8 Mortgage Regulation

We've selected these multiple choice questions to cover this area. As before the answers, with a decent description, follow on the next page.

Before you tackle them, have a quick read of these. Mortgage regulation:

- Covers loans taken by individuals with first charges taken
- The property must be in the UK and be at least 40% lived in by the borrower or family.
- Rules cover most aspects – lending, administration, advice.

Don't guess, look up the answer in the Revision Guide if you wish. This is not a test, just an active way of learning.

1 Mary who is acting as a trustee for a large estate, took out a mortgage in order to purchase a UK property. Will this be covered by the Mortgage Conduct of Business Rules?

A Only the sale but not the ongoing administration.

B Only the ongoing administration but not the sale.

C Only if the occupancy rules are satisfied.

D Only if the initial loan value exceeds £50,000.

2 From what date were mortgage advisers obliged to conform to the Mortgage Conduct of Business Rules?

A 1 July 2004.

B 1 August 2004.

C 30 September 2004.

D 1 November 2004.

3 Advice was given on a repayment mortgage on 15 May 2004 and the mortgage commenced on 10 September 2004. How is the administration of the mortgage treated under the Mortgage Conduct of Business Rules?

A It is fully regulated.

B It is deemed to be semi-regulated.

C The transitional regulations apply.

D The regulations do not apply at all.

4 The Mortgage Conduct of Business Rules include a separate tailored regime for advising and selling on what specific type of mortgage?

A Foreign currency.

B Lifetime.

C Corporate pensions.

D Sharia.

5 How are corporate mortgages dealt with under the Mortgage Conduct of Business Rules?

A They are wholly excluded.

B They are covered up to a maximum of £500,000.

C They are only covered if in excess of £250,000.

D They are regulated on a semi-voluntary basis.

Regulation Multi Choice – Answers

1. A tricky question this one. The trustee reference is a bit of a red herring really as it's not relevant to the answer. Lets try eliminating. A is not right since its both the sale and administration of mortgages that's regulated. B is just the opposite and is also incorrect. D is a load of rubbish but sounds logical if you don't know your subject.

   Which leaves C and this is correct because the occupancy rules need to be satisfied in all cases for the loan to be regulated. These rules require that at least 40% of the property is occupied by you or your close family. This rule prevents let properties being regulated.

2. You either know the date or you don't. Pure memory. D is correct. Mortgage regulation started for mortgages from 1st November 2004.

3. Similar question but this time asking you to apply your knowledge. They tried to throw you by splitting the mortgage to advice and administration. Again D is the correct answer

4. This is another you either know it or you don't, questions and elimination won't help you that much. B is correct as Lifetime Mortgages have their own MCOB – section 8 and 9.

   The other answers could easily throw you though.

5. Knowing that corporate mortgages are not regulated leads you straight to A. All the others are intelligent distracters.

9 Mortgages and the Legal System

Paul and Steve are brothers and have been living in rented accommodation ever since their parents kicked them out for being too old to live at home.

What a world?

Paul is only 26 and Steve 24. But the problem is that the two brothers can't afford to buy their own house as prices are so high in the area they live and they don't have a penny for a deposit.

They enquired at their local building society branch during their lunch hour and are now sitting in front of Jennie Marshall, a CeMAP qualified Mortgage Adviser.

The boys are well aware that their salaries applied to the multiples that the lender will offer means a mortgage of £100,000. A decent place is going to cost about £160,000.

1. They ask Jennie how they can get around not having any savings for a deposit. Put your answer in the box below.

2. How else could we raise a larger mortgage?

3. The boys ask Jennie to describe exactly what a mortgage is.

4. The Mortgage Deed interests them further. What promises do we sign up for?

Fresh from their meeting with Jennie, the boys return to their rented flat and over some cans of Fosters they decide their next step. They have no one to act as guarantor and they find it difficult to raise any form of deposit. Suddenly an idea comes to them. Let's find someone else who would want to share the mortgage and the house we buy. Another salary will mean a larger mortgage and a bigger house. Great idea they agree so they decide to approach an old friend of theirs called Jim.

"So Jim…what do you think of our idea?" Jim started to mull over the proposition that the boys had just put to him. Jim was a little older than the boys and had already owned his own home before so his experience was invaluable. Jim always seemed to have money in his pocket and he was currently renting a flat himself so the boys thought he was a good catch as a house "mate".

"Slight problem" began Jim…"my credits not so good"

5. What kind of credit problems can individuals encounter that would prevent them from having a mortgage?

6. How do lenders share the repossession history they have with other lenders?

“So when do you come out of bankruptcy Jim?” ask the boys.

7. How long does a standard bankruptcy last for and then how long will a lender wait after this period?

The boys and Jim finish their pints and wander home. “I was counting on Jim”, said Steve. “Me too” said Paul but never mind. Later that night Paul was on the phone to his mum and having his weekly chat. Paul’s mum understood the problem they were having and offered to lend him the money for the buying costs. “That’s great mum and thanks. Do you know anyone who might be willing to share a house?” “I do actually”, replied his mum, “I think his name’s Steve, he’s the son of someone I work with and has a struggle like you to buy his own house. I’ll get him to phone you.”

Steve had just graduated from University and had a great job in an aircraft design firm. He is 28. At University in Coventry, Steve bought a house since he was earning as a lecturer. He made a nice packet from the sale, about £20,000, and is now looking to buy his own house in the area they all live. He can’t find anything is his price range and he can’t get a bigger mortgage.

They met that weekend.

Answers

1. A 100% mortgage but there is a need to finance the costs of buying.

2. Possibly the boys could consider getting a guarantor who would be somebody, typically a parent, who would enter into the mortgage and guarantees their monthly payments. Lenders like this since if the boys can't pay, then the guarantor has to. Some lenders might consider a bigger mortgage advance having this guarantor to fall back on. There is a lot of responsibility placed on the guarantor.

3. Many people think the mortgage is the loan but it is merely the security for the loan. It is a legal contract that enables a borrower to offer a property as security for a loan, thus enabling ownership of the property to be acquired. The mortgage is the Legal Charge or Mortgage Deed agreed between the two parties, the lender and the borrower. The Mortgage is the security for the loan and gives the lender powers over the property whilst the loan is outstanding.

4. To make payments as required by the contract; to keep the property in good repair; not to sublet without the lender's consent; to comply with the law and with local authority requirements; to comply with the property covenants; to comply with lease conditions, if leasehold; to insure the property to the lender's satisfaction.

5. Jim could have any of three really. He could have defaulted on a debt and had a County Court Judgement (CCJ) registered against him. Mainstream lenders don't like these. He might be bankrupt. This is where a person cannot meet his financial obligations and his debts outweigh his assets.

   The order usually remains in force for 1 year under the Enterprise Act 2002. During this time the person is an undischarged bankrupt and can't get a mortgage. He might also have been repossessed in the past (we secretly think this is Jim's problem!)

6. They note each repossession on a credit reference agency database.

7. One year under the Enterprise Act. Most mainstream lenders will ask for at least a year before they'll entertain an application although some sub prime lenders may consider an application one day after discharge of the bankruptcy order.