

Appendix 1

Total charge for credit rules; and certain exemptions

1.2 Total charge for credit rules for other agreements

Interpretation

- App 1.2.1** **R** (1) In this section
- (a) a reference to a rate of interest is a reference to the interest rate expressed as a fixed or variable percentage applied on an annual basis to the amount of *credit* drawn down;
 - (b) a reference to an open-end *regulated credit agreement* is to a *regulated credit agreement* of no fixed duration and includes credits which must be repaid in full within or after a period but, once repaid, become available to be drawn down again.

Application

- App 1.2.2** **R** This section shall not apply to *regulated credit agreements* which are secured on *land* or to prospective *regulated credit agreements* which are to be secured on *land* except to the extent that the Consumer Credit (Disclosure of Information) Regulations 2010 apply to such agreements.

Total charge for credit

- App 1.2.3** **R** (1) The *total charge for credit* which may be provided under an actual or prospective *regulated credit agreement* shall be the *total cost of credit to the borrower* determined in accordance with the requirements in (2) to (5) below.
- (2) Subject to (3), the following costs shall be included in the *total cost of credit to the borrower*:
- (-a) any fee or charge payable by the *borrower* to a *credit broker* in connection with the agreement (if the fee or charge is known to the *lender*);

- (a) the costs of maintaining an account recording both payment transactions and drawdowns;
 - (b) the costs of using a means of payment for both payment transactions and drawdowns;
 - (c) other costs relating to payment transactions.
- (3) The costs at (2) shall not be included in the *total cost of credit to the borrower* where
- (a) the opening of the account is optional and the costs of the account have been clearly and separately shown in the *regulated credit agreement* or in any other agreement made with the *borrower*;
 - (b) in the case of an *overdraft facility* the costs do not relate to that facility.
- (4) Costs in respect of an ancillary service shall be included in the *total cost of credit to the borrower* if the conclusion of a service contract is compulsory in order to obtain the *credit* or to obtain it on the terms and conditions marketed.
- (5) The *total cost of credit to the borrower* shall not include
- (a) any charges payable by or on behalf of the *borrower* or a *relative* of his for non-compliance with his commitments contained in the *regulated credit agreement*;
 - (b) charges which, for purchases of *goods* or services, he or a *relative* of his is obliged to pay whether the transaction is effected in *cash* or on *credit*.
- (6) In (4), the reference to an ancillary service means a service that relates to the provision of *credit* under the *regulated credit agreement* and includes in particular an insurance or payment protection policy.
- (7) The *total cost of credit to the borrower* must not take account of any discount, reward (including 'cash back') or other benefit to which the *borrower* might be entitled, whether such an entitlement is subject to conditions or otherwise.

Total cost of credit

App 1.2.3A **G** The *total cost of credit to the borrower* includes fee or charge payable by the *borrower* to a *credit broker*, if the fee or charge is known to the *lender*.
 ■ CONC 4.4.2R(3) requires the *credit broker* to disclose their fee to the *lender*.
Lenders should take reasonable steps to ascertain whether a fee is payable to the *credit broker* and, if so, the amount of the fee.

Calculation of the annual percentage rate of charge

App 1.2.4 **R** The *annual percentage rate of charge* shall be calculated in accordance with the mathematical formula set out in ■ CONC App 1.2.6 R.

Assumptions for calculation

App 1.2.5 **R** For the purposes of calculating the *total charge for credit* and the *annual percentage rate of charge*:

- (a) it shall be assumed that the *regulated credit agreement* is to remain valid for the period agreed and that the *lender* and the *borrower* will fulfil their obligations under the terms and by the dates specified in that agreement;
- (b) in the case of a *regulated credit agreement* allowing variations in
 - (i) the rate of interest, or
 - (ii) where applicable, charges contained in the *annual percentage rate of charge*,
where these cannot be quantified at the time of calculation, it shall be assumed that they will remain at the initial level and will be applicable for the duration of the agreement;
- (c) where not all rates of interest are determined in the *regulated credit agreement*, a rate of interest shall, where necessary, be assumed to be fixed only for the partial periods for which the rate of interest is determined exclusively by a fixed specific percentage agreed when the agreement is made;
- (d) where different rates of interest and charges are to be offered for limited periods or amounts during the *regulated credit agreement*, the rate of interest and the charge shall, where necessary, be assumed to be at the highest level for the duration of the agreement;
- (e) where there is a fixed rate of interest agreed in relation to an initial period under a *regulated credit agreement*, at the end of which a new rate of interest is determined and subsequently periodically adjusted according to an agreed indicator, it shall, where necessary, be assumed that, at the end of the period of the fixed rate of interest, the rate of interest is the same as at the time of making the calculation, based on the value of the agreed indicator at that time;
- (f) where the *regulated credit agreement* gives the *borrower* freedom of drawdown, the *total amount of credit* shall, where necessary, be assumed to be drawn down immediately and in full;
- (fa) where the *regulated credit agreement* imposes, amongst the different ways of drawdown, a limitation with regard to the amount of *credit* and period of time, the amount of *credit* shall, where necessary, be assumed to be the maximum amount provided for in the agreement and to be drawn down on the earliest date provided for in the agreement;
- (g) where the *regulated credit agreement* provides different ways of drawdown with different charges or rates of interest, the *total amount of credit* shall, where necessary, be assumed to be drawn down at the highest charge and rate of interest applied to the most common drawdown mechanism for the *credit* product to which the agreement relates;
- (h) for the purposes of (g), the most common drawdown mechanism for a particular *credit* product shall be assessed on the basis of the volume of transactions for that product in the preceding 12 months, or expected volumes in the case of a new *credit* product;
- (i) in the case of an *overdraft facility*, the *total amount of credit* shall, where necessary, be assumed to be drawn down in full and for the entire duration of the *regulated credit agreement*;

- (j) for the purposes of (i), if the duration of the *overdraft facility* is not known, it shall, where necessary, be assumed that the duration of the facility is three months;
- (k) in the case of an open-end *regulated credit agreement*, other than an *overdraft facility*, it shall, where necessary, be assumed that the *credit* is provided for a period of one year starting from the date of the initial drawdown, and that the final payment made by the *borrower* clears the balance of capital, interest and other charges, if any;
- (l) for the purposes of (k):
 - (i) the capital is repaid by the *borrower* in equal monthly payments, commencing one month after the date of initial drawdown;
 - (ii) in cases where the capital must be repaid in full, in a single payment, within or after each payment period, successive drawdowns and repayments of the entire capital by the *borrower* shall, where necessary, be assumed to occur over the period of one year;
 - (iii) interest and other charges shall be applied in accordance with those drawdowns and repayments of capital and as provided for in the *regulated credit agreement*;
- (m) in the case of a *regulated credit agreement*, other than an *overdraft facility*, or an open-end *regulated credit agreement*:
 - (i) where the date or amount of a repayment of capital to be made by the *borrower* cannot be ascertained, it shall, where necessary, be assumed that the repayment is made at the earliest date provided for under the *regulated credit agreement* and is for the lowest amount for which the *regulated credit agreement* provides;
 - (ii) where it is not known on which date the *regulated credit agreement* is made, the date of the initial drawdown shall, where necessary, be assumed to be the date which results in the shortest interval between that date and the date of the first payment to be made by the *borrower*;
- (n) where the date or amount of a payment to be made by the *borrower* cannot be ascertained on the basis of the *regulated credit agreement* or the assumptions set out in (i) to (m), it shall, where necessary, be assumed that the payment is made in accordance with the dates and conditions required by the *lender* and, when these are unknown:
 - (i) interest charges are paid together with repayments of capital;
 - (ii) a non-interest charge expressed as a single sum is paid on the date of the making of the *regulated credit agreement*;
 - (iii) non-interest charges expressed as several payments are paid at regular intervals, commencing with the date of the first repayment of capital, and if the amount of such payments is not known they shall, where necessary, be assumed to be equal amounts;
 - (iv) the final payment clears the balance of capital, interest and other charges, if any;
- (o) in the case of an agreement for *running-account credit*, where the *credit limit* applicable to the *credit* is not yet known, that *credit limit* shall, where necessary, be assumed to be £1,200.

App 1.2.5A **G** The assumptions set out in **■** CONC App 1.2.5R are intended to ensure that the *total charge for credit* and the *annual percentage rate of charge* are calculated in a consistent way to promote the comparability of different offers. The use of the term ‘where necessary’ in assumptions (c) to (o) in that *rule* makes clear that these assumptions only apply where they are necessary in relation to the specific agreement, for example, where key features such as the amount or duration of *credit* are uncertain. In general, though, the *total charge for credit* and the *annual percentage rate of charge* calculation will depend on the terms of the individual *regulated credit agreement*.

Calculation of the Annual Percentage Rate of Charge

App 1.2.6 **R** (1) The *annual percentage rate of charge* (“APR”) is calculated by means of the equation in (2) which equates, on an annual basis, the total present value of drawdowns with the total present value of repayments and payments of charges.

(2) The equation referred to in (1) is

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

where

X is the APR;

m is the number of the last drawdown;

k is the number of a drawdown, thus $1 \leq k \leq m$;

C_k is the amount of drawdown k;

t_k is the interval, expressed in years and fractions of a year, between the date of the first drawdown and the date of each subsequent drawdown, thus t₁ = 0;

m' is the number of the last repayment or payment of charges;

l is the number of a repayment or payment of charges;

D_l is the amount of a repayment or payment of charges

S_l is the interval, expressed in years and fractions of a year, between the date of the first drawdown and the date of each repayment or payment of charges.

- (3) For the purposes of (2)
- (a) the amounts paid by both parties at different times shall not necessarily be equal and shall not necessarily be paid at equal intervals;
 - (b) the starting date shall be that of the first drawdown;
 - (c) intervals between dates used in the calculations shall be expressed in years or in fractions of a year;
 - (d) a year is assumed to have 365 days (366 days for leap years), 52 weeks or 12 equal months;
 - (e) an equal month is assumed to have 30.41666 days (365/12) regardless of whether or not it is a leap year;

- (f) the result of the calculation shall be expressed with an accuracy of at least one decimal place; if the figure at the following decimal place is greater than or equal to 5, the figure at that particular decimal place shall be increased by one;
- (g) the equation can be rewritten as set out in (h) using a single sum and the concept of flows (A_k), which will be positive or negative, either paid or received during periods 1 to k , expressed in years;
- (h) the equation referred to in (a) is

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

S being the present balance of flows; if the aim is to maintain the equivalence of flows, the value will be zero.