



# THE EUROPEAN UNION MORTGAGE CREDIT DIRECTIVE (MCD) INFORMATION FOR BROKERS



This Factsheet provides information on the new regulations, the changes to our process and what this means for you and your clients.

## WHAT IS MCD?

The European Union Mortgage Credit Directive (MCD) is coming into force with the aim of having have a single, EU-wide framework of conduct rules for mortgage firms.

This will ultimately ensure a consistent 'high' level of consumer protection throughout all EU nations.

The last day for lenders and intermediaries to implement the new rule changes is the **21st March 2016**

## CSC LOANS COMMENT:

CSC Loans will be looking to implement these new changes on or around the **15th February 2016**. This is to allow sufficient time to complete any pipeline applications which will still be processed under the Consumer Credit regime, all of which will need to complete by 21st March 2016.

## HOW WILL MCD AFFECT YOU?

For those of you who only have Credit Broking permissions you will still be able to introduce applications to CSC Loans but we would need to take the client through a full advised sales process. We would not be able to provide you with any Mortgage Illustrations until the client has confirmed that they want to proceed with the recommendation we have given them.

This is done to protect you from straying into giving advice to the client, when you do not have the necessary permissions to do so.

### **If you are a regulated mortgage broker the disclosure rules have changed. You will need to do the following:**

- If you are going to remain 'Independent' you must be able to offer advice to your client on the whole of the mortgage market – THIS INCLUDES SECOND CHARGES
- If you're limiting the products considered to first or second charge mortgages, you must inform the client clearly of this when outlining your scope of service.
- Where the client is considering increasing the amount of secured borrowing, you must inform them of alternative finance options - Remortgage, Further Advance, 2nd charge or Unsecured lending.
- If you offer products from a limited range, you need to give your client a list of the providers you are selecting from.
- Where no product on your panel meets the clients requirements you must not recommend the 'least worse' option.
- If you are receiving commission (i.e. procuration fees) from one or more lenders, you must inform your client of this AND have available on request a document that outlines the commission levels you could receive from each lender.



## CSC LOANS PROCESS EXPLAINED IF YOU WISH TO REMAIN INDEPENDENT:

- CSC Loans will be acting purely as a Packager.
- CSC Loans will NOT be providing your client with ANY advice with regards to the Mortgage Terms and Conditions.
- You (the Broker) will be responsible for the advice given to your client.
- You (the Broker) will complete an online decision in principle form outlining the clients details and their requirements covering the 9 points outlined in **MCOB 4.7A.6**
- CSC Loans on receipt of this information will then source suitable products. Where more than one product fits the clients requirements CSC Loans will provide you (the broker) Mortgage Illustrations (ESIS) for the top 3 product options, along with a document outlining evidence of the research that has been carried out.
- You (the Broker) will discuss the products with your client and let CSC Loans know what option you have recommended the client proceed with.
- CSC Loans will package the application, send out an issue pack to the client, apply to land registry, carry out the necessary credit searches, request BSQ's, obtain the first mortgagees consent where required and instruct a valuation. NOTE: During the process CSC Loans will direct any questions from the client in relation to the product selected / advice to you (The Broker)
- IF the application changes in anyway which results in a new Mortgage Illustration (ESIS) needing to be issued, you (the Broker) would be responsible for advising your client of the revised terms.
- Mortgage Illustrations (ESIS) will show you (the broker) as the party giving the advice and CSC Loans as the packager.

## CSC LOANS PROCESS EXPLAINED IF YOUR SCOPE OF SERVICE IS LIMITED TO FIRST MORTGAGES:

- You (the Broker) has limited your scope of service to just first charge mortgages.
- You (the Broker) wants to ensure that a first charge is the most suitable finance option for your client, so you have a Key Partner – CSC Loans
- You (the Broker) discuss with CSC Loans details of your clients requirements, covering the 9 points outlined in **MCOB 4.7A.6**
- CSC Loans sources a potential suitable product.
- CSC Loans provides the Mortgage Illustration (ESIS) for the top product to you (the Broker)
- You (the Broker) compares the options available to the client i.e. the cost of remortgaging vs the cost of keeping the existing charge and taking a second charge based on the Mortgage Illustration (ESIS) sent to you.
- If a 2<sup>nd</sup> charge is the best option you (the Broker) informs the client that you are referring them to your Key Partner (CSC Loans) to explore a second charge.
- You (the broker) then request that CSC Loans contact the client.
- CSC Loans takes over the application.
- CSC Loans will carry out a full advised sale with the client, which will include completing a full fact-find.
- CSC Loans will recommend a suitable product to meet the clients needs.
- CSC Loans will process the application in the same way as above.
- You (the broker) will be kept up dated on progress, but told to keep contact with client to a minimum so as not to stray into advising on second charges.

# WHAT ARE THE BIG CHANGES FACING SECONDS?

## **OUT: 16 DAY CONSIDERATION PERIOD.**

This means that applications can be processed significantly quicker. Where there is a change in the mortgage terms and conditions a new Mortgage Illustration can be produced and emailed to the client/s within a few minutes. The application can then continue to be processed with no delay as there will be no consideration period to serve.

## **OUT: INABILITY TO CHARGE THE CLIENT UPFRONT FEES (OTHER THAN £5).**

This will mean that the client can choose to pay some / all of the fees upfront to avoid incurring interest on them over the life of the loan.

It also means you (the broker) could charge an upfront fee for the advice, so that you are still paid for your time, even if the loan does not complete. Where charging any upfront fees you would need to inform CSC Loans so that the fee can be shown on the Mortgage Illustration (ESIS).

## **OUT: CREDIT AGREEMENTS**

No longer will the clients be sent a credit agreement. ALL lenders will be producing and sending Mortgage Illustration (ESIS) documents from the moment they adopt the MCOB regime. This will mean that you have instant familiarity as these mirror the KFIs used in first charges in terms of document format and key content so will be able to advise your clients accordingly.

## **IN: MORTGAGE ILLUSTRATION (ESIS)**

All 1st & 2nd charge lenders will need to adopt the Mortgage Illustration (ESIS) document by March 2019. As outlined above all 2nd charge lenders will move straight over to a Mortgage Illustration (ESIS). This means that all Mortgage Illustration (ESIS) documents, regardless of what lender / product / sector of the market, will eventually look the same making for clearer transparency for the client.

## **IN: BINDING MORTGAGE OFFERS**

Mortgage Offers are entirely new to the second charge market. The second charge lenders will only be sending these once they have satisfied ALL of their underwriting needs and are fully satisfied that the clients can afford the loan. The offer would be binding to the lender for at least the reflection period, although many lenders are making the validity period considerably longer.

## **IN: REFLECTION PERIOD**

This is a new concept to the mortgage market. It is a period for the client to compare and consider offers. The reflection period is for 7 days and begins the date of the binding offer.

**NOTE:** A client CAN elect to waive the reflection period by returning the Mortgage Deed sent to them with the offer.

## **IN: STRESS-TESTING**

This is a relatively new concept to the second charge market, although it is something that has been around since Mortgage Market Review with first charges. Second Charge lenders will be imposing a stress test of up to 3% on both the first and second charge mortgage, although there are exceptions to this stress testing. i.e. if the product they are on has a fixed interest rate of 5 or more years then no stress testing needs to be applied to the product.



**CROWN HOUSE, CROWN ROAD, PORTSLADE, BRIGHTON BN41 1SH**

**+ 01273 414099    f 01273 412112    e info@cscloans.co.uk    w www.cscloans.co.uk**