TOPIC **3**

Mortgage regulation

LEARNING OBJECTIVES

This topic looks at the principles of mortgage regulation and the importance of the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB) in relation to mortgage regulation.

By the end of this topic, you should have an understanding of:

- the definitions of loans covered by MCOB;
- the structure of MCOB;
- other legislation affecting mortgages and property purchase.

THINK ...

UK Financial Regulation introduced you to mortgage regulation, so to help you focus on this topic, think back to your early studies. For instance:

- What types of loan are covered by MCOB?
- What is the difference between a first-charge and a second-charge loan?
- Can you remember why there was a significant change in mortgage regulation in 2016?

All of these areas will be explored further in this topic.

3.1 Key terms relating to mortgages

3.1.1 What is a mortgage?

A mortgage is an arrangement where an asset is used by the lender as security for a loan. In the case of house purchase, the loan is secured on a property through a legal charge. Property is not the only asset that can be mortgaged: other assets, such as share portfolios, can be mortgaged too, and mortgage-backed loans may be used for purposes other than property purchase. 'Secured' means that there is a legal agreement giving the lender rights over the property until the loan is repaid. This gives the lender some 'security' if the borrower fails to honour their part of the deal.

3.1.2 What is a legal charge?

A legal charge gives the lender certain rights over the property while the mortgage is outstanding. These include the right to take possession of the property (subject to court sanction) if the borrower fails to make payments or repay the mortgage as agreed. The security provided by the legal charge means that lenders are prepared to offer mortgages at lower rates than unsecured loans, because they have some protection against default.

It is possible to have more than one legal charge on a property.

- **First charge** – the charge that is registered first at the Land Registry has priority over other charges. This means that the debt to which it relates will be repaid first. This applies whether the owner sells the property or defaults on the mortgage, with the result that the property is taken into possession and sold to settle outstanding debts.
- **Second charge** – a legal charge that is registered after a first charge will rank second in line for repayment on sale or repossession. This means that it will be repaid from any money left over after the first-charge holder has been repaid. If there is insufficient money to repay the second-charge holder, the lender will lose out.

CHECK YOUR UNDERSTANDING 1

Is the lender holding a second charge against an asset likely to apply a higher or lower rate of interest to the loan than the holder of a first charge? Explain your answer.

3.2 How are mortgages regulated?

The Financial Conduct Authority (FCA) took over regulatory responsibility for the marketing and sales of mortgages and home finance from the Financial Services Authority (FSA) in April 2013.

MORTGAGES AND HOME FINANCE

This includes regulated mortgages, including lifetime and second-charge mortgages; bridging loans; home reversion plans; and home purchase plans (more commonly known as Islamic mortgages).

The regulations are contained in the Mortgages and Home Finance: Conduct of Business sourcebook (MCOB), which forms part of the FCA Handbook. The Handbook contains all the regulatory rules for firms regulated by the FCA, together with guidance to help firms interpret the rules and put them into practice.

FACTFIND

You can find an overview of the content of the MCOB sourcebook in section 3.4, and you can find the MCOB sourcebook by visiting www.handbook.fca.org.uk/handbook and clicking on Business Standards and then MCOB.

!

UK REGULATION

UK Financial Regulation introduced you to regulatory requirements in the UK, so rather than repeat what you have already learned, Figure 3.1 provides a brief summary as a refresher. You might want to reread some of the UK Financial Regulation text, too.

FIGURE 3.1 OVERVIEW OF UK REGULATION RELATING TO MORTGAGES

FSMA 2000	• 2000: Financial Services and Markets Act in force • Financial Services Authority (FSA): main regulator • Mortgages still subject to a voluntary Mortgage Code: not regulated
31 October 2004	• Mortgages regulated by the FSA • Only contracts entered into after that date and meeting the 'regulated mortgage' criteria fall under the FSA (and later FCA) regime
April 2007	• Home reversion plans and Islamic home finance plans regulated by FSA
FSMA 2012	• Regulatory system revised: Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) formed • FCA takes over regulation of mortgages sales and advice
1 April 2014	• The Office of Fair Trading closed • The FCA takes regulatory responsibility for consumer credit activities, including second-charge loans
21 March 2016	• EU Mortgage Credit Directive (MCD) implemented in UK law
31 December 2020	• UK leaves the EU, and UK law applies. Most of the MCD still applies, but the definition of regulated mortgages applies to land in the UK only

3.2.1 The EU Mortgage Credit Directive

The Mortgage Credit Directive (MCD) was published in February 2014, with member states required to implement its requirements by 21 March 2016. The Directive is designed to set minimum regulatory requirements in member states for credit agreements relating to residential property. The Directive also aims to provide a platform for a cross-border European mortgage market.

IN BRIEF

BREXIT AND THE MCD

The UK left the European Union (EU). All relevant European law has been absorbed into UK law to enable the UK government to repeal or alter any laws it no longer sees as relevant. The government may make changes to MCD-related legislation, but given the complexity of doing so it is likely that the MCD requirements will remain as part of UK mortgage regulation for some time.

In the UK, MCOB already covered most of the MCD's requirements. The government's approach was to minimise the Directive's impact on the UK mortgage industry and consumers by adapting the existing MCOB rules as far as possible. New MCD sections (usually as an a) or b) subsection) were added where the changes were more detailed. Additionally, there were some areas where new rules were required, specifically:

- buy-to-let mortgages;
- second charges.

A significant addition was the establishment of a new category of mortgage: consumer buy to let (CBTL).

CHECK YOUR UNDERSTANDING 2

Can you recall what a CBTL mortgage is? Try to write your own summary. Look back to your studies in Topic 2 to check your response.

BACK BOOK LOANS (SECOND CHARGES)

In general, a new regulation covers only arrangements entered into on or after the implementation date.

However, second-charge mortgages entered into before 21 March 2016 are subject to MCOB, as 'back book loans', if they meet the criteria for regulated second charges that apply from 21 March 2016.

Retained EU law

The EU (Withdrawal) Act 2018 (EUWA), amended by the EU (Withdrawal Agreement) Act 2020 (EUWAA), was passed to allow the UK to continue to use, post-Brexit, EU laws that had been absorbed into UK law as a result of the UK's membership of the EU. These are known as retained EU laws (REULs). The Act provided legal continuity when the UK left the EU, and it took effect from the end of the Brexit transition period in December 2020.

The legislation also gave temporary powers for ministers to anticipate or correct 'deficiencies' in REUL during a two-year transition period until the end of 2022.

The Treasury established the Future Regulatory Framework (FRF) Review, with the aim of ensuring that the UK financial services sector is subject to rules specifically tailored to suit UK markets. The review led to the Financial Services and Markets Act 2023, which received Royal Assent in June 2023.

Under the Act, a number of retained EU laws and requirements will be repealed and replaced by specific UK rules. This process was subject to a number of consultations with firms during 2023, with the new requirements published in the relevant chapters of the FCA Handbook as they are finalised. The aim is to abolish, for domestic law purposes, the principle of supremacy of EU law, and to rename REULs still in place after 2023 as 'assimilated laws'.

The Act will also lead to developments in the FCA's duties, accountability arrangements and wider responsibilities, as well as new processes relating to rule-making.

UK legislation

An Act of Parliament starts off as a **Parliamentary Bill**, which passes through a number of stages (known as readings) where it is discussed in Parliament and committee and may be amended before becoming an Act of Parliament.

An **Act of Parliament** is created when a Bill is approved by Parliament through a vote in the House of Commons and the House of Lords and receives Royal Assent.

Primary legislation is introduced through Acts of Parliament, which must be voted through both houses of Parliament.

Secondary legislation is created by government ministers or departments through powers given to them under an Act of Parliament. It is mainly used to amend or add details to primary legislation to ensure it can be put into practice. Whether a piece of secondary legislation needs to go through the full parliamentary process is determined by the terms of the relevant Act.

3.3 What is a regulated mortgage contract?

The FCA regulates the sale and administration of mortgages that meet the definition of a 'regulated mortgage contract'.

> **IN BRIEF**
>
> **REGULATED MORTGAGE CONTRACTS**
>
> A regulated mortgage contract is one that, at the time it is entered into, meets the following conditions:
>
> - a lender provides credit to an individual or to trustees (the 'borrower'); and
> - the borrower's obligation to repay is secured by a mortgage on land in the UK, where at least 40 per cent of the land is used, or is intended to be used, as or in connection with a dwelling.

Where the mortgage was entered into before the UK officially left the EU on 31 December 2020 (known as IP completion day), the above definition continues to apply to mortgages secured on land in the European Economic Area (EEA).

Contracts that were entered into before 31 October 2004 (ie before mortgages came within the remit of the then regulator, the Financial Services Authority) are not classified as regulated mortgage contracts, even if they satisfy the required criteria. However, lenders have the option to apply MCOB rules and standards to these mortgages if it benefits the borrower.

3.3.1 Regulated mortgages and MCD regulated mortgages

All mortgages meeting the criteria in section 3.3 are regulated mortgages. Rather than apply the MCD rules to all previous mortgages, the FCA created a sub-category of regulated mortgages: 'MCD regulated' mortgages.

From 21 March 2016, the MCOB sourcebook in the FCA Handbook contains two categories for mortgages:

- regulated mortgages;
- MCD regulated mortgages.

Regulated mortgages are those completed before 21 March 2016, when the MCD came into effect. In most areas of regulation, any matters that arise from a mortgage set up before 21 March 2016 will be dealt with under the MCOB rules that applied prior to implementation of the MCD. Any change to the mortgage that does not constitute a new contract, such as a further advance, will be subject to the original MCOB rules.

An MCD regulated mortgage is one entered into on or after 21 March 2016 and subject to the amendments made to MCOB in order to comply with the MCD. This includes remortgages because they will be a new contract.

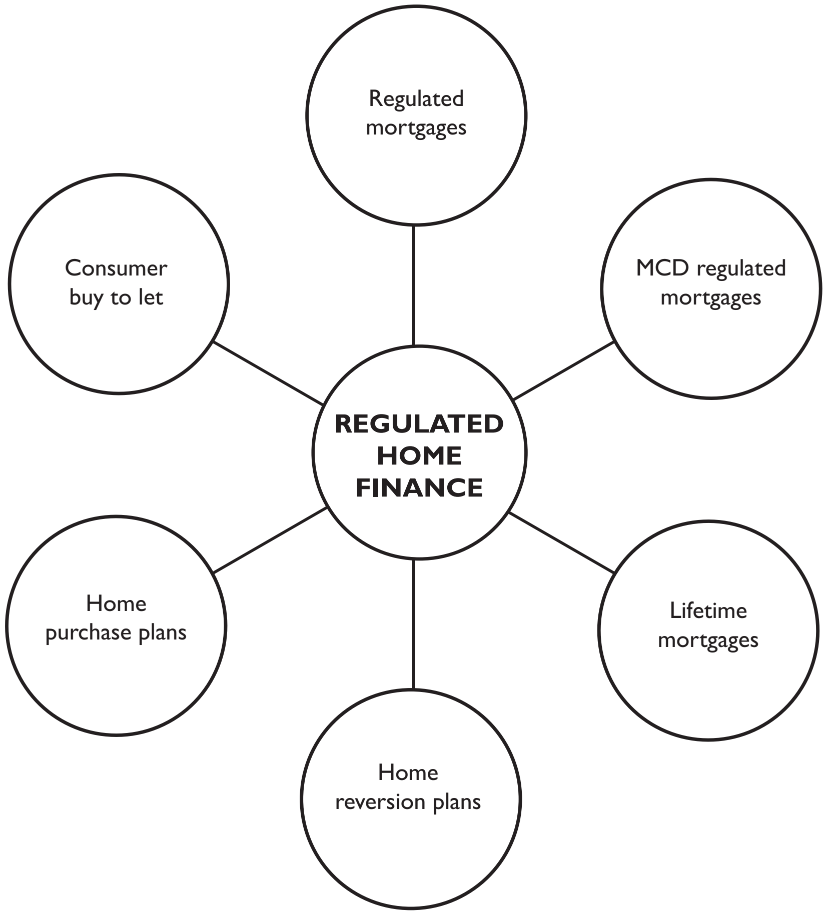
Most of the MCOB rules apply to both regulated and MCD regulated mortgages. Where there is a different requirement for MCD regulated mortgages, usually it is in a separate 'A' chapter. For example, the pre-application disclosure requirements for regulated mortgages are contained in Chapter 5, with the different requirements for MCD regulated mortgages in Chapter 5A.

The majority of new residential mortgages will meet the MCD criteria, as will some mortgages for business purposes taken out by an individual, where at least 40 per cent of the land is used as a dwelling. Buy-to-let mortgages used in connection with a letting business are not regulated mortgages, but consumer buy-to-let mortgages are. Corporate mortgages are specifically excluded from FCA regulation.

CHECK YOUR UNDERSTANDING 3

From your studies in Topic 2, can you recall what a corporate mortgage is?

FIGURE 3.2 WHICH TYPES OF HOME FINANCE ARE REGULATED?



3.3.2 Lifetime mortgages

A lifetime mortgage enables older homeowners over a certain age to release some of the equity in their property. Most people applying for a lifetime mortgage have no mortgage or only a relatively small mortgage. The lender agrees to advance a percentage of the property value on a first-charge basis, with the mortgage repaid when the borrower moves, goes into residential care or dies; a lender can exercise its legal right to take possession under the mortgage contract too.

FCA DEFINITION OF A REGULATED LIFETIME MORTGAGE

A regulated lifetime mortgage must meet the definition in section 3.3. There are two further key elements to the definition of a regulated lifetime mortgage. First, it must only be available to older borrowers over a certain (unspecified) age and the lender cannot seek full repayment until one of the following events occurs:

- the borrower's death;
- the borrower moves to live elsewhere without the reasonable expectation of returning – into residential care or sheltered accommodation, for example;
- the borrower moves to another 'main residence';
- the borrower sells the property;
- the lender exercises its legal right to take possession under the mortgage contract.

Second, although full repayment of capital is not required until the mortgage ends, during the term the arrangement can include the following:

- No capital repayments are made and interest is added to the capital to be repaid when the mortgage ends (interest roll-up).
- No regular capital repayments are required, but regular interest payments must be made (as with an interest-only mortgage) until the end of the mortgage.
- Some capital repayment and interest payments are required, but there is no requirement to make full capital repayment until the end of the mortgage.

In most cases, as long as the borrower occupies the property as their main residence no regular interest payments are required. The interest is rolled up and paid, along with repayment of the capital, when the arrangement ends. Alternative arrangements are also possible, where:

- payment of interest is required but the capital is not repaid until the end of the mortgage; or
- payment of interest and partial repayment of the capital is required, but full repayment of the capital is not required until the end of the mortgage.

However, these two options are much less common.

MCD EXEMPTION

A category of 'MCD exempt' lifetime mortgage was established from 21 March 2016. This means that lifetime mortgages continue to be regulated as a separate type of mortgage from MCD loans.

3.3.3 Retirement interest-only mortgages

The FCA introduced a new regulatory category of interest-only mortgage in March 2018 – retirement interest-only mortgages – due to demand from borrowers unable to repay, or finding difficulty in repaying, interest-only mortgages at the end of the term. Lenders are permitted to arrange mortgages on an interest-only basis for borrowers over an age specified by the lender. Affordability can be assessed on an interest-only basis, with no requirement to account for a repayment vehicle.

The retirement interest-only mortgage is defined in MCOB (FCA, no date) as "an interest-only mortgage:

- which is not an interest roll-up mortgage;
- entry into which is restricted to older customers above a specified age and;
- under which the lender is not entitled to seek full repayment of the loan until the occurrence of one or more of the specified life events, unless the customer breaches their contractual obligations (including any obligation to pay interest during the term) in a way which allows the lender to terminate the agreement."

3.3.4 Home purchase plans

A home purchase plan is defined as an arrangement where:

- one person (the provider) buys a qualifying interest in land;
- an individual or trustees (the home purchaser) is/are obliged to buy the interest from the provider during or at the end of a specified period;
- the home purchaser, a related person, a beneficiary of a trust or a person related to a beneficiary is/are entitled to occupy at least 40 per cent of the land as, or in connection with, a dwelling.

IN BRIEF

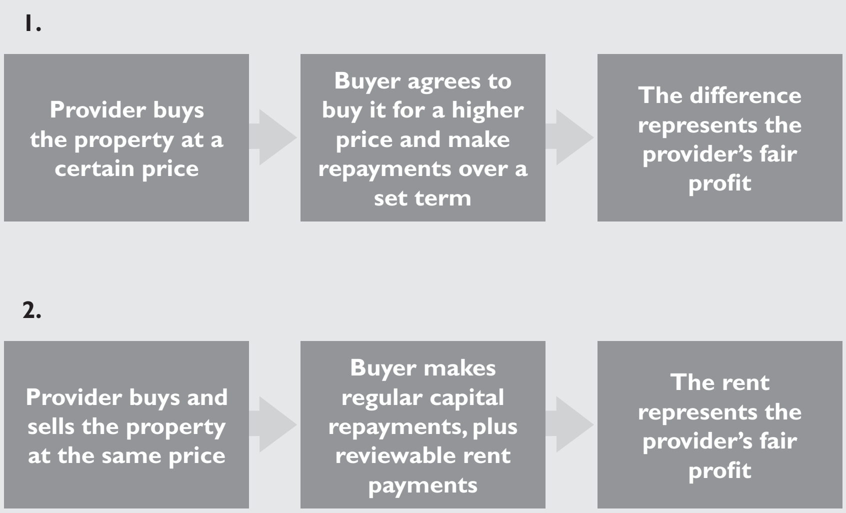
WHAT IS THE DIFFERENCE BETWEEN A HOME PURCHASE PLAN AND A REGULATED MORTGAGE?

- Home purchase plans involve the provider buying the property and then selling it to the ultimate owner via a special agreement, either through regular payments of capital, or a single payment at the end of a specified term.
- With a conventional mortgage the property buyer uses money borrowed from the lender to buy the property in their own name(s), and is usually required to pay interest on the outstanding loan.

ISLAMIC HOME FINANCE PLANS

Islamic home finance plans are covered by the category 'home purchase plan', because under Islamic law it is forbidden to take out a conventional mortgage requiring payment of interest to the lender. However, the provider can make a fair profit from the arrangement, so there are two ways in which the plan can work (Figure 3.3).

FIGURE 3.3 APPROACHES TO ISLAMIC HOME FINANCE



In practical terms, the second arrangement is similar to a conventional repayment mortgage, with rental payments substituted for interest.

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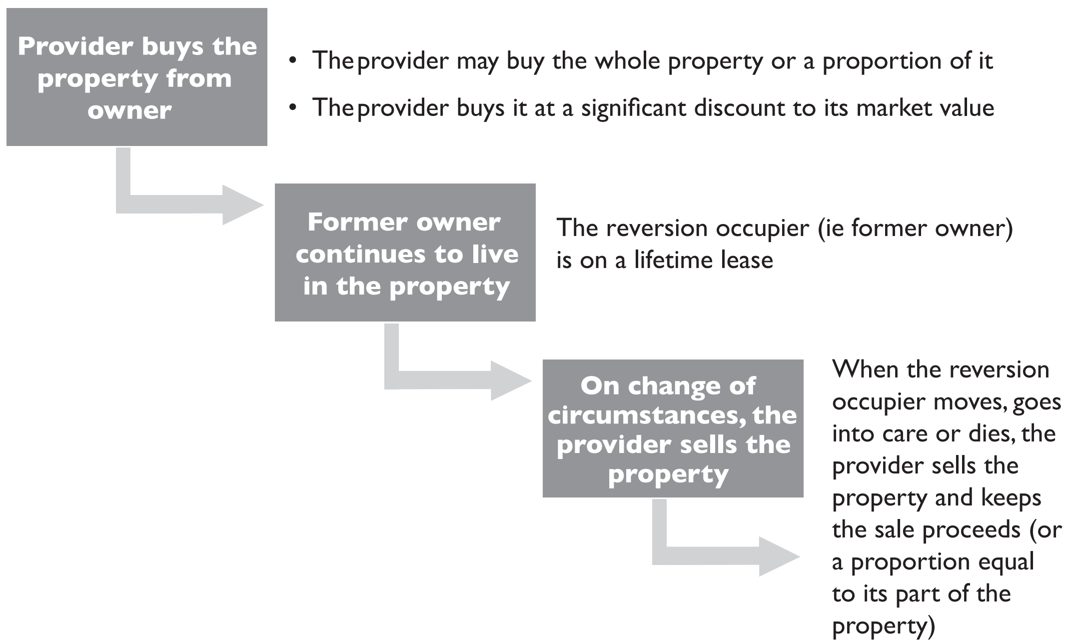
3.3.5 Home reversion plans

Home reversion plans have been regulated since 2007. Figure 3.4 summarises the way a home reversion plan works.

FIGURE 3.4 WHAT IS A HOME REVERSION PLAN?



The FCA defines a regulated home reversion plan as one that meets the following:

- The reversion occupier, a trust beneficiary, or a related person must be entitled under the arrangement to occupy at least 40 per cent of the land as, or in connection with, a dwelling.
- The plan will end if the occupier* dies, enters residential care, or at the end of a specified term of at least 20 years from the date of the arrangement. (Most arrangements run until death or entering residential care.)

* The term 'occupier' has a wide meaning, including a spouse, civil partner, 'common law' partner, child, grandchild, parent or sibling. However, providers will limit those who can occupy the property to spouse or civil partner.

3.3.6 Buy-to-let mortgages

Put simply, the FCA definition of a buy-to-let mortgage is the same as that for a regulated mortgage, except that the property cannot be occupied as a dwelling by the borrower or a related person at any time, and will be occupied as a dwelling on the basis of a rental agreement.

Consumer buy to let

The UK government opted to use an exemption that allows it not to apply the MCD requirements to buy-to-let mortgages if there is an 'appropriate framework' in place. This led to the CBTL mortgage regime. A CBTL mortgage contract is one "which is not entered into by the borrower wholly or predominantly for the purposes of a business carried on, or intended to be carried on, by the borrower" (Mortgage Credit Directive Order, 2015) – such borrowers are often known as accidental landlords. We have already outlined in section 2.2.2 the circumstances in which a loan would be classified as a CBTL mortgage.

Mortgage brokers and lenders offering CBTL mortgages require authorisation from the FCA. Applications for CBTL mortgages must be treated in a similar way to those for residential mortgages, for example in terms of the affordability assessments, documentation and processes.

Customers with unresolved complaints about CBTL mortgages can take their complaint to the Financial Ombudsman Service.

Those who already own buy-to-let properties as a business would not normally be treated as CBTL borrowers if they acquired a property in the circumstances described above.

✓

CHECK YOUR UNDERSTANDING 4

Which of the following are 'accidental landlords'? What would the implications be for them if they needed to arrange a new mortgage on the property they are renting out?

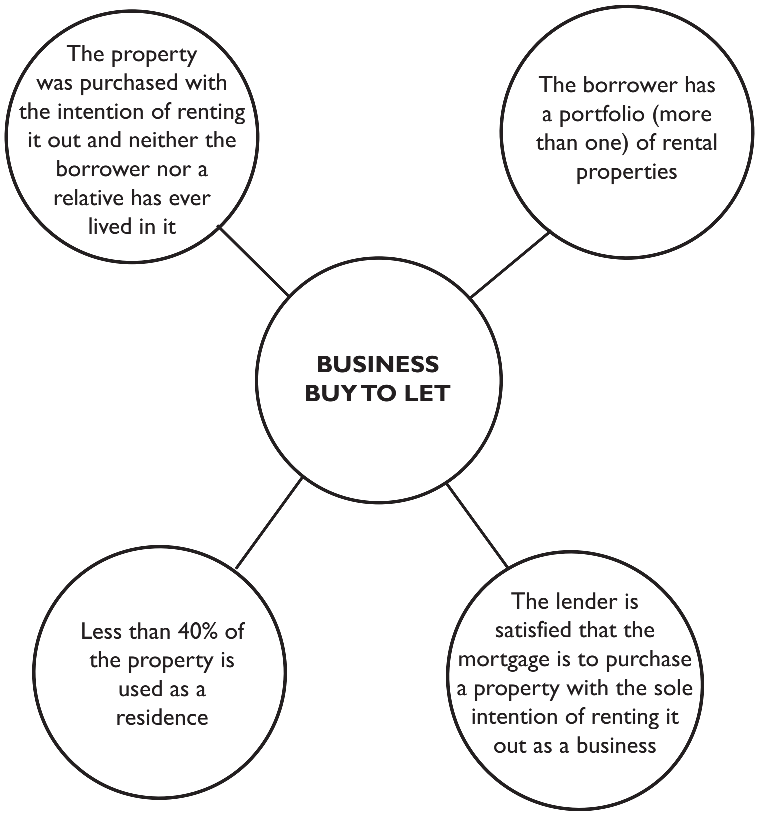
a) A son inherits his parents' house. He has his own property but does not wish to sell his parents' house yet because the market is poor. In the meantime, in order to cover the costs of maintenance, etc, he decides to rent it out.

b) A couple have moved to another area to work but have been unable to sell their house. In order to cover the cost of maintenance, etc, they have decided to rent it out while they settle nearer to work and perhaps buy another property in the area.

Business (professional) buy to let

A business buy-to-let mortgage is arranged to purchase or otherwise fund a property that is intended solely to be rented out as part of a business. These mortgages continue to be outside FCA regulation. Figure 3.5 summarises the criteria for a mortgage to be assessed as business BTL. In addition, the lender can also accept that a BTL mortgage is for business purposes if the borrower signs a declaration, which the lender has no reason to believe is untrue. The declaration should state that the loan is wholly or predominantly for business purposes, and that the borrower understands that this means they will forgo the protection offered by the CBTL regime.

FIGURE 3.5 BUSINESS BUY TO LET



3.3.7 Second-charge loans

A second-charge mortgage loan uses the borrower's home as security by taking a further charge over the property. The borrower's main mortgage is on a first-charge basis, which means that the main mortgage lender has priority over other charges if the borrower is unable to make their mortgage payments and the property is repossessed.

> **FROM CONC TO MCOB**
>
> Between 1 April 2014 and 20 March 2016, FCA regulations on second charges were contained in its Consumer Credit (CONC) sourcebook. Following the implementation of the MCD on 21 March 2016, second-charge regulation was incorporated into MCOB. Second-charge mortgages entered into before 21 March 2016 are subject to MCOB if they meet the 2016 criteria for regulated second charges, despite being taken out before that date. They are referred to as 'back book loans'.

All second-charge lenders, administrators and brokers must be authorised by the FCA and have in place the appropriate permissions to carry out second-charge lending activities. Firms providing second-charge loans must apply for mortgage permissions, and those advising on and selling second-charge loans must have a Level 3 mortgage qualification.

3.4 How is the MCOB sourcebook structured?

MCOB forms a separate sourcebook within the FCA Handbook. It comprises the chapters summarised in Table 3.1.

TABLE 3.1 MCOB SOURCEBOOK – SUMMARY

Chapter	Title	Content
1	**Application and purpose**	▪ Helps firms understand which parts of the MCOB rules apply to them ▪ Provides guidance on the application of other parts of the FCA Handbook
2	**Conduct of business standards: general**	▪ General requirements that apply throughout the mortgage sourcebook ▪ Communications must be clear, fair and not misleading ▪ Rules on inducements
2A	**Mortgage Credit Directive**	▪ Remuneration and policies ▪ Tying practices ▪ Foreign currency loans ▪ Early repayment ▪ Variable rate credits ▪ Information free of charge
3A	**Financial promotions**	▪ Financial promotions of qualifying credit, home reversion plans and regulated sale-and-rent-back agreements ▪ Rules banning unsolicited real-time promotions (cold calling)

3B	**MCD general information**	▪ Provision of general information for MCD regulated mortgages
4	**Advising and selling standards**	▪ The initial disclosure document ▪ Standards ▪ Independence ▪ Suitability of advice ▪ Non-advised sales
4A	**Additional MCD advising and selling standards**	▪ Additional disclosure by MCD mortgage credit intermediaries ▪ Adequate explanations
5	**Pre-application disclosure**	▪ Timing and content of the key facts illustration (KFI)
5A	**MCD pre-application disclosure**	▪ Applying for an MCD regulated mortgage contract ▪ Information on MCD regulated mortgage contracts: general ▪ Provision and content of a European Standardised Information Sheet (ESIS)
6	**Disclosure at the offer stage**	▪ Content of the offer document
6A	**MCD disclosure at the offer stage**	▪ MCOB 6A.3 MCD mortgages: binding offer, content of the offer document and reflection period ▪ MCD mortgages: information to be provided in the offer document or separately ▪ MCD distance contracts with retail customers

7	**Disclosure at start of contract and after sale**	▪ Start of contract information requirements ▪ Annual statements ▪ Information requirements for post-sale contract variations (such as further advances)
7A	**Additional MCD disclosure: start of contract and after sale**	▪ Notification of interest-rate changes ▪ Foreign currency loans and significant exchange-rate movement disclosure ▪ Notification of changes resulting from auctions on the capital market
7B	**MCD: further advances**	▪ Information to be provided for further advances
8	**Equity release: advising and selling standards**	▪ A tailored regime for advising and selling lifetime mortgages and home reversion plans
9	**Equity release: product disclosure**	▪ Tailored product disclosure requirements for lifetime mortgages and home reversion plans
10	**Annual percentage rate**	▪ How to calculate the APR
10A	**MCD annual percentage rate of charge**	▪ Calculation of the APRC ▪ APRC: mathematical formula and assumptions ▪ APRC: additional assumptions
11	**Responsible lending and responsible financing of home purchase plans**	▪ A requirement for lenders to check the consumer's ability to repay

11A	**Additional MCD responsible lending requirements**	▪ MCD mortgage credit intermediary: submission of information to MCD mortgage lender ▪ Prohibition on cancellation or variation of MCD regulated mortgage contract on grounds of creditworthiness ▪ Obtaining information for, and assessment of, affordability from the consumer and rejecting an application
12	**Charges**	▪ Charges in key areas (eg arrears and early repayment charges) must be reasonable, based on the cost to the lender ▪ Charges must not be excessive
13	**Arrears, payment shortfalls and repossessions**	▪ Information requirements for fair treatment of borrowers in arrears and facing repossession
14	**MCD article 3(1)(b) credit agreements**	
15	**MCOB 15: P2P home finance activities**	

The key points of each relevant MCOB chapter will be covered in the appropriate section of this study text.

3.5 What other legislation provides protection for property buyers?

3.5.1 The Consumer Protection (Amendment) Regulations 2014

This legislation replaced previous legislation intended to control marketing and selling practices and covers all situations where professionals, including estate agents, engage with consumers.

The legislation gives consumers certain rights and remedies where a firm is in breach of the regulations, and right to redress if they have been subject to misleading or aggressive practices.

The legislation does not apply to financial services or consumer credit as these are covered by other regulations.

There are three main parts to the regulations:

- There is a general ban on unfair commercial practices.
- Misleading and aggressive practices are assessed to determine their influence on the average consumers' decisions, ie to assess whether their impact means that they are unfair.
- There is a 'blacklist' of practices that are banned because they are deemed to be unfair.

It is a breach of the regulations to omit or fail to disclose information that the average consumer would need to make an informed decision, or to provide information in a way that is misleading, unclear or unintelligible.

From an estate agent's perspective, a consumer can be expected to make their own enquiries and find publicly available information, but agents are expected to point out important or unusual matters to consumers. For example, failing to disclose information about the condition of the property would be regarded as misleading by omission, and significantly exaggerating the dimensions of a property would be providing misleading information.

If a business fails to follow a code of practice to which it has subscribed, it could be in breach of the regulations.

3.5.2 Consumer credit legislation

Consumer credit legislation is intended to protect ordinary consumers and small businesses, and uses the term 'individual' to define those borrowers. An 'individual' is defined as an 'ordinary' borrower, a partnership with three or fewer members or an unincorporated association. Other businesses are outside the legislation.

The key consumer credit legislation is the Consumer Credit Acts 1974 and 2006. In 2014, regulatory powers in relation to the Consumer Credit Acts were transferred to the FCA, with rules and guidance for lenders contained in the Consumer Credit sourcebook (CONC). The consumer credit legislation applies to unsecured loans, credit cards and similar lending.

A loan that is a regulated mortgage contract or an MCD mortgage contract, ie regulated under MCOB, is exempt from the Consumer Credit Acts of 1974 and 2006. Second-charge lending became part of the MCOB regime as regulated mortgages as part of the rule changes that implemented the MCD from 21 March 2016.

THINK AGAIN . . .

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- define a regulated mortgage contract?
- summarise the types of home finance that are regulated?
- explain the difference between a lifetime mortgage, a home purchase plan and a home reversion plan?
- describe two different approaches to Islamic home finance?
- explain how ‘buy to let’ differs from ‘consumer buy to let’?
- summarise the main areas covered by MCOB?
- explain how the CPRs affect the marketing activities of estate agents?

Go back over any points you don’t understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Reference

FCA (no date) *FCA Handbook* [online]. Available at: www.handbook.fca.org.uk/handbook

Test your knowledge

?

Use these questions to assess your learning for Topic 3. Review the text if necessary.

Answers can be found at the end of this book.

1) Anita took out a second mortgage on her home in January 2016. Is her mortgage subject to MCOB?
2) Brian has just bought a three-storey property with the help of a mortgage. Two floors provide office accommodation and the top floor is a two-bedroom flat. Is the mortgage regulated?
3) What type of lending became subject to MCOB rules in 2016, and included back book loans?
4) All mortgages on BTL property owned by individuals are consumer buy-to-let mortgages. True or false?
5) Gabby, aged 56, has entered into an arrangement where a lender has given her a mortgage that must be repaid only when she moves, goes into care or dies. What type of arrangement does she have?

    a) A home reversion plan.

    b) A home purchase plan.

    c) A lifetime mortgage.
6) Andy has arranged a home reversion plan, entering 50 per cent of his property into the plan in exchange for a lump sum of £80,000. On his death the property is valued at £300,000. How much, if any, of the property value would be included in his estate for distribution to his heirs?

    a) Nothing.

    b) £110,000.

    c) £150,000.

    d) £220,000.
7) Which of the following is **not** a chapter of MCOB?

    a) Application and purpose.

    b) Training and competence.

c) Financial promotions.

d) MCD: further advances.

8) True or false? Regulated mortgages of less than £25,000 on residential property are regulated under the Consumer Credit Acts 1974 and 2006.

9) True or false? George wants to borrow £20,000 in the form of a personal loan to install a new bathroom and kitchen in his house. This loan would be subject to consumer credit legislation.

10) An estate agent that makes misleading claims about the properties it is marketing is potentially in breach of:

a) Consumer Protection from Unfair Trading Regulations 2014.

b) The Consumer Protection (Amendment) Regulations 2014.

c) Consumer Credit Act 1974.

d) Consumer Credit Act 2006.