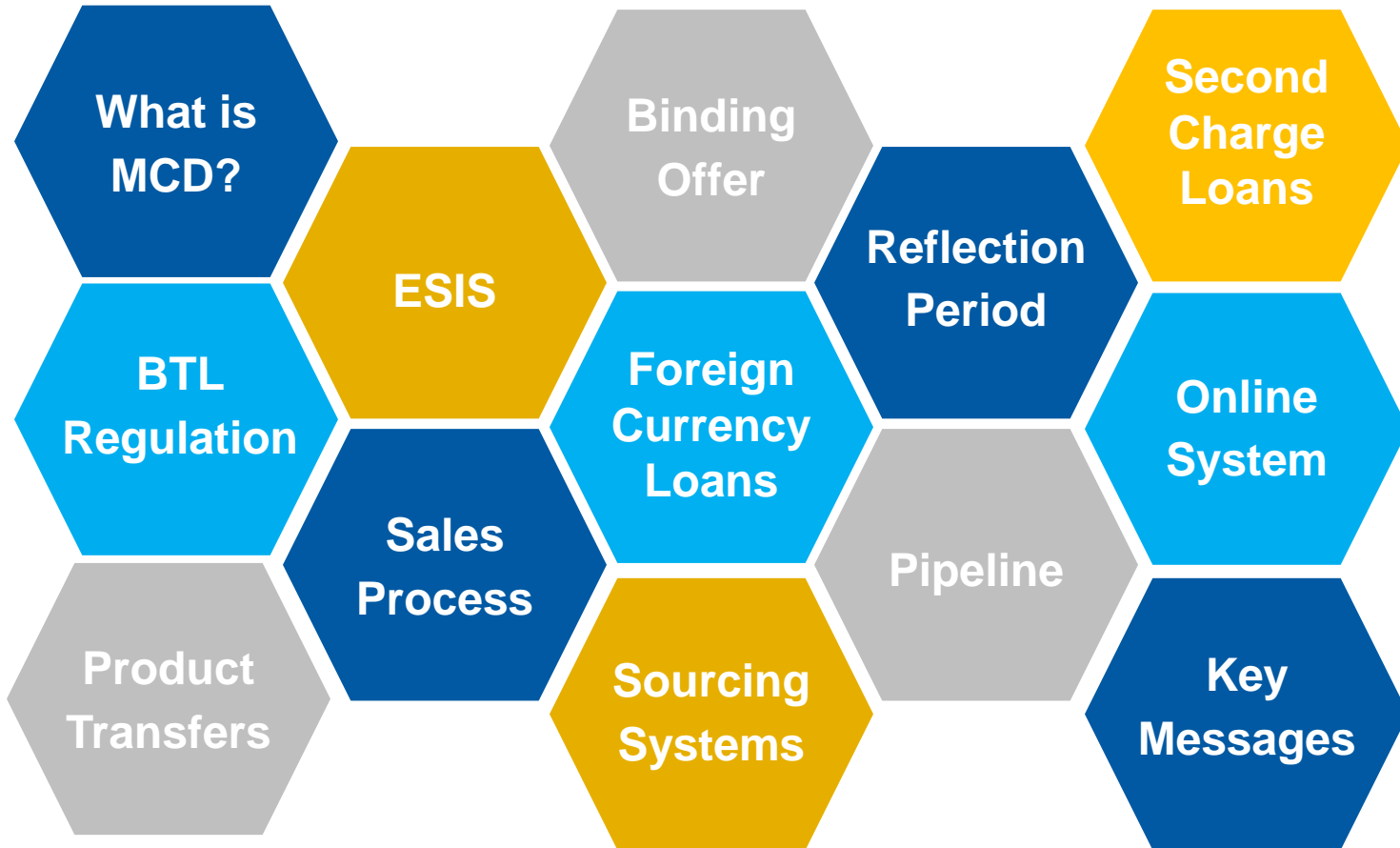


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For the use of mortgage intermediaries
and other professionals only.



The Mortgage Credit Directive

What is MCD?

- European Union reform introduced and regulated by the Financial Conduct Authority (FCA)
- Focuses on disclosure, documentation and consumer protection
- Introduction of the European Standardised Information Sheet (ESIS)
- Aim is to deliver a consistent approach across the EU
- All mortgage lenders and advisers required to comply with the new rules from 21st March 2016
- Halifax Intermediaries will be fully compliant ahead of the industry deadline

The Mortgage Credit Directive

Binding Offer

What's the new rule?

- The Directive requires lenders to provide the customer with a 'binding offer' free of conditions
- The offer may be subject to lawful conditions which could be grounds for withdrawal or variation if found to be fraudulent

Our approach, and what this means for you:

- The Halifax Intermediaries Mortgage Offer already meets the binding offer requirements being introduced
- Our customers won't see a change following the introduction of this rule

The Mortgage Credit Directive

Reflection Period

What's the new rule?

- Lenders must provide the customer with a minimum 7 day reflection period which begins when the binding offer is issued
- The purpose is to give the customer time to review their offer, make comparisons and assess risks associated with taking out a mortgage contract

Our approach, and what this means for you:

- The Halifax mortgage offer will advise customers they have a minimum 10 day reflection period
- Customers can waive the reflection period at any time by instructing their solicitor to request the funds

The Mortgage Credit Directive

Second Charge Loans

What's the new rule?

- Second charge loans are currently regulated under the Financial Conduct Authority's (FCA) Consumer Credit Act (CCA) rules
- As part of the Directive, the FCA will regulate second charge loans under their Mortgage Conduct of Business (MCOB) rules

Our approach, and what this means for you:

- Halifax Intermediaries do not offer second charge loans, therefore this change has no impact for our customers

The Mortgage Credit Directive

BTL Regulation

What's the new rule?

- The Directive will drive a new 'national framework' for buy to let mortgages
- Within this framework, under the Financial Conduct Authority (FCA), HM Treasury will regulate a new category of lending called 'Consumer Buy to Let'
- Consumer Buy to Let is designed to segregate customers not acting as a business from genuine business buy to let customers

Our approach, and what this means for you:

- Halifax Intermediaries do not offer buy to let mortgages, therefore this change has no impact for our customers

The Mortgage Credit Directive

Foreign Currency Loans

What's the new rule?

- Foreign currency loans are considered to be mortgages in a currency other than that of the customer's income or in a currency that differs from that in the country where the customer is resident
- Lenders must capture the currency exchange rate as part of the application and notify the customer every time the exchange rate has depreciated by 20% over the life of the mortgage

Our approach, and what this means for you:

- Halifax Intermediaries do not offer foreign currency loans, therefore this change has no impact for our customers

The Mortgage Credit Directive

Online System

- We are making change to Halifax Intermediaries Online to remove all reference to the words 'Key Facts Illustration' and 'KFI'
- The will be replaced with 'Mortgage Illustration' which will be the title of our new European Standardised information Sheet (ESIS)
- Our new Mortgage Illustration will be provided to you at the quote stage of our online application system, replacing today's KFI
- We are not introducing changes to the data capture or screen flow when keying an application

The Mortgage Credit Directive

Sales Process

Intermediaries getting ready for the Mortgage Credit Directive (MCD) should consider the following new **disclosure requirements** as part of their sales process:

- The need to provide customers with a **binding offer** and a minimum **7 day reflection period**
- The need to provide an illustration that conforms with the new **European Standardised Information Sheet (ESIS)** rules
- The need to provide an **adequate explanation** of a product's essential features
- The need to tell customers about **procurement fees** paid by different lenders

The Mortgage Credit Directive

Pipeline

What's the new rule?

- The Mortgage Credit Directive (MCD) rules do not allow for pipeline applications
- The Directive will apply to regulated mortgage contracts entered into after 21st March 2016

Our approach, and what this means for you:

- When our MCD changes are introduced we will identify all applications in progress at that time
- Where applicable, new documents will be issued to intermediaries and customers in the new European Standardised Information Sheet (ESIS) format

The Mortgage Credit Directive

Product Transfers

- The Mortgage Credit Directive (MCD) rules apply to new mortgage contracts only
- Product transfers are considered to be a variation to an existing mortgage contract, therefore the MCD rules do not apply
- There will be no changes to the Halifax Intermediaries product transfer process
- For simplicity, we will issue the new European Standardised Information Sheet (ESIS) style Mortgage Illustration to customers applying for a product transfer

The Mortgage Credit Directive

Sourcing Systems

- We are working closely with sourcing systems including Mortgage Brain and Trigold
- We understand the importance of accuracy when providing an initial quote to your customer using an illustration produced by a third party system
- Testing will be carried out to ensure sourcing systems are able to accurately replicate our new mortgage illustration
- We would always encourage you to produce an illustration via Halifax Intermediaries Online when providing a quote to your customer

The Mortgage Credit Directive

Key Messages

- **Making things easier** by introducing a fully compliant ESIS style illustration ahead of the industry deadline
- Clear **supplementary information** sheet will be provided with every illustration to provide guidance on the content
- Our **changes focus on documentation**, we are not making changes to customer eligibility or affordability
- **No significant changes** as part of the binding offer and reflection period requirements
- A **simple and clear pipeline process** which centres around ensuring customers are provided with MCD compliant documents

The European Standardised Information Sheet



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The European Standardised Information Sheet

Lender Detail

The information below remains valid until **10th April 2016**. After that date, it may change in line with market conditions.

1. Lender

Halifax
Telephone Number 08456 080 851
Halifax Premier Mortgages
1st Floor
33 Old Broad Street
London
EC2N 1HZ

- The **completion date** is no longer disclosed at the top of the document. It is replaced with a 'valid until' date
- **Section 1 is new**, it shows the lender name, address and phone number so the details are clear for the customer

The European Standardised Information Sheet

Credit
Intermediary

2. Credit intermediary

XXXX XXXX
Telephone Number 0111 011 0111
133-136 Another Street
Any Town
PXX 1XX

We recommend, having assessed your needs and circumstances, that you take out this mortgage.

Halifax will pay XXXX XXXX and XXX £2,640.00 for arranging this mortgage.

- This shows the **exact amount** the intermediary and associated parties will be paid by us on completion of the mortgage. This will include figures under £250
- In the new Mortgage Illustration this information is in **section 2** at the start of the document. Currently, this is in section 13 towards the back of the KFI

The European Standardised Information Sheet

Main Features

3. Main features of the loan

Amount and currency of the loan to be granted: £801,794.

Duration of the loan: 30 years

Value of the property assumed to prepare this information sheet: £1,500,000

Minimum value of the property required to borrow the illustrated amount £1,333,334

This loan will be secured against the property you purchase.

If you (or any one of you) have another mortgage with Bank of Scotland plc any security for that mortgage may also cover this mortgage loan. The terms and conditions for the other mortgage will state whether this applies. Bank of Scotland plc trades under a number of other brand names, for example Halifax and Birmingham Midshires.

- Shows the term of the mortgage in years and months
- **New repossession clause** wording is also detailed here
- Confirms the **minimum value of the property** required to borrow the loan amount

The European Standardised Information Sheet

Payment Information

4. Interest rate and other costs

The annual percentage rate of charge (APRC) is the total cost of the loan expressed as an annual percentage. The APRC is provided to help you to compare different offers.

The APRC applicable to your loan is 3.7%.

This assumes the interest rates are as follows for the full term of the mortgage.

This APRC is calculated using assumptions regarding the interest rate.

Because part of your loan is a variable interest rate loan, the actual APRC could be different from this APRC if the interest rate for your loan changes. For example, if the interest rate rose to 17.5%, the APRC could increase to 21.2%.

- The new APRC, '**twenty year high**' indicative percentage rate can be found in section 4
- **Sections 4, 5 and 6** continue to detail product and payment information
- Section 6 shows the 'shock payments' based on how the **monthly instalments** could be increased based on the higher APRC detailed in section 4

The European Standardised Information Sheet

Additional Obligations

7. Additional obligations

The borrower must comply with the following obligations in order to benefit from the lending conditions described in this document.

You must make sure there is suitable buildings insurance in place as long as you have this mortgage. However, you are not obliged to buy this insurance from Halifax.

- The information in Additional Obligations section 7 is in today's KFI as 'Insurance' – section 9
- No change in content – confirms that buildings insurance must be in place, but no obligation to buy from Halifax

The European Standardised Information Sheet

Early Repayment Charges

8. Early repayment

You have the right to repay this loan early, either fully or partially.

Early repayment charge:

Product	Basis of charge
F AE673	2.75% of the amount repaid on or before 30/06/2016 1.00% of the amount repaid on or before 30/06/2017

The maximum early repayment charge you will pay is £22,041.22. Should you decide to repay this loan early, please contact us to ascertain the exact level of the early repayment charge at that moment.

- The early repayment charge section of the illustration will detail the charges at product level only
- This section will provide a single maximum ERC example

The European Standardised Information Sheet

Flexible Features

9. Flexible features

You do not have the right to transfer this loan to another property.

Additional features:

Taking your product rate to a new mortgage

In the future, you can apply for a new loan on another property. If Halifax agrees to the new loan you can take the following product(s) and an early repayment charge with you for the remainder of the product rate period(s). New loan applications are assessed in line with the lending policy at that time which may, for example, affect the repayment method, loan amount or term. The new loan will be subject to the terms and conditions in force when you make your application.

- Section 9, 'Flexible features' includes product porting criteria and details of any underpayments, overpayments or payment holidays that can be taken
- Incentives, such as 'cashback' are also found here

The European Standardised Information Sheet

Other Rights Of The Borrower

10. Other rights of the borrower

You have 10 days after the offer is issued to reflect before committing yourself to taking out this loan.

You will not have the right to withdraw from this mortgage once it has started.

- Section 10 'Other rights of the borrower' is a new section, not currently in the KFI
- This section confirms that the customer has a minimum of 10 days to reflect on the offer before committing to taking out the loan

The European Standardised Information Sheet

Complaints

11. Complaints

If you have a complaint please contact Intermediary Firm Asc by telephone on 0800 0383736 or write to: Intermediary Firm Asc, 133–136 Another Street, London, WC2V 7PS

You can obtain full details of our complaints processes by contacting us directly.

Maximum time for handling the complaint: 8 weeks

If we do not resolve the complaint to your satisfaction internally, you can also contact: the Financial Ombudsman Service at www.financial-ombudsman.org.uk.

- Section 11 ‘Complaints’ is another new section required in accordance with the MCD rules
- The illustration must provide contact details letting the customer know how to escalate a complaint if required
- The Financial Ombudsman Service website is also referenced here

The European Standardised Information Sheet

Supplementary Information

Page 1 of 2

Supplementary Information

Roll number: 10/xxxxxxxx-xx

This document should be read in conjunction with your Mortgage Illustration Number 1.

The illustration is only valid on the day of issue. Until you have made a full application and accepted the illustration the availability of mortgage product(s) could change.

- In addition to the ESIS, as part of MCD lenders must also provide customers with an 'adequate explanation' of the mortgage
- We have chosen to provide a 'Supplementary Information' sheet to accompany the Mortgage Illustration

The European Standardised Information Sheet

Mortgage Offer

- The mortgage offer will match the style and content of our new ESIS compliant Mortgage Illustration
- The offer pack will contain a new covering letter which will summarise the mortgage and confirm what the customer needs to do to accept it
- The MCD rules state that a sample title deed must be included within the offer pack
- The sample title deed is for information only, the customer does not need to sign that copy
- The offer pack will continue to include a copy of the 'Information about your mortgage' booklet

The European Standardised Information Sheet

KFI Comparison

- The KFI confirms that as a concession, during the early repayment charge period, overpayments up to 10% can be made each year
- The KFI confirms we calculate and charge interest on a daily basis, therefore any overpayments will reduce the balance and amount of interest charged from the day we receive the payment
- While the points above are not detailed in the new ESIS style illustration, they continue to be applicable as part of our policy

The European Standardised Information Sheet

Summary Of Key Changes

- Our new document will be titled 'Mortgage Illustration' not 'ESIS'
- The document is in a different order to the KFI
- Lender detail section 1 is new and Credit Intermediary section 2 will now detail the procurement fee
- Section 3 details a new minimum property value calculation
- New APRC shock payment detailed in section 4
- ERCs detailed in section 8 have been simplified
- Section 10 details other rights of the borrower which refers to the 10 day reflection period available to the customer