

The European Mortgage Credit Directive

Legislation update.

The **European Mortgage Credit Directive (MCD)** will introduce a new European Union wide framework of conduct rules for mortgages. It is designed to ensure a high level of protection for customers taking out **residential mortgage contracts**.

All lenders and mortgage intermediaries must comply with the new legislation by **21st March 2016**. This guide outlines the key changes, the updates we're making and what it means for you and your clients.

Consumer Buy-To Let (CBTL)

A new concept for buy-to-let mortgages aimed at borrowers whose property interest is not wholly or predominantly for business purposes. CBTL applies to 'accidental landlords' (Let-to-buy and inherited property being let) and will be subject to regulatory supervision by the Financial Conduct Authority (FCA).

Our approach:



We'll still offer Buy-to-let (including CBTL) to all customers who meet our lending requirements. For CBTL loans you must:

- Have the relevant FCA permissions
- Identify CBTL applicants at the point of submission on our system

There'll be no extra forms or paperwork for you or your clients to fill in.

all new



buy-to-let concept

ESIS or KFI+

The European Standardised Information Sheet (ESIS) will replace the Key Facts Illustration (KFI) by no later than March 2019. Until then, lenders are able to phase in changes using KFI+ which provides the new mandatory information and disclosures.

KFI+ will feature two Annual Percentage Rates of Charges (APRCs). The second APRC is based on the highest borrowing rate over the previous 20 years. This will help customers to understand the impact of any potential rate rises in the future.

Our approach:



- We're adopting KFI+ in March 2016
- We'll transfer to ESIS in time for the regulatory deadline in March 2019
- Our second APRC will be based on the FCA's benchmark rate and will replace the 1% interest rate rise warning in our KFI

Phasing in
new
paperwork



Foreign Currency Loans

MCD defines a foreign currency loan as either.

- A loan in a different currency from that in which the customer receives their income or holds the assets from which the credit will be repaid
- A loan in a different currency from that of the country in which the customer is resident.

The legislation means changes to foreign currency loan applications, including the need to explain the potential impact of fluctuations in exchange rates to customers.

Our approach:



For residential owner-occupied and CBTL loans:

- We don't offer foreign currency loans and have no plans currently to introduce them
- For interest only loans we will no longer accept repayment strategies in a foreign currency (e.g. sale of property abroad)

Loans and repayments in foreign currencies



Binding Offers and Reflection Period

Under MCD lenders are required to provide customers with a 'binding offer' which may be subject to lawful conditions surrounding its withdrawal or variation.

There is also a new requirement to provide customers with a 'reflection period' lasting a minimum of 7 days, which starts once the binding offer has been issued.

This will give your clients time to reflect and review their offer, make comparisons and assess the impact of taking out a mortgage.

Borrowers can choose to waive this if they wish to complete sooner.

Our approach:



- Our mortgage offer will be binding from the date of issue
- The 7 day reflection period will start from this date
- If the Certificate of Title (COT) is received within the 7 days it will be deemed the customer has chosen to waive the reflection period



day
reflection
period

When will Aldermore be MCD compliant?

Plans are underway to fully implement MCD in March 2016. We'll share more updates with you, including details of our pipeline arrangement, in early 2016.

To find out more about MCD please refer to the Financial Conduct Authority (FCA) website.



0333 321 1000
aldermore.co.uk/mortgages

FOR INTERMEDIARY USE ONLY

Aldermore Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. (Financial Services Register number: 204503). Registered office: 1st Floor, Block B, Western House, Lynch Wood, Peterborough, PE2 6FZ. Registered in England No. 947662.

ARM166-1215-400160