This chapter applies to a firm which, under rules elsewhere in MCOB, is required to calculate an annual percentage rate of charge (APR) or is required to use an approach equivalent to that set out in this chapter in calculating a comparative cost measure equivalent to an APR.
10.2 Purpose

10.2.1 The purpose of this chapter is to establish the requirements for the proper calculation of the APR. As a cost measure which facilitates comparisons between similar mortgages offered on a similar basis, the APR is an integral element of the rules relating to financial promotions of qualifying credit and disclosure.
10.3 Formula and assumptions for calculating the APR

Formula for calculating the APR

The APR must be calculated so that, subject to MCOB 10.3.1B R (2), the annual percentage rate of charge is the rate for \( i \) which satisfies the equation set out in MCOB 10.3.1A R, expressed as a percentage.

\[
\sum_{k=1}^{m} \frac{A_k}{(1+i)^k} = \sum_{k=1}^{m'} \frac{A'_{k'}}{(1+i)^{k'}}
\]

where
- \( K \) is the number identifying a particular advance of credit;
- \( K' \) is the number identifying a particular instalment;
- \( A_k \) is the amount of advance \( K \);
- \( A'_{k'} \) is the amount of instalment \( K' \);
- \( \sum \) represents the sum of all terms indicated;
- \( m \) is the number of advances of credit;
- \( m' \) is the total number of instalments;
- \( K \) is the interval, expressed in years, between the relevant date and the date of the second advance and those of any subsequent advances numbers three to \( m \); and
- \( K' \) is the interval, expressed in years, between the relevant date and the dates of instalments numbered one to \( m' \).

(1) In MCOB 10.3.1A R, references to instalments are references to any payment made by or on behalf of the customer which comprise:
   (a) a repayment of all or part of the credit under the contract; or
   (b) a payment of all or part of the total charge for credit; or
   (c) both a repayment of all or part of the credit and a payment of all or part of the total charge for credit.

(2) Where more than one rate is given under MCOB 10.3.1 R, the APR is the positive rate nearest to zero or, if no positive rate is given, the negative rate nearest to zero.
This calculation method is the same (with the exception of MCOB 10.3.8 R(1)
and (2)) as that described in CONC App 1.1. Some of the terminology is
different from that used elsewhere in MCOB, e.g. the references to
‘transactions’ should be read as relating to secured lending.

APR calculation: assumptions as to the credit provided

10.3.3

(1) The APR must be calculated on the basis of the following assumptions:

(a) the assumption that the customer will not be entitled to any
income tax relief relating to the transaction other than relief
under sections 266-7 of the Income and Corporation Taxes Act
1988 and Schedule 14-15 to the same Act without any deduction
under section 274 of the Income and Corporation Taxes Act 1988;

(b) the assumption that no assistance is given under the Home
Purchase Assistance and Housing Corporation Guarantee Act
1978;

(c) (i) in the case of a transaction which provides for repayment of
the credit or of the total charge for credit at or not later
than a specified time or times, the assumption that the
mortgage lender or mortgage administrator will not exercise
any right under the transaction to require repayment at any
other time or times; and

(ii) in any other case, the assumption that the mortgage lender
or mortgage administrator will not exercise any right under
the transaction to require payment; the customer, in any case,
performing all his obligations under the transaction;

(d) unless (e) applies, in the case of a transaction which provides for
variation of the rate or amount of any item included in the total
charge for credit in consequence of the occurrence after the
relevant date of any event, the assumption that the event will
not occur; and, in this sub-paragraph, ‘event’ means an act or
omission of the customer or of the mortgage lender or mortgage
administrator or any other event (including, where the
transaction makes provision for variation upon the continuation
of any circumstance, the continuation of that circumstance) but
does not include an event which is certain to occur and of which
the date of occurrence, or the earliest date of occurrence, can be
ascertained at the date of the making of the agreement; and

(e) in the case of a secured lending contract which provides for the
possibility of any variation of the rate of interest in consequence
of the occurrence after the relevant date of any event (being an
event which is certain to occur and of which the date of
occurrence, or the earliest date of occurrence, can be ascertained
at the date of the making of the agreement), the assumption
that such a variation will, when the event occurs, take place.

(2) For the purposes of this chapter:

(a) an item included in the total charge for credit must not be
treated as credit, even if time is allowed for its payment;

(b) subject to (c) and to MCOB 10.3.13 R, in the case of any
agreement, each provision of credit and each repayment of the
credit and of the total charge for credit must be taken to be made:

(i) at the earliest time provided under the transaction; and

(ii) in a case where any such provision or repayment is to be made at or not later than a specified time, at that time;

and, where any such repayment is to be made before the relevant date, it must be taken to be made on the relevant date;

(c) where, under an agreement for running-account credit or an agreement for fixed-sum credit where the credit is not repayable at specified intervals or in specified amounts, a constant period rate of charge in respect of periods of equal or of nearly equal length is charged, it must be assumed, despite MCOB 10.3.12 R, that:

(i) the amount of credit outstanding at the beginning of a period is to remain outstanding throughout the period;

(ii) the amount of any credit provided during a period is provided immediately after the end of the period; and

(iii) any repayment of credit or of the total charge for credit made during a period is made immediately after the end of the period; and

(d) it must be assumed that the amount of any repayment of credit or of the total charge for credit will, at the time when the repayment is made, be the smallest for which the agreement provides.

APR calculation: rounding

Where the APR, as calculated in accordance with MCOB 10.3.1 R, has more than one decimal place it must be rounded to one decimal place as follows:

(1) where the figure at the second decimal place is greater than or equal to five, the figure at the first decimal place must be increased by one and the decimal place (or places) following the first decimal place must be disregarded; and

(2) where the figure at the second decimal place is less than five, that decimal place and any decimal places following it must be disregarded.

APR calculation: the calculation of any period

For the purposes of calculations under this chapter, the length of any period must be calculated as follows:

(1) a period which is not a whole number of calendar months or a whole number of weeks must be counted in years and days;

(2) subject to (3), a period which is a whole number of calendar months or a whole number of weeks must be counted in calendar months or in weeks, as the case may be;

(3) where a period is both a whole number of calendar months and a whole number of weeks and:
(a) one repayment only is to be made, the period must be counted in calendar months,
(b) more than one repayment is to be made:
   (i) if all such repayments are to be made at intervals from the relevant date of one or more weeks, the period must be counted in weeks; and
   (ii) in any other case, the period must be counted in calendar months;

(4) a period which is to be counted:
   (a) in calendar months must be taken to be of a length equal to the relevant number of twelfth parts of a year;
   (b) in weeks, must be taken to be of a length equal to the relevant number of fifty-second parts of a year.

(5) a day may be taken to be either:
   (a) one three hundred and sixty-fifth part of a year or, if it is a leap year, one three hundred and sixty-sixth part of a year; or
   (b) one three hundred and sixty fifth and a quarter part of a year.

(6) Every day must be taken to be a **business day**

**APR calculation: necessary assumptions**

10.3.6 R

(1) MCOB 10.3.7 R to MCOB 10.3.13 R apply for the purpose of the calculation of the **total charge for credit** and of the rate of that charge in respect of matters necessary for the calculation which cannot be ascertained by the **mortgage lender or mortgage administrator** at the date of the making of the agreement.

(2) In a case where MCOB 10.3.7 R and one or more of MCOB 10.3.8 R to MCOB 10.3.13 R are applicable, MCOB 10.3.7 R must be applied first.

**APR calculation: assumptions as to the amount of credit**

10.3.7 R

(1) Where the amount of the credit to be provided under the agreement cannot be ascertained at the date of the making of the agreement:
   (a) in the case of an agreement for **running-account credit** under which there is a credit limit, that amount must be taken to be that credit limit; and
   (b) in any other case, that amount shall be taken to be £100.

(2) Where a **mortgage lender** makes a further advance to the **customer** in addition to the amount originally borrowed under the **regulated mortgage contract**, the **APR** for the further advance must be calculated in respect of the further advance alone (and any related charges), and not in respect of the total amount borrowed.
10.3.8 R

(1) In relation to a lifetime mortgage, where the APR is calculated for the purpose of a financial promotion it must be assumed that the credit is being provided for a period of 15 years beginning with the relevant date.

(2) In relation to a lifetime mortgage, where the APR is calculated for the purpose of an illustration, the period for which the credit is to be provided must be calculated in accordance with ■ MCOB 9.4.10 R or ■ MCOB 9.4.12 R.

(2A) In relation to a retirement interest-only mortgage, where the APR is calculated for the purposes of an illustration the period for which the credit is to be provided must be determined in accordance with ■ MCOB 5.6.6R(4).

(3) Where, in any other case, the period for which credit is to be provided is not ascertainable at the date of the making of the agreement, it must be assumed that credit is provided for one year beginning with the relevant date.

10.3.9 R

Subject to ■ MCOB 10.3.10 R, where the rate or amount of any item included in the total charge for credit, or the amount of any repayment of credit under a transaction, is to be ascertained by reference to the level of any index or other factor in accordance with a specified formula, the rate or amount must be taken to be the rate or amount so ascertained. The formula must be applied as if the level of the index or other factor subsisting at the date of the making of the agreement were that subsisting at the date by reference to which the formula is to be applied.

10.3.10 R

(1) The assumptions in ■ MCOB 10.3.10 R(3) and (4) apply to any secured lending contracts which provide for the possibility of any variation of the rate of interest if it is to be assumed, under ■ MCOB 10.3.3 R(1)(e), that the variation will take place but the amount of the variation cannot be ascertained at the date of the making of the agreement.

(2) In this paragraph:

(a) 'initial standard variable rate' means:
   (i) the standard variable rate of interest which would be applied by the mortgage lender or mortgage administrator to the agreement on the date of the making of the agreement if the agreement provided for interest to be paid at the mortgage lender or mortgage administrator’s standard variable rate with effect from that date; or
   (ii) if there is no such rate, the standard variable rate of interest applied by the mortgage lender or mortgage administrator on the day of the making of the agreement in question to other secured lending contracts or, where there is more than one such rate, the highest such rate;

   taking no account of any discount or other reduction to which the customer would or might be entitled; and
(b) ‘varied rate’ means any rate of interest charged when a variation of the rate of interest under MCOB 10.3.3 R(1)(e) is to be assumed.

(3) Where a secured lending contract provides a formula for calculating a varied rate by reference to a standard variable rate of interest applied by the firm, or any other fluctuating rate of interest, but does not enable the varied rate to be ascertained at the date of the making of the agreement because it is not known on that date what the standard variable rate will be or (as the case may be) at what level the fluctuating rate will be fixed when the varied rate falls to be calculated, it must be assumed that that rate or level will be the same as the initial standard variable rate.

(4) Where a secured lending contract provides for the possibility of any variation in the rate of interest (other than a variation referred to in MCOB 10.3.10 R(3)) which it is to be assumed, under MCOB 10.3.3 R(1)(e), will take place, but does not enable the amount of that variation to be ascertained at the date of the making of the agreement, it must be assumed that the varied rate will be the same as the initial standard variable rate.

**APR calculation: further assumptions**

---

10.3.11 Where:

1. the period for which the credit, or any of it, is to be or may be provided cannot be ascertained at the date of the making of the agreement; and

2. the rate or amount of any item included in the total charge for credit will change at a time provided in the transaction within one year beginning with the relevant date;

the rate or amount must be taken to be the highest rate or amount under the transaction at any time in that year.

10.3.12 Where the earliest date on which credit is to be provided cannot be ascertained at the date of making of the agreement, it must be assumed that credit is provided on that date.

10.3.13 In the case of any transaction, it must be assumed:

1. that a charge payable at a time which cannot be ascertained at the date of the making of the agreement is to be payable on the relevant date or, where it may reasonably be expected that a customer will not make payment on that date, on the earliest date at which it may reasonably be expected that he will make payment; or

2. where more than one payment of a charge of the same description is to be made at times which cannot be ascertained at the date of the making of the agreement, that the first such payment will be payable on the relevant date (or, where it may reasonably be expected that a customer will not make payment on that date, at the earliest date on which it may reasonably be expected that he will make payment),
that the last such payment will be payable at the end of the period for which credit is provided and that all other such payments (if any) will be payable at equal intervals between those times.
10.4 Total charge for credit

Make up of the total charge for credit

10.4.1 For the purposes of this chapter, the total charge for credit which may be provided under an actual or prospective agreement is the total (determined as at the date of the making of the agreement) of the charges specified in MCOB 10.4.2 R which apply in relation to the agreement, but excluding the charges specified in MCOB 10.4.4 R.

Items included in the total charge for credit

10.4.2 The amounts of the following charges are included in the total charge for credit in relation to an agreement, with the exceptions in MCOB 10.4.4 R:

(1) the total of the interest on the credit which may be provided under the agreement;

(2) other charges at any time payable under the transaction by or on behalf of the customer, whether to the firm or any other person; and

(3) a premium under a contract of insurance, payable under the transaction by the customer, where the making or maintenance of the contract of insurance is required by the firm:
   (a) as a condition of making the agreement; and
   (b) for the sole purpose of ensuring complete or partial repayment of the credit, and complete or partial payment to the firm of such of those charges included in the total charge for credit as are payable to him under the transaction, in the event of the death, invalidity, illness or unemployment of the customer;

   notwithstanding that the whole or part of the charge may be repayable at any time or that the consideration therefore may include matters not within the transaction or subsisting at a time not within the duration of the agreement.

10.4.3 (1) MCOB 10.4.2 R means, for example, that the following charges must be included within the total charge for credit:

   (a) any fee payable to a mortgage intermediary for arranging the contract (see MCOB 10.4.2 R(2)); and
   (b) any higher lending charge.
(2) The FCA takes the view that charges required to be included within the total charge for credit should not be excluded on the basis of these charges being refundable in certain circumstances.

(3) The FCA also takes the view that the total charge for credit and APR should not reflect the 'value' of any cashback or similar incentive linked to the contract.

Exclusions from the total charge for credit

10.4.4 R

(1) The amounts of the following items are not included in the total charge for credit in relation to an agreement:

(a) any charge payable under the transaction to the firm upon failure by the customer to do or to refrain from doing anything which he is required to do or to refrain from doing;

(b) any charge:
   (i) which is payable by the firm to any person upon failure by the customer to do or to refrain from doing anything which he is required under the transaction to do or to refrain from doing; and
   (ii) which the firm may under the transaction require the customer to pay to him or to another person on his behalf;

(c) any charge relating to a regulated restricted-use credit agreement to finance a transaction between the customer and the firm (whether forming part of that agreement or not), or to finance a transaction between the customer and a person (the "supplier") other than the firm which would be payable if the transaction were for cash;

(d) any charge (other than a fee or commission charged by a credit-broker or mortgage intermediary) not within MCOB 10.4.4 R(1)(c):
   (i) of a description which relates to services or benefits incidental to the agreement and also to other services or benefits which may be supplied to the customer; and
   (ii) which is payable to fulfil an obligation incurred by the customer under arrangements which were effected before he applied to enter into the agreement and are not arrangements under which the customer is bound to enter into any personal credit agreement;

(e) any charge under arrangements for the care, maintenance or protection of any land or goods (except as in MCOB 10.4.4 R(2));

(f) charges for money transmission services relating to an arrangement for a current account under which the customer may, by cheques or similar orders payable to himself or to any other person, obtain or have the use of money held or made available by the firm and which records alterations in the financial relationship between the firm and customer, being charges which vary with the use made by the customer of the arrangement;

(g) any charge for a guarantee other than a guarantee:
   (i) which is required by the firm as a condition of making the agreement; and
(ii) the purpose of which is to ensure complete or partial repayment of the credit, and complete or partial payment to the firm of such of those charges included in the total charge for credit as are payable to him under the transaction, in the event of death, invalidity, illness or unemployment of the customer;

(h) charges for the transfer of funds (other than charges within MCOB 10.4.4 R(1)(f)) and charges for keeping an account intended to receive payments towards the repayment of the credit and the payment of interest and other charges, except where the customer does not have reasonable freedom of choice in the matter and where such charges are abnormally high; this does not exclude from the total charge for credit charges for collection of the payments to which it refers, whether such payments are made in cash or otherwise; and

(i) a premium under a contract of insurance other than a contract of insurance referred to in MCOB 10.4.2 R(3).

(2) In the case of a charge within MCOB 10.4.4 R(1)(e), (1) has effect only:

(a) where under the arrangement:

(i) the services are to be performed if, after the date of the making of the agreement, the condition of the land or goods becomes or is in immediate danger of becoming such that the land or goods cannot reasonably be enjoyed or used; and

(ii) the charge will not accrue unless the services are performed; or

(b) where:

(i) provision of substantially the same description as that to which the arrangements relate is available under comparable arrangements from a person who is not the firm or a supplier or a credit-broker or a mortgage intermediary who introduced the customer and the firm;

(ii) the arrangements are made with a person chosen by the customer; and

(iii) (if, in accordance with the transaction, the consent of the firm or of a supplier or of the mortgage intermediary or credit-broker who introduced the customer and the firm is required to the making of the agreement), where the transaction provides that such consent may not be unreasonably withheld whether because no incidental benefit will or may accrue to the firm or to the supplier or to the credit-broker or to the mortgage intermediary or on any other ground.

(3) References in MCOB 10.4.4 R (2) to the firm, a supplier, a mortgage intermediary and a credit-broker include references to his near relative, his partner and a member of a group of which he is a member, to any person nominated by him or any such person in relation to the arrangements, and to a near relative of his partner; and 'near relative' means, in relation to any person, the husband, wife, civil partner, father, mother, brother, sister, son or daughter of that person and 'group' means the person (including a company)
having control of a company together with all the companies directly or indirectly controlled by him.