Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the powers listed in Schedule 4 to the Mortgages: Conduct of Business sourcebook.

B. The rule-making powers listed in that Schedule are specified for the purpose of section 153(2) (Rule-making instruments) of the Financial Services and Markets Act 2000.

Commencement

C. This instrument comes into force on 31 October 2004.

Amendments to the Mortgages: Conduct of Business sourcebook

D. The Mortgages: Conduct of Business sourcebook is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Mortgages: Conduct of Business Sourcebook (Amendment No 2) Instrument 2004.

By order of the Board
16 September 2004
### MCOB Transitional Provisions

<table>
<thead>
<tr>
<th>(1)</th>
<th>(2)</th>
<th>(3)</th>
<th>(5)</th>
<th>(6)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Material to which the transitional provision applies</td>
<td>Transitional provision</td>
<td>Transitional provision: dates in force</td>
<td>Handbook provision: coming into force</td>
</tr>
<tr>
<td>...</td>
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</tr>
</tbody>
</table>
| 6   | *MCOB 3.6* | R   | (1) Providing it does not state or imply that protections under the Consumer Credit Act 1974 apply, a *non-real time qualifying credit promotion* communicated:  
(a) in a directory (or similar publication) that is updated annually;  
(b) otherwise than in (a);  
on or after 31 October 2004 that was first communicated where the deadline for submission for communication was before that date will be in compliance with the rules in *MCOB 3.6* if it satisfies the | (1)(a) From the later of 31 October 2004 or the date of first communication, for one year;  
(1)(b) From 31 October 2004 until 31 January 2005. | 31 October 2004 |
advertising requirements under the Consumer Credit Act 1974.

…

…

8 R A reference to:

(a) an initial disclosure document in MCOB 4 Ann 1R or MCOB 8 Ann 1R; or

(b) an illustration in MCOB 5 Ann 1R or MCOB 9 Ann 1R;

includes an initial disclosure document or illustration which complies with the rules in the Mortgages: Conduct of Business Sourcebook Instrument 2003, as amended by the Mortgages: Conduct of Business Sourcebook (Amendment) Instrument 2004. From 31 October 2004 until 31 May 2005

31 October 2004

…

2.2.3R In any communication to a customer, a firm must:

…
describe any **regulated lifetime mortgage contract** as a 'lifetime mortgage' and not use any other expression to describe such a mortgage or omit that description from the name given to any product that meets the definition.

2.2.5G *Firms* are reminded that they should follow the relevant *rules* in COB 5 and COB 6 relating to advice and disclosure on investments if they are advising the customer on an investment (such as an ISA) such as an annuity linked to a **regulated lifetime mortgage contract** or an ISA used as a repayment vehicle.

2.3.6R (1) A *firm* must not operate a system of giving or offering inducements to a mortgage intermediary or any other third party whereby the value of the inducement increases if the mortgage intermediary or third party, such as a packager, exceeds a target set for the amount of business referred (for example, a volume override).

(2) A *firm* must not solicit or accept an inducement whereby the value of the inducement increases if the *firm* exceeds a target set for the amount of business referred.

2.7.5R A *firm* must ensure that information provided to a retail customer before the conclusion of a distance contract about his contractual obligations under that contract conform with the contractual obligations that would be imposed on him under the law applying if the contract were concluded.

Unsolicited services

2.7.6R (1) A *firm* must not:

(a) supply a service to a retail customer without a prior request on his part, when this activity includes a request for immediate or deferred payment; or

(b) enforce any obligations against a retail customer in the event of unsolicited supplies of services, the absence of a reply not constituting consent.

(2) Paragraph (1) applies in relation to advising on, arranging or entering into a regulated mortgage contract under an organised distance sales or service-provision scheme run by the *firm* or by an intermediary, who, for the purpose of that supply, makes exclusive use of one or more *means of distance communication* up to and including the time at which the services are supplied.
3.6.9R A non-real time qualifying credit promotion must:

(1) describe any early repayment charge as an 'early repayment charge' and not use any other expression to describe such charges;

(2) describe any higher lending charge as a 'higher lending charge' and not use any other expression to describe such charges; and

(3) not contain the ‘key facts’ logo unless it is required by a rule; and

(4) describe any regulated lifetime mortgage contract as a 'lifetime mortgage' and not use any other expression to describe such a mortgage.

4.1.2R Table: This table belongs to MCOB 4.1.1R

<table>
<thead>
<tr>
<th>(1) Category of firm</th>
<th>(2) Applicable section</th>
</tr>
</thead>
<tbody>
<tr>
<td>mortgage lender</td>
<td>whole chapter except MCOB 4.56 and MCOB 4.67</td>
</tr>
<tr>
<td>...</td>
<td>...</td>
</tr>
</tbody>
</table>

4.1.5R In relation to a regulated lifetime mortgage contract or a home reversion scheme, this chapter MCOB 4 is replaced modified by MCOB 8 (Lifetime mortgages: advising and selling standards).

4.4.7R (2) Provided that the telephone call in (1) has not led the firm to conclude that the customer is ineligible for any of its regulated mortgage contracts, and that the customer has provided his contact details, the firm must send the customer a copy of the initial disclosure document required by MCOB 4.4.1R(4) in the form set out in MCOB 4 Ann 1R or MCOB 4 Ann 2R and any other information required to be provided, in a durable medium within five business days of the telephone call (see also MCOB 4.5.2R(2)(b) for the equivalent requirement in relation to distance mortgage mediation contracts).
4.5.2R If the initial contact of a kind in MCOB 4.4.1R(1) is with a retail customer with a view to concluding a distance mortgage mediation contract, a firm must:

(2) Exemption: telephone sales

(a) This exemption applies if the service is being provided on the telephone and the customer wishes to enter into a contract with the firm. Provided the customer gives explicit consent to receiving only limited disclosure information, the firm may, prior to the conclusion of the contract on the telephone, provide the customer with the following information in addition to the information in MCOB 4.4.7R(1):

(b) Where (a) or (aa) applies, the firm must send the retail customer without delay and, at the latest immediately after a contract is concluded, the information in MCOB 4 Ann 3R and any other information required to be provided in accordance with MCOB 4 required by (1), in a durable medium.

4.5.4R Subject to MCOB 4.5.5R, a firm must not:

(1) advise on, arrange, or enter into, a distance mortgage mediation contract with a retail customer, without a prior request on his part, when the supply of such service includes a request for immediate or deferred payment, or

(2) enforce any obligation against a retail customer in the event of unsolicited supplies of such services, the absence of a reply not constituting consent.

4.5.5R MCOB 4.5.4R does not apply for a tacit renewal of a distance contract.
4.9.1AG  *Firms* are reminded that in accordance with *MCOB 1.2.3R*, they should either comply in full with *MCOB* or comply with all tailored provisions in *MCOB* that relate to business loans. Therefore, a *firm* may only follow the tailored provisions in *MCOB 4.9* if it also follows all other tailored provisions in *MCOB*.

...  

4 Ann 1R  

Initial disclosure document ("IDD")

R  

1  Table:  

This Annex belongs to *MCOB MCOB 4.4.1R(1)*

...  

7  What to do if you have a complaint [Note 18]

...  

If you cannot settle your complaint with us, you may be entitled to refer it to the Financial Ombudsman Service. [Note 22A]

8  Are we covered by the Financial Services Compensation Scheme (FSCS)? [Note 18] [Note 23] [Note 24]

...  

The following notes do not form part of the IDD

...  

Note 9 - this sentence is required only where a *firm* selects this service option. It may also be omitted if the *firm* chooses to list all of the lenders it offers mortgages from instead of the text "a limited number of lenders", in the previous line, so long as the *firm* offers all of the mortgages generally available from each lender.

...  

Note 12 – if the *firm* receives commission instead of, or in addition to, *fees* from the *customer*, it must insert a plain language explanation of this (see specimen for a plain
language example). If the firm will pay over to the customer any commission the firm receives, it may refer to that fact here.

...

Note 14 - if, in section 4, it has been indicated that there will be ‘No fee’ or that any fee will be payable only if the mortgage completes, section 5 may be omitted altogether, and the following sections re-numbered accordingly.

...

Note 21 – insert a short, plain language description of the business for which the firm has permission in relation to regulated mortgage contracts.

...

Note 22A – if the IDD is provided by an authorised professional firm which is exclusively carrying on non-mainstream regulated activities, the authorised professional firm should delete this sentence and refer to the alternative complaints handling arrangements.

...

Note 24 - when a firm which is not a participant firm provides the IDD, it must answer this question 'No' and should state the amount of cover provided (if any) and from whom further information about the compensation arrangements may be obtained.

...

5.1.3R ...

(2) In relation to further advances and other variations, MCOB 5 is modified by MCOB 7 (Disclosure at start of contract and after sale) applies in place of MCOB 5, regardless of whether they are variations to an existing regulated mortgage contract, or are such that they involve the customer entering into a new regulated mortgage contract.

(3) In relation to a regulated lifetime mortgage contract, MCOB 5 is modified by MCOB 9 (Lifetime mortgages: product disclosure) applies in place of MCOB 5.

...

5.6.18R ...

(3) If the amount on which the illustration is based includes the amount that the customer wants to borrow plus insurance premiums or insurance-related charges (other than a higher lending charge or where the premium is repaid over a term of 12 months or less and no interest is charged on the premium) that have been added to the loan:

(a) except where (b) applies, this section must include the following text… "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 – see Section 9 for details.

(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 …: "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…, Section 3 of the illustration must include the following text after the loan amount from MCOB 5.6.6R(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 or payments that must be paid by the customer (that is, there are no fees to pay in Section 8), and no insurance premiums are being added to the loan, …

5.6.42R Section 6 of the illustration must contain the following information:

(2) the assumed start date that has been used in the illustration to estimate the number of payments to be charged at given interest rates must be stated using the following text: "This illustration assumes that the mortgage will start on [insert assumed start date]."

5.6.65R The following text must be included at the end of Section 7 'Are you comfortable with the risks?': "The FSA's information sheet 'You can afford your mortgage now, but what if...?' will help you consider the risks. You can get a free copy from www.fsa.gov.uk/consumer, or by calling 0845 606 1234 456 1555."

5.6.70R (2) If the customer has asked for any fees to be added to the loan, this should must be stated alongside each fee.
5.6.82R  

(2) If the customer has asked to add any insurance premiums or insurance-related charges to the amount borrowed in accordance with MCOB 5.6.18R(3), the illustration must state that this is the case:

(a) the insurance premiums must be included in Section 3; and

(b) the following text must be used in Section 9:

"The annual insurance premium will be added to your mortgage account and increase the amount you owe. You can pay this premium in full by [insert details of the period of time that the customer will have to pay the premium in full before interest is charged on the insurance premium e.g. 'by the end of the month in which the regulated mortgage contract starts'] at no extra cost, otherwise interest will be charged at [insert details of the applicable interest rate e.g. 'the same rate as your mortgage' or 'the standard variable rate which is currently x%'] ."

...

5.6.129R If the regulated mortgage contract is a shared appreciation mortgage, MCOB 5.6 applies to the illustration with the following amendments:

(1) Section 4 'Description of this mortgage' must contain the following additional information and text in this order after the details required by MCOB 5.6.25R to MCOB 5.6.29R:

... 

(f) include this text after the cash examples in (c) (or, if applicable, after the cash examples in (d) or (e)): "This is not an indication of how the actual value of your property may change.",

...

5.6.145R The following text must be included at the end of Section 7 'Are you comfortable with the risks?': "The FSA's information sheet 'You can afford your mortgage now, but what if...?' will help you consider the risks. You can get a free copy from www.fsa.gov.uk/consumer, or by calling 0845 606 1234 456 1555."

...

5.7.1AG Firms are reminded that, in accordance with MCOB 1.2.3R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB
that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 5.7 if it also follows all other tailored provisions in MCOB.

5 Ann 1R

The illustration: table of contents, prescribed text and prescribed section headings and subheadings.

13. Using a mortgage intermediary

[...] Where can you get more information about mortgages?

The FSA publishes useful guides on choosing a mortgage. These are available free through its website www.fsa.gov.uk/consumer or by calling 0845 606 1234 456 1555. The website also provides Comparative Tables to help you shop around.

6.1.4R In relation to a regulated lifetime mortgage contract, this chapter, MCOB 6, is replaced modified by MCOB 9 (Lifetime mortgages: – product disclosure).

6.7.1AG Firms are reminded that in accordance with MCOB 1.2.3R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 6.7 if it also follows all other tailored provisions in MCOB.

7.1.8R In relation to a regulated lifetime mortgage contract, this chapter MCOB 7 is replaced modified by MCOB 9 (Lifetime mortgages: – product disclosure).

7.2.1G (2) Where a firm provides services to a customer in relation to a further advance, rate switch, or addition or removal of a party to the variation of a regulated mortgage contract, this chapter also requires that the
*customer* is provided with an *illustration* to make clear the price and features associated with that variation.

...  

**7.7.1AG**  
*Firms* are reminded that in accordance with *MCOB 1.2.3R*, they should either comply in full with *MCOB* or comply with all tailored provisions in *MCOB* that relate to business loans. Therefore, a *firm* may only follow the tailored provisions in *MCOB 7.7* if it also follows all other tailored provisions in *MCOB*.

**8.3.3R**  
Table  Table of modified cross-references to other rules:

<table>
<thead>
<tr>
<th>Subject</th>
<th>Rule or guidance</th>
<th>Reference in rule or guidance</th>
<th>To be read as a reference to:</th>
</tr>
</thead>
<tbody>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Initial disclosure requirements</td>
<td><em>MCOB 4.4.3G</em></td>
<td><em>MCOB 4</em></td>
<td><em>MCOB 4 as modified by MCOB 8</em></td>
</tr>
<tr>
<td>Initial disclosure requirements where initial contact is by telephone (for regulated lifetime mortgage contracts only)</td>
<td><em>MCOB 4.4.7R(2)</em></td>
<td><em>MCOB 4 Ann 1R</em></td>
<td><em>MCOB 8 Ann 1R</em></td>
</tr>
<tr>
<td>Additional disclosure for distance mortgage mediation contracts</td>
<td><em>MCOB 4.5</em></td>
<td><em>MCOB 4</em></td>
<td><em>MCOB 4 as modified by MCOB 8</em></td>
</tr>
<tr>
<td>...</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

8 Ann 1R  
Initial disclosure document ("IDD")
1 Table:

This annex belongs to MCOB 4.4.1R (as modified by MCOB 8) and MCOB 8.4.1R.


7 What to do if you have a complaint [Note 19]

If you cannot settle your complaint with us, you may be entitled to refer it to the Financial Ombudsman Service. [The Financial Ombudsman Service does not consider complaints about home reversion schemes]. [Note 3] [Note 23A]

8 Are we covered by the Financial Services Compensation Scheme (FSCS)? [Note 19] [Note 24] [Note 25]

The following notes do not form part of the IDD.

Note 10 - this sentence is required only where a firm selects this service option. It may also be omitted if the firm chooses to list all of the companies it offers products from instead of the text "a limited number of companies", in the previous line, so long as the firm offers all of the products generally available from each company.

Note 13 – if the firm receives commission instead of, or in addition to, fees from the customer, it must insert a plain language explanation of this (see specimen for a plain language example). If the firm will pay over to the customer any commission the firm receives, it may refer to that fact here.

Note 15 - if, in section 4, it has been indicated that there will be ‘No fee’ or that any fee will be payable only if the product completes, section 5 may be omitted altogether, and the following sections re-numbered accordingly.

Note 22 – insert a short, plain language description of the business for which the firm has permission in relation to regulated lifetime mortgage contracts.
Note 23A – if the IDD is provided by an authorised professional firm which is exclusively carrying on non-mainstream regulated activities, the authorised professional firm should delete this sentence and refer to the alternative complaints handling arrangements. It should also omit the information required under Note 3.

Note 25 - when a firm which is not a participant firm provides the IDD, it must answer this question 'No' and should state the amount of cover provided (if any) and from whom further information about the compensation arrangements may be obtained. It should also omit the information required under Note 3.

9.4.10R (1) In estimating a term under MCOB 9.4.6R(5) a firm must:

(a) use the following mortality table: the PA92 (male or female as appropriate) pensioners’ 1991-94 table amounts, projected forward to 2010 from the Continuous Mortality Investigation Reports 16 and 17, PMA92(C=2010) and PFA92(C=2010) for males and females respectively, derivable from the Continuous Mortality Investigation Report 17 published by the Institute of Actuaries and the Faculty of Actuaries in 1998 and 1999 respectively; and

9.4.21R …

(4) If the amount on which the illustration is based includes the amount that the customer wants to borrow plus insurance premiums or insurance-related charges (other than a higher lending charge or where the premium is repaid over a term of 12 months or less and no interest is charged on the premium) that have been added to the loan or amount to be drawn down:

(a) except where (b) applies, this section must include the following text… "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 [or amount drawn down] – see Section 12 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 … "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 [or amount drawn down]. These and
any additional insurance [premiums] [and] [charges] that you need to pay are shown in Section 12.".

(5) If the amount on which the illustration is based …, Section 4 of the illustration must include the following text after the loan amount from MCOB 9.4.13R(1): "No fees have been added to this amount but the fees you need to pay are shown in Section 11. For details of any insurance charges, see Section 12.".

(6) If the regulated lifetime mortgage contract on which the illustration is based has no charges of payments that must be paid by the customer (that is there are no fees to pay in Section 11), and no insurance premiums are being added to the loan, …

9.4.39R Section 8 of the illustration must contain the following information:

…

(2) the assumed start date that has been used in the illustration to estimate the number of payments to be charged at given interest rates must be stated using the following text: "This illustration assumes that the lifetime mortgage will start on [insert assumed start date].";

…

9.4.51R The table showing the projection in the section headed “Projection of roll-up of interest” should show annual details in columns under the following headings:

…

(4) "Interest charged at [insert percentage(s)] per year": this must be the interest charge for the year in question, …

…

9.4.69R …

(2) If the customer has asked for any fees to be added to the loan amount, this should must be stated alongside each fee.

9.4.81R …
(2) If the customer has asked to add any insurance premiums or insurance-related charges to the amount borrowed in accordance with MCOB 9.4.21R(4), the illustration must state that this is the case:

(a) the insurance premium(s) must be included in Section 4; and

(b) the following text must be used in Section 12:

"The annual insurance premium will be added to your lifetime mortgage account and increase the amount you owe. You can pay this premium in full by [insert details of the period of time that the customer will have to pay the premium in full before interest is charged on the insurance premium e.g. 'by the end of the month in which the lifetime mortgage starts'] at no extra cost, otherwise interest will be charged at [insert details of the applicable interest rate e.g. 'the same rate as your lifetime mortgage' or 'the standard variable rate which is currently x%']."

9.4.130R If the regulated lifetime mortgage contract is a shared appreciation mortgage, MCOB 9.4 applies to the illustration with the following modifications:

(1) Section 5 'Description of this mortgage' must contain the following additional information and text in this order after the details required by MCOB 9.4.24R to MCOB 9.4.29R:

(f) include this text after the cash examples in (c) (or, if applicable, after the cash examples in (d) or (e)): 'This is not an indication of how the actual value of your home may change.'
equity from your home in a booklet called 'Raising money from your home'. You can get this free through the FSA website www.fsa.gov.uk/consumer or by calling 0845 606 1234 456 1555.

12.3.4R Before:

... 

(3) changing all or part of a regulated mortgage contract from one type of interest rate to another; ...

...

12.6.2G Firms are also reminded that in accordance with MCOB 1.2.3R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans.

...

13.7.2G Firms are reminded that in accordance with MCOB 1.2.3R, they should either comply in full with MCOB or comply with all tailored provisions in MCOB that relate to business loans. Therefore, a firm may only follow the tailored provisions in MCOB 13.7, if it also follows all other tailored provisions in MCOB.