



The Mortgage Credit Directive (MCD) impact on Intermediaries in the second charge mortgage market

The MCD comes into effect from the 21st March 2016, impacting mortgage lending for first charge, second charge and also some bridging finance, with the second charge intermediaries seeing the biggest impact.

Careful consideration to the following points could help intermediaries with their future strategy planning.

- ❖ **Disclosure.** The new European Single Information Sheet (ESIS) is in a prescribed form and must be provided to customers from the 21st March 2016
- ❖ **Information to customers.** Customers must be made aware that there may be alternative solutions that may be more suitable; this could impact the firm because the customer may investigate any alternatives.
- ❖ **Affordability assessment.** The requirement is for a thorough assessment for affordability and sustainability, this must be fully documented and evidenced and where there isn't evidence that the customer meets the affordability criteria, the application can't proceed.
- ❖ **Fees and charges options.** Considering that the majority of second charge loans are on a debt consolidation basis, it is very unlikely that customers will have any money available to pay fees and charges up front. This may present the opportunity for customers to consider alternative solutions.
- ❖ **The level of fees and charges.** The Consultation paper CP14/20 refers to excessive fees being charged in the second charge market and that two thirds of second charge loans are customers requiring debt consolidation. Firms will need to consider their fee charging structure.
- ❖ **Training, competence and relevant qualifications.** The requirement for qualifications will fall in line with first charge advisers, CeMAP or equivalent qualification to level three will be required. Additional impact on the firm will be the on going supervision and monitoring adviser competence, leading to greater resource and cost implications.
- ❖ **Debt consolidation.** The reasons for a debt consolidation loan will need to be robustly justified. Customers with debt are classed as vulnerable customers.
- ❖ **The sales process.** The sales process must be documented and advice must meet the requirements now for CONC and later MCOB. The principles of business especially 3, 6 and 9 will be monitored closely by the FCA
- ❖ **Authorisation.** Firms can start to apply for authorisation from April 2015.

If you require any assistance with any preparation for the implementation of the MCD, please call or visit the website for more information.

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