

## Chapter 16

# Reporting requirements



## Notes for completion of the Mortgage Lenders & Administrators Return ('MLAR')

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### INTRODUCTION: GENERAL NOTES ON THE RETURN

#### 1. Introduction

This section covers a number of points that have relevance across the return generally:

- Overview
- Purpose of reporting requirements
- Regulated mortgage contracts and the wider mortgage market
- Home reversion plans and Home purchase plans
- Sale and rent back business
- Accounting conventions
- Accuracy
- Time period
- Loans made before 31 October 2004
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- Specific items:
  - (i) positions to be reported gross
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#### 2. Overview of reporting requirements

The data requirements for *firms* carrying on the *regulated activities* of *home finance providing activity* and *administering a home finance transaction* consist of quarterly, half yearly and annual information. The same data requirements apply to a *P2P platform operator* facilitating *home finance transactions* where a lender or provider does not require permission to enter into the transaction, and references to *home finance providers* or *home finance administrators* should be read as including such *P2P platform operators*, where relevant.

This *guidance* deals only with the quarterly requirements, however, which are referred to as the Mortgage Lenders and Administrators Return (*MLAR*). The remaining data requirements are applied to *firms* through existing rules within the following sections of the *Handbook*:

- the Dispute Resolution: Complaints sourcebook for complaints reporting; and
- Chapter 16 of the Supervision manual for controllers reports (section 16.4), close links report (section 16.5) and annual accounts (section 16.12).

Because the *MLAR* is activity based, not all sections are applicable to all types of *home finance activity firm*. The applicability of each section is explained in the table below:

Section	Applicability:
A1 and A2: Balance sheet	Applies to all <i>home finance activity firms</i> except: <ul style="list-style-type: none"> <li>• A <i>firm</i> that is required to submit a balance sheet by a lower numbered <i>regulated activity group</i>, as described in SUP 16.12.3R(1)(a)(iii)</li> <li>• An <i>incoming EEA firm</i> (note a)</li> </ul>
A3: Analysis of loans to customers	Applies to all <i>home finance activity firms</i>
A4: Analysis of second charge loans to customers	Applies to all <i>home finance activity firms</i> in respect of <i>second charge regulated mortgage contracts</i> .
B1: Income statement	Applies to all <i>home finance activity firms</i> except: <ul style="list-style-type: none"> <li>• A <i>firm</i> that is required to submit an income statement by a lower numbered <i>regulated activity group</i>, as described in SUP 16.12.3R(1)(a)(iii)</li> <li>• An <i>incoming EEA firm</i> (note a)</li> </ul>
B2: Provisions analysis	Applies to all <i>home finance activity firms</i>
C: Capital	Applies to all <i>home finance activity firms</i> except: <ul style="list-style-type: none"> <li>• A <i>firm</i> that is required to submit a capital adequacy data item by a lower numbered <i>regulated activity group</i>, as described in SUP 16.12.3R(1)(a)(iii)</li> <li>• An <i>incoming EEA firm</i> (note a)</li> <li>• A <i>firm</i> which is a solo-consolidated subsidiary of an authorised <i>credit institution</i></li> <li>• A <i>firm</i> which exclusively carries on <i>home finance activities</i> in relation to <i>second charge regulated mortgage contracts</i>, as set out in SUP 16.12.18BR (note 4).</li> </ul>
D: Lending: business flows and rates	Applies to all <i>firms</i> with <i>permission</i> to undertake a <i>home finance providing activity</i> except: <ul style="list-style-type: none"> <li>• <i>SRB agreement providers</i></li> <li>• <i>SRB administrators</i></li> </ul>
D(a): Second charge business flows and rates	Applies to all <i>home finance providing activity firms</i> in respect of <i>second charge regulated mortgage contracts</i> .

Section	Applicability:
E: Residential lending to individuals: new business profile	Applies to all <i>firms</i> with <i>permission</i> to undertake a <i>home finance providing activity</i> except: <i>SRB agreement providers</i> <i>SRB administrators</i>
E1(a) and E2(a): Second charge lending to individuals	Applies to all <i>home finance providing activity firms</i> in respect of <i>second charge regulated mortgage contracts</i> .
F: Lending: Arrears Analysis	Applies to all <i>firms</i> with <i>permission</i> to undertake a <i>home finance providing activity</i> except: <ul style="list-style-type: none"> <li>• <i>SRB agreement providers</i></li> <li>• <i>SRB administrators</i></li> </ul>
F(a): Second charge lending: Arrears analysis	Applies to all <i>home finance providing activity firms</i> in respect of <i>second charge regulated mortgage contracts</i> .
G: Mortgage Administration: Business Profile	Applies to all <i>firms</i> with <i>permission</i> to undertake <i>administering a home finance transaction</i> , except: <ul style="list-style-type: none"> <li>• <i>SRB administrators</i></li> </ul>
H: Mortgage Administration: Arrears analysis	Applies to all <i>firms</i> with <i>permission</i> to undertake <i>administering a home finance transaction</i> , except: <ul style="list-style-type: none"> <li>• <i>SRB administrators</i></li> </ul>
H(a): Second charge mortgage administration: Arrears analysis	Applies to all <i>firms</i> with <i>permission</i> to undertake <i>administering a home finance transaction</i> , in respect of <i>second charge regulated mortgage contracts</i> .
J: Fee tariff measures	Applies to all <i>home finance activity firms</i>
K: Sale and rent back business	Applies to <i>SRB agreement providers</i> and <i>SRB administrators</i>
L: Credit risk	Applies to a <i>firm</i> that meets the conditions of SUP 16.12.18BR (notes 2 and 4).
M: Liquidity	Applies to a <i>firm</i> that meets the conditions of SUP 16.12.18BR (notes 3 and 4).
<p>Note (a): <i>Credit Institutions</i> passporting under <i>BCD</i> for <i>mortgage lending</i> (which also includes <i>mortgage administration</i>), or other <i>firms</i> passporting under another EU Directive for a non-mortgage activity and holding a <i>top-up permission</i> from the <i>appropriate regulator</i> for <i>mortgage lending</i> and/or <i>mortgage administration</i>. Also includes <i>firms</i> classed as "<i>Treaty firms</i>" under Schedule 4 of the <i>Act</i>. But any other <i>EEA firm</i> type should complete in full all sections of the <i>MLAR</i> described above this table, as it would not be eligible for any reduction in reporting requirements.</p>	

### 3. Purpose of reporting requirements

The reasons why the *FCA* requires this data from *home finance providers* and *administrators* are as follows:

- to assess the probability of the failure of *firms* and the impact of failure on the ability of the *FCA* to meet its statutory objectives, including an assessment of compliance with the *threshold conditions*;
- to assist with prudential supervision of *firms*; and
- to help assess the risks in the home finance market as a whole to inform, for example, the *FCA's* thematic work. By this we mean that we will use some of our supervisory resources to examine issues (known as 'themes') that affect a number of *firms* rather than *firms* individually. The data collected will

be considered alongside other information we receive, to identify trends and issues that inform our supervision of *firms*.

The *MLAR* requires *home finance providers* and *administrators* to submit four types of data:

- financial data to assist in the prudential supervision of *home finance providers* and *administrators*. A quarterly financial return is required, including a balance sheet and profit and loss account;
- quarterly reporting of quantitative and qualitative data by all *home finance providers* and *administrators* to enable monitoring of compliance with the requirements of *MCOB*;
- quarterly provision of qualitative home finance information by all *home finance providers* and *administrators* to enable the *FCA* to understand developments in the home finance markets as a whole, and to inform future policy developments and prudential supervision; and
- annual reporting of information on fee tariff measures.

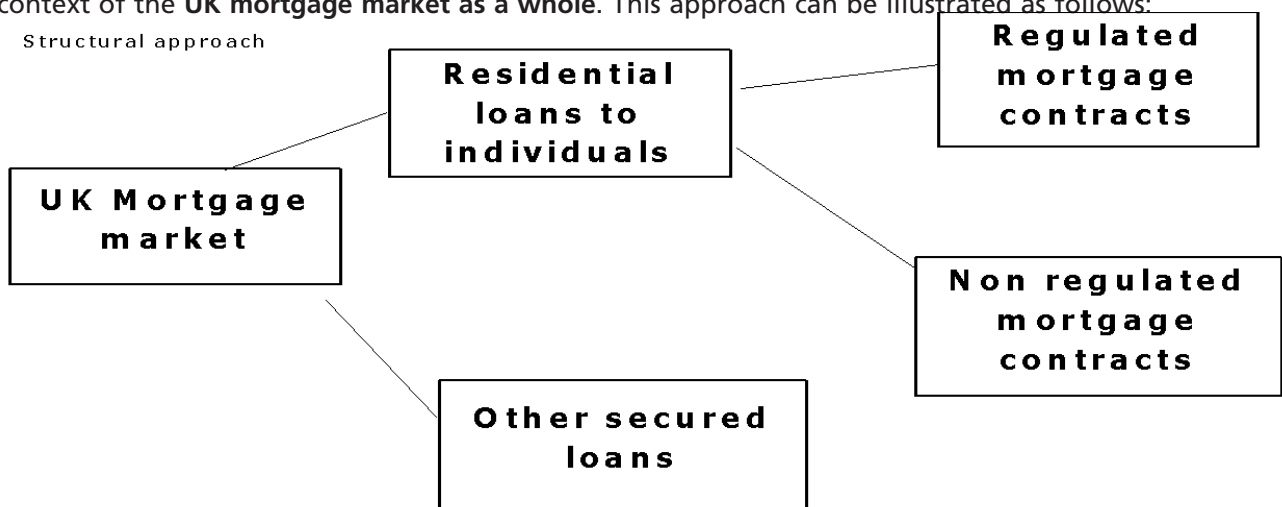
The reporting requirements set out in the *MLAR* enable the *FCA* to realise these information needs. In particular:

<b>Tables A to C, L, M:</b>	provide the framework for the <i>FCA</i> 's financial monitoring and prudential supervision of <i>home finance providers</i> and <i>administrators</i> ;
<b>Tables D to F:</b>	provide the framework for the provision of qualitative home finance information by <i>home finance providers</i> ;
<b>Tables G, H:</b>	provide the framework for the <i>FCA</i> 's monitoring of <i>administering a home finance transaction activity</i> ;
<b>Table J:</b>	provides information on fee tariff measures for <i>home finance providers</i> and <i>administrators</i> ;
<b>Table K:</b>	provides the framework for the <i>FCA</i> 's monitoring of <i>SRB agreement providers</i> and <i>SRB administrators</i> .

**4. Regulated mortgage contracts and the wider mortgage market**

Given this background to reporting requirements, the *FCA*'s approach to obtaining information on *mortgage lending* has been structured so that *regulated mortgage contracts* are seen within the wider context of the *UK mortgage market as a whole*. This approach can be illustrated as follows:

Structural approach



Each of these key terms is explained below:

**(i) UK mortgage market**

This refers to all lending secured on land and buildings in the *United Kingdom*, whether to individuals, housing associations or corporates. However, given the importance of mortgages to individuals we have chosen to look at the market in terms of two components, namely 'residential lending to individuals' and 'other secured lending'. Loans and mortgages secured on land in the *EEA* other than the *UK* should be reported in 'other loans' in section A3 of the *MLAR*.

## (ii) Residential loans to individuals

This is a discrete category of the mortgage market, and has characteristics (e.g. in terms of products, lending criteria and methods of credit assessments) that are often markedly different from those applying to other types of secured lending (e.g. to corporates).

It is lending to individuals secured by mortgage on land and buildings where the lender has either a first or second (or subsequent) charge, where at least 40% of the land and buildings is used for residential purposes, and where the premises are for occupation by either the borrower (or dependant), or any other third party (e.g. it includes 'buy to let' lending to individuals).

Only loans where there is a one-to-one correspondence between the loan and a specific security should be included within 'residential loans to individuals'. Do not include here any residential loans to individuals that are part of a 'business loans' type package (involving multiple loans and multiple securities, where there is no one-to-one correspondence between a loan and a specific security), but report them under 'other secured lending'.

*Regulated mortgage contracts* that are secured on UK land are therefore a subset of this market category.

Examples of **non-regulated mortgage contracts** which fall under the wider category of residential loans to individuals include: buy-to-let loans and other types of loan where the property is not for use by the borrower (or qualifying dependants). Prior to 21 March 2016, non-regulated mortgage contracts also included second charge mortgage lending.

## (iii) Other secured lending

This covers all other forms of lending secured on land and buildings in the *United Kingdom*. Primarily it covers secured lending to corporate bodies (including to housing associations), but it also includes lending to individuals which, although being secured on land and buildings, is not deemed to be residential (e.g. the residential element is less than 40%). A corporate body for this purpose is any entity other than an individual. Loans and mortgages secured on land in the *EEA* other than the *UK* should be reported in 'other loans' in section A3 of the *MLAR*.

It also includes any residential lending to an individual that forms part of a 'business loan' type package. These arrangements between a lender and a borrower are usually offered by a lender's specialist business or corporate lending departments. They typically involve a number of loans secured against a range of securities including the borrower's residential property, business premises and the business itself. Such packages involve no specific one-to-one correspondence between a single loan and a single security, and instead the lender assesses loan cover against the basket of securities in the package. Given the business nature of this type of lending, it would therefore be misleading to try and classify some or all of the loan elements in such cases to any part of 'residential lending to individuals', and hence all such lending should be reported under 'other secured lending'. This is for *MLAR* reporting purposes only; the actual categorisation or treatment for *MCOB* purposes remains unchanged.

## (iv) Regulated mortgage contract

This is defined in the *Handbook* as follows:

- (a) (in relation to a contract) a contract which:
  - (i) (in accordance with article 61(3) of the *Regulated Activities Order*) at the time it is entered into, meets the following conditions:
    - (A) a lender provides credit to an individual or to trustees (the 'borrower'); and

(B) the obligation of the borrower to repay is secured by a mortgage on land in the EEA, at least 40% of which is used, or is intended to be used, in the case of credit provided to an individual, as or in connection with a dwelling; or (in the case of credit provided to a trustee who is not an individual), as or in connection with a dwelling by an individual who is a beneficiary of the trust, or by a *related person*;

(ii) is not a *home purchase plan*, a limited payment second charge bridging loan, a second charge business loan, an investment property loan, an exempt consumer buy-to-let mortgage contract, an exempt equitable mortgage bridging loan, an exempt housing authority loan or a limited interest second charge credit union loan within the meaning of article 61A(1) or (2) of the *Regulated Activities Order*; and

(iii) if the contract was entered into before 21 March 2016:

(A) at the time the contract was entered into, entering into the contract constituted the *regulated activity of entering into a regulated mortgage contract*; or

(B) the contract is a consumer credit back book mortgage contract within the meaning of article 2 of the *MCD Order*.

(b) (in relation to a *specified investment*) the *investment*, specified in article 88 of the *Regulated Activities Order*, which is rights under a *regulated mortgage contract* within (a).

[Note: articles 3(1)(a) and 4(2) of the *MCD*]

Loans and mortgages secured on land in the EEA other than the UK, although regulated mortgages, should be reported in 'other loans' in section A3 of the *MLAR*.

#### (v) Second charge regulated mortgage contract

A *second charge regulated mortgage contract* is defined in the *Handbook* as a *regulated mortgage contract* which is not a *first charge legal mortgage*. Therefore, it includes second and subsequent charge mortgages.

Data which is provided in relation to a *second charge regulated mortgage contract* in A3(a), D(a), E(1)(a), E(2)(a), F(a), or H(a) in ■ SUP 16 Annex 19AAR will also need to be provided as part of the *data items* in A3, D, E, F or H, as the case may be, in ■ SUP 16 Annex 19AR.

The guidance on how to submit the *data items* in A3, D, E, F or H of ■ SUP 16 Annex 19AR applies to A3(a), D(a), E(1)(a), E(2)(a), F(a) or H(a) of ■ SUP 16 Annex 19AAR where the same terms are used in the corresponding parts of ■ SUP 16 Annex 19AAR.

### 4a. Home reversion and home purchase plans

#### Definitions

*A home reversion plan*

This is defined in the *Handbook* as follows:

(in accordance with article 63B(3) of the *Regulated Activities Order*) an arrangement comprised in one or more instruments or agreements which meets the following conditions at the time it is entered into:

(a) the arrangement is one under which a *person* (the *reversion provider*) buys all or part of a *qualifying interest in land* from an individual or trustees (the *reversion occupier*);

(b) the *reversion occupier* (if he is or she an individual) or an individual who is a beneficiary of the trust (if the *reversion occupier* is a trustee), or a related person, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling and intends to do so; and



(c) the arrangement specifies that the entitlement to occupy will end on the occurrence of one or more of:

- (i) a *person* in (b) becoming a resident of a care home;
- (ii) a *person* in (b) dying; or
- (iii) the end of a specified period of at least twenty years from the date the *reversion occupier* entered into the arrangement;

in this definition "related person" means:

- (A) that *person's* spouse or civil partner;
- (B) a *person* (whether or not of the opposite sex) whose relationship with that *person* has the characteristics of the relationship between husband and wife; or
- (C) the *person's* parent, brother, sister, child, grandparent or grandchild.

## Guidance to home reversion (HR) and home purchase plan (HPP) firms on the completion of the MLAR

It is recognised that HR and HPP products are not loans as such, being effectively sale and lease products. However, in order to use the *MLAR* as a vehicle for capturing some data on these products, they are to be treated for *MLAR* purposes as if they were loan products. This means that:

- (i) For a *firm* which is a provider of HR and/or HPP products:
  - HR and HPP products are to be included in the balance sheet within A1.6 "Loans to Customers". This may differ from the reporting of such products in a *firm's* published accounts.
  - Within section A3, which contains a further breakdown of "Loans to Customers", HR and HPP products are to be reported within the single category A3.5 "Other Loans".
  - As a consequence, the *FCA* will be able to capture the key balances outstanding on these products (including any which may have been securitised).
- (ii) For a *firm* which is undertaking administration of HR and/or HPP products (and where that *firm* did not also act as provider of these products):
  - HR and HPP products being administered for third parties are to be reported in section G.
  - Within G1 and G2 they are to be reported within the "Other firms" category. They should however be shown under "regulated loans" solely for the purposes of recording their administration in the *MLAR*.
  - In section G2.2, when entering the "name of firm" in column 2, add "HR" and/or "HPP" in brackets after the name, as appropriate.

## 4b. Sale and rent back (SRB) agreement business

### Definitions

*A regulated sale and rent back agreement*

This is defined in the *Handbook* as follows:

(in accordance with article 63J(3)(a) of the *Regulated Activities Order*) an arrangement comprised in one or more instruments or agreements, in relation to which the following conditions are met at the time it is entered into:

- (a) the arrangement is one under which a *person* (an agreement provider) buys all or part of the *qualifying interest in land* in the *United Kingdom* from an individual or trustees (the "agreement seller"); and

(b) the agreement seller (if they are an individual) or an individual who is the beneficiary of the trust (if the agreement seller is a trustee), or a related person, is entitled under the arrangement to occupy at least 40% of the land in question as or in connection with a dwelling, and intends to do so;

but excluding any arrangement that is a regulated home reversion plan.

### Guidance to regulated SRB firms on the completion of the MLAR

This section explains how SRB *firms* should complete the *MLAR*.

SRB providers and administrators should complete the following sections of the *MLAR*:

- Section A (balance sheet);
- Section B (profit and loss account);
- Section C (capital);
- Section J (fees tariff measures): and
- Section K (sale and rent back business).

SRB *firms* should **not** complete sections D to H, L or M in respect of their SRB business.

SRB providers should note the following in relation to their reporting of SRB agreements and SRB assets:

#### In section A

- Do **not** enter any information on SRB agreements in A1.6 'Loans to customers' or A3.5 'Other loans'.
- Report SRB assets in A1.11.
- Report any liabilities incurred in acquiring SRB assets in A2.7.

#### In section B

- Where applicable, information on SRB agreements should be entered in B2.5 'Other loans'.

As a consequence the *FCA* will be able to capture key information on these products.

### 5. Accounting conventions

Unless the contrary is stated in these guidance notes, the return should be compiled using generally accepted accounting practice.

However, information in respect of lending (e.g. balances, advances, interest rates, arrears etc) to be reported in sections D, E, F, G, H and J of the return should not be fair-valued but should be reported as the contractual position (i.e. as between lender and borrower).

All amounts should be shown in one of the reporting currencies accepted by the relevant platform provided by the *FCA*, unless otherwise specified in the *Handbook*.

### 6. Accuracy

It is expected that entries on the return will be actual values, or in some cases close approximations established or drawn from the *firm's* systems and prepared on the basis of being the best information in the time available for their compilation.

If such 'close approximations' are considered by the *firm* as likely to be materially different from the underlying actual values, the *firm* should advise its supervisory team of data items affected.

### 7. Time periods

Where stock figures are required (e.g. balance sheet, capital position) the information is required as at the *firm's* accounting reference date and the three quarter ends following this date (see ■ SUP 16.3.13R).

Where flow figures are required, these are either for **3 months only** (i.e. the latest quarter) as in for example lending figures in tables D and E, or **cumulative in the 'year to date'**, (e.g. profit and loss in table B), covering the period from the *firm's* accounting reference date to the end of the reporting quarter.

### 8. Loans made before 31 October 2004

This section does not apply to *second charge regulated mortgage contracts*.

## (i) Classifying the 'back book'

Many loans made before 31 October 2004 became *regulated as regulated mortgage contracts* on 21 March 2016 or, depending on the nature of the loan and the applicable transitional provisions, on a date no later than 21 March 2017; these loans should be treated as *regulated mortgage contracts* in the *MLAR* accordingly. Loans made before 31 October 2004 which continue not to be *regulated as regulated mortgage contracts* fall into the following categories:

- residential loans to individuals which, for the purposes of the *MLAR*, should be classified as non-regulated (see Introduction, section 4(ii)); for example at A3.3 and D1.2.
- other secured loans (see Introduction, section 4(iii)); for example at A3.4 and D1.3 .
- other loans (see Guidance for A3.5).

The approach to classification for pre-31 Oct 2004 loans will, of necessity, need to be a pragmatic one. We do not, for example, envisage the need to look at individual paper loan files. Rather, we expect the *firm* to apply its knowledge of its various loan books, products and their characteristics, to come up with some realistic allocation rules. This enables the *firm* to apply some automatic process to its computerised loan records, and thereby classify individual loans into each of the relevant categories used in the *MLAR*. Such a process may not be perfect, and it may result in a few loans being wrongly allocated, but it will be sufficient for the purpose.

## (ii) Specific treatment of residential loans to individuals

Any loans made before 31 October 2004 that have not become regulated as *regulated mortgage contracts*, should be reported as non-regulated loans in the various parts of the *MLAR*.

This reporting basis for loans should continue until such time, if ever, that a subsequent transaction on the loan causes it to be formally treated as a regulated contract.

## (iii) Further advances on loans made before 31 October 2004 which have not already become regulated as regulated mortgage contracts

We cannot be prescriptive about whether a further advance (or any other variation) to a pre-31 October 2004 mortgage which has not already become regulated as a *regulated mortgage contract* (see (i) above) will have the effect of creating a new *regulated mortgage contract*. Whether a variation amounts to creating a new contract will depend on each lender's individual mortgage documentation. This documentation will differ, possibly significantly, between *firms*. Each lender will need to review its existing documentation and take a view on the scope that this provides for making changes.

In practice this means that:

- If the lender can make a further advance without creating a new contract (i.e. makes a variation to the existing mortgage contract), then the further advance should be added to the original loan and the combined loan treated as a single loan for *MLAR* reporting. This combined loan should be reported as 'non-regulated';
- If making a further advance creates a new contract, (and this further advance is a *regulated mortgage contract*) then the correct reporting approach will be determined as follows:

(a) where the original loan was made before 31 October 2004, has not in the meantime become a *regulated mortgage contract* (for example, because it is not a *regulated credit agreement*) but would otherwise satisfy the specific requirements of a *regulated mortgage contract*, and the further advance is documented in a new loan agreement separate from the original loan (and is not a variation to the existing mortgage contract), the original loan and further advance may be treated as one for *MLAR* reporting, being shown as 'regulated' under "Residential loans to individuals";

(b) where the original loan did not satisfy the defined conditions of a *regulated mortgage contract* at the time it was entered into and has not in the meantime become a *regulated mortgage contract*, and the further advance is documented in a new loan agreement separate

from the original loan (and is not a variation to the existing mortgage contract), the old loan and further advance will be treated as two separate loans for most aspects of *MLAR* reporting, the former being 'unregulated' while the latter will be reported as 'regulated'. However, for the LTV and Income Multiple analysis, while the *firm* should only show the amount of the further advance in the relevant "cell", the "cell" should be determined by using the total amount of the loan (old loan + further advance) when deciding which LTV band and which Income Multiple band are applicable; and

(c) where the lender decides to combine the original loan and the further advance to create a single new contract that replaces the existing mortgage contract and is a *regulated mortgage contract*, this should be reported as 'regulated'.

## 9. Specific items

### (i) Positions to be reported gross

In general, liabilities and assets should be shown gross, and not netted off (unless there is a legal right of set-off). Thus an account which moves from credit to debit will move from one side of the balance sheet to the other.

A notable exception to this however concerns the reporting of loan assets, which should follow ■ MIPRU 4.2.14R to ■ MIPRU 4.2.16G. Such assets should be shown in the balance sheet net of linked funding; similarly in other tables where balances are reported on the same basis. Only sections A3, D2, G and H require the reporting of such loan assets on a 'gross' basis.

The treatment of loan assets that are being operated as part of a current account **offset mortgage** product (or similar products where *deposit* funding is offset against loan balances in arriving at a net interest cost on the account) will depend on the conditions pertaining to the mortgage product. The balance outstanding on such loans will need to be reported on the basis of the contractually defined balance according to the terms of the mortgage product. This might be the amount of loan excluding any offsetting funds, or it might be the net amount.

### (ii) Foreign currencies

*Firms* should report in the currency of their annual audited accounts, where this is Sterling, Euro, US Dollars, Canadian Dollars, Swedish Kroner, Swiss Francs or Yen. Where annual audited accounts are reported in a currency outside those specified above, please translate these values into an equivalent within the list using an appropriate rate of exchange at the reporting date, or where appropriate, at the rates of exchange fixed under the terms of any relevant currency hedging transaction, and use that value in the return. Please report in thousands where stated on the return. *Firms* should apply the same accounting treatment as for their published accounts.

## SECTION A: BALANCE SHEET

### Balance sheet analysis

A1, A2	The balance sheet is intended to reflect the practices used in compiling published or other accounts, although its format in the <i>MLAR</i> (with 'total assets' and 'total liabilities') will not necessarily be the same as that used by firms in their regular accounts. 'Loans to customers' is expected to be the <i>customer</i> balance after any write-offs have been taken.
A1.6	<b>Loans to customers</b> may be a non-standard accounting sub-head for some <i>firms</i> whose business is not primarily mortgage related. But since this is an explicit <i>MLAR</i> data requirement, it should be split out from the sub-head under

A1.11	<p>which it is routinely shown in the <i>firm's</i> other accounts. Include <i>HR</i> and <i>HPP</i> products here.</p>
	<p><b>Other current assets</b> should include all assets measured at fair value not included in any other asset category on the return. Include any SRB assets here.</p>
A2.1	<p><b>Shareholders' funds</b> should include any unrealised gains or losses resulting from the fair valuation of available-for-sale financial assets, and any fair value gains or losses arising on cash flow hedges of financial instruments measured at cost or amortised cost.</p>
A2.7	<p><b>Other liabilities</b> should include all liabilities measured at fair value not included in any other liability category on the return. Include any liabilities incurred in acquiring SRB assets here.</p>
A3	<p><b>Analysis of loans to customers</b></p> <p>This section recognises that some lenders may have securitised loans on their balance sheet, and hence provides for unsecuritised/securitised loans to be shown separately.</p> <p><b>Unsecuritised balances</b> are analysed in terms of three elements: gross loan balances (before deduction of any provisions); provisions balances in respect of those balances; and the net balances after deduction of such provisions.</p> <p><b>Securitised balances</b> are analysed in a similar way, except that 'gross' also means before the deduction of any linked non-recourse funding, the amount of which is also to be shown separately.</p>
A3.1-4	<p>See Introduction (paragraphs 4(i) to (iv)) for details of the coverage of these terms.</p>
A3.5	<p><b>Other loans</b> refers to any lending secured on land and buildings outside of the <i>UK</i>, any loan for which security is provided other than by land and buildings, together with all unsecured loans (e.g. consumer credit, personal loans, or such loans to corporates). Loans and mortgages secured on land in the <i>EEA</i> other than the <i>UK</i> should be reported here.</p>
A3.6	<p>It is expected that net balances on unsecuritised loans plus net balances on securitised loans will equal the entry shown at A1.6 in the main balance sheet analysis of assets.</p>

**SECTION B: PROFIT & LOSS ACCOUNT**

B0	<p><b>Financial year to date</b></p> <p>In terms of reporting period, the analysis should be compiled on a 'year to date' basis, covering successively 3, 6, 9 or 12 <i>months</i> from the <i>firm's</i> accounting reference date.</p>
B1	<p><b>Profit &amp; Loss Account</b></p> <p>The P&amp;L section is intended to reflect the practices used in compiling accounts prepared under</p>

the Companies Acts, although its format in the *MLAR* (with explicit focus on financial items such as interest, fees & commissions etc) will not necessarily be the same as that used by *firms* in their regular accounts.

The reason for this approach is that most lenders to which this section is applicable are mortgage specialists, and as such it is considered desirable to put their P&L format onto a similar basis as that used for *banks* and *building societies*.

The analysis therefore requires the *firm's* profit & loss account to be re-structured in a way that makes a number of items explicit in the interests of achieving consistency with other reporting *firms*.

**B1.1**

**Focuses on gross profit from non-financial activities**

**B1.2-1.7**

Covers a range of income elements which are more closely related to financial activities, including in particular those associated with mortgage lending. In particular B1.7 Other income should include unrealised gains in respect of assets and liabilities which have been measured on a fair value basis.

**B1.9-1.13**

Covers a range of expenditure elements, including those related to non-financial and also to financial (including mortgage related) activities. In particular B1.13 Other expenses should include unrealised losses in respect of assets and liabilities which have been measured on a fair value basis.

**B1.15**

Operating Profit is total income less total expenses.

**B1.16**

Provisions covers write-offs and provisions charges on bad and doubtful debts, (including for example on mortgage loans); any suspended interest (i.e. any interest included in Interest receivable which, through loan default, impairment or otherwise, is deemed unlikely to be received); and any other provisions for contingent liabilities.

**B2**

**Provisions analysis**

This supplementary analysis draws together the key movements in provisions balances from the *firm's accounting reference date* up to the reporting quarter end.

The two 'flow items', namely write-offs and provisions charges, are those relating to the period from the *firm's accounting reference date* up to the reporting date.

The total of provisions charges in line B2.6 (column 3) will not necessarily be the same as the provisions charge in the Profit & Loss analysis at B1.16 (since this latter item may include further provisions against other asset items not included in B2.6, or provisions arising from other sources).

**SECTION C: CAPITAL**

## INTRODUCTION

The *threshold conditions* state that the resources of a firm must be adequate in the opinion of the FCA in relation to the *regulated activities* that the firm seeks to carry on or carries on. In addition, a firm is required to maintain 'adequate financial resources'. A *home finance administrator* or *lender* should have adequate capital and funding in order to be able to meet these requirements.

In addition, the FCA and the PRA are required to identify the main risks to their statutory objectives. In assessing firm-specific risks we are required to assess the risks arising from the financial failure of a firm (due to business risks from the external environment, or control risks arising from the firm itself) which might affect both the market and individual customers. The specific FCA objectives that are potentially impacted are those relating to market confidence and consumer protection.

Details provided in this section on Capital are drawn from the appropriate provisions of ■ MIPRU 4 (Capital Resources).

### C1-2

### CAPITAL RESOURCES

C1 and C2 set out the individual components of **eligible capital** and the **separate deductions** that should be made to arrive at capital resources.

Components of eligible capital are:

#### (1) Share capital

Share capital must be fully paid (i.e. the firm is under no obligation to repay this capital unless and until the firm is wound up) and may include ordinary share capital or preference share capital (excluding preference shares redeemable by shareholders within two years).

See paragraph (7) Subordinated loans below for details of the limits that may apply to the inclusion of redeemable preference shares in capital resources.

#### (2) Partnership or sole trader capital

Partnership capital is capital made up of the partners' capital account. The capital account is an account into which capital contributed by the partners is paid and from which, under the terms of the partnership agreement, an amount representing capital may be withdrawn by a partner only if he or she ceases to be a partner and an equal amount is transferred to another such account by his or her former partners or any person replacing him or her as their partner, or the partnership is otherwise dissolved or wound up.

Sole trader capital is the net balance on the firm's capital account and current account.

#### (3) Reserves

Reserves are accumulated profits retained by the firm (after deduction of tax, dividends and proprietors' or partners' drawings) and other reserves created by appropriations of share premiums and similar realised appropriations. Reserves also include gifts of capital, for example, from a parent company. For partnerships, reserves include partners' current accounts according to the most recent financial statement. Reserves must be audited unless the firm is eligible to include unaudited reserves in its capital resources calculation under MIPRU 4.4.2R.

The reserves figure is subject to the following adjustments, where appropriate:

(a) any unrealised gains must be deducted or, where applicable, any unrealised losses added back in on cash flow hedges of financial instruments measured at cost or amortised cost;

(b) any unrealised gains must be deducted or, where applicable, any unrealised losses added back in on debt instruments held in the available-for-sale financial assets category. Any unrealised gains or losses on equities held in the available-for-sale financial assets category should be reported at C1.5;

(c) in respect of a *defined benefit occupational pension scheme*, any *defined benefit asset* must be derecognised;

A *firm* may substitute for a *defined benefit liability* the *firm's deficit reduction amount* provided that that election is applied consistently in respect of any one *financial year*.

**(4) Interim net profits and partners' interim current accounts**

A *firm* is not required to take into account interim net profits. However, if it does, the profits have to be verified by the *firm's* external auditors, net of tax, anticipated dividends or proprietors' drawings and other appropriations unless the *firm* is eligible to include unverified interim net profits in its capital resources calculation under MIPRU 4.4.2R.

In terms of the verification for inclusion, for the first, second and third financial quarters *firms* may include interim profits in their *MLAR*, on the understanding that the *firm* will obtain the required verification from its external auditors within two months of the financial quarter end. (The *FCA* may ask for a copy of the verification statement.) For the fourth quarter the *FCA* will rely on the forthcoming audited accounts as providing verification and accordingly the full year's profits should be included in the make-up of eligible capital under interim profits in the return.

**(5) Revaluation reserve**

*Firms* should report reserves relating to the revaluation of fixed assets.

**(6) General/collective provisions**

*Firms* should report general/collective provisions that are held against potential losses that have not yet been identified, but which experience indicates are present in the *firm's* portfolio of assets. Such provisions must be freely available to meet these unidentified losses wherever they arise. General/collective provisions must be verified by external auditors and disclosed in the *firm's annual report and accounts* annual report and accounts unless the *firm* is eligible to include unaudited general and collective provisions in its capital resources calculation under MIPRU 4.4.2R.

**(7) Subordinated loans**

Subordinated debt (i.e. the amount of principal outstanding before amortisation) must not form part of the capital resources of a *firm* unless it meets the following conditions:

- (1) it has an original maturity of at least five years or is subject to five years' notice of repayment;
- (2) the claims of the subordinated creditors must rank behind those of all unsubordinated creditors;
- (3) the only events of default must be non-payment of any interest or principal under the debt agreement or the winding up of the *firm*;
- (4) the remedies available to the subordinated creditor in the event of non-payment or other default in respect of the subordinated debt must be limited to petitioning for the winding up of the *firm* or proving the debt and claiming in the liquidation of the *firm*;
- (5) the subordinated debt must not become due and payable before its stated final maturity date except on an event of default complying with (3);
- (6) the agreement and debt are governed by the law of England and Wales, or of Scotland, or of Northern Ireland;



- (7) to the fullest extent permitted under the rules of the relevant jurisdiction, creditors must waive their right to set off amounts they owe the *firm* against subordinated amounts owed to them by the *firm*;
- (8) the terms of the subordinated debt must be set out in a written agreement or instrument that contains terms that provide for the conditions set out in (1) to (7); and
- (9) the debt must be unsecured and fully paid up.

For a *mortgage lender* or *mortgage administrator* undertaking business connected to regulated mortgage contracts (unless its *Part 4A permission* prevents it from undertaking new business), MIPRU 4.4.8R limits the amount of subordinated loans and redeemable preference *shares* that can be included in eligible capital.

In Table C of the *MLAR* the *firm* will deduct from capital resources under item C2.3a any amount by which the subordinated loans and redeemable preference *shares* exceed the limit in MIPRU 4.4.8R.

**Treatment of eligible capital items (listed above) in section C1:**

- C1.1 Reserves:** include items
  - reserves
  - revaluation reserves
- C1.2 Interim profits:** include items
  - interim net profits
  - *partners'* interim current accounts
- C1.3 Issued capital:** include items
  - *share* capital
  - *partnership* or *sole trader* capital
- C1.3a Subordinated loans**
- C1.4 General/collective provisions**
- C1.5 Other eligible capital:** includes
  - any other item of eligible capital not required to be included in items C1.1 to C1.4, including any unrealised gains or losses on equities held in the available for sale financial assets portfolio.
- C1.6 Total eligible capital**

This is the sum of the components listed in C1.1 to C1.5.
- C2 Deductions from capital**
- C2.1 Investments in own shares** represents any investment in the *shares* of the company, quantified as fixed assets in the balance sheet.
- C2.2 Intangible assets** are the full balance sheet value of goodwill, capitalised development costs, brand names, trademarks and similar rights and licences.
- C2.3 Interim net losses** refers to the cumulative amount covering the period from the *firm's accounting reference date* to the end of the current quarter. All the current year's losses should be reported. Unpublished losses from the previous accounting period should also be shown here.

<b>C2.3a</b>	<p><b>Subordinated loan and redeemable preference share restriction</b></p> <p>This is the amount of any excess as computed under the restriction explained in paragraph (7) of the C1-2 CAPITAL RESOURCES section above.</p>
<b>C2.4</b>	<p><b>Other deductions from capital:</b> include</p> <ul style="list-style-type: none"> <li>• <b>Excess of drawings over profits for partnerships or sole traders:</b> firms should report the difference between the personal drawings of a partnership or sole trader and the profit in the period, where the drawings exceed the profit for the period.</li> </ul>
<b>C2.5</b>	<p><b>Total deductions</b></p> <p>This is the sum of the components listed in C2.1 to C2.4.</p>
<b>C3</b>	<p><b>CAPITAL RESOURCES CALCULATION</b></p>
<b>C3.1</b>	<p><b>Capital resources</b></p> <p>This is total eligible capital less total deductions (C1.6 to C2.5).</p>
<b>C3.2</b>	<p><b>Capital requirement</b></p> <p>This is the amount calculated in sections C4.6(e) or C5.5(c), whichever is applicable.</p>
<b>C3.3</b>	<p><b>Surplus/(Deficit) of resources</b></p> <p>This is the capital resources less the capital requirement (C3.1 to C3.2).</p>
<b>C4</b>	<p><b>CAPITAL REQUIREMENTS</b></p> <p><b>Capital requirement for a lender, or an administrator with administered assets on its balance sheet</b></p>
<b>C4.1</b>	<p>The capital requirement for lenders or administrators that have the <i>regulated mortgage contracts</i> that they administer on their balance sheet is asset-based, and the information required is detailed in C4.2 to C4.6.</p>
<b>C4.2</b>	<p><b>Total assets:</b> this is the total value of assets as shown at line A1.12 in section A of the <i>MLAR</i>.</p>
<b>C4.2a</b>	<p><b>Assets subject to the credit risk requirement</b></p> <p>This is the amount of assets subject to the credit risk requirement computation as shown at line 6A in section L of the <i>MLAR</i>.</p> <p>This is relevant for a <i>mortgage lender</i>; or <i>mortgage administrator</i> with its administered assets on balance sheet, that undertakes business connected to <i>regulated mortgage contracts</i> and has one or more exposures which satisfy the conditions set out in MIPRU 4.2A.4R.</p>
<b>C4.3</b>	<p><b>Undrawn commitments</b></p> <p>Undrawn commitments means the total of those amounts which a borrower has the right to draw down from the <i>firm</i> but which have not yet been drawn down (see MIPRU 4.2.12R and MIPRU 4.2.13G).</p> <p>However, undrawn commitments should not be included in the calculation of capital requirements if they have an original maturity of up to one year or if they can be unconditionally cancelled at any time by the lender.</p> <p>Similarly, existing mortgage offers should not be included in the calculations of capital requirements if the offer has an original maturity of up to one year or can be unconditionally cancelled at any time by the lender.</p>
<b>C4.4</b>	<p><b>Intangible assets:</b> this is the amount shown at C2.2.</p>
<b>C4.5</b>	<p><b>Total adjusted assets:</b> this is the sum of C4.2 and C4.3, less C4.2a and C4.4.</p>

<b>C4.6</b>	<p><b>CAPITAL REQUIREMENT</b></p> <p>This section sets out how to calculate the capital requirement for a lender, or an administrator with administered assets on its balance sheet (see MIPRU 4.2.12R, MIPRU 4.2.18R and MIPRU 4.2.23R):</p> <ul style="list-style-type: none"> <li>(a) is the minimum requirement of £100,000;</li> <li>(b) is 1% of the amount shown as total adjusted assets at C4.5, i.e. the assets that are not subject to the credit risk requirement calculation;</li> <li>(c) is the credit risk requirement as shown at line 9E in section L of the <i>MLAR</i>;</li> <li>(d) is the total of (b) and (c); and</li> <li>(e) is the capital requirement which is the higher of the fixed amount at (a) and the sum shown at (d).</li> </ul>
<b>C5</b>	<p><b>Capital requirements for an administrator not having administered assets on its balance sheet</b></p>
<b>C5.1</b>	<p>This section sets out the income-based capital requirements applicable to <i>administrators</i> that do not have the assets that they administer on their balance sheet. The information requirements are detailed in C5.2 – 5.5.</p> <p><i>Firms</i> should report the following amounts from both their most recent annual financial statement and their estimated accounts for the current reporting year.</p>
<b>C5.2</b>	<p><b>Total income</b></p> <p><i>Firms</i> should report the amount of total income in their most recent (or other) financial statements, and an estimate of income for the current reporting year.</p> <p>Total income should include both revenue and gains arising in the course of the ordinary activities of a <i>firm</i>. Revenue consists of commissions, fees, net interest income, dividends, royalties and rent. Only gains that are recorded in the profit and loss account should be included in income. What is relevant for the calculation of income is the amount of actual income generated rather than the gross cash streams of any one transaction (see MIPRU 4.3.7R).</p>
<b>C5.3</b>	<p><b>Relevant adjustments</b></p> <p>The following exceptional items must be deducted from the <i>firm's</i> total income:</p> <ul style="list-style-type: none"> <li>(1) profit on the sale or termination of an operation;</li> <li>(2) profit arising from a fundamental reorganisation or restructuring having a material effect on the nature and focus of the <i>firm's</i> operations; and</li> <li>(3) profits on the disposal of fixed assets, including <i>investments</i> held in long-term portfolio.</li> </ul>
<b>C5.4</b>	<p><b>Total relevant income</b></p> <p>Is the sum of C5.2 minus C5.3.</p>
<b>C5.5</b>	<p><b>CAPITAL REQUIREMENT</b></p> <p>This sets out how to calculate the capital requirement for <i>administrators</i> administrator not having administered assets on its balance sheet (see MIPRU 4.2.19R):</p>

- (a) is the minimum requirement of £100,000;
- (b) is 10% of the amount shown as total relevant income at C5.4 above; and
- (c) is the capital requirement which is the higher of the minimum amount at (a) and the calculation shown at (b).

**SECTION D1: LENDING – BUSINESS FLOWS AND RATES**

**D1-D4** For details of the terms ‘**Residential lending to individuals**’ (and regulated/unregulated), and ‘**other secured loans**’, see Introduction, paragraphs 4 (i) – (iv).

**D1 Loans: Advances/Repayments – Row & Column Analysis**

For the two categories of loan assets, details are requested under various **transaction columns** that explain the transition from the previous quarter’s balances to the current quarter’s balances.

**D1 Loans: Advances/Repayments – Transactions (columns)**

**Advances made in quarter** should include:

- (a) instalments released in the quarter for instalment advances;
- (b) re-advances, i.e. where previous charge cancelled;
- (c) further advances;
- (d) in the case of loans that have a facility to draw down extra amounts over and above the sum originally advanced, the total of any further amounts drawn down in the quarter;
- (e) the deduction from advances made of advance cheques cancelled;

but should exclude:

- (f) the amount of any loan books acquired in the quarter (which should be reported in ‘other debits/credits etc’);
- (g) retentions imposed, which should be included as they are released;
- (h) sundry debits, i.e. any items not approved and not included in commitments, e.g. insurance debits, fines, insurance guarantees, valuation fees, arrangement fees (unless formally treated as part of loan, that is where such amounts are repaid over the period of the loan);
- (i) any movements on overdrafts.

**Repayment of principal** should include:

- (a) repayment of principal including capital repayments, full or partial redemptions and the principal element of the normal monthly payment;
- (b) mortgage receipts temporarily posted to *investment* accounts;
- (c) transfers from *investment* accounts to mortgage accounts;

but should exclude:

- (d) the amount of any loan book sold during the quarter (to be reported in ‘other debits/credits etc’);

- (e) sundry credits to accounts, such as insurance premiums, fines, fees, etc;
- (f) advance cheques cancelled;
- (g) *investment* receipts temporarily posted to mortgage accounts;
- (h) any movement in overdrafts.

In determining the amount shown under **repayment of principal**, it is recognised that *firms* may need to estimate the amount of interest repaid where amounts repaid include both interest and principal, and/or where the amount of interest repayable is not the same as the amount charged (e.g. annual review or deferred interest schemes, or where a loan is not being fully serviced).

### Write-offs in quarter

This is the amount of written off mortgage balances in the quarter (and of provisions charged to the income and expenditure account) and is to be on a basis consistent with amounts shown in the *firm's* published accounts as 'written off' within the analysis of changes in loss provision usually appearing as Notes to the Accounts.

The amount written off may arise for example from:

- (a) sale of a property in possession where there is a shortfall; or
- (b) a decision to write down the mortgage debt on a loan still on the books. This may arise where the *firm* has taken the view that it is certain that a loss will arise and that it is prudent to write down the mortgage debt rather than carry the full debt and an offsetting provision. Examples might include certain fraud cases, or where arrangements have been reached with the borrower to reduce the mortgage debt repayable;
- (c) the amount should be net of any write-backs in the quarter. If there are more write-backs than write-offs the net figure should be shown as a negative.

### Other debits/(credits) and transfers (net) should include:

- (a) interest charged to the loan account in the period;
- (b) interest repaid during the period;
- (c) amounts charged to loan accounts and amounts received from borrowers in respect of such items as insurance premiums, valuation fees, and fines etc;
- (d) mortgage balances acquired following takeover / merger;
- (e) loan books acquired from other lenders in the quarter;
- (f) loan books sold to other lenders in the quarter;
- (g) loan books securitised during the quarter;
- (h) the transfer of any securitised assets back onto the balance sheet (e.g. following the closure of a securitised pool of loans);
- (i) transfers (net) should include any reclassified loans (e.g. where there has been a change in the use of the land on which the loan is secured to/from residential; or a change in status of loan from/to regulated/non-regulated etc);
- (j) all movements on overdrafts (that is, net change in overdraft balances), other than write-offs.

NB: Balances on loan books acquired/sold/securitised should be as at the date of the relevant event and not be subject to any revaluation factors.

**Overdraft analysis (final 3 columns of D1):**

The term “overdraft” here and in other columns of D1, is used to cover two types of revolving credit facilities: overdrafts and credit cards.

The balance at end of quarter in column 6 is further analysed into loan balances excluding overdrafts and, separately, balances on overdrafts.

The final column in D1 represents the sum total, across all overdraft accounts included in the penultimate column, of the individual credit limits on each such overdraft.

**D2 Loans: Book movements**

The 'transactions in the quarter' columns are analyses of amounts already included within the 'other debits/(credits) and transfers (net)' column of section D1.

- (a) 'loans acquired' represents balances on any relevant loan books acquired during the quarter from other lenders;
- (b) 'loans sold' represents balances on any relevant loan book (i.e. parcel of loans) sold during the quarter to another lender;
- (c) 'loans securitised' represents balances on any loans that the *firm* has securitised in the quarter. It includes balances on loans subject to securitisation transactions which should follow MIPRU 4.2.14R to MIPRU 4.2.16G. Securitised loans brought back onto the balance sheet in the quarter should also be included and the amount here should be net of them. If the amount of securitised loans brought back onto the balance sheet is greater than the securitised balance then the net figure should be reported as a negative; and
- (d) 'other' represents the net amount of other transaction amounts included in 'other debits/(credits) and transfers (net)' in D1.

NB: As a result, D2 (item (a) – item (b) – item (c) + item (d)) should equal D1 (item 'other debits/(credits) and transfers (net)').

The final column 'balance at end quarter on loan assets subject to non-recourse funding' represents all such loan assets (and not just the amount treated as transactions in the quarter), and requires the 'gross amount' of such loan assets to be reported against relevant line item categories. Non-recourse funding can be established either by contract or in-substance. The 'gross amount' is the amount of any such loan that would be shown in a *firm's* published or other balance sheet as X in the example below:

gross loan asset	=	X
less non-recourse funding	=	Y
net loan asset	=	X-Y

In the analysis here at D2, it is therefore the gross loan asset at the end of the reporting quarter that should be reported in the final column. Once securitised, it is recognised that end quarter gross balances will not necessarily remain constant (due either to borrower repayments, the possibility of any further advances, or other arrangements for 'topping up' a pool of securitised loans, etc).

**D3 Loans: Interest rates**

**Basis**

Interest rates in this table are **nominal annual rates** charged to the *customer* on loan accounts excluding overdrafts (as defined in D1). They should ignore the effect of any interest rate swaps or other hedging contracts that might exist, and also ignore the effect of any offsetting deposit account (as for example in the case of an offset mortgage).

This provides an analysis of weighted average interest rates for the loan assets reported under 'Loans excluding overdrafts' in column 7 of D1 above. 'Interest rates at end of quarter' (columns 4, 5, and 6 of section D3) means rates applying at least throughout the last day of

the quarter, so *firms* should not use rates which only come into operation at the beginning of the next quarter. Points to note on specific columns are:

**(1) Balances at end quarter**

**Accrued interest** should be included (even though it is excluded when computing the weighted average rate).

The first 'of which' analysis is designed to obtain information on balances subject to **fixed rates** of interest and balances subject to **variable rates** of interest. (The two amounts should add to the balance in column 1). For these purposes:

'**fixed**' means the rate of interest is fixed for a stated period. It should also include any products with a 'capped rate' (i.e. subject to a guaranteed maximum rate) and any products that are 'collared loans' (i.e. subject to a minimum and a maximum rate). Annual review or stabilised payment loans should be excluded (since the purpose is merely to smooth cash flow on variable rate loans);

'**variable**' includes all other interest rate bases (i.e. other than those defined above as 'fixed') applying to particular products, including those at, or at a discount or premium to, one of the *firm's* administered lending rates and those linked to an index. However if any such loan products are subject to a 'capped rate', then treat as 'fixed'.

The second 'of which' analysis is designed to obtain information on loan balances according to whether the nominal annual interest rate charged to the customer at the quarter-end is higher than the prevailing Bank of England Base (or repo) Rate (BBR). For these purposes the BBR is that applying on the last day of the reporting quarter. The analysis is subdivided into four categories:

- (a) loan balances where the rate charged is **less than 2% above BBR**. Include here also all loan balances where the rate charged is less than BBR (as a result the sum of these four columns will equal the figure in the TOTAL column);
- (b) loan balances where the rate charged is **2% or up to 3% above BBR**;
- (c) loan balances where the rate charged is **3% or up to 4% above BBR**;
- (d) loan balances where the rate charged is **4% or more above BBR**.

**(2) Weighted average nominal annual rates**

- (a) Interest rates reported in Table D3 provide a broad indication of **market rates**. **They should ignore the effect of any interest rate swap or hedging**. For each line item the weighted average rate should be derived as follows:
  - (i) identify the various nominal/quoted interest rates that apply to elements of this line item; then
  - (ii) for each separate nominal/quoted rate, multiply that rate by the amount of end quarter balances (excluding accrued interest) for which that rate applies; and
  - (iii) add up the results of (ii) for all the different rates for this line item; and
  - (iv) divide the total calculated in (iii) by the corresponding end quarter balance in column 1, 2 or 3 less accrued interest (against the line item concerned).

NB: in the 'of which' analysis that requires separate reporting of weighted 'fixed' and 'variable' rates, a cross **check for each row** is that the weighted average nominal rate on all balances is equal to the weighted average of the reported fixed and variable rates in the subsequent two columns.

**D3.1 – Other Points**

**3.8**

The interest rate to be used is the rate charged to the loan account, which in certain circumstances will differ from the interest rate 'payable' by a borrower. These circumstances include deferred interest loans, interest roll-up loans, annual review schemes or where the loan is not performing.

**Advances in quarter** refers to the same amount as covered under 'advances in quarter' in the Loans: Advances/Repayments analysis in Section D1 above.

**D4 Loans: Commitments (columns)**

**Commitments made since end of previous quarter**

should include:

- (a) the aggregate of formally agreed advances (whether or not the mortgage offer has been accepted by the prospective borrower), including amounts recommended for retention, all instalment elements, and further advances;

but should exclude:

- (b) commitments from previous quarters that have been cancelled in the current quarter;
- (c) retentions imposed and subsequently not released;
- (d) instalment commitments that have not been taken up;
- (e) advance cancellations that are not re-issued;
- (f) sundry debits, e.g. insurance debits, fines, insurance guarantees, valuation fees, arrangement fees etc (unless formally treated as part of the loan, that is where such amounts are repaid over the period of the loan).

**Cancellations in quarter**

Includes (b), (c), (d) and (e) above.

**Advances made in quarter**

This refers to the same amount as covered under 'advances in quarter' in section D1 above.

**Other debits/(credits) and transfers (net)**

This is unlikely to be needed on a routine basis. It is intended to cover less frequent events such as loan commitments acquired on merger with another firm or acquisition of a loan book; or transferred on sale of a package of loans; or where 'commitments outstanding' need adjusting for reasons not attributable to other columns.

**SECTION E: RESIDENTIAL LOANS TO INDIVIDUALS - New business profile**

**E1-6 Gross advances in quarter**

Covers actual advances made in the quarter. For these purposes separate advances (e.g. stage payments) made in the period on the same mortgage should count as a single advance for the 'number' column in sections E3, E4, E5 and E6.

NB: 'gross advances' should be compiled on the same basis as in section D1 above and therefore relevant totals for each section in E1 to E6 should also agree with the amount of gross advances reported in D1.

**E3-6 Balances outstanding**

Covers balances at end of the quarter. Relevant sub-totals should agree with corresponding balances shown under 'Loans excluding overdrafts' in column 7 of D1.

**E1/2 By Income Multiple and LTV (Loan to Valuation ratio)**

The amount to be included in the table is the **gross advance**, but its allocation to a specific cell is determined according to income multiple and LTV which are both defined using the size of the loan (as defined below).

For *second charge regulated mortgage contracts*, the calculation of income multiples and LTVs are to also include the outstanding balance of the *first charge regulated mortgage contract* and any higher priority *second charge regulated mortgage contracts*.

**E1/2 By Income Multiple and LTV**

**Income multiple based on single or joint incomes**

For this analysis, 'income' should be taken as **gross annual income** before tax or any other deductions.



The loan should first of all be categorised to 'single' or 'joint' income basis, and the income multiple calculated as described below:

(i) **Single income basis.** This means only one person's income was taken into account when making the lending assessment/decision.  
The income multiple here is the total loan amount divided by the borrower's total income (total of the borrower's main income and any other reckonable income, e.g. overtime, to the extent that the *firm* takes such additional income into account in whole or in part).

(ii) **Joint income basis.** This means that two or more persons' incomes were used in the lending assessment/decision.

The income multiple here is the total loan amount divided by the aggregate income of the two or more borrowers.

(iii) **Other.** This category is to be used when the loan assessment is based, only partly or not at all, on one or more persons' incomes. Thus include here:

**Under Single Income section (E1.6/E1.13)**

- **Buy to let loans** where the loan assessment is based on the rental yield of the property (but not buy to let loans based solely on one or more persons' incomes which should be shown against the relevant income multiple category);

- **Lifetime mortgages** since in most if not all instances, the concept of a supporting income is not applicable;

- **Other products** (no current examples)

**Under Joint Income section (E2.6/E2.13)**

- **Business loans**, where typically the loan assessment will be based on mixed sources of business/personal income or perhaps just on the capacity of a person's business to support the loan;

- **Other products** that have similar characteristics, that is where the loan assessment is based on either mixed income sources or non-personal incomes.

(iv) **Not evidenced.** This 'of which' analysis applies to loans made on the basis of one or more persons' incomes, and therefore should exclude any loans reported in "Other" (defined in (iii) above).

It covers loans where: the lender has no independent documentary evidence to verify income (e.g. as provided by an employer's reference, a bank statement, a salary slip, a P60, or audited/certified accounts).

For the purpose of **income multiples**, the multiple is of **loan** to income where **loan** is as defined below.

**Loan to valuation ratio LTV**

Should be based on the following:

(i) **loan** is defined for:

(a) **new borrowers** - as the amount of actual advance or, in the case of loans where the amount advanced in the period is less than the total amount of the loan which the *firm* has agreed to lend (for example loans with additional drawing facilities or loans involving instalments/stage payments/retentions), is the amount of committed advance (including any committed drawing facilities);

(b) **existing borrowers** - as the total amount of debt outstanding including the further advance plus any committed drawing facilities at the time of the further advance;

and will include MIG ("mortgage indemnity guarantee"), building and other insurance premiums and other sundry items if these are included in the amount advanced;

- (ii) **valuation** is to be taken as the most recent valuation of the property which is subject to the mortgage (the existence of additional collateral on any other property should be ignored when calculating LTV). For these purposes, "recent valuation" can either be based on an actual valuation, or an estimated valuation using indexed valuation methodology applied to an original actual valuation. In the case of staged construction or self-build schemes, valuation means 'expected final value of the property' at the time the *firm* is committed to making the loan (i.e. takes the lending decision).

### E3 Credit history

This seeks to categorise lending in terms of a borrower's previous credit history, as measured at the point when the new advance is made. For these purposes, it is only necessary to establish a borrower's credit history at a single point in time, i.e. at the time of making the loan. In practice this will usually be done at the 'offer' stage of making a loan. It is not intended that credit history should be reassessed after the loan has been made. However, if a further advance is made, then it will be necessary to re-assess.

In particular the aim is to separately identify under the heading 'Impaired credit history', those loans where it appears that the borrower has some form of adverse credit history:

- (i) at the point when the new advance is made and the loan is reported under 'Gross advances';
- (ii) subsequently for reporting under 'Balances outstanding', the amount of the loan at the quarter end to such a borrower (who at the point when the present loan was advanced, was deemed to have had an adverse credit history).

However, if there is subsequently a further advance on the loan (which will be reported under 'Gross advances' in E3), this is an occasion to re-assess the borrower's credit history. At that stage, the total amount of the loan (including further advance) should be classified under 'Balances outstanding' on the basis of the credit history as determined at the time of making the further advance. This means that the further advance and total loan amount will be reported on a consistent basis.

#### E3.1 Impaired credit history

If any of the following conditions are met at the time of making the loan, the borrower should be reported as having **an impaired credit history**:

- (i) arrears on a previous (or current) mortgage or other secured loan within the last two years, where the cumulative amount overdue at any point reached three or more monthly payments;
- (ii) arrears on a previous (or current) unsecured loan within the last two years, where the cumulative amount overdue at any point reached three or more monthly payments;
- (iii) one or more county court judgments (CCJs), with a total value greater than £500, within the last three years;
- (iv) being subject to an Individual voluntary arrangement (IVA) at any time within the last three years;
- (v) being subject to a bankruptcy order at any time within the last three years;

**but** *firms* should not include technical arrears as part of the above definition. Technical arrears means circumstances where the borrower has been the victim of a banking error giving rise to late payment.

NB: In (i) to (v), *firms* should ignore whether the borrower has subsequently paid off arrears, or has satisfied/discharged a CCJ or IVA or bankruptcy.

In the case of loans involving **two or more borrowers**, the impaired credit test is whether any one of the borrowers individually meets any of the five listed impaired credit conditions.

**E4 Payment type**

This section analyses loans in terms of how the borrower is contractually expected to service the loan, and is split into four categories:

- repayment;
- interest only;
- combined; and
- other.

**E4.1 Repayment (capital and interest)** This is the traditional payment option available to borrowers. Such loans involve regular periodic payments covering interest for the period and some repayment of capital.

**E4.2 Interest only**

This is the type of loan which requires the borrower to make regular payments of interest only (i.e. without any obligation to make periodic payments of capital). It includes 'endowment' type loans, others having an independent ultimate repayment vehicle (e.g. PEP, ISA or pension mortgages), as well as other interest-only loans where there is either no specific ultimate repayment vehicle in place or where the lender does not formally require one to be in place.

**E4.3 Combined**

This section is for loans where both of the above payment types are in place (i.e. part of the loan is 'repayment', and part is 'interest only').

**E4.4 Other**

This category will contain loans where no regular periodic payment obligation is in place, for example secured overdraft facilities or secured credit cards, and *lifetime mortgages*.

**E5 By drawing facility**

These are loans which include an option to draw down further amounts (i.e. where, at the outset of the loan, extra drawing rights exist over and above the original amount advanced, **but not** those arising only in relation to previous overpayments).

The drawing facility category is also meant to indicate a facility that is only exercisable by the borrower (e.g. via a cheque book, on line transaction or on demand). It would therefore not apply to situations where a loan is merely subject to retentions or stage payments, since the borrower does not have a draw-down option that they can exercise.

**E5.1 Extra drawing facility**

These are loans which in general are structured as follows:

**Example structure when flexible loan contract agreed**

Amount of loan advanced	£65,000
Amount of extra drawing facility agreed to (but not advanced at outset of loan)	£15,000
Total loan facility up to	£80,000

**E5.1 (a) Loans including unused facility**

This means the total loan facility i.e. the sum of the amount of loan advanced and the amount of extra drawing facility agreed (but not advanced at the outset of the loan):

- (i) **gross advances in quarter** should detail those loans that include an extra drawing facility: show the number and amount of such loans;
- (ii) **loans outstanding** means the end quarter balances (on original advance plus any subsequent draw downs) plus the residual amount of any unused drawing facility that remains available to the borrower: show the number and amount of such loans.

**(b) Unused facility** This is the amount of the extra drawing facility that has not been drawn down by the borrower:

- (i) **gross advances** in quarter should detail the unused facility element of such loans: show the amount;
- (ii) **loans outstanding** means the end quarter balances of any unused extra drawing facility that remains available to the borrower: show the amount.

**(c) Net loans**

This can be calculated by subtracting the entry in row b) from the entry in row a).

**E5.2 Loans with no extra drawing facility**

*Firms* should report all other loans here.

**E5.3 TOTAL**

This figure should be calculated as follows:

- (i) for 'Number' by adding E5.1(a) and E5.2, and
- (ii) for 'Amount' by adding E5.1(c) and E5.2.

**E6 By purpose**

**E6.1/2 House purchase**

Loans where the borrower is purchasing a house (or flat etc). *Firms* should include stage payments on such transactions here and not in 'further advances'. A distinction is drawn between loans for house purchase where the purpose is for owner occupation, or for buying with a view to letting ('buy to let').

Loans for owner occupation are required to be sub divided into those to first time buyers (FTBs, that is where the tenure of the main borrower immediately before this advance was not owner-occupier) and those to other buyers.

**E6.2 Buy to let (BTL)**

Such loans typically involve the borrower purchasing a residential property with the intention of letting it out on a rental basis.

The majority of BTL loans will be those used by the borrower to acquire a property with the intention of letting it on a commercial basis to unrelated third parties. That is to persons who, in relation to the borrower, are not '*related persons*' (where '*related persons*' are those set out in subsections (A), (B) and (C) of section 4 (iv) of the Introduction). These BTL loans are not *regulated mortgage contracts* and hence should be shown in columns 5 to 8 of E6.2 under '*Non regulated loans*'.

However, where a BTL loan is used by the borrower to acquire a residential property that will be occupied by a *related person*, such a loan will normally be a *regulated mortgage contract* (providing it satisfies the other requirements of a *regulated mortgage contract*) and should therefore be shown in columns 1 to 4 of E6.2 under '*Regulated loans*'. An example of such a loan is where a parent buys a house or flat for use by a student son or daughter, with a plan to take in other students on a rental basis.

Further advances and remortgages on any BTL loans should be included within E6.2.

**Further advances and drawdowns**

**E6.3**

A further loan (either as a further advance, or as a second charge loan where the *firm* has the first charge) to an existing borrower of the *firm*, secured on the same property; or a drawdown on a flexible mortgage.

The underlying purpose of the further advance or drawdown is not relevant and could include e.g. purchasing freehold interest in a currently owned leasehold property; buying a second property on the security of the first; as a consumer loan fully secured on residential property.

However, further advances and drawdowns on existing buy to let loans, and on *lifetime mortgage* loans should instead be reported against E6.2 and E6.6 respectively.

**E6.4/5 Re-mortgage**

Loans where the borrower is not moving house but is refinancing an existing loan, either one already with the *firm* or one from another lender. The whole amount of the new advance should be classified as a 're-mortgage' even if it is larger than the existing loan.

Re-mortgages from another lender are well understood, and need no further comment.

But a 're-mortgage' by one of a firm's existing borrowers (i.e. 'own borrower' in E6.4) will not always be transacted in exactly the same way by different lenders. The following comments are designed to provide some illustrative examples, and indicate how the actual transaction between lender and borrower should be reported:

- **Example 1:** borrower changes from variable rate to fixed rate, with loan amount unchanged, at say £100k. Some lenders' systems formally treat this as a redemption and a new loan advance which is reportable under "advances" in D1 (in which case report as "re-mortgage" under this analysis of advances in E6), but other lenders treat it as an interest variation and not as a new advance (so not included in advances in D1 or E).

- **Example 2:** borrower changes from variable rate to fixed rate and takes out additional loan at the same time, say extra £25k on top of existing £100k. Some lenders will treat as a redemption of £100k and a new advance of £125k (in which case the £125k is a re-mortgage), but others may treat as two loans (with first loan regarded as just subject to an interest rate variation, and the extra loan as a "further advance").

- It is recognised that practices vary among lenders when it comes to further advances or re-mortgages. What is important is that the actual transaction between the lender and the borrower is reflected in the MLAR.

- Thus if a firm genuinely treats the advance of new money as a further advance (perhaps setting up a second sub-account), then that should be reported as such (e.g. at E6.3).

- However if the old loan is formally replaced with a new loan (at the same or increased size) and this is reported in "advances" in D1, then the new loan should similarly be reported in E, and in E6.4 shown as a "re-mortgage".

NB: However, re-mortgages on existing buy to let loans, and on *lifetime mortgage* loans, should instead be reported against E6.2 and E6.6 respectively.

**E6.6 Lifetime mortgages**

**(i) Regulated loans: Lifetime mortgages (columns 1 to 4)**

This is defined in the *Handbook* as follows:

- (1) an *article 3(1)(b) credit agreement* or a *regulated mortgage contract* which is not a *retirement interest-only mortgage*, under which:
  - (a) entry into the mortgage is restricted to older *customers* above a specified age; and
  - (b) the lender may or may not specify a mortgage term, but will not seek full repayment of the loan (including interest, if any, outstanding) until the occurrence of one or more of the *specified life events*; and

- (c) while the *customer* continues to occupy the mortgaged land as their main residence:
  - (i) no instalment repayments of the capital and no payment of interest on the capital (other than interest charged when all or part of the capital is repaid voluntarily by the customer) are due or capable of becoming due; or
  - (ii) although interest payments may become due, no full or partial repayment of the capital is due or capable of becoming due; or
  - (iii) although interest payments and partial repayment of the capital may become due, no full repayment of the capital is due or capable of becoming due; or

- (2) an *MCD exempt lifetime mortgage* which is not a *retirement interest-only mortgage*.

**(ii) Non- regulated loans: 'Lifetime mortgage' (columns 5 to 8)**

Loans to be included under these columns include:

- loans having broadly similar characteristics to those set out in (i)(a), (b) and (c) above, but which were advanced before 31 October 2004. Such loans will usually have been known as 'equity release loans';
- loans made after 31 October 2004, which whilst not satisfying the full criteria needed to be classed as a *regulated mortgage contract* (e.g. since a second but not a first charge is taken), nonetheless match the characteristics set out in (i)(a), (b) and (c) above.

**(iii) Further advances and re-mortgages** on any of the loans described in (i) and (ii) above, should be included within E6.6

**E6.7 Other**

Would include for example where a borrower is not moving house but takes a loan on the security of his previously unmortgaged property.

**SECTION F: LENDING - ARREARS ANALYSIS**

**Introduction**

The guidance notes in this section serve two purposes: they provide guidance for

- (i) Items **F1 to F5** shown in *MLAR* table F.

For these sections, the analysis of lending refers to onbalance sheet loan assets only, but excluding overdrafts (i.e. as included under 'Loans excluding overdrafts' in column 7 of section D1 of table D).

The responsibility for completing table F lies with the authorised lender, irrespective of whether the lender administers the loans itself or out-sources the administration elsewhere. The information should therefore appear as part of the lender's *MLAR*.

- (ii) Items **H1 to H5** shown in *MLAR* table H.

For these sections, which cover reporting of arrears by *firms* with a *mortgage administrator's* activity, the analysis should include arrears in respect of the types of residential loans to individuals set out in the guidance notes for table G, but only where the firm is acting as 'principal administrator'. For *guidance* on items H1 to H5 see corresponding guidance against items F1 to F5. Similarly references in the *guidance* notes to any items F1 to F5 should also be read as referring to items H1 to H5 when completing table H.

F1 – F4

### Arrears categorisation by type of loan

For these sections, the analysis of lending is divided into two main types:

- (i) residential loans to individuals (split between regulated and non-regulated business);
- (ii) all other secured loans.

The analysis is based on expressing **the amount of arrears** on each loan as a percentage of the *customer's balance outstanding* on the loan, allocating cases to relevant arrears bands, providing details of cases moving up into more serious arrears bands in the quarter, and giving information on loan performance during the quarter. (In cases where there is more than one loan secured on a single property, these should be amalgamated, where possible, in reporting details of arrears cases.)

**Definitions of terms** used above, and those related to them, are given below in sections having side headings numbered 1, 2, 3, 4, 5 and 6.

F1.6/  
F2.6 &  
F3.6/ F4.6

**In possession:** cases should be included here where the property is taken in possession (through any method e.g. voluntary surrender, court order). For development loans in particular, cases should also be included where the appointment of a receiver and/or a manager has been made, or where the security is being enforced in other ways (which may or may not also involve the existence of arrears e.g. building finance case with interest roll-up, no arrears, but a current valuation is less than the outstanding debt).

#### 1. Balance outstanding (columns 3 and 6)

**1.1** This is the amount of total debt at the reporting date, and should comprise the total amount outstanding (after deducting any write-offs but without deduction for any provisions) in respect of:

- (i) the principal of the advance (including any further advances made);
- (ii) interest accrued on the advance (but only up to the reporting date), including any interest suspended;
- (iii) any other sum which the borrower is obliged to pay the *firm* and which is due from the borrower, e.g. fees, fines, administration charges, default interest and insurance premiums;

and is intended to be consistent with the basis used for presentation of gross balances outstanding shown in the balance sheet section of the return (i.e. at A3 Column 1 for on-balance sheet or unsecuritised balances, and at A3 column 4 for securitised balances), with the addition for tables F and H of any interest suspended not included in the balance sheet.

#### 2. Amount of arrears (columns 2 and 4)

**2.1** Arrears will arise through the borrower failing to service any element of his debt obligation to the *firm*, including capital, interest, fees, fines, administrative charges, default interest or insurance premiums.

**2.2** At the reporting date, the **amount of arrears** is the difference between:

- (i) the accumulated total amounts of (monthly or other periodic) **payments due** to be received from the borrower; and
- (ii) the accumulated total amount of **payments actually made** by the borrower.

**2.3** Only amounts which are **contractually due** at the reporting date should be included in 2.2(i) above. That is:

- (i) include accrued interest only up to the reporting date but not beyond; and
- (ii) only include a proportion of any annual insurance premium if the *firm* permits such amounts to be paid in periodic instalments. However if the terms of the loan or the lender's practice are such as to permit insurance premiums to be added to the loan principal then do not treat such amounts as contractually due;
- (iii) similarly, where 'any other sum' has been added to the loan (see 1.1 (iii) above), only include such proportions as are contractually due (e.g. if it is the practice in particular circumstances to add the sum/charge to the loan and require repayment over the residual term of the loan);
- (iv) in assessing 'payments due' when a borrower has a **flexible loan**, it is important to apply the contractual terms of the loan: for example, payment holidays which satisfy the terms of the loan should not be treated as giving rise to an arrears position;
- (v) do not however include 'Deeds Store' loans in the arrears figures (that is, loans where the debt is de minimis e.g. £100, but the borrower still has insurance premiums to pay and perhaps some instalments are overdue).

**2.4** In the case of **annual review schemes** the 'payment due to be received' under 2.2(i) is that calculated under the scheme. This may well differ from the amount charged to the account but should not of itself give rise to any arrears, providing the borrower is making the level of payments advised by the *firm*. The same principles apply to deferred interest products - if the borrower is making the payments that are required under the loan arrangements then he or she is not in arrears, even though the debt outstanding is increasing.

**2.5** Where a *firm* makes a **temporary 'concession'** to a borrower (i.e., an agreement with the borrower whereby monthly payments are either suspended or less than they would be on a fully commercial basis) for a period, the amounts included in 2.2(i) are those contractually due (and at commercial rates of interest). Hence the borrower will continue to be in arrears and the level of arrears will in fact continue to increase until such time as he or she is able fully to service the debt outstanding.

**2.6** Where the terms of the loan do not require payment of interest (or capital) until a stated date or until redemption or until certain conditions are triggered, as for example in the case of certain building finance loans, then the loan is not in arrears until such time as contractual repayments are overdue. There may be circumstances however where, even though the loan is not in arrears, it falls to be reported under F1.6, F2.6, F3.6 or F4.6. (See notes on F1.6/F2.6/F3.6/F4.6 at the beginning of Section F.)

**2.7** The reporting treatment of cases where arrears have been capitalised is dealt with in section 3 below.

**2.8** Where a '**capitalisation**' case has at one time been correctly removed as fully performing (see section 3) but at some later time defaults, then this should be treated as a new default and the amount of arrears taken as that arising from this new default. That is, the previously capitalised arrears should not be reinstated as current arrears.

### 3. Capitalisation of arrears and reporting criteria

**3.1** By '**capitalisation**' we mean a formal arrangement agreed with the borrower to add all or part of a borrower's arrears to the amount of outstanding principal (i.e. advance of principal including further advances less capital repayments received during the period of the loan) and then treating that amount of overall debt as the enlarged principal. This enlarged principal is then used as the basis for calculating future monthly payments over the remaining term of the loan. Where less than the full amount of arrears is capitalised (or indeed where none of the arrears is capitalised) then, providing there are arrangements made for the borrower to repay the non-capitalised arrears over a shorter period ranging for example from 3 to 18 months, this type of arrangement should also be regarded as an equivalent of 'capitalisation'.

**3.2** The decision to 'capitalise' (or treat as if capitalised) is a business decision between the *firm* and the borrower. However for the purposes of consistency in reporting arrears



cases in table F (and reporting capitalisations in section F5) the following **reporting criteria** should be used where a *firm* has capitalised the loan (or treated as if capitalised) and reset the monthly payment:

- (i) such an arrears case should continue to be included in sections F1 – F4 as an arrears case until the loan has been '**fully performing**' (see (ii) below) for a period of six consecutive months (any temporary increase in arrears during this qualifying period has the effect of requiring six consecutive months of fully performing **after** such an event). Until that time it should be included in table F, and be allocated to the arrears band applicable at each reporting date as if 'capitalisation' had not taken place;
- (ii) for these purposes a loan is considered to be 'fully performing' only where the borrower has been meeting all obligations on the loan with regard to repayments of principal, interest (at a normal mortgage rate on the full balance outstanding, including as appropriate any relevant past arrears), any payment towards clearing past arrears as agreed with the *firm* and any default payments due levied in respect of previous missed repayments. That is, amounts may be either added to the principal of the loan or otherwise repaid over a shorter period than the residual term of the mortgage, as agreed between *firm* and borrower. But then this revised payment schedule must be fully maintained for a six month period before the arrears can qualify to be treated as capitalised for reporting purposes and hence removed from the arrears cases in table F;
- (iii) arrears cases qualifying as 'fully performing' under (ii) **should then be omitted from sections F1-F4**, and should then be reported in section F5 for the same reporting period during which the removal occurs.

#### 4. Cases entering higher (i.e. more serious) arrears band in quarter (columns 1 to 3)

This refers to those cases now included in a particular arrears band which may have been classified in a **less severe (i.e. lower numerical) band** at the end of the previous quarter, but which have deteriorated sufficiently during the quarter to move to a more severe arrears band. This would mean, for example, that cases that were previously excluded from the arrears table being less than 1.5% in arrears would now be entered in the '1.5 < 2.5%' arrears band (i.e. greater than 1.5% and less than 2.5%) in F1.1, and F1.6 (and F2.6/F3.6/F4.6) will show details of those cases taken into possession during the quarter which were previously classified as in arrears under any of F1.1-1.5 (or F 2.1-2.5/3.1-3.5/4.1-4.5, as the case may be). Cases which have improved during the quarter and which could now be classified in a less severe arrears band should not be included in these 3 columns.

#### 5. Number (of cases) (Columns 1 and 4)

5.1 In cases where there is more than one loan secured on a single property, these should be amalgamated, where possible, in reporting details of arrears cases.

5.2 In cases involving, for example, arrears on loans to property developers (which would come under F4), the loan should count as a single case in the number column irrespective of the number of properties on the development itself.

#### 6. Performance of current arrears cases (column 7)

6.1 This analyses all those arrears cases included in columns 4 to 6 and gives a measure of performance covering all of the loans in a particular arrears band at the end of the quarter. The measure, which compares 'actual' with 'expected' payments, is required to be calculated for a single time period: the 3 months covered by the firm's latest financial quarter. For this time period, the performance measure should be calculated as a percentage as follows:

total of 'payments received' from borrowers x 100 / total of 'payments due' from borrowers

where:

- (i) 'payments due' means amounts due under normal commercial terms (and not the lesser amounts which may have been agreed as part of any temporary arrangement) fully to service the loans: that is the balances outstanding including those elements referred to in 1.1 above such as insurance, fees and fines. (If for some reason this is not readily available then a suitable approximation can be derived for each relevant quarter by applying one quarter of the annual interest rate to the appropriate balance outstanding, and adding in other payments due for example insurance, fees and fines); and
- (ii) 'payments received' should be limited to regular repayment of interest, capital and other sundry charges to the loan account, and should exclude abnormal repayments (e.g. sale proceeds of property in possession, and large lump sum repayment of part or all of the outstanding balance). The reasoning behind this is that excess payments on one or more arrears cases would otherwise have the effect of compensating for underpayment on other arrears cases and, as a result, give an overstated performance measure. Therefore, in compiling aggregate payment received figures (as part of the payment performance ratio) the contribution from an individual loan in arrears should be limited to no more than the 'payment due' amount.

**6.2** The amount to be entered on the return is a percentage to 2 decimal places. Given the limitation described in 6.1 (ii), it cannot exceed 100%.

**6.3** In calculating the performance measure on possession cases (F1.6, F2.6, F3.6 and F4.6), the following points are relevant:

- (i) 'payments received': in many cases these may be nil, but not always since the property in possession may be let out and a rental income received. In each case the payment received should be included for the purposes of calculating the performance measure;
- (ii) 'payments due': in recognition of the fact that amounts of interest will still be charged to the borrower's account, then the 'payments due' should be calculated as three months' interest at normal commercial rates of interest;
- (iii) however, in F1.6, F2.6, F3.6 and F4.6, it is likely that the performance measure will in most instances be zero;
- (iv) the relevance of the above however, is that 'payments due' on possession cases need to be computed in order to feed into the overall performance measure at F1.6, F2.6, F3.6 and F4.6.

**6.4** The overall measure of performance at F1.7 (and similarly at F2.7, F3.7 and F4.7) includes possessions, and is the ratio of:

- (i) 'payments received' on all cases in F1.1 to F1.6
- (ii) 'payments due' on all cases in F1.1 to F1.6 The same approach should be used for F2.7, F3.7 and F4.7.

**F5**

**Arrears management**

**Number of sales/Number of (arrears) cases**

In cases where there is more than one loan secured on a single property, these should be amalgamated where possible in reporting details of possession cases sold during the period in F5 (column 1), and details of arrears cases in F5 (columns 3 and 4).

**Balance outstanding**

In F5 (columns 2 and 5) this is as defined in section F/1 paragraph 1.1 (including in the case of properties sold the costs of sale where these have been debited to the borrower's account), and should be the balance at the end of the quarter.

**Possession sales during quarter**

*Firms* should include in F5 (columns 1 and 2) all properties sold in the quarter irrespective of whether losses have occurred.

#### Capitalisation of arrears cases in quarter

Details should be given in respect of those cases which, having previously been in the reported figures in table F on arrears, have now been capitalised (or treated as if capitalised), have satisfied certain performance criteria for six months, and have been removed during the latest quarter from the arrears figures which now appear in sections F1 – F4. See paragraph 3 of section F of the *guidance notes*.

#### Cases involving temporary concession or arrangement

In respect of the number of cases in arrears at the end of the quarter (i.e. reported in F1 to F4.7), details should be given of those cases for which the lender has taken steps to assist the borrower in some way.

Specifically, *firms* should state in how many cases a **temporary concession** has been made (see paragraph 2.5 in Section F), and in how many cases a formal **arrangement** to capitalise has been made (see paragraph 3.1 in section F, which also includes within the term 'arrangement' the example of a borrower making increased monthly payments to reduce some or all existing arrears). The balancing number should be shown in the next column 'No concession/arrangement'.

## SECTION G: MORTGAGE ADMINISTRATION – BUSINESS PROFILE

### Introduction

Article 61 of the Regulated Activities Order establishes *administering a regulated mortgage contract* as a *regulated activity*. This applies equally to those *firms* that are lenders, and those whose principal business is to undertake mortgage administration on behalf of third parties.

For *firms* that are authorised as *mortgage administrators* only, the information sought in this section will enable the *appropriate regulator* to establish the extent and nature of the *firm's* mortgage administration business. The *appropriate regulator* will be able to assess the potential risks posed by the *firm's* business activities and tailor its regulatory response accordingly.

A *mortgage administrator* is a *firm* with *permission* (or which ought to have *permission*) for administering a *regulated mortgage contract* and where, as defined in article 61(3)(b) of the *Regulated Activities Order*, *administering a regulated mortgage contract* consists of either or both of:

- notifying the borrower of changes in interest rates or payments due under the contract, or of other matters of which the contract requires them to be notified; and
- taking any necessary steps for the purposes of collecting or recovering payments due under the contract from the borrower;

But a person is not to be treated as administering a regulated mortgage contract merely because they have or exercise, a right to take action for the purposes of enforcing the contract (or to require that such action is or not taken).

You should note that this section applies to *firms* with just a *mortgage administrator's* activity and those with both a *mortgage lender's* and *mortgage administrator's* activity.

You should also note, however, that if you have both a *mortgage lender's* activity and a *mortgage administrator's* activity to administer your own book and do not have any off-balance sheet loans to administer, then you should answer only the first question of section G of the *MLAR* ("Do you need to complete tables G and H?"), leaving the rest of section G and section H blank.

### 'Principal' and 'Other' Administrators

Because of the extent of specialisation and separation of activities in the provision of mortgage lending and administration services, we need to identify whether a firm that is authorised as a *mortgage administrator* is acting for *MLAR* purposes as a 'principal administrator' or as an 'other administrator':

- **Principal administrator:** this is where your *firm*:
  - (a) is administering its own off-balance sheet mortgages; or

(b) is authorised to undertake a *mortgage administrator's* activity, and is exercising that activity on behalf of either a lender or another *person* that is not itself authorised to undertake a *mortgage administrator's* activity, or has entered into a contract to do so but has outsourced the *mortgage administrator's* activity to another *person*.

• **Other administrator:** this is where your *firm* is undertaking loan administration for either a lender or another *firm* which itself is also authorised to undertake a *mortgage administrator's* activity. In this situation, your *firm* is not regarded as the 'principal administrator', and you are merely acting on behalf of an authorised *mortgage administrator*.

<b>G1</b>	<p><b>Mortgage contracts administered at end-quarter</b></p> <p><b>Where your firm is acting as Principal administrator (columns 1-3)</b></p> <p>Collects data on mortgage contracts administered as at the end of the quarter, but only where you are formally acting as principal in exercising a <i>mortgage administrator's</i> activity. It therefore excludes the reporting of:</p> <ul style="list-style-type: none"> <li>• any loan administration where you, being a <i>firm</i> without a <i>mortgage administrator's</i> activity, are merely providing an outsourced service for a third party which does have a <i>mortgage administrator's</i> activity; and</li> <li>• any loan administration where you, a <i>firm</i> having a <i>mortgage administrator's</i> activity, are acting as agent and providing an outsourced service for a third party which itself has a <i>mortgage administrator's</i> activity.</li> </ul> <p>If you also have a <i>mortgage lender's</i> activity, then you should treat your own on and off-balance sheet loans as follows:</p> <ol style="list-style-type: none"> <li>your <i>firm's</i> on-balance sheet loans should be excluded from G1.1 a) and G1.2 a). These items will therefore only include loans administered for third party lenders who do not themselves have a <i>mortgage administrator's</i> activity;</li> <li>your <i>firm's</i> off-balance sheet loans should be included in G1.1 c) and G1.2 c). These will be the loans you have shown in section A3 'Securitised balances' under 'gross balances'. (These items G1.1 c) and G1.2 c) will also include loans you administer for other <i>special purpose vehicles</i> where you are formally exercising your <i>mortgage administrator's</i> activity).</li> </ol> <p><b>Where your firm is acting as Other administrator (columns 4-6)</b></p> <p>Record under these columns all of the mortgage contracts administered at the end of the quarter where you are not acting as a principal administrator.</p>
<b>G1.1</b>	<p><b>Number of loans</b></p> <p>You should detail the number of <i>regulated mortgage contracts</i> administered as at the end of the quarter for <i>firms</i> with a <i>mortgage lender's</i> activity, for other <i>persons</i> (including unauthorised purchasers of your off-balance sheet mortgages for whom you administer mortgages) and for <i>special purpose vehicles</i>.</p> <p>You should also detail the number of non-regulated loans administered as at the end of the quarter for <i>firms</i> with a <i>mortgage lender's</i> activity, for other <i>persons</i> (including unauthorised purchasers of your off-balance sheet mortgages for whom you administer mortgages) and for <i>special purpose vehicles</i>.</p> <p>The total (all loans) is the sum of <i>regulated mortgage contracts</i> and non-regulated loans.</p>
<b>G1.2</b>	<p><b>Balance outstanding on loans</b></p> <p>You should detail the balances outstanding on all <i>regulated mortgage contracts</i> that you administer as at the end of the quarter for <i>firms</i> with a <i>mortgage lender's</i> activity, for other <i>firms</i> (i.e. lenders for which you administer mortgages but they themselves do not have a <i>mortgage lender's</i> activity) and for <i>SPVs</i>.</p>

You should detail the balances outstanding on all non-regulated loans that you administer as at the end of the quarter for *firms* with a *mortgage lender's* activity, for other *firms* (i.e. lenders for which you administer mortgages but they themselves do not have a *mortgage lender's* activity) and for *SPVs*.

The total (all loans) is the sum of *regulated mortgage contracts* and non-regulated loans.

**G2 Persons for whom mortgage administration was being carried out at quarter-end**

Collects data only on the top five *persons* for each category by value (i.e. the largest five *persons* by value, based on balances outstanding on regulated loans) for whom mortgage administration was being carried out at the quarter-end. (Details on other *persons* are not required to be shown, over and above the top five listed in each category.)

The analysis required in G2 covers all *mortgage administration* activity undertaken by your *firm*, irrespective of whether your *firm* is acting as a 'principal' or 'other' administrator. The final column of the analysis, however, asks you to indicate your status for each *person* listed, namely whether acting as 'Principal' or as 'Other' administrator.

**G2.1 Firms with a mortgage lender's activity**

Please detail the top five *firms* (by value) for whom *mortgage administration* was being carried out at the quarter-end.

You should include the *firm's* reference number in addition to the name of the *firm*.

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five *firms* for whom you administer such contracts.

The total (all loans) for each *firm* listed is the sum of *regulated mortgage contracts* and non-regulated loans.

**G2.2 Other persons who own loans**

Please detail the top five other *persons* who own beneficially the rights of the lender under the relevant mortgage contracts (by value) for whom *mortgage administration* was being carried out at the quarter-end (but who themselves do not have a *mortgage lender's* activity; these *persons* may be *authorised persons* or *unauthorised persons*).

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five other *persons* who own beneficially the rights of the lender under the relevant mortgage contracts and for whom you administer.

The total (all loans) for each *person* listed is the sum of *regulated mortgage contracts* and non-regulated loans.

**G2.3 Special purpose vehicles**

Please detail the top five *special purpose vehicles* (by value) for whom *mortgage administration* was being carried out at the quarter-end. If your *firm* has off-balance sheet loans (which it has reported in G1.1 c) and G1.2 c)) then please show your *firm* as one of these five *special purpose vehicles* as follows:

- group together all *special purpose vehicles* for which your *firm* is the originator and show the aggregated amounts on a single line (irrespective of whether the total of regulated loans for all such *special purpose vehicles* would rank within the top five);
- under "firm reference" column, put your *firm's* reference number;
- under "Name of firm" column, put your *firm's* name followed by "own *special purpose vehicles*" in brackets, for example XYZ firm name (own *special purpose vehicles*).

You should indicate the value of *regulated mortgage contracts* and non-regulated loans for each of the top five *special purpose vehicles* for whom you administer.

The total (all loans) for all *special purpose vehicles* listed is the sum of regulated mortgage contracts and non-regulated loans.

**SECTION H: MORTGAGE ADMINISTRATION – Arrears analysis**

**Type of loans to be reported**

This arrears analysis should cover only those types of loan listed below, in respect of which your *firm* is formally acting as principal administrator. Thus, irrespective of whether your *firm* has a *mortgage administrator's* activity, if you are merely acting as an administrator for a third party that itself has a *mortgage administrator's* activity, then you should not include any such loans in this analysis.

The types of loans to be included in the analysis are:

(i) Loans administered for *firms* which do not themselves have a *mortgage lender's* activity. These loans are reported at G1.2 b) in table G.

(ia) Loans administered for any other *person*, including loans which your *firm* originated but which have been securitised off-balance sheet (and are therefore not reported in section A3 of Table A under "Securitised balances"). These loans are also reported at G1.2 b) in table G.

(ii) Loans administered for *special purpose vehicles*. These loans are reported at G1.2 c) in table G.

(iii) [deleted].

The information presented in table H should represent the total of all such loan types listed above, in a single version of the table.

**H1 – H5**

**Guidance on arrears items**

The *guidance* for these items is provided in section F of these guidance notes, where items H1 to H5 correspond to items F1 to F5.

The arrears analysis is of loan balances excluding overdrafts, as is the case in section F.

**SECTION J: FEE TARIFF MEASURES**

**J1**

**Introduction**

The purpose of this section is to enable the *firm* to provide data on the current **fee tariff measures** that apply to each of the regulated activities of *home finance providing activity* and *administering a home finance transaction*.

This section also distinguishes between the fee tariff measures that apply to the *FCA* and *FOS Ltd* (Financial Ombudsman Service Limited).

Since the relevant fee tariff measures may change from time to time, these guidance notes merely define where the current definitions of fee tariff measures are to be found. Accordingly, please refer to the relevant part of the *FCA's Handbook* where such details can be found:

\* FEES 4 Annex 1AR and Annex 2AR of the *Handbook* for the *FCA* fee tariff\*

\* FEES 5 Annex 1R, Annex 2R and Annex 3R of the *Handbook* for the *FOS Ltd* fee tariff\*

To the extent that the *FOS Ltd* fee tariff measure requires other relevant activities that the *firm* carries out to be taken into account, these should be included in J1.3.

In relation to section J of the *MLAR*, firms must report the information required by this section solely in their year-end *MLAR*. *Firms* with an *accounting reference date* of between 31 December and 31 March (inclusive) must report the information required by this section as at 31 December of the calendar year immediately before the relevant fee period. All other *firms* must report the information required by this section as at 31 December of the previous calendar year. For example, for 2006/07 fees, for *firms* with an *accounting reference date* of between 31 December 2005 and 31 March 2006 (inclusive) the information required by section J is that calculated as at 31 December 2005. For all other *firms* the information required by section J is that calculated as at 31 December 2004.

## SECTION K: SALE AND RENT BACK BUSINESS (SRB)

### Introduction

This section must be completed as follows:

- *SRB agreement providers* must complete K1 to K4;
- *SRB administrators* must complete K5;
- *Firms* that are both *SRB agreement providers* and *SRB administrators* must complete K1 to K5.

### SRB: Residential sales by individuals

It is expected that *firms* will have the following to report:

- regulated SRB agreements: in respect of transactions entered into since SRB became a *regulated activity*, and
- non-regulated SRB agreements: in respect of transactions of a similar nature entered into before SRB became a *regulated activity* which are still being administered; and also any new contract that, while not meeting the precise conditions for a regulated contract, nonetheless has similar characteristics (for example cases where the purchaser is not regulated or where the *firm* has purchased a property under value and rents an alternative property to the seller).

This approach means that all new and existing sale and rent back agreements – whether regulated or not, and whether transacted before or after SRB became a *regulated activity* – must be included in the information reported by the *firm* in section K.

<b>K1</b>	<b>Overall business summary</b> This section looks at the <i>firm's</i> SRB position at the start of the reporting quarter, at the various movements in the quarter, and at the end quarter position. Details required are:
<b>K1.1</b>	<b>SRB agreements at start of quarter:</b> those agreements that existed at the end of the previous quarter. This line should normally agree with figures reported as at the previous quarter-end.
<b>K1.2</b>	<b>New sales in quarter:</b> new SRB agreements transacted in the quarter, where the <i>firm</i> has obtained title to the property and monies have been paid to the SRB seller. 'Amount' is the sale value (paid to seller) and should be reported gross, that is, before the deduction of any fees and charges.
<b>K1.3</b>	<b>Disposals in quarter:</b> SRB agreements where the <i>firm</i> has sold the actual property. 'Amount' is the SRB value of the contract as used for the same contract reported in K1.1. Transfers or sales of SRB agreements should be reported under 'Business transfers-sales' below.
<b>K1.4</b>	<b>Business transfer-acquisitions:</b> where the <i>firm</i> acquires one or more existing SRB agreements from another party or parties.

K1.5	<b>Business transfer- sales:</b> where the <i>firm</i> sells one or more existing SRB agreements to another party or parties. Include also transfers of such agreements to any party.
K1.6	<b>Other:</b> include any other amounts which affect the balances reported in K1.1 and K1.7, that is which reflect any change in the book value of any SRB agreements during the quarter. This is to capture any 'amounts' that will affect the overall position but are not covered by K1.2-K1.5. A value is required to be recorded in the 'Amount' column only.
K1.7	<b>SRB agreements at end of quarter:</b> the number and book value of SRB contracts in existence at the end of the quarter.
K1.8	<p><b>SRB agreements arranged for unauthorised persons:</b> The number of SRB agreements arranged where an unauthorised person has obtained title to the property and monies have been paid to the SRB seller. The 'Amount' is the sale value (paid to seller) and should be reported gross, that is, before the deduction of any fees and charges.</p> <p>NB: it is expected that figures in K1.7 will reconcile with those in other rows as follows:</p> <ul style="list-style-type: none"> <li>• For 'Numbers': <math>K1.7 = K1.1 + K1.2 - K1.3 + K1.4 - K1.5</math></li> <li>• For 'Amounts': <math>K1.7 = K1.1 + K1.2 - K1.3 + K1.4 - K1.5 + K1.6</math></li> </ul>
K2	<p><b>New business in the quarter</b></p> <p>This section looks at various aspects of new business that has been transacted in the quarter: each is described below. For each aspect:</p> <ul style="list-style-type: none"> <li>• The 'sale value' means the gross amount paid to the seller before any fees and charges have been deducted.</li> <li>• The 'All sales' line should agree with figures reported in K1.2.</li> </ul>
K2.1 to K2.3	<p><b>Sales: analysed by discount on open market value (OMV)</b></p> <p>Here SRB transactions are classified into different bands, according to the amount of <b>discount</b> expressed as a percentage of the open market value of the property that is subject to the SRB contract. Discount is the open market value minus the sales value.</p> <p>Values are required to be recorded in both the 'Number' and 'Amount' columns. So for example, for those SRB agreements where the discount is 30% to under 40%, enter the total number of such sales and the total sales values of those agreements in the relevant boxes on the K2.2 line.</p>
K2.4	<p><b>Average of all sales</b></p> <p>The average discount is recorded as an amount. This value should therefore be recorded in the 'Amount' column only. For example, if 4 properties with an open market value of £100,000 were bought at a 25% discount and 4 properties with an open market value of £120,000 at a 35% discount, the average amount of discount is £33,500.</p>
K2.5 to K2.6	<p><b>Sales: analysed by provider fees charged</b></p> <p>Here, SRB transactions are classified into two different bands, according to the amount of provider fees charged to the SRB agreement. Enter the total number of such sales in the 'Number' column and the total sales values of those agreements in the 'Amount' column.</p>
K2.7	<p><b>Average fees charged</b></p> <p>The average amount of provider fees is recorded here. This value should be recorded in the 'Amount' column only. For example, if 8 new agreements</p>



	<p>were entered into during the quarter with provider fees totalling £4000, enter £500 (£4000 divided by 8) in the 'Amount' column.</p>
<b>K2.8 to K2.9</b>	<b>Sales: analysed by annual rent as percentage of sales values</b>
<b>K2.8</b>	Here the total number of new SRB agreements (entered in the 'Number' column) and the amount of average monthly rent being charged at the outset of the agreements (entered in the 'Amount' column) is recorded.
<b>K2.9</b>	The average rental yield percentage is calculated as the total annual rent for all new SRB agreements in the quarter divided by the total sales values, entered in the 'Amount' column.
<b>K3</b>	<b>SRB agreements terminated or transferred in the quarter</b> This analyses SRB agreements terminated by either the provider or seller, and also those SRB agreements transferred to other parties.
<b>K3.1 to K3.6</b>	<b>Agreements terminated:</b> By firm: This is where the seller has breached the terms and conditions of the SRB agreement and the provider has exercised the right to terminate the contract. Here, terminations are analysed according to the duration of the contract in particular time bands. For each time band, enter the total number of such terminations. At the end of the quarter, some or possibly all of these agreements in K3.1 to K3.6 will also be included in end-quarter figures at K1.7. Those not included may already have been disposed of (reported at K1.3), or sold or transferred to third parties (reported at K1.5). By seller: This is where the seller has exercised the right to buy back the property under the SRB agreement, or where the seller has terminated the tenancy agreement before the end of the fixed term. Here, redemptions are analysed according to the duration of the contract in particular time bands. For each time band, enter the total number of such transactions.
<b>K3.7 to K3.9</b>	<b>Transfers and disposals</b> <b>Transfers</b> This covers SRB agreements which are sold or transferred to third parties, but where the contract itself remains in being. The analysis looks into the status of each SRB agreement when it is sold or transferred. <i>Firms</i> should report: <ul style="list-style-type: none"> <li>• original SRB values: the gross sales value paid to the seller;</li> <li>• current SRB values: the book value of the contract at time of sale/transfer; and</li> <li>• actual disposal/transfer values: the value of the contract as recognised in the agreement with the acquiring party.</li> </ul> <b>Disposals</b> This covers disposals made during the normal course of business, and does not include business transfers. This is a further analysis of 'disposals' reported in K1.3. <i>Firms</i> should report: <ul style="list-style-type: none"> <li>• original SRB values: the gross sales value paid to the seller;</li> </ul>

- current SRB values: the book value of the contract at time of disposal; and
- actual disposal/transfer values: the price obtained on sale (before deducting any costs of sale).

**K4**

**SRB agreements at end of quarter: cases 10% or more in arrears**

*Firms* should report those SRB contacts where the total amount of arrears on rental payments is 10% or more of the annual rental amount. Cases should be allocated to the relevant arrears band according to the percentage in arrears.

For each arrears band, report the number of such cases, the amount of arrears, and the amount of the expected annual rent on these cases.

**K5**

**SRB administrators**

*Firms* holding SRB administration permissions must complete the number of regulated SRB agreements that they administer, the number of non-regulated SRB agreements that they administer and the number of SRB agreements that they administer for other firms.

The agreements administered for third parties must be further broken down by the number of SRB agreements administered for the largest five *firms* that they administer regulated SRB agreements for.

**SECTION L: CREDIT RISK**

**Introduction**

The purpose of this *data item* is so that a *firm* can provide an analysis of its *credit risk capital requirement* as calculated under ■ MIPRU 4.2A, ■ 4.2B and ■ 4.2C. But this section does not apply to a *firm* which exclusively carries on *home finance administration* or *home finance providing activities* (or both) in relation to *second charge regulated mortgage contracts* or *legacy CCA mortgage contracts* (or both): see ■ SUP 16.12.18BR, Note 4.

This data item is only relevant to firms that meet the criteria set out in note 2 of SUP 16.12.18BR. If that is the case then all relevant exposures must be included in the credit risk capital requirement calculation. See MIPRU 4.2A.4R.

Please note that this *data item* is intended to be a summary of the credit risk capital calculation as calculated under ■ MIPRU 4.2A, ■ MIPRU 4.2B and ■ MIPRU 4.2C and is not a detailed work schedule.

**Data elements:** These are referred to by row first then by column, so data element 2B will be the row numbered 2 in column B.

Section L is structured in three parts. The first part (rows 1-7) focuses on the breakdown of the credit risk capital requirement by types of exposure. The second part (rows 8-14) is a memo section that requests further detail on specific elements that will already be incorporated within the first part. The third part (rows 15 and 16) requests transaction level information on a *firm's* securitisations.

**Part 1 – Rows 1 to 7**

This part of the *data item* focuses on providing a breakdown of a *firm's* credit risk capital requirement under the two categories of 'loans/exposures that are not securitised' and 'loans/exposures securitised'. The category 'loans/exposures not securitised' is further broken down into four loan/exposure types. A *firm* should report its credit risk capital requirement across the five loan/exposure types under the two categories of 'loans/exposures that are not securitised' and 'loans/exposures securitised' in rows 1 to 5.

Please note: This part cannot be used as a worksheet to calculate the credit risk capital requirement for each loan/exposure type, because some loan/exposure types may contain more than one risk weighting within the row.

**Row 1 – Loans with mortgages on residential property**

A *firm* should include in this row all loans entered into with mortgages on residential property that have not been securitised. This includes loans that are past due, buy-to-let loans on residential property,

second charge and subsequent mortgages on residential property, and mortgages on residential property irrespective of the loan to value.

## Row 2 – Loans with mortgages on commercial property

A *firm* should include in this row all loans with mortgages on commercial property that have not been securitised. This includes loans that are past due, buy-to-let loans on commercial property, and second charge and subsequent mortgages on commercial property.

## Row 3 – Other Loans

A *firm* should include in this row all loans that are not included in rows 1, 2, 4 and 5.

## Row 4 – Collective Investment Undertakings

A *firm* should include in this row all positions in collective investment undertakings.

## Row 5 – Securitisation (originated only)

A *firm* should include in this row all positions in assets that have been included in securitisations originated by the *firm*. Rows 15 and 16 request further detail on these exposures. See ■ MIPRU 4.2B for more information on calculating the credit risk capital requirement for securitisations.

### Column A

A *firm* should report the exposure value of assets for each of the five loan/asset types. This should be the balance sheet value (i.e. net of any provisions). See ■ MIPRU 4.2A.6R.

### Column B

A *firm* should report here the amount of credit risk mitigation for each of the five loan/asset types. See ■ MIPRU 4.2C.

### Column C

A *firm* should report here any other credit valuation adjustments for each of the five loan/asset types.

### Column D

For each of the five loan/asset types, a *firm* should report the total *risk weighted exposure amount*. A *firm* should have regard to ■ MIPRU 4.2A.7R to ■ MIPRU 4.2A.18G when calculating risk weighted exposure amounts.

### Column E

This contains the credit risk capital requirement for each of the five loan/asset types, which is 8 per cent of the relevant *risk weighted exposure amount* in Column D.

### Columns F and G

These are memorandum item columns. For each of the five loan/exposure types, a *firm* should report the total value of individual (specific) and collective (general) impairment balances/provisions that were made BEFORE arriving at the balance sheet exposure value of loans/exposures reported in Column A.

### 5A Total exposure value of securitisations

This is the total exposure value of assets that have been securitised and originated by the *firm*. This should equal the sum of the value of assets reported in columns B, C and D of the table in element 15.

### 6A Total Exposure Value T

This is the total balance sheet value of assets that have been included in the credit risk capital requirement calculation, being the sum of data elements 1A to 5A. This should also be the value of assets reported in *data element* C4.2a in MLAR Section C.

### 7E Total credit risk capital requirement

This is the total credit risk capital requirement, being the sum of *data elements* 1E to 5E. This should also be the credit risk capital requirement reported in *data element* C4.6(c) in MLAR Section C.

## Part 2 – Rows 8 to 14

This part of the data item contains memorandum items on specific elements that have already been recorded in Rows 1 to 7. The aim of this part of the data item is to obtain targeted prudential information on certain loan types. As a result, a firm should not omit data from Part 2 on the grounds that it has already included that data in Part 1. Equally, a firm should not omit data from Part 1 on the grounds that the data will be included in Part 2. For example, if a firm has a past due loan on a mortgage on a residential property, that data should be included in the credit risk capital requirement calculation in row 1 and in row 8. Another example is a second charge mortgage on a residential property, where the data will be included in the row 1 and in row 13.

**Column A**

A firm should report the exposure value of assets for each specific loan type. This should be the balance sheet value (i.e. net of any provisions). See ■ MIPRU 4.2A.6R.

**Column D**

For each specific loan type, a firm should report the total risk weighted exposure amount. A firm should have regard to ■ MIPRU 4.2A.7R to ■ MIPRU 4.2A.18G when calculating *risk weighted exposure amounts*.

**Column E**

This contains the credit risk capital requirement for each specific loan type, which is 8% of the relevant *risk weighted exposure amount* in Column D.

**Columns F and G**

For each specific loan type, a firm should report the total value of individual (specific) and collective (general) impairment balances/provisions that were made BEFORE arriving at the balance sheet exposure value reported in Column A.

**Row 8 – Past due item on loans with mortgages on residential property**

A firm should report in this row all past due loans with mortgages on residential property. See ■ MIPRU 4.2A.17R.

**Row 9 – Past due item on loans with mortgages on commercial property**

A firm should report in this row all past due loans with mortgages on commercial property. See ■ MIPRU 4.2A.17R.

**Row 10 – Past due items on other loans**

A firm should report in this row all past due loans on other loans. See ■ MIPRU 4.2A.17R.

**Row 11 – Buy-to-let mortgages on residential property**

A firm should report in this row all buy-to-let mortgages on residential property.

**Row 12 – Buy-to-let mortgages on commercial property**

A firm should report in this row all buy-to-let mortgages on commercial property.

**Row 13 – Second charge mortgages on residential property**

A firm should report in this row all second charge and subsequent mortgages on residential property.

**Row 14 – Second charge mortgages on commercial property**

A firm should report in this row all second charge and subsequent mortgages on commercial property.

**Part 3 – Rows 15 and 16**

This part of MLAR Section L provides transaction-level information on the securitisations that a firm has originated. A firm will report each securitisation programme in a different row and complete columns A to L for each securitisation programme.

**Column A**

A firm should report the name of the securitisation programme.

**Columns B, C and D**

A *firm* should record the value of the securitisation that has been retained by the *firm* under each of the headings: Senior, Mezzanine and Equity.

For the purposes of completing columns B, C and D of Part 3 of *MLAR* section L, Senior is the value of securitisation tranches that have *credit quality step 1* (see the appropriate standardised approach table at <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation>); Equity is the value of securitisation tranches that have *credit quality step 4, 5* or 'all other credit assessments' and Mezzanine is the value of securitisation tranches that are not Senior or Equity tranches. Purely for the purposes of completing columns B, C and D of Part 3, all unrated securitisation tranches should be classified as Equity tranches.

## Columns E, F and G

A *firm* should record the value of the securitisation that has been purchased by investors (and therefore no longer being held by the *firm*) under each of the headings: Senior, Mezzanine and Equity.

For the purposes of completing columns E, F and G of Part 3 of *MLAR* section L, Senior is the value of securitisation tranches that have credit quality step 1 (see the appropriate standardised approach table at <http://www.fca.org.uk/your-fca/documents/fsa-ecais-securitisation>

); Equity is the value of securitisation tranches that have *credit quality step 4, 5* or 'all other credit assessments' and Mezzanine is the value of securitisation tranches that are not Senior or Equity tranches. Purely for the purposes of completing columns E, F and G all unrated securitisation tranches should be classified as Equity tranches.

## Column H

This is the total credit risk capital requirement for the assets that are included in the securitisation programme but before the effect of the securitisation. The value reported in this column should be based on all assets included in the securitisation programme even though a *firm* will subsequently retain only a portion of the securitisation.

## Column J

This is the total credit risk capital requirement for the securitisation programme that has been retained by a *firm* based on the credit risk weights in ■ MIPRU 4.2B.

## Column K

This is the total significant risk transfer add-on that should be added to the capital requirement for the securitisation programme.

## Column L

This is the total credit risk capital requirement for the securitisation programme. This should be the sum of columns J and K for each securitisation programme.

## 16L Total capital requirement after securitisation

This is the total capital requirement for securitisation positions originated by a *firm*. This should equal the value reported in 5E.

## SECTION M: LIQUIDITY

### Introduction

The purpose of this *data item* is for a *firm* to confirm that it complies with the liquidity resources requirements in ■ MIPRU 4.2D. But this section does not apply to a *firm* which exclusively carries on *home finance administration* or *home finance providing activities* (or both) in relation to *second charge regulated mortgage contracts* or *legacy CCA mortgage contracts* (or both): see ■ SUP 16.12.18BR, Note 4.

This *data item* is only relevant to a *firm* that does not have a restriction on its *Part 4A permission* that prevents it from undertaking new *home financing* or *home finance administration* (with mortgage assets on balance sheet) connected to *regulated mortgage contracts*.

In relation to the questions in *MLAR* Section M Liquidity Questionnaire (with the exception of question 2), a *firm* should, as appropriate, answer "yes", "no", or "not applicable". For those questions where the answer is "no" or "not applicable", a *firm* must explain why in column B.

## Part 1 – Adequacy of liquidity resources

Question 1 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.2R and ■ MIPRU 4.2D.3G. If a *firm* answers “no” or “not applicable”, it should explain why in column B and the *firm* does not need to complete the rest of *MLAR* Section M.

Question 2 – In deciding on the amount of liquidity resources that a *firm* holds or is able to generate a *firm* should have regard to ■ MIPRU 4.2D.3G. The figure should be entered in 000’s.

## Part 2 – Systems and controls

Question 3 – In answering this question a firm should have regard to ■ MIPRU 4.2D.4R and ■ MIPRU 4.2D.5R. Please note that Part 5 of *MLAR* Section M covers senior management oversight separately.

## Part 3 – Stress testing

Question 4 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.8R, ■ MIPRU 4.2D.10R and ■ MIPRU 4.2D.11G.

Question 5 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.8R, ■ MIPRU 4.2D.9R(1) and (2), ■ MIPRU 4.2D.10R and ■ MIPRU 4.2D.11G.

Question 6 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.9R(1) and (2).

Question 7 - In answering this question a *firm* should have regard to ■ MIPRU 4.2D.9R(3).

## Part 4 – Contingency funding plans

Question 8 - In answering this question a *firm* should have regard to ■ MIPRU 4.2D.13R.

Question 9 - In answering this question a *firm* should have regard to ■ MIPRU 4.2D.13R(2)(a).

## Part 5 – Senior management oversight

Question 10 - In answering this question a *firm* should have regard to ■ MIPRU 4.2D.6R.

Question 11 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.7R.

Question 12 – In answering this question a *firm* should have regard to ■ MIPRU 4.2D.10R, ■ MIPRU 4.2D.13R and ■ MIPRU 4.2D.14R.