copy of the written policy and procedures. Nor, however, does it prevent a firm from providing customers with either these documents or a more customer-orientated version.

In relation to using reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall or sale shortfall, customers:

(1) should be given a reasonable period of time to consider any proposals for payment that are put to them; in addition, and depending on the individual circumstances, a firm may wish to do one or more of the following in relation to the regulated mortgage contract or home purchase plan with the agreement of the customer:

(a) extend its term; or

(b) change its type; or

(c) defer payment of interest due on the regulated mortgage contract or of sums due under the home purchase plan (including, in either case, on any sale shortfall); or

(d) treat the payment shortfall as if it was part of the original amount provided;

(2) should be given adequate information to understand the implications of any proposed arrangement; one approach may be to provide information on the new terms in line with the annual statement provisions.

In relation to using reasonable efforts to reach an agreement with a customer over the method of repaying any payment shortfall or sale shortfall, a mortgage lender should not automatically capitalise arrears.

In relation to adopting a reasonable approach to the time over which the payment shortfall or sale shortfall should be repaid, the FSA takes the view that the determination of a reasonable repayment period will depend upon the individual circumstances. In appropriate cases this will mean that repayments are arranged over the remaining term.
In relation to granting a customer’s request for a change to the payment date, a term that purported to allow a firm to change the payment date unilaterally might in any event contravene the Unfair Terms Regulations.

Firms that propose to outsource aspects of customer relationships (including collection of debts or any other sums due) should note that and SYSC 8, a firm cannot contract out its regulatory obligations and the FSA will continue to hold them responsible for the way in which this work is carried on.

Record keeping: arrears and repossessions

1. A mortgage lender or administrator must make and retain an adequate record of its dealings with a customer whose account is in arrears or who has a sale shortfall, which will enable the firm to show its compliance with this chapter.

2. A mortgage lender or administrator must retain the record required by (1) for a year from the date on which the relevant payment shortfall or sale shortfall was cleared.

The record referred to in MCOB 13.3.9 R should contain, or provide reference to, matters such as:

1. the date of first communication with the customer after the account was identified as being in arrears;

2. in relation to correspondence issued to a customer in arrears, the name and contact number of the employee dealing with that correspondence, where known;

3. the basis for issuing tailored information in accordance with MCOB 13.7.1 R;

4. information relating to any new payment arrangements proposed;

5. the date of issue of any legal documents;

6. the arrangements made for sale after the repossession (whether legal or voluntary); and

7. the date of any communication summarising the customer’s outstanding debt after sale of the repossessed property.

For details of the standard expected of firms in relation to maintaining records, see MCOB 2.8 (Record keeping).
If a customer falls into arrears on a regulated mortgage contract, a firm must as soon as possible, and in any event within 15 business days of becoming aware of that fact, provide the customer with the following in a durable medium:

1. the current FSA information sheet on mortgage arrears;
2. a list of the due payments either missed or only paid in part;
3. the total sum of the payment shortfall;
4. the charges incurred as a result of the payment shortfall;
5. the total outstanding debt, excluding charges that may be added on redemption; and
6. an indication of the nature (and where possible the level) of charges the customer is likely to incur unless the payment shortfall is cleared.

The current FSA information sheet on mortgage arrears is available on the FSA website, www.fsa.gov.uk; copies can also be obtained from the FSA.

In the event of the FSA making any changes to the information sheet, at least three months' notice of the changes will be given on the FSA website.

A firm may provide the information in the FSA information sheet on mortgage arrears within 15 business days of becoming aware of the customer's account falling into arrears.

Where a firm provides the information in when a payment shortfall occurs but before the customer's account falls into arrears, it need not repeat the provision of the information when the customer's account falls into arrears.
Customers in arrears within the past 12 months

If a customer's account has previously fallen into arrears within the past 12 months (and at that time the customer received the disclosure required by MCOB 13.4.1 R), the arrears have been cleared and the customer's account falls into arrears on a subsequent occasion a firm must either:

(1) issue a further disclosure in compliance with MCOB 13.4.1 R; or

(2) provide a statement, in a durable medium, of the payments due, the actual payment shortfall, any charges incurred and the total outstanding debt excluding any charges that may be added on redemption, together with information as to the consequences, including repossession, if the payment shortfall is not cleared.

Steps required before action for repossession

Before commencing action for repossession, a firm must:

(1) provide a written update of the information required by MCOB 13.4.1 R(2), (3), (4), (5) and (6);

(2) ensure that the customer is informed of the need to contact the local authority to establish whether the customer is eligible for local authority housing after his property is repossessed; and

(3) clearly state the action that will be taken with regard to repossession.
13.5 Dealing with a customer in arrears or with a sale shortfall on a regulated mortgage contract

Statements of charges

13.5.1 Where an account is in arrears, and the payment shortfall or sale shortfall is attracting charges, a firm must provide the customer with a regular written statement (at least once a quarter) of the payments due, the actual payment shortfall, the charges incurred and the debt.

13.5.2 (1) For the purpose of MCOB 13.5.1 R, charges that trigger the requirement for regular statements include all charges and fees levied directly as a result of the account falling into arrears. This includes charges such as monthly administrative charges, legal fees and interest. If interest is applied to the amount of the arrears, as it is applied to the rest of the mortgage, a firm need not send a written statement, unless other charges are also being made. If interest is applied to the amount of the arrears in a different manner to the rest of the mortgage then a written statement will be required.

(2) In determining the frequency for providing statements in accordance with MCOB 13.5.1 R, a firm should have regard to the application of new charges and the number of transactions on the customer's account.

(3) If an account in arrears is subject to a payment plan agreed between a firm and a customer, and the account is operating in accordance with that plan, the firm will still need to send the customer a written statement if the payment shortfall or sale shortfall is attracting charges.

(4) Information provided should cover the period since the last statement. Firms may use the annual statement to comply with MCOB 13.5.1 R, in which case the annual statement will need to be supplemented to include the actual payment shortfall.

Pressure on customers

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

13.5.4 In MCOB 13.5.3 R, a reasonable hour will usually fall between 8 am and 9 pm. Firms should also have regard to the circumstances of the customer and any knowledge they have of the customer's work pattern or religious faith which might make it unreasonable to contact the customer during these hours.
In MCOB 13.5.3 R, putting pressure on a customer includes:

1. The use of documents which resemble a court summons or other official document, or are intended to lead the customer to believe that they come from or have the authority of a court (which might in any event constitute a criminal offence under the County Courts Act 1984 or section 40 of The Administration of Justice Act 1970); and

2. The use of documents containing unfair, unclear or misleading information intended to coerce the customer into paying. A firm should also have regard to Section 1 of the Malicious Communications Act 1988 which establishes a criminal offence in respect of letters sent which convey a threat or false information with intent to cause distress or anxiety.

In relation to MCOB 13.5.3 R, a firm should also have regard to the general law, including the Data Protection Act 1998, on the disclosure of information to third parties.
13.6 Repossessions

13.6.1 A firm must ensure that, whenever a property is repossessed (whether voluntarily or through legal action) and it administers the regulated mortgage contract or home purchase plan in respect of that property, steps are taken to:

(1) market the property for sale as soon as possible; and

(2) obtain the best price that might reasonably be paid, taking account of factors such as market conditions as well as the continuing increase in the amount owed by the customer.

13.6.2 In MCOB 13.6.1 R it is recognised that a balance has to be struck between the need to sell the property as soon as possible, to reduce or remove the outstanding debt, and other factors which may prompt the delay of the sale. These might include market conditions (explicitly referred to in MCOB 13.6.1 R(2)) but there may be other legitimate reasons for deferring action. This could include the expiry of a period when a grant is repayable on re-sale, or the discovery of a title defect that needs to be remedied if the optimal selling price is to be achieved.

If the proceeds of sale are less than the amount due

13.6.3 A firm must ensure that, as soon as possible after the sale of a repossessed property, if the proceeds of sale are less than the amount due under the regulated mortgage contract or home purchase plan, the customer is informed in a durable medium of:

(1) the sale shortfall; and

(2) where relevant, the fact that the sale shortfall may be pursued by another company (for example, a mortgage indemnity insurer).

13.6.4 (1) If the decision is made to recover the sale shortfall, the firm must ensure that the customer is notified of this intention.

(2) The notification referred to in (1) must take place within five years of the date of the sale (if the regulated mortgage contract...
A firm is not required to recover a sale shortfall. A firm may not wish to recover the sale shortfall in some situations, for example where the sums involved make action for recovery unviable.

13.6.6 If the proceeds of sale are more than the amount due

A firm must ensure that, on the sale of a repossessed property, if the proceeds of sale are more than the amount due under the regulated mortgage contract or home purchase plan, reasonable steps are taken, as soon as possible after the sale, to inform the customer in a durable medium of the surplus and, subject to the rights of any subsequent mortgage or charge holders, to pay it to him.
Where the *regulated mortgage contract* is for a business purpose, a *firm* may as an alternative to MCOB 13.4.1 R(1) provide the following information in a *durable medium* instead of the *FSA information sheet on mortgage arrears*:

1. details of the consequences if the payment shortfall is not cleared;
2. a description of the options available to the *customer* for clearing the payment shortfall; and
3. details of sources of fee-free advice for business *customers*.

*Firms* are reminded that in accordance with MCOB 1.2.3R, they should either comply in full with *MCOB* or comply with all tailored provisions in *MCOB* that relate to business loans. Therefore, a firm may only follow the tailored provisions in *MCOB 13.7*, if it also follows all other tailored provisions in *MCOB*. 
Dealing fairly with customers in arrears: policy and procedures

Note: The rules on establishing and applying a policy and procedures for dealing fairly with customers in arrears apply (see MCOB 13.3).

Arrears: provision of information to the customer

If a customer falls into arrears, a firm must provide the customer with adequate information about the arrears in a durable medium:

1. as soon as practicable after becoming aware of that fact;
2. at quarterly intervals; and
3. before commencing action for repossession.

A firm may want to refer to the provisions on the information to be provided to a mortgage customer in relation to arrears for guidance (see MCOB 13.4 and MCOB 13.5).

Repossessions

Note: The rules regarding repossessions apply (see MCOB 13.6).
Section 13.8: Home purchase plans

MCOB 13: Arrears and repossessions: regulated mortgage contracts and home purchase plans
### MCOB TP 1

#### Transitional Provisions

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<td>MCOB 5.6.9 R and MCOB 9.4.13 R</td>
<td>R</td>
<td>A <em>firm</em> may continue to comply with MCOB 5.6.9 R and MCOB 9.4.13 R as they applied before amendment by the Mortgages: Conduct of Business Sourcebook (Amendment No 3) Instrument 2006</td>
<td>31 October 2006 to 31 October 2007</td>
<td>31 October 2006</td>
</tr>
<tr>
<td>11</td>
<td>MCOB 4.4.1 R, MCOB 4.4.7 R</td>
<td>R</td>
<td>A firm may use a <em>combined initial disclosure document</em> prepared in accordance with the <em>rules</em> in COBS 6.3</td>
<td>From 6 August 2008 until 31 August 2009</td>
<td>6 August 2008</td>
</tr>
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<tr>
<td></td>
<td>and</td>
<td>MCOB 4.10.2 R</td>
<td>and</td>
<td>COBS 6 Annex 2 in effect at 5</td>
<td>August 2008.</td>
</tr>
</tbody>
</table>
# MCOB TP 2
## Transitional Provisions

1 **Transitional Provisions for home purchase plans and home reversion plans**

<table>
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<tr>
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<tbody>
<tr>
<td>1</td>
<td>Every rule in <em>MCOB</em> unless the context otherwise requires and subject to any more specific transitional provision relating to the matter.</td>
<td>(1) If, in relation to <em>home purchase activities</em>, <em>home reversion activities</em>, or the communication of a <em>financial promotion</em> of a <em>home purchase plan</em> or <em>home reversion plan</em>, the application of any provision in <em>MCOB</em> is dependent on the occurrence of a series of events, the provision applies with respect to the events that occur on or after 6 April 2007.</td>
<td>From 6 April 2007 for six months.</td>
<td>6 April 2007</td>
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<td>2</td>
<td>G</td>
<td>(1) For example, if a <em>customer</em> submits an application for a <em>home purchase plan</em> or a <em>home reversion plan</em> before 6 April 2007, a <em>firm</em> responding to that application on or after 6 April 2007 will not be required to comply with the relevant disclosure requirements in <em>MCOB</em> 5. However, the <em>firm</em> will have to comply with the requirements in <em>MCOB</em> when taking any further action (such as issuing an offer) regarding the application on or after 6 April 2007.</td>
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</tbody>
</table>
(2) In relation to a home reversion plan, an offer document may have to be issued under transitional provision 1R even though no illustration has been given out (because that part of the transaction occurred before 6 April 2007). In such cases, the suitably adapted illustration required as part of an offer document would need to omit:

(a) the required text regarding comparing the offer document with the illustration previously given to the customer (see MCOB 6.4.4 R (4)(b)); and

(b) Section 2 of the illustration entirely.

MCOB applies to home purchase plans and home reversion plans entered into on or after 6 April 2007. PERG 14 contains guidance on the variation of plans entered into before 6 April 2007.

(1) A non-real time financial promotion of a home reversion plan communicated:

(a) in a directory (or similar publication) that is updated annually;

(b) otherwise than in (a); on or after 6 April 2007 where the deadline for submission for communication was before that date does not need to describe a home rever-
sion plan as a 'home reversion plan'.
The aim of the guidance in the following table is to give the reader a quick overall view of the relevant record keeping requirements.

It is not a complete statement of those requirements and should not be relied on as if it were.

<table>
<thead>
<tr>
<th>Handbook reference</th>
<th>Subject of record</th>
<th>Contents of record</th>
<th>When record must be made</th>
<th>Retention period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MCOB 3.10.1.R</strong></td>
<td>Each non-real time financial promotion</td>
<td>Name of individual who confirmed compliance or approved the financial promotion, and the date of confirmation</td>
<td>Date of confirmation or approval</td>
<td>One year from the date on which the financial promotion was last communicated</td>
</tr>
<tr>
<td><strong>MCOB 3.10.2G (2) to (5)</strong></td>
<td>Each non-real time financial promotion</td>
<td>Details of: the medium for which the financial promotion was authorised; evidence supporting a material factual statement; evidence to show that any typical APR was representative of business</td>
<td>Date of confirmation or approval</td>
<td>One year from the date on which the financial promotion was last communicated</td>
</tr>
<tr>
<td><strong>MCOB 3.10.3G(1)</strong></td>
<td>Each non-real time financial promotion</td>
<td>A copy of the financial promotion as finally published</td>
<td>Date of confirmation or approval</td>
<td>One year from the date on which the financial promotion was last communicated</td>
</tr>
<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
<td>When record must be made</td>
<td>Retention period</td>
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</tr>
<tr>
<td><strong>MCOB 4.7.17R(1)(a)</strong></td>
<td>Suitability</td>
<td>Details of the customer information obtained, including the customer’s needs and circumstances, for the purpose of assessing the suitability of a regulated mortgage contract</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td><strong>MCOB 4.7.17R(1)(b)</strong></td>
<td>Suitability</td>
<td>An explanation of the reasons why the firm believes the personal recommendation complies with the suitability requirements in MCOB 4.7.4R(1)</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td><strong>MCOB 4.7.17R(1)(b)</strong></td>
<td>Suitability</td>
<td>An explanation of the reasons why a personal recommendation has been made on a basis other than that described in MCOB 4.7.13E(1)</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td><strong>MCOB 4.8.7R</strong></td>
<td>Scripted questions</td>
<td>A record of the scripted questions used in non-advised sales</td>
<td>The date on which the scripted questions are first used</td>
<td>One year from the date on which the scripted questions are superseded by a more up-to-date record</td>
</tr>
<tr>
<td><strong>MCOB 4.6.11R</strong></td>
<td>Notice of cancellation</td>
<td>A record of the fact that notice has been given (including the original notice instructions and a copy of any receipt of notice issued)</td>
<td>When the firm first becomes aware that notice has been served</td>
<td>Three years</td>
</tr>
<tr>
<td><strong>MCOB 5.4.19R</strong></td>
<td>Each illustration a firm issues to a customer where the customer applies for that particular regulated mortgage contract</td>
<td>The Key facts illustrations (KFI) issued</td>
<td>The date the customer applies for the particular regulated mortgage contract</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 5.4.21R</strong></td>
<td>Each KFI retained</td>
<td>Detail of: the date the KFI was issued; the date on</td>
<td>The date the cus-</td>
<td>One year</td>
</tr>
<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
<td>When record must be made</td>
<td>Retention period</td>
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<tr>
<td>MCOB 6.4.3R(1)</td>
<td>Offer document</td>
<td>Each offer document issued to the customer</td>
<td>The date on which the firm issues the offer document to the customer</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 6.4.3R(2)</td>
<td>Tariff of charges</td>
<td>A copy of the tariff of charges issued with, or as part of the offer document</td>
<td>The date on which the firm issues the tariff of charges to the customer</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 6.4.3R(3)</td>
<td>Supplemental information relating to mortgage credit cards</td>
<td>Information explaining that rights associated with a traditional credit card do not apply,</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 7.4.2R</td>
<td>Start of contract disclosure</td>
<td>The amount of the first and subsequent payments; the date and method of collection of the first and subsequent payments; details of insurance products and any repayment vehicle purchased through the firm, of the first premium payable and whether this is to be collected with the mortgage payment; detail of the repayment method, and if interest only a reminder to the customer to maintain a suitable repayment vehicle; what to do if the account falls into arrears; information about linked borrowing or savings available and whether or not</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
</tr>
<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
<td>When record must be made</td>
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<tr>
<td>MCOB 8.5.22R(1)(a)</td>
<td>Suitability</td>
<td>overpayments or underpayments are permitted.</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td>MCOB 8.5.22R(1)(b)</td>
<td>Suitability</td>
<td>Details of the customer information obtained, including the customer’s needs and circumstances, for the purpose of assessing the suitability of a equity release transaction</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td>MCOB 8.5.22R(1)(b)</td>
<td>Suitability</td>
<td>An explanation of the reasons why the firm believes the personal recommendation complies with suitability requirements in MCOB 8.5.4R(1)</td>
<td>When the personal recommendation is made</td>
<td>Three years</td>
</tr>
<tr>
<td>MCOB 8.3.1R(1)</td>
<td>Scripted questions</td>
<td>A record of the scripted questions used in non-advised sales</td>
<td>The date on which the scripted questions are first used</td>
<td>One year from the date on which the scripted questions are superseded by a more up-to-date record</td>
</tr>
<tr>
<td>MCOB 8.3.1R(1)</td>
<td>Notice of cancellation</td>
<td>A record of the fact that notice has been given (including the original notice instructions and a copy of any receipt of notice issued)</td>
<td>When the firm first becomes aware that notice has been served</td>
<td>Three years</td>
</tr>
<tr>
<td>MCOB 9.3.1R</td>
<td>Each illustration a firm issues to a customer where the customer applies for that particular equity release transaction</td>
<td>The key facts illustrations (KFI) issued</td>
<td>The date the customer applies for the particular equity release transaction</td>
<td>One year</td>
</tr>
<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
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<tr>
<td><strong>MCOB 9.3.1R</strong></td>
<td>Each KFI retained</td>
<td>Detail of: the date the KFI was issued; the date on which the customer applied for the equity release transaction; and the medium through which the KFI was issued</td>
<td>The date the customer applies for the particular equity release transaction</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 9.5.2R</strong></td>
<td>Offer document</td>
<td>Each offer document issued to the customer</td>
<td>The date on which the firm issues the offer document to the customer</td>
<td>One year</td>
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<tr>
<td><strong>MCOB 9.5.2R</strong></td>
<td>Tariff of charges</td>
<td>A copy of the tariff of charges issued with, or as part of the offer document</td>
<td>The date on which the firm issues the tariff of charges to the customer</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 9.5.2R</strong></td>
<td>Supplemental information relating to mortgage credit card</td>
<td>Information explaining that rights associated with a traditional credit card do not apply</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 9.7.10R</strong></td>
<td>Start of contract disclosure where interest payments are required</td>
<td>The amount of the first and subsequent payments; the date, frequency and method of collection of the first and subsequent payments; the net amount the customer will receive where interest is deducted from income and the method by which this will be paid; details of insurance products purchased through the firm, of the first premium payable and whether this is to be collected with the mortgage payment; confirmation that the lifetime mortgage is on an interest-only basis and details of how the firm ex-</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
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<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
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<tr>
<td><strong>MCOB 9.6.1R</strong></td>
<td><em>Illustrations</em> required on event-driven changes to the contract</td>
<td>PECTS THE CAPITAL TO BE RE-Paid; WHAT TO DO IF THE ACCOUNT FALLS INTO ARREARS; INFORMATION ABOUT LINKED BORROWING OR SAVINGS AVAILABLE AND WHETHER OR NOT OVERPAYMENTS OR UNDERPAYMENTS ARE PERMITTED.</td>
<td>When the illustrations are issued</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 9.7.10R</strong></td>
<td>Start of contract disclosure for a drawdown mortgage with fixed payments to the customer</td>
<td>THE AMOUNT OF THE FIRST AND SUBSEQUENT PAYMENTS; THE DATE OF ISSUE AND METHOD OF THE PAYMENT OF THE FIRST AND SUBSEQUENT PAYMENTS; DETAILS OF INSURANCE PRODUCTS PURCHASED THROUGH THE FIRM, AND OF THE FIRST AND SUBSEQUENT PREMIUMS AND THE METHOD AND DATE OF COLLECTION; DETAILS OF HOW THE FIRM EXPECTS THE CAPITAL AND INTEREST TO BE PAID; INFORMATION ABOUT LINKED BORROWING OR SAVINGS AVAILABLE AND WHETHER OR NOT REPAYMENTS ARE PERMITTED.</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
</tr>
<tr>
<td><strong>MCOB 9.7.10R</strong></td>
<td>Start of contract disclosure for a drawdown mortgage without fixed payments to the customer</td>
<td>WHERE THE CUSTOMER CAN CHOOSE THE FREQUENCY OF THE PAYMENT, DETAILS OF THE LIMITATIONS ON FREQUENCY AND AMOUNT OF PAYMENTS; WHERE PAYMENTS CAN VARY FOR ANY OTHER REASONS, DETAILS OF THE AMOUNT OF THE FIRST PAYMENT AND HOW SUBSEQUENT PAYMENTS CAN VARY; THE METHOD BY WHICH PAYMENTS WILL BE MADE; DETAILS OF INSURANCE PRODUCTS PURCHASED THROUGH THE FIRM, AND OF THE FIRST AND SUBSEQUENT PREMIUMS AND THE METHOD AND DATE OF COLLECTION; DETAILS OF HOW</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
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<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
<td>When record must be made</td>
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<tr>
<td>MCOB 9.7.10R</td>
<td>Start of contract disclosure where a lump sum payment to the <em>customer</em> is made and interest is rolled up</td>
<td>the firm expects the capital and interest to be paid; information about linked borrowing or savings available and whether or not repayments are permitted</td>
<td>The date on which the firm issues the information to the customer</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 11.3.1R(2)</td>
<td>Ability of the <em>customer</em> to repay advance</td>
<td>Evidence to demonstrate that the firm has taken into account the <em>customer’s</em> ability to repay in the case of arrears; details of insurance products purchased through the firm, and of the first and subsequent premiums and the method and date of collection; details of how the firm expects the capital and interest to be paid; information about linked borrowing or savings available and whether or not repayments are permitted</td>
<td>When the assessment of the <em>customer’s</em> ability to repay is made</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 11.3.4R(2)</td>
<td>Responsible lending policy</td>
<td>A record of the firm’s written policy setting out the factors the firm will take into account in assessing the <em>customer’s</em> ability to repay in the case of arrears or a mortgage shortfall debt</td>
<td>The date on which the policy is set</td>
<td>One year</td>
</tr>
<tr>
<td>MCOB 13.3.9</td>
<td>Dealings with <em>customers</em> in arrears or with a mortgage shortfall debt</td>
<td>Details of all communication with the <em>customer</em>, information relating to any repayments</td>
<td>The date on which the <em>customer</em> is made aware of the repayment</td>
<td>One year</td>
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<tr>
<td>Handbook reference</td>
<td>Subject of record</td>
<td>Contents of record</td>
<td>When record must be made</td>
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<td>ment plan; date of issue of any legal proceedings; arrangements made for sale of a repossessed property; and the basis of any tailored information where the loan is for a business purpose. tomer’s account first falls into arrears which the relevant payment shortfall or mortgage shortfall debt is cleared</td>
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</tbody>
</table>

*FSA Handbook Release 084 December 2008*
There are no notification requirements in *MCOB*. 
There are no requirements for fees or other payments in MCOB.
The following powers and related provisions in or under the Act have been exercised by the FSA to make the rules in MCOB:

- section 138 (General rule-making power)
- section 139 (Miscellaneous ancillary matters)
- section 145 (Financial promotion rules)
- section 149 (Evidential provisions)
- section 156 (General supplementary powers)

The following powers in the Act have been exercised by the FSA to give the guidance in MCOB:

- section 157(1) (Guidance)
The table below sets out the rules in MCOB contravention of which by an authorised person may be actionable under section 150 of the Act (Actions for damages) by a person who suffers loss as a result of the contravention.

If a "Yes" appears in the column headed "For private person?", the rule may be actionable by a private person under section 150 (or, in certain circumstances, his fiduciary or representative; see article 6(2) and (3)(c) of the Financial Services and Markets Act 2000 (Rights of Action) Regulations 2001 (SI 2001/2256)). A "Yes" in the column headed "Removed" indicates that the FSA has removed the right of action under section 150(2) of the Act. If so, a reference to the rule in which it is removed is also given.

The column headed "For other person?" indicates whether the rule may be actionable by a person other than a private person (or his fiduciary or representative) under article 6(2) and (3) of those Regulations. If so, an indication of the type of person by whom the rule may be actionable is given.

<table>
<thead>
<tr>
<th>Chapter / Appendix</th>
<th>Section / Annex</th>
<th>Paragraph</th>
<th>Right of action under section 150</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>For private person?</td>
</tr>
<tr>
<td>All rules in MCOB with the status letter &quot;E&quot;</td>
<td></td>
<td></td>
<td>No</td>
</tr>
<tr>
<td>Any rule in MCOB which prohibits an authorised person from seeking to make provision excluding or restricting any duty or liability</td>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>All other rules in MCOB</td>
<td></td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
The rules in MCOB may be waived by the FSA under section 148 of the Act (Modification or waiver of rules).