

# Chapter 12

## Charges

## 12.3 Early repayment charges: regulated mortgage contracts

### Early repayment charges to be expressed as cash and to be reasonable

**12.3.1** **R** A *firm* must ensure that any *regulated mortgage contract* that it enters into does not impose, and cannot be used to impose, an *early repayment charge* other than one that is:

- (1) able to be expressed as a cash value; and
- (2) a reasonable pre-estimate of the costs as a result of the *customer* repaying the amount due under the *regulated mortgage contract* before the contract has terminated.

**12.3.2** **G** A *firm* can choose the method it employs for calculating *early repayment charges* in accordance with ■ MCOB 12.3.1 R. A *firm* should not use the 'Rule of 78', which is not appropriate as it effectively overstates the cost to the *mortgage lender*.

**12.3.3** **G** A *firm* may calculate the same level of *early repayment charge* for all *regulated mortgage contracts* of a similar type (for example a tranche of *regulated mortgage contracts* offering a particular fixed rate of interest), rather than on the basis of the individual *regulated mortgage contract* with the particular *customer*.

### Early repayment charges to be disclosed in illustrations

**12.3.4** **R** Before:

- (1) *entering into a regulated mortgage contract* with a *customer*; or
- (2) making a further advance on an existing *regulated mortgage contract*; or
- (3) changing all or part of a *regulated mortgage contract* from one interest rate to another; a *firm* must disclose to the *customer*:
  - (a) in the illustration provided in accordance with ■ MCOB 5, ■ MCOB 7.6.7 R, ■ MCOB 7.6.18 R, ■ MCOB 7.6.22 R, ■ MCOB 7.6.31 R, or ■ MCOB 9; and
  - (b) in the *illustration* provided as part of the offer document in accordance with ■ MCOB 6.4.1 R(1) and ■ MCOB 9.5;

the maximum amount payable as an *early repayment charge* in respect of that *regulated mortgage contract*, if an *early repayment charge* applies.

**Early settlement charges on second charge regulated mortgage contracts**

12.3.5

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The effect of article 29 of the *MCD Order* is that various provisions of, or made under, the CCA continue to apply to “consumer credit back book mortgage contracts” (as defined in article 2 of the *MCD Order*). These include the Consumer Credit (Early Settlement) Regulations 2004, which continue to apply to a *second charge regulated mortgage contract* entered into before 21 March 2016 and to a *legacy CCA mortgage contract*.