

Chapter 5

Pre-application disclosure



5.6 Content of illustrations

Purpose

5.6.1 **G** ■ MCOB 5.6 sets out the required content of an *illustration* provided to a customer by a firm.

Content, order, format etc

- 5.6.2 **R** An *illustration* provided to a customer must:
- (1) contain the material set out in ■ MCOB 5 Annex 1 in the order and using the numbered section headings, sub-headings and prescribed text in ■ MCOB 5 Annex 1, except where provided for in ■ MCOB 5.6;
 - (2) follow the layout of the template in ■ MCOB 5 Annex 1 with:
 - (a) prominent use of the Key facts logo followed by the text 'about this mortgage';
 - (b) each section clearly separated;
 - (c) all the amounts to be paid in Sections 5, 6, 8 and 9 in columns that make the amounts of the payments clear; and
 - (d) no section split across different pages except where it is impractical not to do so;
 - (3) use font sizes and typefaces consistently throughout the *illustration* which are sufficiently legible so that the *illustration* can be read easily by a typical customer;
 - (4) ensure that the information within each section is clearly laid out (for example, through the use of bullet points or similar devices to separate information);
 - (5) include prominent headings with the numbered section headings clearly differentiated in some way from the other text in the *illustration* (for example, through the use of larger and more prominent fonts, the use of shading or colour);
 - (6) replace '[name of mortgage lender]' with the name of the mortgage lender providing the regulated mortgage contract: a trading name used by the mortgage lender may be stated, as long as the name of the mortgage lender is also disclosed in Section 4 of the *illustration* in accordance with ■ MCOB 5.6.25 R(1);
 - (7) describe any *early repayment charge* as an 'early repayment charge' and not use any other expression to describe such charges; and

		(8) describe any <i>higher lending charge</i> as a 'higher lending charge' and not use any other expression to describe such charges.
5.6.3	R	Section 13 in ■ MCOB 5 Annex 1 is required only where the <i>illustration</i> is provided to the <i>customer</i> by, or on behalf of, a <i>mortgage intermediary</i> . If this is not the case, Section 14 must be renumbered Section 13.
5.6.4	G	<div><div>(1) Further requirements regarding the use of the Key facts logo and the location of specimens are set out in ■ GEN 5.1 and ■ GEN 5 Annex 1 G.</div><div>(2) ■ MCOB 5.6.2 R(3) does not prevent the use of different fonts and typefaces for headings and risk warnings. Its purpose is to prevent particular sections of the <i>illustration</i> from being made less prominent than other sections through the inconsistent use of font sizes and typefaces.</div><div>(3) The <i>illustration</i> can contain the <i>mortgage lender's</i> or mortgage intermediary's logo and other 'brand' information, so long as the requirements of ■ MCOB 5.6 are satisfied.</div><div>(4) The <i>illustration</i> can contain page numbers and other references that aid understanding, record keeping and identification of a particular <i>illustration</i>, such as the date and time an <i>illustration</i> is produced or a unique reference number, provided these do not detract from the content of the <i>illustration</i>.</div><div>(5) <i>Firms</i> are reminded of their general obligation for communications to <i>customers</i> to be clear, fair and not misleading. Sections of the <i>illustration</i> may be split across pages where it is practical to do so. When splitting sections, <i>firms</i> should split the section at an appropriate place, for example at the end of a sub-section, and not split tables or risk warnings.</div></div>
		Content: required information
5.6.5	R	<div>The <i>illustration</i> provided to <i>customers</i> must:</div> <div><div>(1) contain only the material prescribed in ■ MCOB 5.6 and no other material except where provided for elsewhere in ■ MCOB 5; and</div><div>(2) be in a document separate from any other material that is provided to the <i>customer</i>.</div></div>
5.6.6	R	<div>As a minimum the <i>illustration</i> must be personalised to reflect the following requirements of the <i>customer</i>:</div> <div><div>(1) the specific <i>regulated mortgage contract</i> in which the <i>customer</i> is interested;</div><div>(2) the amount of the loan required;</div><div>(3) the price or value of the property on which the <i>regulated mortgage contract</i> would be secured (estimated where necessary);</div></div>

- (4) the term of the *regulated mortgage contract*. If the customer is unable to suggest a date at which they expect to repay the loan, the *firm* must assume a term and state that assumption, as follows:
- (a) for a *retirement interest-only mortgage*, the *firm's* reasonable estimate;
 - (b) in any other case (for example in the case of an open-ended *bridging loan*, secured overdraft or *mortgage credit card*), a term of 12 months; and
- (5) whether the *regulated mortgage contract* is to be an *interest-only mortgage* or a *repayment mortgage* or a combination of the two.
- 5.6.7** G A *firm* should not illustrate more than one *regulated mortgage contract* in the same *illustration*, for example by using one *illustration* to compare alternative products, repayment methods or repayment terms.
- 5.6.8** G In relation to ■ MCOB 5.6.6 R(3), for the *firm* to comply with the principle of 'fair, clear and not misleading' in MCOB 3A.2.1R(1), an estimated valuation, where the estimated valuation is not that provided by the *customer*, must be a reasonable assessment based on all the facts available at the time. For example, an overstated valuation could enable a more attractive *regulated mortgage contract* to be illustrated on the basis of a lower ratio of the loan amount to the property value - for example, one with a lower rate of interest, or without a *higher lending charge*.
- 5.6.9** R The amount referred to in ■ MCOB 5.6.6 R(2) is:
- (1) in cases where on the basis of the information obtained from the *customer* before providing the *illustration* it is clear that the *customer* would not be eligible to borrow the amount he requested, an estimate of the amount that the *customer* could borrow based on the information obtained from the *customer*; or
 - (2) where the *regulated mortgage contract* is a revolving credit agreement such as a secured overdraft or *mortgage credit card*:
 - (a) (if it provides for an initial drawdown and *linked borrowing* facilities that would allow the *customer* to increase the amount of the loan without any further approval from the *mortgage lender*) the amount of the initial drawdown; or
 - (b) (in all other cases) the total borrowing that the *firm* is willing to provide under the *regulated mortgage contract*; or
 - (3) where it is known that the loan will be released in instalments, for example in the case of a self-build mortgage, the total amount of the loan required and not the amount of the initial instalment.
- 5.6.10** G *Firms* are reminded that they must comply with ■ MCOB 7.6.5 R in respect of the release of loan instalments after the start of the *regulated mortgage contract*.

- 5.6.11** G ■ MCOB 5.6.6 R sets out minimum requirements. The *illustration* may be personalised to a greater degree if the *mortgage lender* or *mortgage intermediary* wishes, subject to the restrictions on the information that can be obtained from the *customer* in ■ MCOB 5.5.15 R when the *illustration* is provided in accordance with ■ MCOB 5.5.1 R(2)(c).
- 5.6.12** G ■ MCOB 5.6.9 R(1) does not require information to be obtained from the *customer* before providing an *illustration* in order to ascertain the amount the *customer* is eligible to borrow. Instead, its purpose is to avoid a *firm* being in a position where it would otherwise have to provide a *customer* with an *illustration* for an amount it knew the *customer* would not be eligible for, based on whatever information it had obtained from the *customer* before providing the *illustration*.
- 5.6.13** R Where the *illustration* relates to a *regulated mortgage contract* that is subdivided into different parts with different types of interest rate or different rates of interest or different conditions, or a combination of these, the requirements in ■ MCOB 5.6 may be adapted to accommodate this. The adaptations made must be limited to those that are necessary.
- 5.6.14** G
- (1) ■ MCOB 5.6.13 R applies where, for example, the *illustration* covers a *regulated mortgage contract* that is:
 - (a) divided so that a certain amount of the loan is payable on a fixed interest rate, and a certain amount on a discounted interest rate; or
 - (b) a combination of a *repayment mortgage* and an *interest-only mortgage* and the loan is subdivided into different types of interest rate and/or different rates of interest.
 - (2) ■ MCOB 5.6.13 R does not apply where an *illustration* covers a *regulated mortgage contract* that is a combination of a *repayment mortgage* and an *interest-only mortgage* and the rate of interest charged, mortgage term and other conditions are the same. The treatment of such mortgages is covered in the relevant rules.
- 5.6.15** R **Information to be included at the head of the illustration**.....
At the head of the *illustration*, the following information must be included:
- (1) the *customer's* name;
 - (2) the date of issue of the *illustration*;
 - (3) details of how long the *illustration* is valid and whether there is any date by which the *regulated mortgage contract* covered by the *illustration* needs to commence (for example, where a fixed interest rate is only available if the *regulated mortgage contract* commences before a certain date); and
 - (4) the prescribed text at the head of the illustration in ■ MCOB 5 Annex 1.

5.6.16	R	<div>Section 1: 'About this illustration'</div> <div>Under the section heading 'About this illustration', the prescribed text in ■ MCOB 5 Annex 1 under this heading must be included.</div>
5.6.17	R	<div>Section 2: 'Which service are we providing you with?'</div> <div><div>(1) Unless (2) applies, under the section heading 'Which service are we providing you with?' the prescribed text in ■ MCOB 5 Annex 1 under this heading must be included, with a 'check box' for each statement, one of which must be marked prominently to indicate the level of service provided to the <i>customer</i>.</div><div>(2) If the level of service described in the <i>illustration</i> is provided by another <i>firm</i>, (1) may be replaced by the following:Under the section heading 'Which service are we providing you with?' the following text should be presented as two options, with a 'check box' for each option, one of which must be marked prominently to indicate the level of service provided to the <i>customer</i>:'[name of <i>firm</i>] recommends, having assessed your needs, that you take out this mortgage.[name of <i>firm</i>] is not recommending a particular mortgage for you. However, based on your answers to some questions, it is giving you information about this mortgage so that you can make your own choice'.</div></div>
5.6.18	R	<div>Section 3: 'What you have told us'</div> <div><div>(1) Under the section heading 'What you have told us', the <i>illustration</i> must state the information that has been obtained from the <i>customer</i> under ■ MCOB 5.6.6 R (apart from ■ MCOB 5.6.6 R(1) which is provided for in Section 4 of the <i>illustration</i>), and can include brief details of any other information that has been obtained from the <i>customer</i> and used to produce the <i>illustration</i>.</div><div>(2) If the amount on which the <i>illustration</i> is based includes the amount that the <i>customer</i> wants to borrow plus charges and other payments that have been added to the loan:<div><div>(a) except where (b) applies, this section must include the following text after the loan amount from ■ MCOB 5.6.6 R(2):'plus £[insert total amount of fees and other charges added to the loan] for fees that will be added to the loan - see Section 8 for details.'; or</div><div>(b) where there are other fees or charges that the <i>customer</i> must pay that have not been added to the loan, this section must include the following text after the loan amount from ■ MCOB 5.6.6 R(2):'plus £[insert total amount of fees and other charges added to the loan] for fees that will be added to the loan. These and the additional fees that you need to pay are shown in Section 8.'</div></div></div><div>(3) If the amount on which the <i>illustration</i> is based includes the amount that the <i>customer</i> wants to borrow plus insurance premiums or insurance-related charges (other than a <i>higher lending charge</i>) that have been added to the loan:<div><div>(a) except where (b) applies, this section must include the following text after the loan amount from ■ MCOB 5.6.6 R(2) (which may be combined with the prescribed text in (2) if applicable): 'plus £[insert amount of premium or charges, or both, to be added to</div></div></div></div>

the loan] for insurance [premiums] [and] [charges] that will be added to the loan - see Section 9 for details.'; or

- (b) where there are other insurance premiums or insurance-related charges, or both, that the *customer* must pay that have not been added to the loan, this section must include the following text after the loan amount from ■ MCOB 5.6.6 R(2) (which may be combined with the prescribed text in (2) if applicable): 'plus £[insert amount of premium or charges, or both, to be added to the loan] for insurance [premiums] [and] [charges] that will be added to the loan. These and any additional insurance [premiums] [and] [charges] that you need to pay are shown in Section 9.'

- (4) If the amount on which the *illustration* is based does not involve any charges or payments being added to the amount to be borrowed, but there are charges that must be paid by the *customer*, Section 3 of the *illustration* must include the following text after the loan amount from ■ MCOB 5.6.6 R(2): 'No fees have been added to this amount but the fees you need to pay are shown in Section 8. For details of any insurance charges, see Section 9.'

- (5) If the *regulated mortgage contract* on which the *illustration* is based has no charges that must be paid by the *customer*, and no insurance premiums are being added to the loan, Section 3 of the *illustration* must include the following text after the loan amount from ■ MCOB 5.6.6 R(2):

'We do not charge any fees for this mortgage.'

5.6.19 **R** Where the same *illustration* covers a *regulated mortgage contract* that is a combination of a *repayment mortgage* and an *interest-only mortgage*, either:

- (1) Section 3 of the *illustration* must state the amount the *customer* wishes to borrow as a *repayment mortgage* and the amount required as an *interest-only mortgage*; or
- (2) Section 3 of the *illustration* must summarise the repayment method as partly an *interest-only mortgage* and partly a *repayment mortgage*, and Section 4 of the *illustration* must state the amount the *customer* wishes to borrow as a *repayment mortgage* and the amount required as an *interest-only mortgage*.

5.6.20 **R** Where the same *illustration* covers a *regulated mortgage contract* that has different parts of the loan over a different term (that is, the final repayment date of the loan parts are different), either:

- (1) Section 3 of the *illustration* must state the amount repayable over each term; or
- (2) Section 3 of the *illustration* must state the longest term that applies and Section 4 of the *illustration* must state the amount repayable over each term.

- 5.6.21

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For the purpose of illustrating to the *customer* the repayment method in Section 3 or Section 4 of the *illustration*, or the cost of the *regulated mortgage contract* in Section 5 of the *illustration*, if the *illustration* covers a *regulated mortgage contract* that is a combination of more than one interest-only part on the same product terms but with different repayment dates, the *illustration* must either treat it as one part by assuming the longest term, or alternatively treat it as a multi-part loan.
- 5.6.22

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At the end of Section 3 of the *illustration* a statement must be included making clear that changes to any of the information obtained from the *customer*, and where appropriate to the valuation of the property, could alter the details elsewhere in the *illustration*, and encouraging the *customer* to ask for a revised *illustration* in this event.
- 5.6.23

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An example of the type of statement that would satisfy ■ MCOB 5.6.22 R is: 'The valuation that will be carried out on the property and changes to any of the information you have given us could alter the information in this illustration. If this is the case please ask for a revised illustration.'
- 5.6.24

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The purpose of the *illustration* is to provide the *customer* with details of the cost of borrowing the amount required over the term specified in ■ MCOB 5.6.6 R(2) and ■ MCOB 5.6.6 R(4). Section 12 has been designed specifically to illustrate any additional features of the *regulated mortgage contract* such as a linked current account, a linked savings account or the availability of *unsecured lending*. These features should therefore be shown in section 12 and not in section 3 of the *illustration*.

Section 4: 'Description of this mortgage'

- 5.6.25

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Under the section heading 'Description of this mortgage' the *illustration* must:

 - (1) state the name of the *mortgage lender* providing the *regulated mortgage contract* to which the *illustration* relates (a trading name used by the *mortgage lender* may also be stated in accordance with ■ MCOB 5.6.2 R(6)), and the name, if any, used to market the *regulated mortgage contract*;
 - (2)
 - (a) provide a description of the interest rate type and rate of interest that applies in accordance with the format described in ■ MCOB 5.6.26 R and ■ MCOB 5.6.27 R;
 - (b) where there is more than one interest rate type or rate of interest, specify the amount of the loan to which each interest rate type and rate of interest applies;
 - (c) unless the interest rate applies for the full term of the loan, confirm what interest rate will apply, when it will apply and for how long it will apply after any initial interest rate ends, in accordance with the format described in ■ MCOB 5.6.26 R and ■ MCOB 5.6.27 R; and
 - (d) provide a clear explanation of the charging approach where different interest rates are applied to different items of debt (for example, for a *mortgage credit card* where a different interest

		<p>rate applies to balances that are transferred from that charged on any additional borrowing);</p> <p>(3) where ■ MCOB 5.6.20 R(2) applies, state the different amounts repayable and the different terms over which the amounts are repayable;</p> <p>(4) where ■ MCOB 5.6.19 R(2) applies, state the amount repayable under an <i>interest-only mortgage</i> and the amount repayable under a <i>repayment mortgage</i>;</p> <p>(5) include the following text if the <i>regulated mortgage contract</i> meets the Government's mortgage CAT standards: 'This mortgage meets the Government's CAT standards.';</p> <p>(6) if the <i>customer</i> is obliged to buy any <i>tied products</i> or to take out a linked current account, a linked savings account or any <i>linked borrowing</i> under the <i>regulated mortgage contract</i>, include:</p> <p>(a) details of the products required; and</p> <p>(b) the following text: 'You are obliged to take out [insert details of the product(s)] through [insert name of <i>mortgage lender</i> or if relevant, name of <i>mortgage intermediary</i>] as a condition of this mortgage. Please refer to Section [insert applicable section number e.g. 6 or 9] of this illustration for further details.'</p> <p>(7) state very briefly any restrictions that apply to the availability of the <i>regulated mortgage contract</i> (for example, if it is only available to certain types of <i>customer</i> or for certain types of loan);</p> <p>(8) where the interest rate, payments or terms and conditions of the <i>regulated mortgage contract</i> in the <i>illustration</i> reflect a <i>customer's</i> adverse credit history, include the following text: 'The terms of this mortgage reflect past or present financial difficulties.'; and</p> <p>(9) where the intention of the <i>regulated mortgage contract</i> is solely to provide the <i>customer</i> with a <i>mortgage credit card</i> (rather than the <i>mortgage credit card</i> being an additional feature of a <i>regulated mortgage contract</i>) include the warning about the loss of statutory rights from ■ MCOB 5.6.102 R(2) in Section 4 of the <i>illustration</i> rather than Section 12.</p>
5.6.26	R	■ MCOB 5.6.27 R sets out some examples of descriptions of interest rate types and rates of interest which must be used in the <i>illustration</i> to comply with ■ MCOB 5.6.25 R(2). If an interest rate is not described in ■ MCOB 5.6.27 R, it must be presented in the <i>illustration</i> in a way that is consistent with the descriptions in ■ MCOB 5.6.27 R.
5.6.27	R	Description of interest rate types and rates of interest. This table belongs to MCOB 5.6.26R:

Description of the interest rate	Amount payable in each instalment
Lender's base mortgage rate - must be described as the [Lender]'s standard variable rate, currently X%, [where applicable insert the date at which the interest rate ends or period for which the interest rate applies].	Amount based on X%.
Fixed rate - must be described as a fixed rate of X% [where applicable insert the date at which the interest rate ends or the period for which the interest rate applies].	Amount based on the fixed rate of X%.
Discounted rate - must be described as a variable rate, currently X%, with a discount of Y% [where applicable insert the date at which the discount ends or the period for which the discount applies], giving a current rate payable of Z%.	Amount based on Z%.
Capped rate - must be described as a variable rate, currently X%, which will not go above a ceiling of Y% [where applicable insert the date at which the capped interest rate ends or the period for which the capped interest rate applies].	Amount based on the current interest rate payable (X%).
Capped and collared - must be described as a variable rate, currently X%, which will not go below a floor of Y%, or above a ceiling of Z% [where applicable insert the date at which the capped and collared interest rate ends or the period for which the capped and collared interest rate applies].	Amount based on the current interest rate payable (X%).
Tracker rate - must be described as a variable rate which is [X% above/X% below/the same as] [insert interest rate tracked, currently Z%,] [where applicable insert the date at which the rate ends or the period for which the interest rate applies], to give a current rate payable of Y%. Details should also be provided of how soon after an interest rate change the mortgage interest rate is adjusted.	Amount based on Y%.
Deferred rate - must be described as a variable rate, currently X%, where Y% is not paid now but is added to your mortgage [where applicable insert the date at which the deferred interest rate ends or the period for which the deferred interest rate applies], to give a current rate payable of Z%.	Amount based on Z%.
Stepped rate where different interest rates apply over different time periods (for example, fixed interest rate in year 1 changes in year 2). Each element should be dealt with individually as above.	Amount for each of the 'steps'.
Combinations of the above must be treated in the same way as the descriptions above, (for example, if a discounted interest rate has a 'floor' then it must be described as such).	Follow the above treatment depending on the combination.

5.6.28

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Where the loan under the *regulated mortgage contract* is divided into more than one part (for example where part of the loan is a fixed interest rate and part of the loan is a discounted variable interest rate) and the *firm* displays this in a tabular format in the *illustration*:

- (1) the following text must be used to introduce the table 'As this mortgage is made up of more than one part, these parts are summarised below:';
- (2) each part must be numbered for ease of reference in the *illustration*;
- (3) the 'initial rate payable' must be displayed separately from the interest rate description;
- (4) the loan amounts must be totalled; and
- (5) immediately following the table, a statement of what interest rates will apply to each part, (and when they will apply) after any initial interest rate ends in accordance with ■ MCOB 5.6.25 R(2)(c).

5.6.29 **R** Further information about the *regulated mortgage contract* may be included in Section 4 of the *illustration* as long as it does not significantly:

- (1) duplicate information contained elsewhere in the *illustration*; and
- (2) extend the length of this section.

5.6.30 **G** An example of further information that may be included in accordance with ■ MCOB 5.6.29 R might be that an 'approval in principle' has been granted subject to valuation and satisfactory credit reference.

Section 5: 'Overall cost of this mortgage'

5.6.31 **R** Under the section heading 'Overall cost of this mortgage' where the *regulated mortgage contract* has an agreed term for repayment and a regular payment plan (that is, it is not a revolving credit agreement such as a secured overdraft or *mortgage credit card*, or a *regulated mortgage contract* where all of the interest rolls up, such as an open-ended *bridging loan*):

- (1) the following text must be included in the *illustration*: 'The overall cost takes into account the payments in Sections 6 and 8 below.';
- (2) if all of the *regulated mortgage contract* to which the *illustration* relates is an *interest-only mortgage*, the following text must follow the text in (1): 'However, it excludes any payments that you may need to make into a separate savings plan, to build up a lump sum to repay the amount borrowed, but assumes that you pay off the amount borrowed as a lump sum at the end of the mortgage.';
- (3) where all of the *regulated mortgage contract* is a *repayment mortgage*, the following text must follow the text in (1): 'With a repayment mortgage you gradually pay off the amount you have borrowed, as well as the interest, over the life of the mortgage.';
- (4) if part of the *regulated mortgage contract* to which the *illustration* relates is an *interest-only mortgage*, and part is a *repayment mortgage*, the following text must follow the text in (1): 'However, it excludes any payments that you may need to make into a separate savings plan to build up a lump sum to repay the amount borrowed on an interest-only basis, but assumes that you pay off the amount

borrowed on an interest-only basis, as a lump sum at the end of the mortgage.'; and

- (5) reference must be made to any other payments that have been included in the *APR* but not included in Sections 6 and 8 of the *illustration* if these are relevant to the *regulated mortgage contract* that is the subject of the *illustration*.

5.6.32

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Under the section heading 'Overall cost of this mortgage' where the *regulated mortgage contract* has no agreed term for repayment, (and a 12 month term has been assumed), or no regular payment plan, or both (for example, a revolving credit agreement such as a secured overdraft or *mortgage credit card* or a *regulated mortgage contract* where all the interest rolls up such as an open-ended *bridging loan*):

- (1) the following text must be included in the *illustration*: 'The overall cost takes into account the payments in Sections 6 and 8 below.';
- (2) where all the interest on the *regulated mortgage contract* rolls up and is repaid as a lump sum at the end of the *regulated mortgage contract*, for example a *bridging loan*, then the following text must follow the text in (1): 'It assumes that you pay back the total amount owing as a lump sum at the end of the mortgage term.';
- (3) where the *regulated mortgage contract* is a revolving credit agreement and no regular payments are made, for example a secured overdraft, then the following text must follow the text in (1): 'It assumes that you borrow the maximum amount available, and pay back the total amount owing, as a lump sum at the end of the mortgage term.';
- (4) where the *regulated mortgage contract* is a revolving credit agreement and regular minimum payments are made, for example, a *mortgage credit card*, then the following text must follow the text in (1): 'It assumes that you borrow the maximum amount available, make regular payments of the minimum amount, and pay back the remaining amount owing as a lump sum at the end of the mortgage term.'; and
- (5) reference must be made to any other payments that have been included in the *APR* but not included in Sections 6 and 8 of the *illustration* if these are relevant to the *regulated mortgage contract* that is the subject of the *illustration*.

5.6.33

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■ MCOB 5.6.31 R(5) and ■ MCOB 5.6.32 R(5) would require, for example, a reference to the fact that the overall cost takes into account mortgage payment protection insurance where this is required as a condition of the *regulated mortgage contract* to which the *illustration* relates. The requirement to take out such insurance must be stated in Sections 4 and 9 of the *illustration* in accordance with ■ MCOB 5.6.25 R(6), ■ MCOB 5.6.74 R or ■ MCOB 5.6.77 R.

5.6.34

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The following text must be included after the text required by ■ MCOB 5.6.31 R or ■ MCOB 5.6.32 R with the relevant cost measures shown in

the right-hand column of Section 5 in accordance with the layout shown in ■ MCOB 5 Annex 1:

- (1) 'The total amount you must pay back, including the amount borrowed is £[insert *total amount payable*];'
- (2) 'This means you pay back £[insert the *total amount payable*] divided by the amount on which the *illustration* is based from ■ MCOB 5.6.6 R(2) plus all fees, charges and insurance premiums added to the loan in accordance with ■ MCOB 5.6.18 R(2) and ■ MCOB 5.6.18 R(3)] for every £1 borrowed'; and
- (3) 'The overall cost for comparison is [insert the *APR*] % APR'.

5.6.35

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- (1) The *APR* and the *total amount payable* in ■ MCOB 5.6.34 R must be calculated on the basis of information obtained from the *customer* under ■ MCOB 5.6.6 R.
- (2) Where there is a charge to be included in the *APR* and *total amount payable* and the precise amount of that charge is not known at the time that the *illustration* is provided, ■ MCOB 10.3 (Formula for calculating the *APR*) sets out a number of relevant assumptions to be used. If the method for including the charge is not addressed in MCOB 10 (Annual Percentage Rate), the charge must be estimated based on information which is known to be representative of the *regulated mortgage contract* to which the *illustration* relates.
- (3) [deleted]
- (4) Where the *regulated mortgage contract* is a revolving credit agreement and regular payments are made, for example, a *mortgage credit card*, then the *APR* and *total amount payable* must be based on the maximum amount that the *customer* could borrow and take into account any amounts that must be paid in regular instalments.

5.6.36

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In relation to ■ MCOB 5.6.35 R(2), the cost of conveyancing would be an example of a charge for which representative information may need to be used in the calculation of the *APR* and the *total amount payable*.

5.6.37

R

At the end of Section 5 of the *illustration* the following text must be included:

- (1) unless the interest rate is fixed throughout the term of the *regulated mortgage contract*: 'The figures in this section will vary following interest rate changes and if you do not keep the mortgage for [insert term from ■ MCOB 5.6.6 R(4)].'; and
- (2) (a) where the *regulated mortgage contract* is a *repayment mortgage*: 'Only use the figures in this section to compare the cost with another repayment mortgage.'; or
 (b) where the *regulated mortgage contract* is an *interest-only mortgage*: 'Only use the figures in this section to compare the cost with another interest-only mortgage.'; or

		<p>(c) where the <i>regulated mortgage contract</i> is a combination of a <i>repayment mortgage</i> and an <i>interest-only mortgage</i>: 'Only use the figures in this section to compare the cost with another mortgage that has the same proportions of the loan on repayment and interest-only as this one.'</p>
5.6.38	G	<p>The purpose of the <i>illustration</i> is to provide the <i>customer</i> with details of the cost of borrowing the amount required over the term specified from ■ MCOB 5.6.6 R(2) and ■ MCOB 5.6.6 R(4). Section 12 has been designed specifically to allow examples of the effect of any additional features of the <i>regulated mortgage contract</i> such as a linked current account or a linked savings account. Examples of these features should therefore be shown in Section 12 and not in Section 5 or Section 6 of the <i>illustration</i>.</p>
		<p>Section 6: 'What you will need to pay each [insert frequency of payments from MCOB 5.6.40R]'</p>
5.6.39	R	<p>■ MCOB 5.6.40 R to ■ MCOB 5.6.57 G do not apply to loans without a term or regular payment plan where some or all of the interest rolls up, for example <i>bridging loans</i>, secured overdrafts or <i>mortgage credit cards</i>. In these cases, ■ MCOB 5.6.134 R to ■ MCOB 5.6.138 G apply.</p>
5.6.40	R	<p>The heading for Section 6 of the <i>illustration</i> and the heading of the column on the right-hand side of this section must state the frequency with which payments must be made by the <i>customer</i>. (For example, if payments are to be made on a monthly basis, the heading for this section must be 'What you will need to pay each month' and the column must be headed 'Monthly payments'.)</p>
5.6.41	R	<p>All the payments in Section 6 of the <i>illustration</i> must be calculated based on the frequency used for the purposes of the headings in ■ MCOB 5.6.40 R and must be shown in the column on the right-hand side of this section.</p>
5.6.42	R	<p>Section 6 of the <i>illustration</i> must contain the following information:</p> <ol style="list-style-type: none">(1) the loan amount on which the <i>illustration</i> is based. This figure should include all fees, charges and insurance premiums that have been added to the loan in accordance with ■ MCOB 5.6.18 R(2) and ■ MCOB 5.6.18 R(3), and the following text must follow the loan amount: 'and include[s] the [fees] [and] [insurance premiums] that are shown in [Section 8] [and] [Section 9] as being added to your mortgage.'(2) the assumed start date that has been used in the <i>illustration</i> to estimate the number of payments to be charged at given interest rates;(3) except where ■ MCOB 5.6.54 R applies, for each of the interest rates charged on the <i>regulated mortgage contract</i>:<ol style="list-style-type: none">(a) the number of payments at that interest rate;(b) whether the interest rate is fixed or variable;

- (c) the interest rate charged on the *regulated mortgage contract* at the time the *illustration* is issued; and
 - (d) the amount that the *customer* must pay in each instalment at that interest rate, which must be recorded in the right-hand column of this section (see ■ MCOB 5.6.48 R).

- 5.6.43 **R** Where the *illustration* covers a *regulated mortgage contract* that automatically converts from one repayment method to another after a specified period, then the *illustration* must show the effect of this change on the regular payment, in the same way as the requirements in ■ MCOB 5.6.42 R(3).

- 5.6.44 **G** If appropriate, the two statements required by ■ MCOB 5.6.42 R(1) and ■ MCOB 5.6.42 R(2) may be merged, for example 'These payments are based on a loan amount of £x and assume that the mortgage will start on [dd/mm/yy]'.

- 5.6.45 **G** ■ MCOB 5.6.42 R(3) applies to each interest rate charged on the *regulated mortgage contract* covered by the *illustration*. This means that it applies to different interest rates charged at different times, for example, where the interest rate changes at the end of any initial discounted, fixed or other special interest rate period.

- 5.6.46 **R** The following information must be included in the description of the interest rate required by ■ MCOB 5.6.42 R(3)(c) except where ■ MCOB 5.6.54 R applies:
 - (1) where the interest rate can change, the word 'currently' must be used to illustrate the current interest rate payable; and
 - (2) where the interest rate changes after a given period the words 'followed by' must be used to indicate this.

- 5.6.47 **G** An example of how the information required by ■ MCOB 5.6.42 R(3) and ■ MCOB 5.6.46 R may be presented when there is an initial fixed interest rate for a period of 22 months followed by the *mortgage lender's* standard variable interest rate for a period of 278 months is as follows: '22 payments at a fixed rate of [...] % followed by 278 payments at a variable rate, currently [...] %'.

- 5.6.48 **R** The information required by ■ MCOB 5.6.42 R(3)(d) must exclude:
 - (1) the cost of repaying the capital if the *regulated mortgage contract* is an *interest-only mortgage*: where part of the *regulated mortgage contract* is an *interest-only mortgage*, the cost of repaying the capital must be excluded only for that part; and
 - (2) the cost of any products which may be sold in conjunction with the *regulated mortgage contract* (whether *tied products* or not), unless the cost has been added to the mortgage.

- 5.6.49** **R** If, because of the assumed start date of the *regulated mortgage contract*, the initial payment differs from the subsequent payments, the initial payment must be shown in this section in accordance with ■ MCOB 5.6.42 R(3)(d).
- 5.6.50** **R** Where the *illustration* covers a *regulated mortgage contract* that is a combination of a *repayment mortgage* and an *interest-only mortgage*, the payment amounts in ■ MCOB 5.6.42 R(3)(d) must be the combination of the amount to be paid on the *repayment mortgage* and the amount to be paid on the *interest-only mortgage*, unless ■ MCOB 5.6.13 R or ■ MCOB 5.6.54 R apply in which case they must be stated separately.
- 5.6.51** **R** Where the interest is deferred on the *regulated mortgage contract*, the following text must be included under the information on the deferred interest rate included in the *illustration* in accordance with ■ MCOB 5.6.42 R(3): "The interest deferred will be added to your mortgage. The table at Section [insert 6a or 6b if ■ MCOB 5.6.55 R applies] of this illustration shows how this will affect the amount you owe."
- 5.6.52** **R** Where all or part of the *regulated mortgage contract* to which the *illustration* relates is an *interest-only mortgage*:
- (1) the *illustration* must include the sub-heading 'Cost of repaying the capital' with the following text under it: 'You will still owe [insert amount of loan on an interest-only basis] at the end of the mortgage term. You will need to make separate arrangements to repay this. When comparing the payments on this mortgage with a repayment mortgage, remember to add any money that you may need to pay into a separate savings plan to build up a lump sum to repay this amount.';
 - (2) if the *regulated mortgage contract* requires the *customer* to take out a *tied product* as a *repayment strategy* either through the *mortgage lender* or *mortgage intermediary* then:
 - (a) include a sub-heading 'Savings plan that you must take out through [insert name of *mortgage lender* or *mortgage intermediary*]';
 - (b) include an accurate quotation or a reasonable estimate of the payments the *customer* will need to make for that *tied product*; and
 - (c) if a quotation cannot be provided under (b), state that a quotation is not available at present, that a quotation will be provided as soon as possible and that in the event that this is provided after an application is made, and is found to be unacceptable to the *customer*, that the application may be cancelled with a full refund of all fees (in accordance with ■ MCOB 5.4.23 R(3)).
 - (3) if the *illustration* includes a quotation for the payments that would need to be made by the *customer* for the *repayment strategy*:
 - (a) unless (2) applies, the *illustration* must include the sub-heading 'Savings plan that you do not have to take out through [insert name of *mortgage lender* or *mortgage intermediary*]';

- (b) the *illustration* must provide a brief description only of the type of *repayment strategy* illustrated (full details of the *repayment strategy* may be provided separately);
 - (c) the quotation must be based on the frequency of payments in ■ MCOB 5.6.40 R and must be included in the column for payments alongside the description required by (b); and
 - (d) the *illustration* must refer the *customer* to the individual product disclosure documentation required by the Conduct of Business sourcebook (COBS).
- (4) if a quotation for the *repayment strategy* is not provided in the *illustration*, the *illustration* must include a '£' sign in the column for payments alongside the following text, which follows the text in (1): 'When you have found out what payments you need to make into a savings plan you may find it helpful to add these to your mortgage payments and put the total payment in the column opposite.';
- (5) unless ■ MCOB 5.6.55 R applies, if a quotation for the *repayment strategy* has been included in the *illustration*, Section 6 must be extended to illustrate the monthly cost inclusive of the savings plan and must have the sub-heading 'What you will need to pay each [insert frequency of payments from ■ MCOB 5.6.40 R] including the cost of a savings plan to repay the capital' and must include:
- (a) the information required by ■ MCOB 5.6.42 R(3) for each interest rate charged on the *regulated mortgage contract*; and
 - (b) the sum of what the *customer* would need to pay in each instalment for the *regulated mortgage contract* and for the *repayment strategy* in the payments column. For example if payments are made monthly, this would be the amount that the *customer* would need to pay each month for the *regulated mortgage contract* and *therepayment strategy*. Where different interest rates are charged on the *regulated mortgage contract* the amount payable in each instalment at each interest rate must be shown in the payments column.

5.6.53

G

An example of how the information required by ■ MCOB 5.6.52 R (1), ■ MCOB 5.6.52 R (3) and ■ MCOB 5.6.52 R (5) may be presented is as follows:

Cost of repaying the capital You will still owe £Z at the end of the mortgage term. You will need to make separate arrangements to repay this. When comparing the payments on this mortgage with a repayment mortgage, remember to add any money that you may need to pay into a separate savings plan to build up a lump sum to repay this amount.	
Savings plan that you do not have to take out through [insert name of mortgage lender or mortgage intermediary]	Monthly payments
XYZ savings plan (see separate product disclosure document)	£C
What you will need to pay each month including the cost of a savings plan to repay the capital	
36 payments at a fixed rate currently x% followed by:	£(A+C)
264 payments at a variable rate currently y%.	£(B+C)

Multi-part mortgages

5.6.54	R	<p>Where the loan under the <i>regulated mortgage contract</i> is divided into more than one part (for example, where part of the loan is on a fixed interest rate and part on a discounted variable interest rate) and the <i>firm</i> displays the initial cost of all parts, and the total cost, in a tabular format in the <i>illustration</i>, ■ MCOB 5.6.42 R(3) and ■ MCOB 5.6.46 R do not apply; instead:</p> <ul style="list-style-type: none">(1) each part must be numbered for ease of reference in the <i>illustration</i>;(2) the loan amounts must be totalled;(3) the number and frequency of each payment must be stated;(4) the repayment method for each part must be stated;(5) the 'initial interest rate payable' for each part must be stated ;(6) whether the interest rate payable is fixed or variable for each part must be stated; and(7) the regular payment for each part must be stated and the total payment for all parts highlighted (excluding the information listed in ■ MCOB 5.6.48 R).
5.6.55	R	<p>Unless all of the interest rates described in ■ MCOB 5.6.54 R(5) apply for the term of the loan part to which they apply, then an additional section numbered as 6a and titled 'What you will need to pay in future' must be included to indicate the future stepped payments (if ■ MCOB 5.6.51 R also applies then the section on deferred interest must be numbered 6b). This section must:</p> <ul style="list-style-type: none">(1) state when a change in payment will occur;(2) state the reason for the change in payment; and(3) confirm that the payment illustrated assumes interest rates will not change.
5.6.56	R	<p>Where ■ MCOB 5.6.55 R applies and part of the <i>regulated mortgage contract</i> is an <i>interest-only mortgage</i>:</p> <ul style="list-style-type: none">(1) if a quotation for the <i>repayment strategy</i> has been included in the <i>illustration</i> in accordance with ■ MCOB 5.6.52 R(3) then ■ MCOB 5.6.52 R(5) does not apply.(2) a statement is required to indicate that these payments do not include the cost of any savings plan.
5.6.57	G	<p>An example of a statement which would meet the requirements of ■ MCOB 5.6.56 R(2) would be 'Remember to add the cost of any savings plan to these monthly payments'.</p>

Section 7: 'Are you comfortable with the risks?'

5.6.58

R

■ MCOB 5.6.59 R to ■ MCOB 5.6.65 R do not apply to loans without a term or regular repayment plan where some or all of the interest rolls up, for example, *bridging loans*, secured overdrafts or *mortgage credit cards*. In these cases ■ MCOB 5.6.140 R to ■ MCOB 5.6.145 R apply.

5.6.59

R

Under the section heading 'Are you comfortable with the risks?':

- (1) under the sub-heading 'What if interest rates go up?' the *illustration* must include the following:
 - (a) if the interest rate is fixed throughout the term of the *regulated mortgage contract*, an explanation that the payments will not vary because the interest rate is fixed;
 - (b) if the interest rate is fixed for part of the term of the *regulated mortgage contract*, an explanation of when or how increases in the interest rate charged on the *regulated mortgage contract* affect the *customer's* payments;
 - (c) if the interest rate cannot go above a certain level or below a certain level, or both, and this applies throughout the term of the *regulated mortgage contract*, an explanation that this is the case;
 - (d) if the interest rate cannot go above or below a certain level for part of the term of the *regulated mortgage contract*, an explanation that this is the case and of when or how increases in the interest rate charged on the *regulated mortgage contract* affect the *customer's* payments;
 - (e)
 - (i) if (c) or (d) apply, the maximum or minimum interest rate, or both, and the payments at each of these interest rates; and
 - (ii) where a *repayment strategy* has been included in the *illustration* in accordance with ■ MCOB 5.6.52 R(3), the payments quoted in (i) must include the cost of the *repayment strategy* and state that this is the case;
 - (f) if the *regulated mortgage contract* is made up of a number of different parts including different types of interest rate and different rates of interest, an explanation of when or how increases in the interest rate charged on the *regulated mortgage contract* affect the *customer's* payments for each part (or combination of parts);
 - (g) except where (2)(a) or (2)(b) apply, the following text: 'The [frequency of payments from ■ MCOB 5.6.40 R] payments shown in this illustration could be considerably different if interest rates change. For example, for one percentage point increase in [describe the interest rate that applies], your [insert frequency of payments] payment will increase by around £[insert amount by which payment will increase]'; and
 - (h) except where (2)(a) or (2)(b) apply, if (f) applies the following additional text after the text in (g), for each part (or combination of parts), where the amounts by which the *customer's* payments would increase are different: 'After the [describe the interest rate that applies, the part (or parts) to which it applies, and date or period for which it applies] then for one percentage point

increase in [describe the interest rate that applies], your [insert frequency of payments] payment will increase by around £[insert amount by which payment will increase].'

- (2) paragraphs (1)(g) and (1)(h) do not apply where:
 - (a) the interest rate is fixed throughout the term of the *regulated mortgage contract*; or
 - (b) the difference between the interest rate included in the *illustration* in accordance with ■ MCOB 5.6.42 R and the maximum interest rate that can be charged on the *regulated mortgage contract* is less than one percentage point.
- (3) under the sub-heading 'What if your income goes down?': 'You will still have to pay your mortgage if you lose your job or if illness prevents you from working. Think about whether you could do this.'
- (4) For a *retirement interest-only mortgage*, the *firm* may substitute for the text in paragraph (3) more relevant examples of how income may go down.

5.6.60

R

The amount by which the *customer's* payments would increase in accordance with ■ MCOB 5.6.59 R(1)(g) and (h) must be calculated as follows:

- (1) the *firm* must use the total amount borrowed, or assume that all payments due on the *regulated mortgage contract* have actually been paid, all additional fees and payments due have been paid, and no underpayments or overpayments have been made;
- (2) where all or part of the *regulated mortgage contract* is a *repayment mortgage*, the calculation must be based on:
 - (a) the total amount borrowed; or
 - (b) the amount of the loan outstanding from the earliest point at which the interest rate charged on the *regulated mortgage contract* can vary (for example, if the *regulated mortgage contract* has an initial fixed interest rate, this will be from the point at which the fixed interest rate ends); and
- (3) the interest rate from which the increase is calculated must be the variable interest rate charged on the *regulated mortgage contract* at the date that the *illustration* is issued (that is, the variable interest rate quoted in Section 4 of the *illustration*); where the variable interest rate changes after a set period or on a set date, it must be based on the initial variable interest rate charged on the *regulated mortgage contract* at the date the *illustration* is issued (for example, if the initial interest rate is discounted, it must be based on the discounted rate).

5.6.61

G

Although the effect of a one percentage point increase in interest rates on the *customer's* payments is not completely linear, the purpose of ■ MCOB 5.6.59 R(1)(g) and (h) is to show the approximate effect of such an increase.

Risk warning

5.6.62 **R** Unless **■ MCOB 5.6.59 R(2)(a)** or **(b)** apply, the following words must be prominently displayed at the end of the sub-section 'What if interest rates go up?': 'Rates may increase by much more than this so make sure you can afford the [insert frequency of payments from **■ MCOB 5.6.40 R**] payment'.

5.6.63 **R** The following words must be prominently displayed at the end of the sub-section 'What if your income goes down?': 'Make sure you can afford your mortgage if your income falls'.

5.6.64 **G** [deleted]

5.6.65 **R** The following text must be included at the end of Section 7 'Are you comfortable with the risks?': 'The *MoneyHelper* information sheet "You can afford your mortgage now, but what if...?" will help you consider the risks. You can get a free copy from <https://www.moneyhelper.org.uk>, or by calling 0800 138 7777.'

Section 8: 'What fees must you pay?'

5.6.66 **R** Under the section heading 'What fees must you pay?' the *illustration* must:

- (1) itemise all the fees that are included in the calculation of the *APR* in accordance with **■ MCOB 10** (Annual Percentage Rate), excluding any charges for insurance set out in Section 9 in accordance with **■ MCOB 5.6.73 R**; and
- (2) include a statement at the end of the section using the following text: 'You may have to pay other taxes or costs in addition to any fees shown here.'

5.6.67 **G** An example of a fee that would normally be included in Section 8 would be a fee to re-inspect a property after completion of works if it is known that this fee will be charged at the time the *illustration* is produced. An example of a fee that would not be included would be a fee payable by the *customer* to insure their property elsewhere (however this would need to be stated in Section 9 of the *illustration* 'Insurance', as required by **■ MCOB 5.6.77 R(2)**). Fees payable upon repayment of the *regulated mortgage contract* at the end of the mortgage term would need to be included. Where fees are payable only on early repayment of the *regulated mortgage contract*, they should not be stated here (however these fees would need to be stated in Section 10 of the *illustration* 'What happens if you do not want this mortgage any more', as required by **■ MCOB 5.6.88 R(2)**).

5.6.68 **R** The fees included in this section in accordance with **■ MCOB 5.6.66 R** must be itemised under the relevant sub-headings as follows:

- (1) the fees that are payable by the *customer* to the *mortgage lender* must be itemised under the sub-heading 'Fees payable to [name of mortgage lender]';

5.6.69

R

The following information must be provided for each fee included in this section of the *illustration* in accordance with ■ MCOB 5.6.66 R(1):

- (2) the remaining fees must be itemised under the sub-heading 'Other fees'; and
- (3) (a) if there are no fees to be itemised in accordance with (1), the sub-heading must be retained and a statement must be included stating that no fees apply; and
- (b) if there are no fees to be itemised in accordance with (2), then the sub-heading must be retained and only the text in ■ MCOB 5.6.66 R(2) applies.

5.6.70

R

- (1) a description of the fee;
 - (2) the amount payable by the *customer* recorded in a column headed 'Fee amount' on the right-hand side of this section;
 - (3) for fees included under the sub-heading 'Other fees', to whom the fee is payable;
 - (4) when the fee is payable;
 - (5) whether or not the fee is refundable, and if so, the extent to which it is refundable; and
 - (6) which fees (if any) are estimated in accordance with ■ MCOB 5.6.35 R(2) and based on representative information; and
 - (7) if any fee is payable after the start of the *regulated mortgage contract* and subject to change in the future, for example a fee payable on final repayment of the *regulated mortgage contract*, the amount of that fee, along with a statement that this is the 'current fee'.
- (1) If a *higher lending charge* is payable by the *customer*, the following text must be used to describe such a charge for the purposes of ■ MCOB 5.6.69 R: 'A higher lending charge is payable because you are borrowing [insert the ratio of the mortgage amount (from ■ MCOB 5.6.6 R(2)) to the property's price or value (from ■ MCOB 5.6.6 R(3))] of the property's [estimated] [price/value].'
- (2) If the *customer* has asked for any fees to be added to the loan, this must be stated alongside each fee.
- (3) If the *customer* has the option of adding to the loan amount any of the fees included in this section, the following text must be included: 'If you wish you can add [this/these/the {type of fee}] fee(s) to the mortgage. This would increase the amount you borrow to [insert amount of the mortgage with the fee(s) included] and would increase the payments shown in Section 6. If you want to do this, you should ask for another illustration that shows the effect of this on your [insert frequency of payments from ■ MCOB 5.6.40 R] payments.'

(4) Any fees that are estimated based on representative information in accordance with ■ MCOB 5.6.35 R(2) must include an appropriate explanation of what the fee represents. For example, if this section includes an estimated fee for the legal work that a *customer* might be charged by his conveyancer for carrying out work on behalf of the *mortgage lender*, the *illustration* must explain that the fee is estimated, and that it only covers part of the costs of legal work that the *customer* might need to pay.

5.6.71 G 'Other fees' will include any fee charged by a *mortgage intermediary*, or another third party, for advising on or *arranging a regulated mortgage contract* but not commission or *procuration fees* (which are dealt with in Section 13 of the *illustration*).

5.6.72 R A *mortgage lender* must provide a *tariff of charges* to the *customer*, if the *customer* so requests.

Section 9: 'Insurance'

5.6.73 R (1) Under the section heading 'Insurance' the *illustration* must include details of:

- (a) insurance which is a *tied product*; and
- (b) insurance which is required as a condition of the *regulated mortgage contract* which is not a *tied product*.

(2) A *firm* may also provide details of insurance which it is optional for the *customer* to take out under this section heading.

(3) It must be clear to the *customer* which products he is required to purchase under which circumstances (for example, where both a *tied product* and a *mortgage intermediary* are involved, whether the policy must be purchased from the *mortgage lender* or the *mortgage intermediary*).

5.6.74 R Under the sub-heading 'Insurance you must take out through [insert name of *mortgage lender* or where relevant the name of the *mortgage intermediary*, or both]' the following information must be included if the *regulated mortgage contract* requires the *customer* to take out insurance that is a *tied product* either through the *mortgage lender* or where relevant the *mortgage intermediary*:

- (1) details of which insurance is a *tied product*;
- (2) for how long the *customer* is obliged to purchase the insurance;
- (3) an accurate quotation or a reasonable estimate of any payments the *customer* needs to make for the insurance;
- (4) where a quotation is provided for insurance in accordance with (3) on the basis of an estimated sum insured, because the actual required sum insured is unknown, the fact that it is estimated should be stated along with confirmation of the level of cover that has been assumed;

- (5) details of when the *customer's* payments for such insurance change, for example, if premiums are reviewed annually; and
 - (6) where a quotation is not provided in accordance with (3) a statement of when and how a quotation will be provided (for example, separately and as soon as possible).
- 5.6.75 **G** *Firms* are reminded that **MCOB 5.4.23 R** requires a *firm* to provide a *customer* with an accurate quotation for any *tied products*. Where the level of cover the *firm* requires the *customer* to take up is known at the outset, then the quotation should reflect that level of cover.
- 5.6.76 **R** If the *regulated mortgage contract* does not require the *customer* to take out insurance as a *tied product*, the sub-heading 'Insurance you must take out through [insert the name of the *mortgage lender*, and where relevant the name of the *mortgage intermediary*]' must be retained and a statement must be provided under this heading that the *customer* is not obliged to take out any insurance through the *mortgage lender* or, where relevant, the *mortgage intermediary*.
- 5.6.77 **R** The following information must be included under the sub-heading 'Insurance you must take out as a condition of this mortgage but that you do not have to take out through [insert the name of the *mortgage lender*, or where relevant the name of the *mortgage intermediary*, or both]':
- (1) if the *regulated mortgage contract* requires the *customer* to take out an insurance policy (other than that which is a *tied product* which the *customer* is obliged to purchase through the *mortgage lender*, or where relevant the *mortgage intermediary*), a brief statement of the type of insurance the *firm* requires; a quotation for the insurance that the *firm* issuing the *illustration* wishes to promote to the *customer* may be included in the *illustration* (estimated where necessary);
 - (2) if the *mortgage lender* or the *mortgage intermediary* makes a charge in cases where the *customer* does not arrange insurance that is a condition of the *regulated mortgage contract* through the *mortgage lender* or the *mortgage intermediary*, this must be stated, together with the amount of the charge and the frequency with which this charge is payable; and
 - (3) if no insurance policies are required (other than that which is a *tied product*), the sub-heading 'Insurance you must take out as a condition of this mortgage but that you do not have to take out through [insert name(s) of *mortgage lender* and, where relevant the *mortgage intermediary*]' must be retained in the *illustration* and a statement must be provided under this heading that no such insurance is required.
- 5.6.78 **G** Under the sub-heading 'Insurance you must take out as a condition of this mortgage but that you do not have to take out through [insert name of *mortgage lender* or where relevant the name of the *mortgage intermediary*, or both]' the *illustration* should not include any insurance policy that may be taken out by a *mortgage lender* itself to protect its own interests rather than

- the *customer's* interests, for example, because of the ratio of the loan amount to the property value.
- 5.6.79** **G** If the cost of any insurance that the *mortgage lender* might take out to protect its own interests, because of the ratio of the loan amount to the property value, is passed on to the *customer*, it will be shown elsewhere in the *illustration*, for example, as a *higher lending charge* or in the interest rate charged.
- 5.6.80** **R** A *firm* may include in the *illustration*, under the sub-heading 'Optional insurance', quotations (estimated where necessary) for any insurance products (other than the insurance products covered elsewhere in the *illustration* in accordance with **■ MCOB 5.6.74 R** and **■ MCOB 5.6.77 R**) that the *firm* issuing the *illustration* wishes to promote to the *customer*.
- 5.6.81** **R** If no quotations are included in the *illustration* in accordance with **■ MCOB 5.6.80 R**, the sub-heading 'Optional insurance' must not be included in the *illustration*.
- 5.6.82** **R**
- (1) If any quotations for insurance are included in the *illustration* in accordance with **■ MCOB 5.6.74 R(3)**, **■ MCOB 5.6.77 R(1)** or **■ MCOB 5.6.80 R**, the *illustration*:
 - (a) must include a brief description only of the type of insurance (full details of the insurance cover may however be provided separately); and
 - (b)
 - (i) must include the total price to be paid by the *customer* in a column on the right hand side of the *illustration* under the heading '[insert frequency of payments quoted] payments'; and
 - (ii) may refer the *customer* to the individual insurance product disclosure documentation.
 - (2) If the *customer* has asked to add any insurance premiums or insurance-related charges to the amount borrowed in accordance with **■ MCOB 5.6.18 R(3)**, the *illustration* must state that this is the case.
- 5.6.83** **G** The terms on which an insurance premium has been calculated should be presented to the *customer* in the format determined by the relevant regulatory requirements.
- Section 10: 'What happens if you do not want this mortgage any more?'**
- 5.6.84** **R** Under the heading 'What happens if you do not want this mortgage any more?', the *illustration* must include the following information on the *regulated mortgage contract*:
- (1) under the sub-heading 'Early repayment charges':
 - (a) an explanation that the *customer* cannot repay the *regulated mortgage contract* early, if this is the case;

- (b) an explanation of whether *early repayment charges* are payable;
 - (c) an explanation of when *early repayment charges* are payable;
 - (d) an explanation of any other fees that are payable if the *regulated mortgage contract* is repaid early, and the current level of these fees;
 - (e) a basic explanation of the basis on which *early repayment charges* are calculated (for example, as a percentage of the loan or as so many months' interest), including where appropriate details of any *cashback* or other incentives that must be repaid. The *illustration* may refer to a separate document for full details of all terms and conditions relating to the charges that apply if the *regulated mortgage contract* is repaid early;
 - (f) example cash amounts of any *early repayment charges* indicating the range of charges that apply over the period during which such charges apply calculated in accordance with ■ MCOB 5.6.88 R, which must be described in the *illustration* as cash examples;
 - (g) the maximum *early repayment charge* that the *customer* could be charged in accordance with ■ MCOB 12.3 (Early repayment charges), plus the cost of any other fees, which must be shown as cash amounts and described in the *illustration* as 'the maximum charge you could pay' [add if applicable, 'plus (a) fee(s) which (is/ are) currently £x']; and
- (2) under the sub-heading 'What happens if you move house?': details of whether or not the *regulated mortgage contract* is portable on moving house and a brief explanation of any conditions or restrictions that apply including whether there are any restrictions on changing the terms of the *regulated mortgage contract* during the period in which any *early repayment charges* apply (a reference to another document may be made in order to provide the *customer* with further details of the conditions or restrictions).

5.6.85 G The requirements in ■ MCOB 5.6.84 R(1) may be presented in a tabular format.

5.6.86 R Where ■ MCOB 5.6.84 R(1)(f) would result in more than three cash amounts being shown in the *illustration*, the cash amounts shown in the *illustration* may be restricted to three examples. These examples must be representative of the full range of charges that apply and not be limited to the lowest charges that apply. These three examples are in addition to:

- (1) any statement of the amount of any fees described in ■ MCOB 5.6.84 R(1)(d); and
- (2) the maximum *early repayment charge* required by ■ MCOB 5.6.84 R(1)(g).

5.6.87 G An example which would comply with ■ MCOB 5.6.86 R would be if a five year fixed rate mortgage had a charge which reduced linearly by 1% each year from 5% in the first year to 1% in the final year and cash examples were used based on 5% in year 1, 3% in year 3 and 1% in year 5.

- 5.6.88** **R**
- (1) In calculating example cash amounts in accordance with ■ MCOB 5.6.84 R(1)(f), it must be assumed that:
 - (a) the *regulated mortgage contract* is repaid in full;
 - (b) unless the original amount borrowed is used, that all payments due on the *regulated mortgage contract* are actually paid;
 - (c) additional fees and charges such as insurance premiums have been paid; and
 - (d) no underpayments or overpayments have been made.
 - (2) If:
 - (a) *cashbacks* or other incentives need to be repaid; or
 - (b) fees need to be paid;
 the amounts that would need to be repaid or paid must be included in the example cash amounts.
 - (3) Where the calculation of the *early repayment charge* is based on the interest rate charged on the *regulated mortgage contract* or on interest rates generally, the interest rates used for the calculation of the example cash amounts must be those in force at the date that the *illustration* is issued to the *customer*.
 - (4) The example cash amounts must reflect the maximum charge in a particular year. Where it is possible to state exact *early repayment charges* (that is, where all such charges are based on the original amount borrowed), the *illustration* must do so.

5.6.89 **R** Where the cash examples from ■ MCOB 5.6.88 R included in the *illustration* would vary either if the interest rate charged on the *regulated mortgage contract* changed or with changes in interest rates generally, an appropriate warning that the *early repayment charges* may vary from the cash examples must be included in the *illustration*.

Section 11: 'What happens if you want to make overpayments?'

- 5.6.90** **R**
- (1) Under the section heading 'What happens if you want to make overpayments?', the *illustration* must include details of any restrictions on lump sum and regular overpayments on the *regulated mortgage contract*, together with a statement as to whether or not the amount on which the interest charged is recalculated is reduced immediately on receipt of any lump sum or regular overpayment.
 - (2) Where such recalculation does not take place immediately (for example, if an annual rest method is used), then this statement must be accompanied by an explanation of when the amount on which the interest charged is recalculated is reduced following a lump sum or regular overpayment.
 - (3) Where *early repayment charges* apply, this section must not repeat the details provided in Section 10 of the *illustration*, but may refer to Section 10.

5.6.91 G Where the interest recalculation described in ■ MCOB 5.6.90 R takes place immediately, *firms* may add a statement in this section explaining that the *customer* will get the benefit of the overpayment immediately, and *firms* may refer to supplementary information to illustrate further, the benefits of making regular overpayments.

Section 12: 'Additional features'

5.6.92 R Under the section heading 'Additional features' the *illustration* must include, where relevant, details of any additional features or facilities under the various sub-headings in ■ MCOB 5.6.94 R.

5.6.93 R

- (1) If none of the features at ■ MCOB 5.6.94 R are applicable to the *regulated mortgage contract* to which the *illustration* relates, the section headed 'Additional features' must be retained, but the sub-headings must not be included and a statement must be added to explain that there are no additional features.
- (2) Only those features available on the *regulated mortgage contract* need be included in the *illustration*.
- (3) If a *firm* provides a *customer* with supplementary information about any additional features or facilities over and above the information required under ■ MCOB 5.6.92 R to ■ MCOB 5.6.112 G, the *firm* may include a reference to that supplementary information in Section 12.

5.6.94 R The relevant sub-headings are as follows:

- (1) 'Underpayments';
- (2) 'Payment holidays';
- (3) 'Borrow back';
- (4) 'Incentives';
- (5) 'Additional borrowing available without further approval';
- (6) 'Additional secured borrowing';
- (7) 'Credit card';
- (8) 'Unsecured borrowing';
- (9) 'Linked current account'; and
- (10) 'Linked savings account'.

5.6.95 R Under the sub-heading 'Underpayments', the *illustration* must include details of circumstances in which the *customer* can make underpayments and a brief statement of any conditions that apply.

- p>5.6.96
- R**
- Under the sub-heading 'Payment holidays', the
- illustration*
- must include details of circumstances in which the
- customer*
- can take
- payment holidays*
- and a brief statement of any conditions that apply.
p>5.6.97
- R**
- Under the sub-heading 'Borrow back', the
- illustration*
- must include details of circumstances in which the
- customer*
- can
- borrow back*
- any monies overpaid and a brief statement of any conditions that apply.
p>5.6.98
- R**
- Under the sub-heading 'Incentives', the
- illustration*
- must include:
- (1) any incentives including *cashbacks*; and
 - (2) if a *cashback* is provided, the amount of the *cashback* and details of when it is paid to the *customer*.
- p>5.6.99
- R**
- Under the sub-heading 'Additional borrowing available without further approval', the
- illustration*
- must provide details of circumstances in which there are any
- linked borrowing*
- facilities that would allow the
- customer*
- to increase the amount of the loan on which the
- illustration*
- is based without any further approval from the
- mortgage lender*
- (for example, if there are additional drawdown facilities).
p>5.6.100
- R**
- Under the sub-heading 'Additional secured borrowing', the
- illustration*
- must provide details of circumstances in which additional
- secured lending*
- is offered with the
- regulated mortgage contract*
- that would allow the
- customer*
- , subject to certain conditions, to increase the amount of the loan on which the
- illustration*
- is based.
p>5.6.101
- R**
- Under the sub-heading 'Unsecured borrowing', the
- illustration*
- must provide details of circumstances in which
- unsecured lending*
- is offered with the
- regulated mortgage contract*
- that would allow the
- customer*
- to increase the amount of the loan on which the
- illustration*
- is based.
p>5.6.102
- R**
- Under the sub-heading 'Credit card', the
- illustration*
- must:
- (1) state if a credit card is offered with the regulated mortgage contract; and
 - (2) if a credit card is offered and it is a *mortgage credit card*:
 - (a) unless (b) applies, include the following text: 'This card will not give you a number of the statutory rights associated with traditional credit cards. Your mortgage offer will tell you more about the differences.'; or
 - (b) where the *mortgage lender* provides the *customer* with contractual rights in relation to a *mortgage credit card* equal to or greater than the rights that the *customer* would have under the Consumer Credit Act 1974 and *CONC* if the card were issued under a *regulated credit agreement*, include the following text: 'This card will not give you a number of the statutory rights associated with traditional credit cards. However, [insert name of *mortgage lender*] will ensure that you will be treated no

differently from the user of a traditional credit card. Your mortgage offer will tell you more about this.'

5.6.103

R

Where any of the additional features under ■ MCOB 5.6.99 R to ■ MCOB 5.6.102 R inclusive apply, then the following must also be stated if the amount of additional borrowing that would be available to the *customer* is stated in the *illustration*:

- (1) the maximum additional amount available;
- (2) if the interest rate payable on any additional borrowing is different to the interest rate in Section 4 and Section 6 of the *illustration*, the interest rate and the *APR* charged on the additional borrowing. The *APR* must be calculated in accordance with ■ MCOB 10 (Annual Percentage Rate), based on the maximum amount of additional borrowing that would be permitted for the *customer* and the term of the loan from ■ MCOB 5.6.6 R(4);
- (3) the total resulting debt the *customer* could incur (including the original loan amount);
- (4) (where there is a regular payment plan) the payments on this total debt based on the frequency of payments in ■ MCOB 5.6.40 R and the current interest rate(s) applying on the date the *illustration* is issued;
- (5) whether this additional borrowing must be repaid in full if the original loan is repaid in full, along with details of any conditions that apply;
- (6) if *early repayment charges* apply to the additional amount borrowed:
 - (a) that *early repayment charges* are payable;
 - (b) an explanation of when *early repayment charges* are payable; and
 - (c) the maximum *early repayment charge* that the *customer* could be charged in accordance with ■ MCOB 12.3 (Early repayment charges) which must be shown as a cash amount; and
- (7) if it is the case, that the maximum amount of borrowing available, or the terms and conditions, may change depending on factors such as ratio of the loan amount to the property value.

5.6.104

R

Where more than one additional borrowing facility from ■ MCOB 5.6.99 R to ■ MCOB 5.6.102 R applies, the total debt and total payments due under all these *linked borrowing* facilities must be included under a separate subsection titled 'Total additional borrowing'.

5.6.105

G

The purpose of ■ MCOB 5.6.104 R is to show the total amount of any additional borrowing facilities that would be available to the *customer* and the cost of utilising these facilities. It must combine the amount available under any *linked borrowing* facilities including additional *secured lending*, credit cards and *unsecured lending*.

- 5.6.106** **R** (1) Where additional features are included in accordance with ■ **MCOB 5.6.92 R** and these are credit facilities that do not meet the definition of a *regulated mortgage contract* or a *regulated credit agreement*, the relevant parts of Section 12 of the *illustration* must include the following text:
- 'This additional feature is not regulated by the *FCA*'.
- (2) Where additional features are included in accordance with ■ **MCOB 5.6.92 R** and these are credit facilities that meet the definition of a *regulated credit agreement* regulated by the Consumer Credit Act 1974 and the *Act*, the relevant parts of Section 12 of the *illustration* must include the following text 'This additional feature is regulated under the Consumer Credit Act 1974 and the Financial Services and Markets Act 2000. You will receive a separate credit agreement with any offer document for this additional feature, describing the detailed terms on which this feature is available.'
- 5.6.107** **R** Where all or part of the maximum amount of additional borrowing is secured on the *customer's* home, a prominent warning must be included that additional borrowing increases the amount of credit secured on the *customer's* home.
- 5.6.108** **G** Suitable wording for the warning contained in ■ **MCOB 5.6.107 R** would be: 'This will increase the amount of borrowing secured on your home'.
- 5.6.109** **R** (1) Under the sub-heading 'Linked current account', the *illustration* must include the following information:
- (a) whether a linked current account is a compulsory or optional product (if the current account is a compulsory product this must also be stated in Section 4 of the *illustration* in accordance with ■ **MCOB 5.6.25 R(6)**);
 - (b) an explanation of the interest rates that apply under different circumstances to the linked current account, if different from the interest rate charged on the *regulated mortgage contract* (for example, if a different interest rate applies if the account is overdrawn); and
 - (c) the *firm* providing the linked current account if it is not the *mortgage lender*.
- (2) If an example to show the effect of the linked current account on the *regulated mortgage contract* is included in the *illustration*, it must be based on the actual or likely amount that the *customer* intends to pay into the linked current account on a regular basis and the actual or likely expenditure profile of the *customer* concerned.
- 5.6.110** **R** (1) Under the sub-heading 'Linked savings account', the *illustration* must include the following information:
- (a) whether a linked savings account is a compulsory or optional product (if the savings account is a compulsory product this must also be stated in Section 4 of the *illustration* in accordance with ■ **MCOB 5.6.25 R(6)**);

		<p>(b) the interest rate paid on the linked savings account if it differs from the interest rate charged on the <i>regulated mortgage contract</i>; and</p> <p>(c) the <i>firm</i> providing the linked savings account if it is not the <i>mortgage lender</i>.</p> <p>(2) If an example to show the effect of the linked savings account on the <i>regulated mortgage contract</i> is included in the <i>illustration</i>, it must be based on the actual or likely level of relevant savings for the <i>customer</i> concerned.</p>
5.6.111	G	<p>If an example is included in the <i>illustration</i> in accordance with ■ MCOB 5.6.109 R(2) or ■ MCOB 5.6.110 R(2), it must be based on information obtained from the <i>customer</i> and the amounts that are intended to be paid into the current or savings account on a regular basis; the amounts that it is intended are saved; and the actual or likely expenditure profile. The amounts involved and the expenditure profile should not be standard assumptions made by the <i>firm</i>, but should be those of the <i>customer</i> or the relevant person who would hold the accounts, or both, and be of a conservative nature. These assumptions should be stated in the <i>illustration</i>. For example, it should not be assumed that the <i>customer</i> will make lump sum payments unless he has indicated that he intends to do so, and in the case of linked current accounts it should not be assumed that the <i>customer</i> or person holding the account leaves monies in the current account at the end of each month unless he actually does so, or intends to do so. In this case, a conservative assumption might be that the <i>customer</i> spends all the money paid into his current account evenly over the month.</p>
5.6.112	G	<p>If a linked current account and a linked savings account are offered as part of the <i>regulated mortgage contract</i>, the examples in ■ MCOB 5.6.109 R(2) and ■ MCOB 5.6.110 R(2) can be combined into one example.</p>
		<p>Section 13: 'Using a mortgage intermediary'</p>
5.6.113	R	<p>Where the <i>illustration</i> is issued to a <i>customer</i> by, or on behalf of, a <i>mortgage intermediary</i>, Section 13 'Using a mortgage intermediary' must be included in the <i>illustration</i> and must include the following:</p> <p>(1) unless ■ MCOB 5.6.114 R applies, a clear statement of the amount payable (either directly or indirectly) by the <i>mortgage lender</i> to the <i>mortgage intermediary</i>, or to any third parties; and</p> <p>(2) the name of the <i>mortgage lender</i> who will make the payment, the name of the <i>mortgage intermediary</i> and the names of any third parties who will be paid.</p>
5.6.114	R	<p>If the amount payable by the <i>mortgage lender</i> to the <i>mortgage intermediary</i> and to third parties is £250 or less, the <i>mortgage intermediary</i> need only state that the amount of the payment is 'no more than £250', unless the <i>customer</i> requests the actual amount.</p>
5.6.115	R	<p>If the <i>mortgage intermediary</i> will pass to the <i>customer</i> all or part of the amount payable to the <i>mortgage intermediary</i> under ■ MCOB 5.6.113 R(1) or</p>

		■ MCOB 5.6.114 R, that fact may be stated in this section, along with the amount payable to the <i>customer</i> .
5.6.116	R	If the <i>mortgage lender</i> will make no payment to the <i>mortgage intermediary</i> or any third party, this section may state that the <i>mortgage intermediary</i> will receive no payment.
5.6.117	R	<p>The amount payable in ■ MCOB 5.6.113 R(1) or ■ MCOB 5.6.114 R must include, but is not limited to:</p> <p>(1) any <i>procuration fee</i>; and</p> <p>(2) a cash value for any material non-cash inducements that the <i>mortgage lender</i> provides to a <i>mortgage intermediary</i> or third party, whether payable directly or indirectly.</p>
5.6.118	G	■ MCOB 2.3.7 R requires any material inducements provided by a <i>mortgage lender</i> , whether directly or indirectly, to a <i>mortgage intermediary</i> or third party (unless the payment only reflects the cost of outsourcing work relating to the processing of mortgage applications by a <i>firm</i> unconnected to the <i>mortgage intermediary</i>) to be quantified in cash terms, which will enable the cash values to be included in the <i>illustration</i> in accordance with ■ MCOB 5.6.117 R.
5.6.119	G	An example of a statement which would comply with ■ MCOB 5.6.113 R and ■ MCOB 5.6.117 R would be: '[name of <i>mortgage lender</i>] will pay [name of <i>mortgage intermediary</i>] an amount of £350 in cash and benefits if you take out this mortgage.'
		Section 14: 'Where can you get more information about mortgages?'
5.6.120	R	This section must be renumbered Section 13 if the <i>illustration</i> is not provided by, or on behalf of, a <i>mortgage intermediary</i> .
5.6.121	R	Under the section heading 'Where can you get more information about mortgages?', the prescribed text under this heading in ■ MCOB 5 Annex 1 must be included.
		Contact details
5.6.122	R	This section must follow the section 'Where can you get further information about mortgages?' and must include the name, address and contact point of the <i>firm</i> providing the <i>illustration</i> .
5.6.123	G	An example of wording which would comply with ■ MCOB 5.6.122 R would be: 'If you wish to discuss this mortgage illustration please contact [name of <i>firm</i>] at [address] or on [telephone number]'.

Risk warning

5.6.124

R

- (1) The following words must be prominently displayed in the *illustration*, after the contact details: 'Your home may be repossessed if you do not keep up repayments on your mortgage'.
- (2) If the loan may be secured on property which is not the *customer's* home the statement in (1) may be amended but only to the extent necessary in order to reflect that fact.

5.6.125

G

[deleted]

Amortisation table

5.6.126

G

- (1) An amortisation table may be added to the end of the *illustration* after the information required by **MCOB 5.6.124 R** if the *mortgage lender* or *mortgage intermediary* wishes. A *firm* may find that this is particularly appropriate to illustrate certain types of *regulated mortgage contract*, for example, a *regulated mortgage contract* with more than one part.
- (2) The purpose of (1) is to permit a *firm* to add an amortisation table in accordance with the European Commission's 'Recommendation of 1 March 2001 on pre-contractual information to be given to consumers by lenders offering home loans' (C(2001) 477 final).

Foreign currency mortgages

5.6.127

R

If the *customer's* liability under a *regulated mortgage contract* is in a currency other than sterling, **MCOB 5.6** applies to the *illustration* for that *regulated mortgage contract* with the following amendments:

- (1) all cash amounts must be given in the relevant currency except where otherwise required in (2)(a) and (3);
- (2) the following information must be stated under Section 4 'Description of this mortgage':
 - (a) the amount in sterling on which the *illustration* is based from **MCOB 5.6.6 R(2)** based on the exchange rate in (2)(b);
 - (b) the exchange rate used; and
 - (c) when the exchange rate quoted applied;
- (3) the following text must be added at the end of Section 4 'Description of this mortgage': 'This illustration is based on the sterling equivalent of [insert details from (2)(a)] based on [insert details from (2)(b)] as at [insert details from (2)(c)]. Exchange rates can vary significantly. The effect of a 5% decrease in the value of sterling to the [insert name of relevant currency] would increase your total borrowing to [insert amount to which the amount borrowed from **MCOB 5.6.6 R(2)** would increase in sterling]. This would increase your [insert frequency of payments from **MCOB 5.6.40 R**] payments by the sterling equivalent of £[insert amount in sterling]. The following information must be added to this text:

- (a) the cash amount to which the amount borrowed would increase in sterling if there was a decline of 5% in the value of sterling when compared to the relevant currency; and
- (b) the amount by which (2)(b) would increase the *customer's* payments based on the frequency of payments from
 - MCOB 5.6.40 R, shown as a sterling equivalent cash amount.

Risk warning

5.6.128 R The text at ■ MCOB 5.6.124 R must be immediately followed by the following additional text, prominently displayed : 'Changes in the exchange rate may increase the sterling equivalent of your debt.'

5.6.129 R

5.6.130 G

Risk warning

5.6.131 R

Deferred interest rate mortgages

5.6.132 R If the interest rate charged on the *regulated mortgage contract* is deferred, ■ MCOB 5.6 applies with the following additions:

- (1) A section headed: 'Effect of deferring interest on the amount you owe' must be included in the *illustration* after Section 6.
- (2) This section must be numbered 6a so that the numbering follows on consecutively from the preceding section unless ■ MCOB 5.6.55 R applies in which case it should be numbered 6b.
- (3) Under the section heading the following text must be included: 'This table shows the effect of the deferred interest being added to the amount you owe'; and if the interest rate is variable: 'The amounts shown in this table could be considerably different if the interest rate changes.'
- (4) Under the text in (3), a table must be included showing each year or part year that the interest rate charged on the *regulated mortgage contract* is deferred, in the format set out in ■ MCOB 5 Annex 1 and containing the following information in the columns under the following headings:
 - (a) 'Year': This must list the years as 1, 2, 3 and so on for each year or part year that the interest charged on the *regulated mortgage contract* is deferred. Where the interest rate charged on the *regulated mortgage contract* changes at a particular date rather than annually, the table may be adapted to accommodate this (for example, by including details of more than one interest rate each year).

- (b) 'Interest deferred': This must show the percentage of interest deferred based on the rates charged on the *regulated mortgage contract* at the date the *illustration* is issued.
- (c) 'Amount of deferred interest added to the mortgage': This must show the cumulative amount that is added to the loan as a cash amount as a result of deferring the payment of interest.
- (d) 'Remaining debt before deferred interest is added': This must show the amount of loan outstanding on the *regulated mortgage contract* before any deferred interest is added.
- (e) 'Remaining debt with deferred interest added': This must show the amounts from (4)(c) and (4)(d) added together.

Alternative requirements for loans without a term or a regular repayment plan Section 6: 'What you will need to pay each [insert frequency of payments from MCOB 5.6.40R]'

- 5.6.133 R ■ MCOB 5.6.134 R to ■ MCOB 5.6.138 G apply only to loans without a term or regular payment plan where some or all of the interest rolls up, for example *bridging loans*, secured overdrafts or *mortgage credit cards*.
- 5.6.134 R The heading for Section 6 of the *illustration* and the heading of the column on the right-hand side of this section must state the frequency with which payments must be made by the *customer*. (For example, if payments were to be made on a monthly basis, the heading for this section would be 'What you will need to pay each month' and the column would be headed 'Monthly payments'). Where no regular payments are required on the *regulated mortgage contract*, for example where all interest is rolled-up on a *bridging loan*, then this section must be retained and the frequency of payments assumed must be 'monthly'.
- 5.6.135 R All the payments in Section 6 of the *illustration* must be calculated based on the frequency used for the purposes of the headings in ■ MCOB 5.6.40 R and must be shown in the column on the right-hand side of this section. If no payments are required, for example on a *bridging loan* or secured overdraft, then this column should be marked on the *illustration* as nil.
- 5.6.136 R Section 6 of the *illustration* must contain the following information:
 - (1) the loan amount on which the *illustration* is based. Where fees are being added to the loan then this figure should include all fees, charges and insurance premiums that have been added to the loan in accordance with ■ MCOB 5.6.18 R(2) and ■ MCOB 5.6.18 R(3), and the following text must follow the loan amount:'and include[s] the fees [and insurance premiums] that are shown in Section 8 [and Section 9] as being added to your mortgage.';
 - (2) the assumed start date that has been used in the *illustration* must be stated using the following text:'This illustration assumes that the mortgage will start on [insert assumed start date].';
 - (3) where no payments are required (or no payments are allowed), for example a *bridging loan* or secured overdraft, then section 6 of the

illustration should state if no payments are required or no payments can be made; or

- (4) where a minimum payment is required, for example on a *mortgage credit card*:
 - (a) a statement that a minimum payment will be required;
 - (b) an explanation of the basis on which this has been calculated, for example a percentage of the loan amount;
 - (c) if this monthly payment is insufficient on its own to repay the *regulated mortgage contract* over the term specified, the following text: 'This payment will not be sufficient to repay the mortgage over the term specified'; and
 - (d) the amount that the *customer* must pay, recorded in the right-hand column of this section.

5.6.137 G An example of the statement required by ■ MCOB 5.6.136 R(3) would be: 'You [do not need to/cannot] make regular payments on this mortgage.'

5.6.138 G An example of ■ MCOB 5.6.136 R(4) would be: 'You need to make minimum payments as follows: 3% of the amount outstanding £x.xx This payment will not be sufficient to repay the mortgage over the term specified.'

Section 7: 'Are you comfortable with the risks?'

5.6.139 R ■ MCOB 5.6.140 R to ■ MCOB 5.6.145 R apply only to loans without a term or regular payment plan where some or all of the interest rolls up, for example *bridging loans*, secured overdrafts or *mortgage credit cards*.

5.6.140 R Under the section heading 'Are you comfortable with the risks?':

- (1) under the sub-heading 'What if interest rates go up?' the *illustration* must include the following:
 - (a) if the interest rate is fixed throughout the term of the *regulated mortgage contract*, an explanation that the interest rate will not vary because the interest rate is fixed;
 - (b) if the interest rate is fixed for part of the term of the *regulated mortgage contract*, an explanation of when or how increases in the interest rate charged on the *regulated mortgage contract* affect the amount the *customer* must pay back;
 - (c) if the interest rate cannot go above or below a certain level, or both, throughout the term of the *regulated mortgage contract*, an explanation that this is the case;
 - (d) if the interest rate cannot go above or below a certain level for part of the term of the *regulated mortgage contract*, an explanation that this is the case and of when or how increases in the interest rate charged on the *regulated mortgage contract* affect the amount the *customer* must pay back;
 - (e) except where (2)(a) or (2)(b) apply, Section 7 of the *illustration* must include the following text: 'The total amount you must pay back shown in this illustration could be considerably different if

interest rates change. For example, for one percentage point increase in [describe the interest rate that applies], the total amount you must pay back will increase by around £[insert amount by which the *total amount payable* will increase].'

- (2) paragraph (1)(e) does not apply:
 - (a) where the interest rate is fixed throughout the term of the *regulated mortgage contract*; or
 - (b) where the difference between the interest rate included in the *illustration* in accordance with ■ MCOB 5.6.25 R(2) and the maximum interest rate that can be charged on the *regulated mortgage contract* is less than one percentage point.
- (3) under the sub-heading 'What if your income goes down?': 'You will still have to pay your mortgage if you lose your job or if illness prevents you from working. Think about whether you could do this.'

5.6.141 **R** The amount by which the *total amount payable* would increase in accordance with ■ MCOB 5.6.140 R(1)(e) must be calculated as follows:

- (1) unless the total amount borrowed is used, it must be assumed that all payments due on the *regulated mortgage contract* have actually been paid, all additional fees and payments due have been paid, and no under or overpayments have been made;
- (2) unless the total amount borrowed is used, the calculation must be based on the amount of the loan outstanding from the earliest point at which the interest rate charged on the *regulated mortgage contract* can vary; for example, if the *regulated mortgage contract* has an initial fixed interest rate, this will be from the point at which the fixed interest rate ends;
- (3) the interest rate from which the increase is calculated must be the variable interest rate charged on the *regulated mortgage contract* at the date that the *illustration* is issued (that is, the variable interest rate quoted in Section 4 of the *illustration*); where the variable interest rate changes after a set period or on a set date, it must be based on the initial variable interest rate charged on the *regulated mortgage contract* at the date the *illustration* is issued. (For example, if the initial interest rate is discounted, it must be based on the discounted rate.)

Risk warning.....

5.6.142 **R** Unless ■ MCOB 5.6.140 R(2)(a) or (b) applies, the following words must be prominently displayed at the end of the sub-section 'What if interest rates go up?': 'Rates may increase by much more than this so make sure you can afford this loan.'

5.6.143 **R** The following words must be prominently displayed at the end of the sub-section 'What if your income goes down?': 'Make sure you can afford your mortgage if your income falls'.

5.6.144 **G** [deleted]

5.6.145 **R** The following text must be included at the end of Section 7 'Are you comfortable with the risks?': 'The *MoneyHelper* information sheet "You can afford your mortgage now, but what if...?" will help you consider the risks. You can get a free copy from <https://www.moneyhelper.org.uk> or by calling 0800 138 7777.'