Chapter 10A

MCD Annual Percentage Rate of Charge

10A.1 Calculation of the APRC

10A.1.1 R The *APRC* must be calculated for an *MCD regulated mortgage contract* in accordance with the mathematical formula in ■ MCOB 10A.2.2 R.

[**Note:** article 17(1) of the *MCD*]

10A.1.2 R Whenever the opening or maintaining of an account is obligatory to obtain the *credit*, or to obtain it on the terms and conditions marketed, the *total cost of credit to the consumer* must include the following costs:

(1) opening and maintaining a specific account;

(2) using a means of payment for both transactions and drawdowns on that account;

(3) other costs relating to payment transactions;

[**Note:** article 17(2) of the *MCD*]

10A.1.3 R The calculation of the *APRC* must be based on the assumption that the *MCD regulated mortgage contract* is to remain valid for the period agreed and that the *MCD mortgage lender* and the *consumer* will fulfil their obligations under the terms and by the dates specified in the *MCD regulated mortgage contract*.

[**Note:** article 17(3) of the *MCD*]

10A.1.4 R If an *MCD regulated mortgage contract* allows variations in the:

(1) borrowing rate; or

(2) charges contained in the *APRC*;

and they are unquantifiable at the time the *APRC* is calculated, the *APRC* must be calculated on the assumption that the *borrowing rate* and other charges will remain fixed in relation to the level set when the contract is entered into.

[**Note:** article 17(4) of the *MCD*]

10A.1.5 R If an *MCD regulated mortgage contract* contains a fixed *borrowing rate* in relation to the initial period of at least five years, at the end of which a negotiation on the *borrowing rate* must take place to agree on a new fixed

rate for a further material period, the calculation of the additional, illustrative *APRC* disclosed in the *ESIS* must:

(1) cover only the initial fixed-rate period; and

(2) be based on the assumption that, at the end of the fixed *borrowing rate* period, the capital outstanding is repaid.

[**Note:** article 17(5) of the *MCD*]

10A.1.6 R If an *MCD regulated mortgage contract*:

(1) allows for variations in the *borrowing rate*; and

(2) it does not fall within ■ MCOB 10A.1.5 R,

the *ESIS* must contain an additional *APRC* which illustrates the possible risks linked to a significant increase in the *borrowing rate*. Where the *borrowing rate* is not capped, this information must be accompanied by a warning highlighting that the *total cost of the credit to the consumer*, shown by the *APRC*, may change.

[**Note:** article 17(6) of the *MCD*]

10A.1.7 R The assumptions in ■ MCOB 10A.2 and, where applicable, in ■ MCOB 10A.3 must be used and applied in calculating the *APRC*.

[**Note:** article 17(7) of the *MCD*]

10A.2 APRC: mathematical formula and assumptions

10A.2.1 G The mathematical formula for calculating the *APRC* in ■ MCOB 10A.2.2 R is a basic equation for establishing the *APRC*. This equates, on an annual basis, the total present value of drawdowns on the one hand and the total present value of repayments and payments of charges on the other.

[**Note:** Annex I, Part I of the *MCD*]

10A.2.2 R The equation referred to in ■ MCOB 10A.2.1 G is:

$$\sum_{k=1}^{m} C_k (1+X)^{-t_k} = \sum_{l=1}^{m'} D_l (1+X)^{-s_l}$$

where:

- X is the *APRC*
- m is the number of the last drawdown
- k is the number of a drawdown, thus $1 \leq k \leq m$
- C_k is the amount of drawdown k
- t_k is the interval, expressed in years and fractions of a year, between the date of the first drawdown and the date of each subsequent drawdown, thus $t_1 = 0$
- m' is the number of the last repayment or payment of charges
- l is the number of a repayment or payment of charges
- D_l is the amount of a repayment or payment of charges
- s_l is the interval, expressed in years and fractions of a year, between the date of the first drawdown and the date of each repayment or payment of charges.

[**Note:** Annex I, Part I of the *MCD*]

10A.2.3 R The following matters must be applied when calculating the *APRC*.

(1) The amounts paid by both parties at different times must not necessarily be equal and must not necessarily be paid at equal intervals.

(2) The starting date must be that of the first drawdown.

(3) (a) Intervals between dates used in the calculations must be expressed in years or in fractions of a year. A year is presumed to have 365 days (or 366 days for leap years), 52 weeks or 12 equal months. An equal month is presumed to have 30.41666 days (ie, 365/12), regardless of whether or not it is a leap year.

(b) Where intervals between dates used in the calculations cannot be expressed as a whole number of weeks, months or years, the intervals must be expressed as a whole number of one of those periods in combination with a number of days. Where using days:

(i) every day must be counted, including weekends and holidays;

(ii) equal periods and then days must be counted backwards to the date of the initial drawdown;

(iii) the length of the period of days must be obtained excluding the first day and including the last day and must be expressed in years by dividing this period by the number of days (365 or 366 days) of the complete year counted backwards from the last day to the same day of the previous year.

(4) The result of the calculation must be expressed with an accuracy of at least one decimal place. If the figure at the following decimal place is greater than or equal to 5, the figure at the preceding decimal place must be increased by one.

(5) The equation can be rewritten using a single sum and the concept of flows (Ak), which will be positive or negative, in other words either paid or received during periods 1 to n, expressed in years, using the following formula:

$$s = \sum_{k=1}^{n} A_k (1+X)^{-t_k}$$

where s is the present balance of flows. If the aim is to maintain the equivalence of flows, the value of s will be zero.

[**Note:** Annex I, Part I of the *MCD*]

10A.3 APRC: additional assumptions

10A.3.1 R

(1) If an *MCD regulated mortgage contract* gives the *consumer* **freedom of drawdown,** the *total amount of credit* must be deemed to be drawn down immediately and in full.

(2) If an *MCD regulated mortgage contract* **provides different ways of drawdown with different charges or** *borrowing rates*, the *total amount of credit* must be deemed to be drawn down at the highest charge and *borrowing rate* applied to the most common drawdown mechanism for that type of *MCD regulated mortgage contract*.

(3) If an *MCD regulated mortgage contract* **gives the** *consumer* **freedom of drawdown in general but imposes, amongst the different ways of drawdown, a limitation with regard to the amount of** *credit* **and period of time,** the amount of *credit* must be deemed to be drawn down on the earliest date provided for in the *MCD regulated mortgage contract* and in accordance with those drawdown limits.

(4) If different *borrowing rates* **and charges are offered for a limited period or amount,** the highest *borrowing rate* and charges must be deemed to be the *borrowing rate* and charges for the whole duration of the *MCD regulated mortgage contract*.

(5) For an *MCD regulated mortgage contract* **for which a fixed** *borrowing rate* **is agreed in relation to the initial period, at the end of which a new** *borrowing rate* **is determined and subsequently periodically adjusted according to an agreed indicator or internal reference rate** the calculation of the *APRC* must be based on the assumption that, at the end of the fixed *borrowing rate* period, the *borrowing rate* is the same as at the time of calculation of the *APRC*, based on the value of the agreed indicator or internal reference rate at that time, but is not less than the fixed *borrowing rate*.

(6) If the ceiling applicable to the *credit* **has not yet been agreed,** that ceiling must be assumed to be EUR 170,000. In the case of an *MCD regulated mortgage contract* (other than an *MCD contingent liability or guarantee*) the purpose of which is not to acquire or retain a right in immovable property or land, an *overdraft facility*, a deferred debit card or a credit card, this ceiling must be assumed to be EUR 1,500.

(7) In the case of an *MCD regulated mortgage contract* **that does not fall within** ■ MCOB 10A.3.1R (9), ■ (10), ■ (11) **or** ■ (12)**:**

(a) if the date or amount of a repayment of capital to be made by the *customer* cannot be ascertained, it must be assumed that the repayment is made at the earliest date provided for in the credit

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agreement, and is for the lowest amount for which the *MCD regulated mortgage contract* provides;

(b) if the interval between the date of initial drawdown and the date of the first payment to be made by the *customer* cannot be ascertained, it must be assumed to be the shortest interval.

(8) Where the date or amount of a payment to be made by the *consumer* **cannot be ascertained** on the basis of the *MCD regulated mortgage contract* or the assumptions set out at ■ MCOB 10A.3.1R (7), ■ (9), ■ (10), ■ (11) or ■ (12), it must be assumed that the payment is made in accordance with the dates and conditions required by the *MCD mortgage lender* and, when these are unknown:

(a) interest charges are paid together with the repayments of the capital;

(b) non-interest charges expressed as a single sum are paid at the date of entering into the *MCD regulated mortgage contract*;

(c) non-interest charges expressed as several payments are paid at regular intervals, commencing with the date of the first repayment of capital and, if the amount of such payment is not known, they must be assumed to be equal amounts;

(d) the final payment clears the balance of capital, interest and other charges, if any.

[**Note:** Annex I, Part II of the *MCD*]

(9) In the case of an *MCD regulated mortgage contract* **that is an** *overdraft facility*, the *total amount of credit* must be deemed to be drawn down in full and for the whole duration of the *MCD regulated mortgage contract*. If the duration of the *overdraft facility* is not known, the *APRC* must be calculated on the assumption that the duration of the *credit* is three months.

(10) In the case of an open-ended *MCD regulated mortgage contract***, other than an** *overdraft facility* **and an** *MCD exempt bridging loan*: it must be assumed that:

(a) the *credit* is provided for a period of time starting from the date of the initial drawdown, and the final payment made by the *consumer* clears the balance of capital, interest and other charges, if any, where that period of time is:

(i) 20 years for an *MCD regulated mortgage contract*, the purpose of which is to acquire or retain rights in immovable property;

(ii) 1 year for an *MCD regulated mortgage contract* the purpose of which is not to acquire or retain rights in immovable property or which is drawn down by a deferred debit card or a credit card.

(b) the capital is repaid by the *consumer* in equal monthly payments, commencing one month after the date of the initial drawdown. However, in cases where the capital must be repaid only in full, in a single payment, within each payment period, successive drawdowns and repayments of the entire capital by the *consumer* must be assumed to occur over the period of one year. Interest and other charges must be applied in accordance with those

drawdowns and repayments of capital and as provided for in the *MCD regulated mortgage contract*.

For the purposes of this *rule*, an open-ended *MCD regulated mortgage contract* is an *MCD regulated mortgage contract* without fixed duration and includes credits which must be repaid in full within or after a period but, once repaid, become available to be drawn down again.

(11) In the case of an *MCD contingent liability or guarantee*, the *total amount of credit* must be deemed to be drawn down in full as a single amount at the earlier of:

(a) the latest drawdown date permitted under the *MCD regulated mortgage contract* being the potential source of the *MCD contingent liability or guarantee*; or

(b) for a rolling *MCD regulated mortgage contract*, at the end of the initial period prior to the rollover of the agreement.

(12) In the case of a *shared equity credit agreement***:**

(a) the payments by a *consumer* must be deemed to occur at the latest date or dates permitted under the *shared equity credit agreement*;

(b) percentage increases in value of the immovable property which secures the *shared equity credit agreement*, and the rate of any inflation index referred to in the agreement, must be assumed to be:

(i) a percentage equal to the higher of:

(aa) the current central bank target inflation rate; or

(bb) the level of inflation in the state where the immovable property is located at the time that the *MCD regulated mortgage contract* is entered into; or

(ii) 0% if those percentages are negative.

[**Note:** Annex I, Part II of the *MCD*]

10A.3.2 G [deleted]

10A.3.3 R In relation to a *retirement interest-only mortgage* where the *firm* chooses to provide an *ESIS* instead of an *illustration*, the period for which the credit is to be provided must be determined in accordance with ■ MCOB 5.6.6R(4).