

# Mortgage Credit Directive (MCD) Information for Brokers

The Mortgage Credit Directive (MCD) is a new piece of legislation, providing a regulatory framework for mortgage activities, which all European Union (EU) countries must adhere to. The aim of MCD is to provide a consistent set of regulations right across the EU, designed to provide a high level of protection to consumers taking out credit agreements for residential property.

MCD will be implemented in the UK through a set of rules provided by the Financial Conduct Authority (FCA). The following summarises the key changes required and how we intend to meet the requirements prior to the deadline date of 21 March 2016.

The main changes you need to be aware of are as follows:

<b>KFI Plus/ESIS</b>	The Key Facts Illustration (KFI) will be replaced by the European Standardised Information Sheet (ESIS) and lenders must begin using the ESIS by 21 March 2019. In the interim period, a KFI Plus (or top-up) document can be used, containing new mandatory information covering the additional disclosures required, including the APR, information on the new reflection period and foreign currency loans where applicable.
<b>Our approach</b>	Newcastle Intermediaries will adopt the KFI Plus for the interim period and will move to ESIS prior to the deadline of 21 March 2019. All of the mandatory additional disclosures will be presented in the relevant section of the KFI Plus rather than a separate document.
<b>Annual Percentage Rate (APR) and Second APRs</b>	<p>We currently use the Annual Percentage Rate (APR) to allow customers to compare the overall costs of a credit agreement, however MCD will require us to provide a second APR, which will be calculated in a similar way.</p> <p>The first APR is based on the current interest rate, plus reversionary rate, unless the product is fixed for the duration of the loan. The second APR is for loans which have a variable interest rate at any point during the term of the loan and is an illustrative example of the cost of the loan based on the highest borrowing rate over the past 20 years; its aim is to highlight the impact of rate rises to the consumer. This 20 year high interest rate can either be based on a relevant external reference rate or the benchmark set by the FCA.</p>
<b>Our approach</b>	Newcastle Intermediaries will display both APR rates as part of the KFI Plus.
<b>Second Charge Lending</b>	Under MCD second charge lending will become regulated. Regulation of this will move from the FCA consumer regulations to the FCA mortgage regulations. This means any firm electing to advise on second charge mortgages must adopt the rules by 21 March 2016.
<b>Our approach</b>	At Newcastle Intermediaries we only undertake first charge lending and this will continue to be the case after 21 March 2016.

<p><b>Binding Offers</b></p>	<p>MCD requires lenders to issue a Binding Offer, which means that unless a material change in circumstances relating to the Offer occurs, or the customer has provided inaccurate information, the lender cannot re-underwrite the case.</p> <p>This means the Mortgage Offer will now become binding on the lender and your clients will be offered a minimum reflection period of seven days. The purpose of the reflection period is to give clients time to review their Offer, allowing them to make comparisons and properly assess the impact of taking out the mortgage. Communication between the parties can continue during the reflection period. The borrower can choose to waive this should they wish to proceed with their application before the end of the reflection period.</p>
<p><b>Our approach</b></p>	<p>Newcastle Intermediaries will continue to issue a Binding Offer, subject to conditions at the same stage as we currently do. We have updated our case tracking screen to advise you when your client's application has reached Binding Offer stage and we will also communicate this to you via email. Our Mortgage Offer will still be valid for three months for standard loans or six months for new build properties.</p> <p>We will also be providing your clients with a 10 day Right of Reflection period in which to consider the offer carefully. This is beyond the regulatory requirement of seven days. This is applicable from the point at which we issue the Binding Offer.</p> <p>If a customer wishes to waive their Right of Reflection before the 10 day period in order to complete their mortgage, they can contact us via telephone, email or post. In the case of a mortgage where a Conveyancer is acting on behalf of the customer, we will allow them to waive this right by returning the Certificate of Title/ Report on Title. Funds cannot be released until the 10 days have elapsed or a waiver has been received.</p>
<p><b>Foreign Currency Loan</b></p>	<p>MCD has introduced the concept of Foreign Currency Loans, which are defined as a mortgage where the borrowers' income (or repayment vehicle) is in a different currency to that which applies to the mortgaged property or a mortgage in a different currency to the EEA state in which a customer is resident.</p> <p>Under MCD there are additional requirements to identify this category of loan and introduce controls and warnings to highlight the currency fluctuation risk.</p>
<p><b>Our approach</b></p>	<p>Newcastle Intermediaries will not offer foreign currency loans to new or existing customers. All income used for affordability purposes must be paid in UK Sterling. In addition we will be unable to lend to any existing customer who chooses to make a variation to their mortgage which results in a new contract under MCD if they fall under the definition of a Foreign Currency Loan.</p>
<p><b>Consumer Buy to Let</b></p>	<p>MCD introduces a new category of Buy to Let lending known as Consumer Buy to Let (CBTL). These loans will be subject to the FCA supervisory regime but will not be regulated under MCOB.</p> <p>Any firms wanting to advise on, arrange, lend or administer CBTL mortgages from 21 March 2016 will need to have registered with the FCA to conduct CBTL business. This will be displayed on the FCA register.</p>
<p><b>Our approach</b></p>	<p>Newcastle Intermediaries will accept new business defined as 'Consumer Buy to Let'. Our application forms will be updated to identify customers who fall into this category rather than asking the intermediary to declare this. Where customers are defined as 'Investor BTL' we will require them to complete a declaration that confirms the mortgage is being taken out for business purposes.</p>

<b>Pipeline Arrangements</b>	<p>MCD does not provide transitional arrangements for firms to adopt MCD, however, the FCA has enabled firms to introduce MCD requirements in advance of the deadline of 21 March 2016. Such mortgages will be referred to as 'MCD Regulated Mortgage Contracts'.</p>
<b>Our approach</b>	<p>All new applications that are offered from 2 February 2016 will be compliant with MCD.</p> <p>Where an application that has been offered prior to 2 February 2016 requires an amendment, we will need to issue a new offer to ensure it is compliant with MCD. This will mean it will be binding and ensures customers are given the right of reflection and additional KFI Plus information prior to completing.</p>
<b>Removal of Transitional Arrangements</b>	<p>The MCD removes the transitional arrangements introduced by MMR, allowing borrowers to move to another lender with exceptions permitted to affordability and interest only rules.</p> <p>This means lenders must carry out full affordability assessments when customers are remortgaging from other lenders, or when existing customers are requesting additional borrowing.</p>
<b>Our approach</b>	<p>Newcastle Intermediaries will continue to meet this requirement.</p>

## How does MCD affect you?

While the UK already has a robust set of regulations for mortgage activities, which protect consumers in a similar way to MCD, the introduction of MCD will bring new legislation and changes to the FCA handbook and particularly MCOB.

Under MCD there are certain things you must cover off with your clients, which are in fact similar to what you'll already be used to. This is mainly around the pre-contractual information, which will be included in our KFI Plus document. At this point, you will need to explain:

- The details of the mortgage product, including the APRCs of the product recommended.
- Information on the new reflection period.
- The consequences of defaulting.

As well as the above, there are some other things you will need to ensure you are adhering to as part of MCD. This includes:

- If you offer products from a limited range, you must tell customers which lenders you have a relationship with.
- Your firm cannot describe themselves as independent unless it gives advice and recommendations on products from the whole Secured Lending market (this includes first and second charge mortgages).
- Where a client is considering increasing the amount of secured borrowing, you must inform them of the alternative finance options available.

Please note, this information has been provided as a useful summary, providing information around the key requirements of MCD, however the information isn't exhaustive and shouldn't solely be relied upon. More information regarding the regulations can be found on the FCA's website.

## Any further questions?

We hope this summary of MCD has been useful in helping you prepare for the forthcoming changes, but if you do require any further information, please don't hesitate to contact your dedicated Business Development Manager who will be happy to help.

Alternatively, you can always call our dedicated Intermediary Support Team on **0345 602 2338** (lines open Monday to Friday, 8am to 6pm) should you have any other queries.

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