

Chapter 11

Responsible lending, and responsible financing of home purchase plans

11.4 Application

Who?

11.4.1 **R** This chapter applies to a *firm* in a category listed in column (1) of the table in **■** MCOB 11.4.2 R in accordance with column (2) of that table.

11.4.2 **R** This table belongs to **■** MCOB 11.4.1 R

(1) Category of firm	(2) Applicable section
<i>mortgage lender</i>	Whole chapter
<i>home purchase provider</i>	Whole chapter except MCOB 11.6.1G (2), MCOB 11.6.5R (3) and (4), MCOB 11.6.18 R, MCOB 11.6.19 G, MCOB 11.6.20R (2) and MCOB 11.6.20R (9), MCOB 11.6.40 G to MCOB 11.6.59 G, MCOB 11.6.60R (2)(e), (3) and (4) and MCOB 11.7.3 R

What?

11.4.3 **R** This chapter applies:

- (1) if a *firm* enters into a regulated mortgage contract or home purchase plan with a customer; or
- (2) if a *firm* varies an existing regulated mortgage contract or home purchase plan; and

throughout the term of any regulated mortgage contract or home purchase plan which a *firm* has entered into.



11.5 Purpose

11.5.1

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- (1) This chapter requires a *firm* to treat *customers* fairly by assessing, before deciding to:
 - (a) *enter into a regulated mortgage contract or home purchase plan*;
or
 - (b) *vary a regulated mortgage contract or home purchase plan*;
whether the *customer* will be able to repay the sums borrowed and interest (in the case of a *regulated mortgage contract*) or pay the sums due (in the case of a *home purchase plan*).
- (2) This chapter aims to ensure that *customers* are not exploited by *firms* that provide finance in circumstances where the *customers* are self-evidently unable to repay (or pay) through income and have no alternative means of repayment (or payment).
- (3) This chapter sets out some limited exceptions to the requirement to assess the *customer's* ability to repay (or pay), including transitional arrangements in relation to *customers* with existing *regulated mortgage contracts or home purchase plans* which satisfy certain conditions.
- (4) This chapter also applies in relation to extending the term of a *bridging loan*.

11.6 Responsible lending and financing

Contents of this section

11.6.1

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- (1) This section sets out *rules* and *guidance* for lenders and providers under *regulated mortgage contracts* and *home purchase plans*, in relation to the assessment of affordability for the *customer* of these contracts. *Firms* have the option of applying certain of the *rules* and *guidance* on a modified basis in relation to *regulated mortgage contracts* and *home purchase plans* which are solely for a business purpose or are with *high net worth mortgage customers*. This section also contains (at ■ MCOB 11.6.41 R to ■ MCOB 11.6.52 G) additional *rules*, with accompanying *guidance*, in relation to *regulated mortgage contracts* which are *interest-only mortgages*. These *rules*:
- (a) restrict the circumstances in which *interest-only mortgages* may be entered into, and impose additional requirements on *mortgage lenders* in those limited cases where they are permitted; and
 - (b) provide for an exception to the requirement to assess affordability in relation to those *interest-only mortgages* which are *interest roll-up mortgages*, and restrict the circumstances in which *interest roll-up mortgages* may be used (see ■ MCOB 11.6.57 R to ■ MCOB 11.6.59 G).
- (2) This section also contains (at ■ MCOB 11.6.53 E to ■ MCOB 11.6.54 G) special provisions for *mortgage lenders* in relation to *bridging loans*, including some which apply only where the *bridging loan* is an *interest-only mortgage*.

The assessment of affordability

11.6.2

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- (1) Except as provided in ■ MCOB 11.6.3 R, ■ MCOB 11.6.57 R (Interest roll-up mortgages) and ■ MCOB 11.7 (Transitional arrangements):
- (a) before *entering into*, or agreeing to vary, a *regulated mortgage contract* or *home purchase plan*, a *firm* must assess whether the *customer* (and any guarantor of the *customer's* obligations under the *regulated mortgage contract* or *home purchase plan*) will be able to pay the sums due; and
- [Note: article 18(1) of the MCD]
- (b) the *firm* must not enter into the transaction in (a) unless it can demonstrate that the new or varied *regulated mortgage contract* or *home purchase plan* is affordable for the *customer* (and any guarantor).

[Note: article 18(5)(a) of the *MCD*]

- (2) In ■ MCOB 11.6, references to payment of sums due means:
- (a) in the case of a *regulated mortgage contract*, the making of the payments to repay the sums advanced and interest reasonably expected to be accrued under the *regulated mortgage contract*; and

[Note: article 18(6) of the *MCD*]

- (b) in the case of a *home purchase plan*, the payment of sums due under the *home purchase plan*;

in each case as they fall due.

- (3) In ■ MCOB 11.6, references to the *customer* must be read as referring also to any guarantor of the *customer's* obligations under the *regulated mortgage contract*, where the context permits.

11.6.3

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- (1) ■ MCOB 11.6.2 R does not apply to:

- (a) entering into a new *regulated mortgage contract* or *home purchase plan* as a replacement for an existing *regulated mortgage contract* or *home purchase plan* between the *customer* and the *firm* (either as the original *mortgage lender* or *home purchase provider* or as the transferee of the existing contract), whether or not the new contract relates to the same property; or
- (b) a variation of an existing *regulated mortgage contract* or *home purchase plan*;

provided the conditions in (2) are satisfied.

- (2) The conditions referred to in (1) are that:

- (a) the proposed new or varied *regulated mortgage contract* or *home purchase plan* would not involve the *customer* taking on additional borrowing or (for a *home purchase plan*, increasing the amount of finance provided under the plan) beyond the amount currently outstanding under the existing *regulated mortgage contract* or *home purchase plan*, other than to finance any product fee or arrangement fee for the proposed new or varied contract; and

[Note: article 18(6) of the *MCD*]

- (b) there is no change to the terms of the *regulated mortgage contract* or *home purchase plan* which is likely to be material to affordability.

- (3) ■ MCOB 11.6.2 R does not apply to a variation to the terms of a *regulated mortgage contract* or *home purchase plan* which is made solely for the purposes of forbearance where the *customer* has a *payment shortfall*, or in order to avoid a *payment shortfall*.

11.6.4

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- (1) If a *firm* treats any of the following changes as not likely to be material to affordability, this may be relied upon as tending to show contravention of ■ MCOB 11.6.2 R:

- (a) an extension of the term of the *regulated mortgage contract* or *home purchase plan* which it is reasonable to expect will extend into (or further into) the *customer's* retirement (including a change from a mortgage with a term to a *retirement interest-only mortgage*); or
 - (b) changing from a *repayment mortgage* to an *interest-only mortgage*, or vice versa; or
 - (c) the addition or removal of a *customer*.
- (2) The list in (1) is not exhaustive.

11.6.5 **R** When assessing for the purposes of **■ MCOB 11.6.2 R** whether a *customer* will be able to pay the sums due, a *firm*:

- (1) must not base its assessment of affordability on the equity in the property which is used as security under the *regulated mortgage contract* or is subject to the *home purchase plan*, or take account of an expected increase in property prices;

[Note: article 18(3) of the *MCD*]

- (2) must take full account of:
 - (a) the income of the *customer*, net of income tax and national insurance; and, as a minimum
 - (b) (i) the *customer's* committed expenditure; and
(ii) the basic essential expenditure and basic quality-of-living costs of the *customer's* household;

[Note: article 20(1) of the *MCD*]

- (3) (if it is a *mortgage lender*) must assess affordability on the basis of both repayment of capital and payment of interest over the term, except where lending under an *interest-only mortgage* in accordance with **■ MCOB 11.6.41R (1)**; and
- (4) (if it is a *mortgage lender*) must take account of the impact of likely future interest rate increases on affordability, as set out in **■ MCOB 11.6.18 R**.

[Note: article 18(1) of the *MCD*]

11.6.6 **R** For the purposes of **■ MCOB 11.6.2 R**, a *firm* must not rely on a general declaration of affordability by the *customer* or his representative.

Income multiples

11.6.7 **G** A *firm* may wish to impose a limit, expressed as a multiple of the *customer's* income, on the amount it is prepared to advance under a *regulated mortgage contract* or *home purchase plan*. Such an approach is not, of itself, inconsistent with **■ MCOB 11.6.2 R** but, in accordance with the *rules* in this section, the *firm* must be able to demonstrate that the loan is affordable, having taken full account of the *customer's* income and expenditure, and (for a *mortgage lender*) the impact of future likely interest rate increases on affordability.

Income

11.6.8

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In taking account of the *customer's* income (in accordance with ■ MCOB 11.6.5R (2)(a)) for the purposes of its assessment of whether the *customer* will be able to pay the sums due:

- (1) a *firm* must obtain evidence of the income declared by the *customer* for the purposes of the *customer's* application for the *regulated mortgage contract* or *home purchase plan* (or variation). The evidence, whether document-based or derived through the use of automated systems, must be of a type and for a period which is adequate to support each element of income that the *firm* is taking into account, and subject to appropriate anti-fraud controls; and
- (2) a *firm* must not accept self-certification of income by the *customer*, and the source of the evidence in (1) must be independent of the *customer*.

11.6.9

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In relation to taking account of the *customer's* income for the purposes of its assessment of whether the *customer* will be able to pay the sums due:

- (1) income may be derived from sources other than employment (such as pensions or investments), or from more than one job;
- (2) the evidence necessary to comply with ■ MCOB 11.6.8 R will vary according to factors such as the employment status and the nature of the employment of the *customer* (for example, whether he is employed, self-employed, a contractor or retired), his length of employment and, in particular, any elements of income that are not contractually guaranteed. For example: income from overtime working may be evidenced by payslips over a period of time or by checking the level of income regularly paid into a bank account;
- (3) for a self-employed *customer*, a *firm* may wish to consider using projections of future income, where these form part of a credible business plan;
- (4) a *firm* may use information it already holds about a *customer's* income, for example where the *customer* holds a current account with the *mortgage lender*;
- (5) the source of evidence may be independent of the *customer* even where it is supplied by the *customer*; for example, in the form of payslips, bank statements or tax returns;
- (6) a *firm* may use information provided to it by a *home finance intermediary* or other third party, including electronic sources of information, but the *firm* will retain responsibility for compliance with this chapter; and
- (7) *mortgage lenders* and *home purchase providers* are reminded of their obligations under ■ SYSC 8 in respect of outsourcing where they choose to use a third party to verify income information.

Expenditure

11.6.10

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For the purposes of a *mortgage lender's* or *home purchase provider's* assessment of whether the *customer* will be able to pay the sums due:

- (1) the committed expenditure of a *customer* in ■ MCOB 11.6.5R (2)(b)(i) is his credit and other contractual commitments which will continue after the *regulated mortgage contract* or *home purchase plan* (or variation) is entered into;
- (2) the basic essential expenditure of a *customer's* household in ■ MCOB 11.6.5R (2)(b)(ii) comprises expenditure for: housekeeping (food and washing); gas, electricity and other heating; water; telephone; council tax; buildings insurance; ground rent and service charge for leasehold properties; and essential travel (including to work or school); and
- (3) the basic quality-of-living costs of a *customer's* household in ■ MCOB 11.6.5R (2)(b)(ii) are its expenditure which is hard to reduce and gives a basic quality of life (beyond the absolute essential expenditure in (2)).

11.6.11

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(1) Examples of committed expenditure are: credit commitments such as secured and unsecured loans and credit cards; hire purchase agreements; child maintenance; alimony; and the cost of a *repayment strategy* where the *customer* has an *interest-only mortgage* (where affordability has not been assessed on a capital and interest basis: see ■ MCOB 11.6.48 R (Assessing affordability under an *interest-only mortgage*)).

(2) Examples of basic quality-of-living costs (which can be reduced, but only with difficulty) are: clothing; household goods (such as furniture and appliances) and repairs; personal goods (such as toiletries); basic recreation (television, some allowance for basic recreational activities, some non-essential transport); and childcare.

11.6.12

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For the purposes of its assessment of whether the *customer* will be able to pay the sums due:

- (1) a *firm* may generally rely on any evidence of income or information on expenditure provided by the *customer* unless, taking a common sense view, it has reason to doubt the evidence or information;
- (2) in taking account of the *customer's* committed expenditure, a *firm* must take reasonable steps to obtain details of the *customer's* actual outstanding commitments; and
- (3) in taking account of the basic essential expenditure and basic quality-of-living costs of a *customer's* household, a *firm* may obtain details of the actual expenditure. Alternatively, it may use statistical data or other modelled data appropriate to the composition of the *customer's* household, including the *customer*, dependent children and other dependents living in the household. If it uses statistical or other modelled data a *firm* must apply realistic assumptions to determine the level of expenditure of the *customer's* household.

- 11.6.13 **G**
- (1) Examples of evidence of income in ■ MCOB 11.6.12R (1) are payslips and bank statements.
 - (2) If a *firm* obtains details of the *customer's* credit commitments from the *customer*, it should corroborate the information, for example by making a credit reference agency search or checking credit card or bank statements.
 - (3) Where the *customer's* credit or contractual commitments are due to end shortly after the *regulated mortgage contract or home purchase plan* (or variation) has been entered into, a *firm* should take a common sense approach to deciding whether to include those commitments in its assessment of whether the *customer* will be able to pay the sums due, according to such factors as the remaining term of the commitment and the magnitude of payments required under it.

Future changes to income and expenditure

11.6.14 **R** If a *firm* is, or should reasonably be aware from information obtained during the application process, that there will, or are likely to, be future changes to the income and expenditure of the *customer* during the term of the *regulated mortgage contract or home purchase plan*, the *firm* must take them into account when assessing whether the *customer* will be able to pay the sums due for the purposes of ■ MCOB 11.6.2 R.

- 11.6.15 **G**
- (1) Examples of future changes to income and expenditure in ■ MCOB 11.6.14 R are: reductions in income that may come about following the *customer's* retirement; where it is known that the *customer* is being made redundant; or where the *firm* is aware of another loan commitment that will become due during the term of the *regulated mortgage contract or home purchase plan*, such as an equity loan to assist in property purchase.
 - (2) If the term of a *regulated mortgage contract or home purchase plan* would extend beyond the date on which the *customer* expects to retire (or, where that date is not known, the state pension age), a *firm* should take a prudent and proportionate approach to assessing the *customer's* income beyond that date. The degree of scrutiny to be adopted may vary according to the period of time remaining to retirement when the assessment is made. The closer the *customer* is to retiring, the more robust the evidence of the level of income in retirement should be. For example, where retirement is many years in the future, it may be sufficient merely to confirm the existence of some pension provision for the *customer* by requesting evidence such as a pension statement; where the *customer* is close to retirement, the more robust steps may involve considering expected pension income from a pension statement. In accordance with ■ MCOB 11.6.12R (1), a *firm* should take a common sense view when assessing any information provided by the *customer* on his expected retirement date.
 - (3) Where an additional loan commitment is expected to become due during the term of the *regulated mortgage contract or home purchase plan*, the *mortgage lender* should assess whether the *regulated mortgage contract or home purchase plan* will remain

affordable when the loan commitment becomes due, unless there is an appropriate *repayment strategy* in place to repay that loan, such as through the sale of the property which is the subject of the *regulated mortgage contract* or *home purchase plan*.

- (j) When assessing the affordability of a *retirement interest-only mortgage* with joint borrowers, the *firm* should consider the ability of a single borrower to continue making the required payments if the other dies, taking into account relevant evidence such as pensions payable to the surviving spouse or civil partner.

Debt consolidation and credit-impaired consumers

11.6.16 **R**

- (1) This *rule* applies where:
 - (a) a purpose of a *regulated mortgage contract* or *home purchase plan* (or variation) is debt consolidation; and
 - (b) for a *first charge regulated mortgage contract*, the *customer* is a *credit-impaired customer*.
- (2) Subject to (3), where each of the conditions in (1) is satisfied and, if the debts which are to be repaid using the sums raised by the *regulated mortgage contract* or *home purchase plan* (or variation) were not repaid, the transaction would not be affordable for the *customer*, the *firm* must take reasonable steps to ensure that, on completion of the transaction, those debts are actually repaid.
- (3) The requirement in (2) does not apply if the *firm* has assumed that the *customer's* existing debts which are to be repaid using the sums raised by the *regulated mortgage contract* or *home purchase plan* (or variation) will not in fact be repaid and, accordingly, include them as committed expenditure in the affordability assessment for the *customer*.

11.6.17 **G**

The requirement in **MCOB 11.6.16R** (2) for reasonable steps may be satisfied by the *mortgage lender's*, or *home purchase provider's*, repaying the committed expenditure directly to the creditors concerned as a condition of granting the *regulated mortgage contract* or *home purchase plan*.

Considering the effect of future interest rate rises

11.6.18 **R**

- (1) Under **MCOB 11.6.5R** (4), in taking account of likely future interest rate increases for the purposes of its assessment of whether the *customer* will be able to pay the sums due, a *mortgage lender* must consider the likely future interest rates over a minimum period of five years from the expected start of the term of the *regulated mortgage contract* (or variation), unless the interest rate under the *regulated mortgage contract* is fixed for a period of five years or more from that time, or for the duration of the *regulated mortgage contract* (or variation), if less than five years.
- (2) In coming to a view as to likely future interest rates, a *mortgage lender* must have regard to:
 - (a) market expectations; and
 - (b) any prevailing *Financial Policy Committee* recommendation on appropriate interest-rate stress tests;
 and must be able to justify the basis it uses by reference to (a) and (b).

(3) For the purposes of this *rule*, even if the basis used by the *mortgage lender* in (2) indicates that interest rates are likely to fall, or to rise by less than 1%, during the first five years of the *regulated mortgage contract* (or variation), a *mortgage lender* must assume that interest rates will rise by a minimum of 1% over that period.

11.6.18A **R**

(1) Under **MCOB 11.6.5R** (4), in taking account of likely future interest rate increases for the purposes of its assessment of whether the *customer* will be able to pay the sums due, a *second charge lender* must also consider the likely future interest rates of any *regulated mortgage contract* in existence at the time of the assessment and remaining in existence after the relevant *second charge regulated mortgage contract* has been entered into.

(2) The *second charge lender* must, at a minimum, base its assessment under (1) on the balance outstanding of any *regulated mortgage contract* relevant under (1).

11.6.19 **G**

In relation to **MCOB 11.6.18R** (2):

(1) an example of market expectations is the forward sterling rate published on the Bank of England website. A *mortgage lender* should not use its own forecast; and

(2) a *mortgage lender* should not link its determination to market expectations without considering the likely effect of rate changes in accordance with the market expectations on the specific *regulated mortgage contract* in question.

Responsible lending or financing policy

11.6.20 **R**

A *firm* must put in place, and operate in accordance with, a written policy (which may be contained in more than one document), approved by its *governing body*, setting out the factors it will take into account in assessing a *customer's* ability to pay the sums due. The policy must address the following matters:

- (1) how income and expenditure is to be assessed, including (except as provided in **MCOB 11.6.32R** (1) and **MCOB 11.6.39R** (1)):
 - (a) details of the types of income which are acceptable;
 - (b) the proportion of different income streams which is acceptable;
 - (c) how variations in income over time, of which the *firm* is aware, are to be considered;
 - (d) what is acceptable evidence of income (including the time period to be covered by the evidence); and
 - (e) how committed expenditure, basic essential expenditure and basic quality-of-living costs are taken into account when assessing affordability;
- (2) how future interest rates are taken into account when assessing affordability;

- (3) the calculations used to determine whether the *regulated mortgage contract* or *home purchase plan* is affordable;
- (4) how the *mortgage lender's* or *home purchase provider's* anti-fraud controls are incorporated into affordability assessments;
- (5) how the *mortgage lender's* or *home purchase provider's* method of calculating the size of the advance for each *customer*, based on a consideration of the *customer's* income and expenditure, is to be monitored, including the timing of reviews and key performance indicators to be used (see ■ MCOB 11.6.22 R (Monitoring));
- (6) the actions to be taken if the *mortgage lender's* or *home purchase provider's* calculation method, referred to in (5), does not perform as expected;
- (7) how regular audits of compliance with the *mortgage lender's* or *home purchase provider's* responsible lending or financing policy established in accordance with this *rule* are to be undertaken (as required by ■ MCOB 11.6.24 R);
- (8) how the record keeping requirements in ■ MCOB 11.6.60 R are to be met;
- (9) (if applicable) the matters required by ■ MCOB 11.6.50 R (Interest-only policy); and
- (10) (if applicable) how the *firm* will apply the *rules* in ■ MCOB 11.7 (Transitional arrangements) so as to permit exceptions to its procedures for affordability assessments, to include arrangements for use of management information to monitor its application of those exceptions.

[Note: article 18(2) of the MCD]

11.6.21 G Examples of different income streams in ■ MCOB 11.6.20R (1)(b) are: income derived from sources other than employment; income from more than one job; and elements of income that are not contractually guaranteed.

11.6.21A R An *MCD mortgage lender* must keep a record of the valuation and types of immovable property accepted as a security, as well as the related mortgage underwriting policies used.

[Note: article 19(2) and second sentence of article 26(1) of the MCD]

11.6.21B G When considering the period for which the records kept under ■ MCOB 11.6.21A R are to be retained, *MCD mortgage lenders* are reminded of the high-level record-keeping provisions in SYSC.

Monitoring.....

11.6.22 R A *firm* must put in place, and be able to demonstrate that it has, robust systems and controls (including the use of management information and key performance indicators) to monitor the effectiveness of its affordability assessments, including in preventing payment difficulties.

11.6.23 **G** Except as provided in ■ MCOB 11.6.32R (2) and ■ MCOB 11.6.39R (2), the monitoring in ■ MCOB 11.6.22 R should:

- (1) include use of management information, key performance indicators and root cause analysis to review and (where appropriate) adjust and improve the *mortgage lender's or home purchase provider's* method of calculating the size of the advance for each *customer*, based on a consideration of the *customer's* income and expenditure; and
- (2) take place on a regular basis. However, a *firm* should put in place key performance indicators that trigger more frequent reviews; for example, if the incidence of *customers* being in *arrears*, or of early *arrears*, is higher than expected.

11.6.24 **R** A *firm* must ensure that its compliance with the responsible lending or financing policy required by ■ MCOB 11.6.20 R is reviewed at least once per calendar year:

- (1) in any case where the *firm* has an internal audit function or outsourced equivalent, by that function; and
- (2) in any other case, by the *firm's* internal compliance function or an outsourced equivalent.

Alternative provisions for loans which are solely for a business purpose

11.6.25 **R** Where a *regulated mortgage contract* is solely for a business purpose, a *firm* may opt to apply ■ MCOB 11.6.26 R to ■ MCOB 11.6.31 R in place of ■ MCOB 11.6.5 R to ■ MCOB 11.6.19 G.

11.6.26 **R** When assessing for the purposes of ■ MCOB 11.6.2 R whether a *customer* will be able to pay the sums due, a *firm*:

- (1) must not base its assessment of affordability on the equity in the property which is used as security under the *regulated mortgage contract*, or take account of an expected increase in property prices;
- (2) must:
 - (a) where the repayments will be made from the resources of the *customer*:
 - (i) take full account of the income, net of income tax and national insurance, or net assets (or both) of the *customer*; and the *customer's* committed expenditure; and
 - (ii) take account, in general terms as a minimum, of the basic essential expenditure and basic quality-of-living costs of the *customer's* household; and
 - (b) where the repayments will be made from the financial resources of the business, take full account of the strength of those resources;
- (3) in a case falling within (2)(b), if the *customer* is relying on the business for his personal income, must as a minimum consider in

general terms whether the business can support the *customer's* basic essential expenditure and basic quality-of-living costs;

- (4) must assess affordability on the basis of both repayment of capital and payment of interest over the term, except where lending under an *interest-only mortgage* in accordance with ■ MCOB 11.6.41R (1); and
- (5) must take account of the impact of likely future interest rate increases on affordability.

11.6.27 **R** For the purposes of ■ MCOB 11.6.2 R, a *firm* must not rely on a general declaration of affordability by the *customer* or his representative.

11.6.28 **R** In taking account (in accordance with ■ MCOB 11.6.26R (2)) of the *customer's* income or net assets (or both) and the resources of the business for the purposes of its assessment of whether the *customer* will be able to pay the sums due:

- (1) a *firm* must obtain evidence of the income or net assets (or both) of the *customer* and the resources of the business, as declared by the *customer* for the purpose of the *customer's* application for the *regulated mortgage contract* (or variation); and
- (2) a *firm* must not accept self-certification of income by the *customer*, and the source of the evidence in (1) must be independent of the *customer*.

11.6.29 **R** In ■ MCOB 11.6.26 R, for the purposes of taking full account of committed expenditure and taking account in general terms of basic essential expenditure and basic quality-of-living costs, the meaning of those phrases is as set out in ■ MCOB 11.6.10 R.

11.6.30 **G** The information which a *firm* should consider when taking account, for the purposes of ■ MCOB 11.6.26R (2)(b), of the strength of the financial resources of the business will vary according to the characteristics of the business, but may include factors such as the cash flow, assets and liabilities of the business.

11.6.31 **R** If a *firm* is, or should reasonably be aware from information obtained during the application process, that there will, or are likely to, be future changes to the income and expenditure of the *customer*, or the resources of the business, during the term of the *regulated mortgage contract*, the *firm* must take them into account when assessing whether the *customer* will be able to pay the sums due for the purposes of ■ MCOB 11.6.2 R.

11.6.32 **R** Where a *firm* chooses, in accordance with ■ MCOB 11.6.25 R, to apply the provisions of ■ MCOB 11.6.26 R to ■ MCOB 11.6.31 R in place of ■ MCOB 11.6.5 R to ■ MCOB 11.6.19 G:

- (1) its policy in ■ MCOB 11.6.20R (1) need not address each of the matters prescribed in sub-paragraphs (a) to (e) of that *rule*;

- (2) ■ MCOB 11.6.23 G does not apply; and
- (3) in each case the record-keeping requirements in ■ MCOB 11.6.60R (2)(a) to ■ (d) apply only to the extent relevant, but the record in ■ MCOB 11.6.60R (1) must also include, to the extent relevant:
 - (a) the *customer's* assets and the evidence relied on to assess them; and
 - (b) the details considered in relation to the resources of the business.

Alternative provisions for loans with high net worth mortgage customers

11.6.33 ■ **R** Where a *regulated mortgage contract* is for a *high net worth mortgage customer*, a *firm* may opt to apply ■ MCOB 11.6.34 R to ■ MCOB 11.6.38 R in place of ■ MCOB 11.6.5 R to ■ MCOB 11.6.19 G.

11.6.34 ■ **R** When assessing for the purposes of ■ MCOB 11.6.2 R whether a *customer* will be able to pay the sums due, a *firm*:

- (1) must not base its assessment of affordability on the equity in the property which is used as security under the *regulated mortgage contract*, or take account of an expected increase in property prices;

[Note: article 18(3) of the *MCD*]

- (2) must:
 - (a) take full account of the income, net of income tax and national insurance, or net assets (or both) of the *customer*; and the *customer's* committed expenditure; and
 - (b) take account, in general terms as a minimum, of the basic essential expenditure and basic quality-of-living costs of the *customer's* household;

[Note: article 20(1) of the *MCD*]

- (3) must assess affordability on the basis of both repayment of capital and payment of interest over the term, except where lending under an *interest-only mortgage* in accordance with ■ MCOB 11.6.41R (1); and
- (4) must take account of the impact of likely future interest rate increases on affordability.

11.6.35 ■ **R** For the purposes of ■ MCOB 11.6.2 R, a *firm* must not rely on a general declaration of affordability by the *customer* or his representative.

11.6.36 ■ **R** In taking account of the *customer's* income or net assets (or both) (in accordance with ■ MCOB 11.6.34R (2)(a)) for the purposes of its assessment of whether the *customer* will be able to pay the sums due:

- (1) a *firm* must obtain evidence of the income or net assets (or both) declared by the *customer* for the purpose of the *customer's* application for the *regulated mortgage contract* (or variation); and

(2) a *firm* must not accept self-certification of income by the *customer*, and the source of the evidence in (1) must be independent of the *customer*.

11.6.37 **R** In **■ MCOB 11.6.34 R**, for the purposes of taking full account of committed expenditure and taking account in general terms of basic essential expenditure and basic quality-of-living costs, the meaning of those phrases is as set out in **■ MCOB 11.6.10 R**.

11.6.38 **R** If a *firm* is, or should reasonably be, aware from information obtained during the application process, that there will, or are likely to, be future changes to the income and expenditure of the *customer* during the term of the *regulated mortgage contract*, the *firm* must take them into account when assessing whether the *customer* will be able to pay the sums due for the purposes of **■ MCOB 11.6.2 R**.

11.6.39 **R** Where a *firm* chooses, in accordance with **■ MCOB 11.6.33 R**, to apply the provisions of **■ MCOB 11.6.34 R** to **■ MCOB 11.6.38 R** in place of **■ MCOB 11.6.5 R** to **■ MCOB 11.6.19 G**:

(1) its policy in **■ MCOB 11.6.20R (1)** need not address each of the matters prescribed in sub-paragraphs (a) to (e) of that *rule*;

(2) **■ MCOB 11.6.23 G** does not apply; and

(3) in each case the record-keeping requirements in **■ MCOB 11.6.60R (2)(a)** to **■ MCOB 11.6.60R (2)(d)** apply only to the extent relevant, but the record in **■ MCOB 11.6.60R (1)** must also include, to the extent relevant, the *customer's* assets and the evidence relied on to assess them.

Interest-only mortgages

11.6.40 **G** The rules in this part (**■ MCOB 11.6.41 R** to **■ MCOB 11.6.49 R**) provide that *interest-only mortgages* may be entered into by mortgage lenders in limited circumstances.

11.6.40A **G** A *shared equity credit agreement* may be an *interest-only mortgage*.

Entering into interest-only mortgages

11.6.41 **R** (1) A *mortgage lender* may only enter into an *interest-only mortgage*, or switch a *repayment mortgage* onto an *interest-only* basis for all or part of its term, if:

(a) it has evidence that the *customer* will have in place a clearly understood and credible *repayment strategy*; and

(b) as far as it is reasonably able to assess at that time, the *repayment strategy* has the potential to repay the capital borrowed and any interest reasonably expected to be accrued under the *interest-only mortgage*.

(2) In **■ MCOB 11.6**, a reference to an *interest-only mortgage* is to be read as including any *regulated mortgage contract* which includes an

interest-only period or where part of the sum is advanced on an interest-only basis.

- (3) A *mortgage lender* must not accept speculative *repayment strategies* for the purposes of (1).

11.6.42 **G** *Firms* are reminded that:

- (1) *interest-only mortgages* include those where some, but not all, interest is payable at the end of the term. Accordingly, the requirement in ■ MCOB 11.6.41R (1)(b) applies equally to such *interest-only mortgages* as it does to those where all of the interest is accrued until the end of the term; and
- (2) a *lifetime mortgage* is a type of *interest-only mortgage*, as full repayment of capital and interest is not required over the term. Accordingly, the requirements in the *Handbook* (including in ■ MCOB 11.6 and ■ MCOB 11.7) which apply to *interest-only mortgages* apply to *lifetime mortgages*, unless specifically disapplied. Depending always on its terms, a *lifetime mortgage* may also be an *interest roll-up mortgage*, as noted in ■ MCOB 11.6.59 G.

11.6.43 **R** ■ MCOB 11.6.41R (1) does not prevent a *mortgage lender*, when appropriate, from making a temporary concession, by which he accepts payment of interest only, with a *customer* who is in *arrears* or has a *payment shortfall*, or is at risk of *arrears* or a *payment shortfall*, on a *regulated mortgage contract*.

11.6.44 **G** *Firms* are reminded that whether it is appropriate to take the action contemplated by ■ MCOB 11.6.43 R will depend on all the circumstances of the particular case and must be considered having regard to, among other things, *Principle 6* and the *rules* in ■ MCOB 13.

11.6.45 **G** The following are examples of *repayment strategies* that may, subject to the circumstances of the *customer*, be acceptable for the purposes of ■ MCOB 11.6.41R (1):

- (1) regular deposits into a savings or investment product;
- (2) the periodic repayment of capital from irregular sources of income (such as bonuses or some sources of income from self-employment);
- (3) the sale of assets such as another property or other land owned by the *customer*; and
- (4) for a *shared equity credit agreement* or a *retirement interest-only mortgage*, the sale of the property which is the subject of the agreement.

11.6.46 **E** Acceptance by a *mortgage lender* of any of the following *repayment strategies* for the purposes of ■ MCOB 11.6.41R (1) may be relied upon as tending to show contravention of that *rule*:

- (1) an expectation that the value of the property which is the subject of the *regulated mortgage contract* will increase over its term sufficiently to enable the *customer* to sell the property to repay the capital borrowed and, where applicable, pay the interest accrued under the *interest-only mortgage*;
- (2) an intention on the part of the *customer* to utilise an expected, but uncertain, inheritance to repay the capital borrowed and, where applicable, pay the interest accrued under the *interest-only mortgage*; and
- (3) the sale of the property which is the subject of the *regulated mortgage contract*, where that is the *customer's* main residence and the *mortgage lender* does not consider whether the property will have the potential to:
 - (a) provide sufficient funds for the *customer* to repay the capital borrowed and, where applicable, the interest accrued under the *interest-only mortgage*; and
 - (b) allow the *customer* to purchase a cheaper property to reside in or execute any other associated strategy.

The above list is not exhaustive.

11.6.46A R ■ MCOB 11.6.46E(3)(b) does not apply in relation to a *retirement interest-only mortgage*.

11.6.47 G In complying with ■ MCOB 11.6.41R (1), where a *customer's repayment strategy* is the sale of the property which is the subject of the *regulated mortgage contract*, a *mortgage lender* may wish to consider, as part of its assessment of that *repayment strategy*, factors such as the equity in the property when considered in relation to the level of property prices in the relevant area at the time of the consideration or, for a *lifetime mortgage*, the borrower's life expectancy.

Assessing affordability under an interest-only mortgage

11.6.48 R For the purposes of ■ MCOB 11.6.2 R, where a *mortgage lender* is lending under an *interest-only mortgage* in accordance with ■ MCOB 11.6.41R (1), it may assess affordability on the basis of payment of interest only over the term (plus repayment of such capital as may be due to be repaid over the term). If it does so, it must consider as part of the *customer's* committed expenditure under ■ MCOB 11.6.5R (2)(b)(i) (or the equivalent alternative provision for transactions with *high net worth mortgage customers* or solely for business purposes) the cost to the *customer* of the *repayment strategy* (unless the mortgage is a *retirement interest-only mortgage*).

Review during the term of interest-only mortgages

11.6.49 R (1) This *rule* applies in relation to all *interest-only mortgages* which a *mortgage lender* enters into on or after 26 April 2014 except:

- (a) *lifetime mortgages*;
- (aa) *retirement interest-only mortgages*;
- (b) *bridging loans*; and

- (c) any other case where the repayment of capital borrowed and, if applicable, interest accrued, is certain.
- (2) Except as set out in (3), a *mortgage lender* must carry out a review (as a minimum, once) during the term of the mortgage, in which contact is made with the *customer*, to check that the *customer's repayment strategy* is still in place, and that it is still reasonable to expect that the *repayment strategy* has the potential to repay the capital borrowed and, where applicable, pay the interest reasonably expected to be accrued under the *interest-only mortgage*. The review must be carried out at a stage of the term when, if the *repayment strategy* is not in place, or not adequate, there is likely to be sufficient time prior to the end of the term for the *customer* to take appropriate steps to remedy the situation.
- (3) The review in (2) is not required in any case where, despite reasonable efforts to contact the *customer*, the *mortgage lender* has been unable to do so.
- (4) Following the review in (1), where appropriate the *mortgage lender* must take reasonable steps to discuss with the *customer* what may be done to address the situation.

Interest-only policy

11.6.50

R

A *mortgage lender* which enters into *interest-only mortgages* (unless they are only *lifetime mortgages*) must include in the policy which is required by ■ MCOB 11.6.20 R (Responsible lending and financing policy) a policy on *interest-only mortgages*, setting out its processes and procedures for ensuring compliance with ■ MCOB 11.6.41R (1) and for safeguarding the interests of *customers* during the term of *interest-only mortgages*. This policy must include:

- (1) details of the *mortgage lender's* plans for lending by way of *interest-only mortgages*, including its planned volumes of lending on that basis over a specified period, and provision for reviewing the actual volumes of lending on that basis, including the timing and method of review;
- (2) specification of the types of *repayment strategy* which will be considered acceptable, and the evidential requirements and other controls which will be applied to ensure that only such types will be accepted, including the controls to be applied where the *repayment strategy* is the sale of the property which is the subject of the *regulated mortgage contract*;
- (3) the procedures for checking the existence and adequacy of the *repayment strategy* in line with the policy, including questions to be asked of the *customer*;
- (4) the arrangements for monitoring and auditing compliance with the policy, processes and procedures (see ■ MCOB 11.6.22 R and ■ MCOB 11.6.24 R (Monitoring)); and
- (5) the process for the review required by ■ MCOB 11.6.49 R which, as a minimum:
 - (a) prescribes the timing of the review;

- (b) prescribes the content of the review, including the questions to be asked of the *customer* and the actions to be taken if the *customer* proves difficult to contact or otherwise does not co-operate with the review;
- (c) sets out how it is to be decided whether the *customer's repayment strategy* meets the criteria in ■ MCOB 11.6.49R (2); and
- (d) sets out the actions which will be appropriate to be considered during the discussions in ■ MCOB 11.6.49R (2), depending on the circumstances of the *customer*.

- 11.6.51 G
- (1) The controls in ■ MCOB 11.6.50R (2) may include, where appropriate: maximum loan to value limits; minimum equity requirements; regional factors such as property prices; or other eligibility requirements.
 - (2) The policy and procedures for safeguarding the interests of a *customer* under an *interest-only mortgage* should not permit the *mortgage lender* to change the *interest-only mortgage* to a *repayment mortgage*, extend the term or otherwise change the features of the *interest-only mortgage* unless to do so is compatible with the duties of the *mortgage lender* under Principle 6 and any other applicable *rules* and regulations, including those relating to *arrears* or *payment shortfall*. A *mortgage lender* should also have regard to the *CRA* when drafting the provisions of *regulated mortgage contracts* in relation to changes to their features.

- 11.6.52 G
- MCOB 11.6.50 R sets out requirements for *mortgage lenders* to have appropriate procedures for managing *interest-only mortgages* in order to safeguard the interests of *customers*. *Firms* are reminded of the *rules* and *guidance* in SYSC (notably ■ SYSC 7.1) relating to systems and controls for the management of risks to which *firms* themselves are exposed. *Firms* will need to consider whether their systems and controls are adequate in relation to the management of risks arising from *interest-only mortgages*.

Assessing the customer's repayment strategy for bridging loans

- 11.6.53 E
- For a *bridging loan* which is an *interest-only mortgage*, acceptance by a *mortgage lender* as a *repayment strategy* for the purposes of ■ MCOB 11.6.41R (1) of an expectation that, by entering into the *bridging loan*, the *customer's* credit status will be sufficiently improved to enable him to refinance to a longer-term *regulated mortgage contract* (except where the *mortgage lender* has evidence of a guaranteed offer for such a longer-term contract) may be relied upon as tending to show contravention of that *rule*.

- 11.6.54 G
- For a *bridging loan* which is an *interest-only mortgage*, in complying with ■ MCOB 11.6.41R (1):
- (1) where the *customer's repayment strategy* is the sale of his existing home, the *mortgage lender* may wish to consider asking for it to be supported by an independent valuation of that property, as a condition of accepting that *repayment strategy*; and

- (2) where the *customer's repayment strategy* is the replacement of the *bridging loan* with a mainstream *regulated mortgage contract*, the *mortgage lender* should not accept that *repayment strategy* unless it is reasonably satisfied that a mainstream *mortgage lender* will be willing to enter into a *regulated mortgage contract* with the *customer*. A *firm* may wish to consider requesting evidence of a guaranteed offer or agreement in principle that will be in place once the existing term of the *bridging loan* has expired, or obtain the necessary income and expenditure information, in order to be so satisfied.

Extending the term of a bridging loan

11.6.55 **R** Except in relation to a secured overdraft which is solely for a business purpose or is with a *high net worth mortgage customer*:

- (1) when considering extending the term of a *bridging loan*, a *mortgage lender* must comply with **MCOB 11.6.2 R** as if the *bridging loan* were a new loan;
- (2) where **MCOB 11.6.2 R** does not apply in relation to extending the term of a *bridging loan* (because the *bridging loan* is an *interest roll-up mortgage*, and therefore **MCOB 11.6.57 R** applies), the *mortgage lender* must consider with the *customer*, before he commits himself to extend the term, the impact of the extension on the *customer's* remaining equity in the property which is the subject of the *bridging loan*; and
- (3) a *firm* must not agree to extend the term of a *bridging loan* unless the *customer* has made a positive choice to do so.

11.6.56 **G** *Firms* are reminded that, when extending the term of a *bridging loan* to which **MCOB 11.6.55 R** does not apply, in accordance with **MCOB 2.5A.1 R**, they must act honestly, fairly and professionally in accordance with the best interests of their *customer*.

Interest roll-up mortgages

11.6.57 **R** The requirements in **MCOB 11.6.2 R** (and any *Handbook* provisions applicable only to that *rule*) do not apply in relation to an *interest roll-up mortgage*, or to the type of *lifetime mortgage* described in **MCOB 9.4.132AR**.

11.6.57A **G** The type of *lifetime mortgage* described in **MCOB 9.4.132AR** is one under which the *customer* makes payments to start with, but which can be converted to an *interest roll-up mortgage* at any time of the *customer's* choosing.

11.6.58 **R** A *mortgage lender* may not enter into an *interest roll-up mortgage*, or vary an existing *regulated mortgage contract* so that it becomes an *interest roll-up mortgage*, unless it is:

- (1) a *lifetime mortgage*; or
- (2) a *bridging loan*; or

- (3) a loan to a *high net worth mortgage customer*; or
- (4) a loan solely for business purposes; or
- (5) a *shared equity credit agreement*.

11.6.59 G *Firms are reminded that an interest roll-up mortgage is a type of interest-only mortgage, where no payments of interest or capital are required or anticipated until the mortgage comes to an end. Depending always on their terms, it is possible to structure the types of product set out in ■ MCOB 11.6.58R (1) to ■ (4) as an interest roll-up mortgage. Where that is the case, ■ MCOB 11.6.2 R will not apply in relation to them, but ■ MCOB 11.6.40 G to ■ MCOB 11.6.52 G will apply to all interest roll-up mortgages, to the extent they are permitted by ■ MCOB 11.6.58 R.*

11.6.59A G *A shared equity credit agreement may be an interest roll-up mortgage.*

Record-keeping

- 11.6.60** R
- (1) *A firm must make, in paper or electronic form, an adequate record of the steps it takes to comply with the rules in this chapter in relation to each customer.*
 - (2) *The record in (1) must include the information taken into account in each affordability assessment, so that it is possible to understand from the record the basis of the mortgage lender's or home purchase provider's lending or financing decision, including (except as provided in ■ MCOB 11.6.32R (3) and ■ MCOB 11.6.39R (3)):*
 - (a) *the customer's income, including, where relevant, a breakdown of the different income types;*
 - (b) *the customer's committed expenditure;*
 - (c) *the basic essential expenditure and basic quality-of-living costs of the customer's household (whether actual expenditure for that household or assumed expenditure from statistical or other modelled data, including information to show why the assumed data is appropriate to that customer's household);*
 - (d) *the evidence relied on to assess income and expenditure;*
 - (e) *the rate or assumptions used to test affordability against likely future interest rate rises;*
 - (f) *the repayment type and term of the regulated mortgage contract, or the term of the home purchase plan; and*
 - (g) *the calculation used to determine whether the regulated mortgage contract, home purchase plan is (or, where applicable, following the variation, remains) affordable for the customer.*
 - (3) *In relation to interest-only mortgages, the record in (1) must include:*
 - (a) *the reasons for each decision to offer an interest-only mortgage to a customer;*
 - (b) *the evidence of the customer's repayment strategy and, where applicable, its cost;*

- (c) details of the *firm's* attempts to contact the *customer* where required by ■ MCOB 11.6.49 R; and
 - (d) the outcome of each review required by ■ MCOB 11.6.49 R (whether conducted once during the term of the *interest-only mortgage* or more frequently).
- (4) In relation to the extension of the term of a *bridging loan* which falls within ■ MCOB 11.6.55 R, the record in (1) must include:
- (a) the *customer's* positive choice to extend the term;
 - (b) the reasons for the decision to extend the term; and
 - (c) the evidence of the *customer's repayment strategy* and its cost.
- (5) A firm must retain the records required by (1) to (4) for the term of the *regulated mortgage contract* or *home purchase plan*.
- (6) Where a firm enters into or varies a *regulated mortgage contract* or *home purchase plan* under ■ MCOB 11.7 (Transitional arrangements), it must keep, for the term of the contract or plan, a record of:
- (a) the outstanding balance on the existing contract or plan;
 - (b) the cost of the repairs or maintenance work to the property, where relevant;
 - (c) any product fee or arrangement fee financed by any additional borrowing taken on under the contract or increase in the amount of finance provided under the plan; and
 - (d) the rationale for each decision made to enter into or vary a *regulated mortgage contract* or *home purchase plan* under ■ MCOB 11.7 (Transitional arrangements), including why the firm considered it to be in the *customer's* best interests.
- (7) A *firm* must make, and keep up to date, an adequate record of the policy required by ■ MCOB 11.6.20 R. When the policy is changed, a record of the previous policy must be retained for so long as any *regulated mortgage contract* or *home purchase plan* to which it was applicable remains outstanding.

[Note: article 18(2) of the MCD]

- 11.6.61** G For the purposes of ■ MCOB 11.6.60R (2)(c) and ■ (g), if it is not practicable for the *firm* to record on the *customer's* file full details of the calculation method applied, it should record clearly which version of that method was applied in order that the file can be reviewed in conjunction with the applicable version of the method, so that it is possible to reconstruct the lending decision.

11.7 Transitional arrangements

11.7.1 **R** When considering *entering into a first charge regulated mortgage contract* or varying a *first charge regulated mortgage contract* or *home purchase plan*, a *firm* need not apply the rules in ■ MCOB 11.6.2 R to ■ MCOB 11.6.18 R inclusive (as modified by ■ MCOB 11.6.25 R to ■ MCOB 11.6.31 R and ■ MCOB 11.6.33 R to ■ MCOB 11.6.38 R, where applicable) if it has established, acting reasonably, that the following conditions are satisfied:

- (1) the *customer* has:
 - (a) an existing *first charge regulated mortgage contract* (whether or not entered into on or after 31 October 2004) with the *firm* or *home purchase plan* (whether or not entered into on or after 6 April 2007) which was in existence prior to 26 April 2014; or
 - (b) an existing *first charge regulated mortgage contract* with the *firm* or *home purchase plan* which was entered into in reliance on, and in compliance with, ■ MCOB 11.7;
- (2) subject to ■ MCOB 11.7.2 R, the proposed *regulated mortgage contract* or *home purchase plan*, or variation, would not involve the *customer* taking on additional borrowing (or, for a *home purchase plan*, increasing the amount of finance provided under the plan) beyond the amount currently outstanding under the existing *regulated mortgage contract* or *home purchase plan*, other than to finance any product fee or arrangement fee for the proposed new or varied contract;
- (3) the proposed transaction would be in the *customer's* best interests; and
- (4) the *customer* has not, after 26 April 2014 increased the size of the advance under the existing *regulated mortgage contract* or *home purchase plan* other than to finance any relevant product fee or arrangement fee in relation to, or the cost of essential repairs or maintenance to the property which is the subject of, that *regulated mortgage contract* or *home purchase plan*.

11.7.2 **R** The condition in ■ MCOB 11.7.1R (2) does not apply if each of the following conditions is satisfied:

- (1) the *firm* is the *mortgage lender* or *home purchase provider* under the existing *regulated mortgage contract* or *home purchase plan* in ■ MCOB 11.7.1R (1);

- (2) the value of the property which is the subject of the *regulated mortgage contract* or *home purchase plan* is at risk if repairs or maintenance work to the property are not carried out;
- (3) the funds generated by the additional borrowing or increase in finance provided are to be used to carry out the repairs or maintenance work; and
- (4) the *firm* has obtained credible evidence which demonstrates that the additional borrowing or increase in finance are no more than the cost of the repairs or maintenance work.
- (5) the proposed transaction is:
 - (a) the variation of an existing non-MCD *first charge regulated mortgage contract*,
 - (b) the entry into a non-MCD *first charge regulated mortgage contract*, or
 - (c) a *home purchase plan* or variation of a *home purchase plan*.

11.7.3 **R** (1) When considering *entering into a first charge regulated mortgage contract* which is an *interest-only mortgage* or varying a *first charge regulated mortgage contract* which is an *interest-only mortgage*, a *mortgage lender* need not apply the rules in ■ MCOB 11.6.41R (1), ■ MCOB 11.6.49 R, ■ MCOB 11.6.50 R and ■ MCOB 11.6.60R (3) if the conditions in ■ MCOB 11.7.1 R) are satisfied, and if it has established, acting reasonably, that the existing *regulated mortgage contract* in ■ MCOB 11.7.1R (1) is an *interest-only mortgage*.

(2) Where only part of the sum advanced under the existing *regulated mortgage contract* is on an interest-only basis, (1) applies, but only to that part.

11.7.4 **G** In accordance with its obligation under *Principle 6* to treat its *customers* fairly, a *firm* should not treat a *customer* with whom it *enters into* or varies a *regulated mortgage contract* or *home purchase plan* pursuant to this section 11.7 less favourably than it would treat other *customers* with similar characteristics, for example by offering less favourable interest rates or other terms.

11.7.5 **G** *Firms* should note the record-keeping requirements at ■ MCOB 11.6.60R (6) which apply when *regulated mortgage contracts* and *home purchase plans* are *entered into* or varied under this section.

11.7.6 **R** Where a *firm* has elected to apply any of MCOB TPs 22, 24, 26, 28, 30, 32, 34, 36, 38 or 40 in ■ MCOB TP 1.1, any *first charge regulated mortgage contract* they propose to enter into between 21 September 2015 and 21 March 2016 is not to be regarded as an *MCD regulated mortgage contract* for the purposes of this chapter.

11.8 Customers unable to change regulated mortgage contract, home purchase plan or provider

11.8.1

E Where a *customer* is unable to:

- (1) enter into a new *regulated mortgage contract* or home purchase plan or vary the terms of an existing *regulated mortgage contract* or *home purchase plan* with the existing *mortgage lender* or *home purchase provider*; or
- (2) enter into a new *regulated mortgage contract* or *home purchase plan* with a new *mortgage lender* or *home purchase provider*;

the existing *mortgage lender* or *home purchase provider* should not (for example, by offering less favourable interest rates or other terms) take advantage of the *customer's* situation or treat the *customer* any less favourably than it would treat other *customers* with similar characteristics. To do so may be relied on as tending to show contravention of *Principle 6* (Customers' interests).