

Buy-to-let mortgages – implementing the Mortgage Credit Directive Order 2015

Financial Conduct Authority (FCA)

RPC rating: validated

Description of the measure

The Mortgage Credit Directive introduced a European framework of conduct standards for firms selling mortgages. In implementing the Directive, the Government chose to take up a derogation that allowed member states not to apply the Directive's requirements for buy-to-let mortgages, provided an appropriate framework for these mortgages was in place. The Government has subsequently put in place such a framework. The minimum requirements for this framework, as set out in the Directive, have been covered separately in an impact assessment undertaken by HM Treasury, which is referred to within this assessment via a link. The assessment covers additional discretionary aspects, which are being implemented by the FCA. These are:

- Complaints and redress – the FCA has applied the majority of its complaint handling rules to firms' consumer buy-to-let mortgage activity; and
- Data reporting – the FCA has introduced a quarterly reporting requirement for consumer buy-to-let lenders, covering a number of aspects of buy-to-let activities.

Impacts of the measure

The FCA estimates that the measure will affect around 100 lenders and 3,100 intermediaries. The IA explains that the vast majority of affected firms will be familiar with the FCA's complaints handling rules. The IA assumes that 20 per cent of 3,200 firms will spend on average one day to understand and establish additional complaints handling processes, which the FCA estimates will cost each firm £250 per day. This results in total additional one-off costs of £160,000. The FCA expects that the number of additional complaints will be low. It estimates that the total ongoing cost of processing additional complaints will be £3,000 per annum, in addition to ombudsman service case fees of £4,000 per annum.

The FCA estimates that the additional reporting requirements will impose one-off costs of approximately £28,000 per annum each on around 100 lenders, resulting in a total cost to business of £2.8 million. It also estimates the ongoing costs of

additional reporting requirements at approximately £6,000 per lender per annum, resulting in total ongoing costs of £600,000 per annum. This is based on cost estimates obtained from a sample of around a dozen lenders. The FCA has attached a link to its consultation with business to support the above estimates.

The RPC verifies the estimated equivalent annual net direct cost to business (EANDCB) of £0.9 million. As this goes beyond the minimum implementation of an EU directive, this will be a qualifying regulatory provision that will score under the business impact target.

Quality of submission

The FCA has provided sufficient information for the RPC to validate the assessment. The assumptions underpinning estimates of the impact of the complaints and redress measures could have been supported by a greater amount of evidence via a summary, to support the table of estimates provided. However, the estimates appear reasonable. It is pleasing that the estimates of the impact of the data reporting requirements have been compiled using evidence from industry, and that the assessment discusses alternative approaches which were considered and rejected.

Regulator assessment

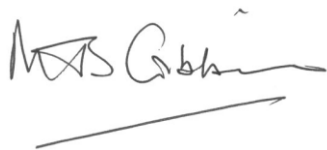
Classification	Qualifying regulatory provision (IN)
Equivalent annual net direct cost to business (EANDCB)	£0.9 million
Business net present value	-£8.3 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated ¹	£0.9 million
Business Impact Target (BIT) Score ¹	£4.5 million

¹ For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.

Opinion: EANDCB validation
Origin: Domestic
RPC reference number: RPC17-FCA-3693(1)
Date of implementation: March 2016



Michael Gibbons CBE, Chairman