



To the Chief Executives of mortgage lenders

12 May 2005

Our Ref:

Your Ref:

Dear Chief Executive

**RESULTS OF OUR REVIEW OF MORTGAGE DISCLOSURE DOCUMENTATION**

We are sending this letter to the Chief Executives of all mortgage lenders. We will publish this letter on our website on 18 May 2005.

As you know, the FSA started regulating mortgage business at the end of October 2004. As part of our risk-based approach to regulating this new regime we have been undertaking work in some priority areas. Clive Briault (our Managing Director, Retail Markets) referred to these priorities in his speech at the Council of Mortgage Lenders' Annual Conference in December of last year and we set them out in our Business Plan, published in January 2005. One of these areas is mortgage disclosure documentation, in particular the Initial Disclosure Document (IDD) and the Key Facts Illustration (KFI).

These disclosure documents are central to the success of the mortgage regime. Our objective is to provide consumers with clear, straightforward and comparable information to help them understand the services and products a firm offers. This will enable them to more easily shop around and so make informed decisions. It is therefore important that these documents are in line with the format and content laid down in our Mortgages: Conduct of Business Sourcebook.

To find out whether firms are producing mortgage disclosure documentation in line with our rules we have conducted a thematic desk-based review of a sample of lenders' and intermediaries' IDD and KFIs.

The purpose of this letter is to:

- set out the key findings from our review of a sample of lenders' IDD and KFIs (we are issuing a separate communication to mortgage intermediaries);
- help you consider how you might improve the quality of your disclosure documents; and
- set out next steps.

## Key findings:

We acknowledge the effort firms have made to produce these new mortgage disclosure documents and we have seen some good examples of IDD and KFI.

### Length

There has been much discussion about the length of KFIs. When producing 'mocked-up' examples\* of 'real' products, we found that it was possible to keep the KFI within five pages. Out of the 280 lender and non-lender KFIs we reviewed as part of our thematic work, around 50% were five pages or fewer. However, many KFIs are longer than they need to be. Some of the key reasons for this are:

- the inclusion of a lot of information the rules do not allow;
- excessively lengthy explanations of features or charges; and
- the incorrect application of tailored 'multi-part' rules (for mortgages with more than one product or more than one term) to single product, single term mortgages. This means the KFI typically includes lengthy tables and extra sections or sub-sections where they are not needed, resulting in duplication of information.

We are keen to ensure that a KFI only includes the **key** information required by the rules. So, based on these findings, we consider that good practice, for a standard mortgage KFI, is making it no more than five pages long. However, we accept there may be exceptions for more complicated mortgages.

### Other content issues

#### *Prescribed format and text*

We decided to use a standardised format and prescribed text in these documents to help consumers compare mortgages and mortgage services more easily. We consulted on the format and text and the final result was closely informed by what we learnt about consumer understanding from our extensive programme of consumer testing.

From our review, we found that most firms are not using the prescribed text and format for IDDs and KFIs, as set out in our rules. Whilst in some cases the significance of individual breaches is not major, taken together, the failure to use prescribed text is significant. We believe this hinders consumers' ability to understand the information and to use it to shop around.

#### *Descriptions of features and charges*

We found the descriptions of mortgage features and charges within the KFI could be simpler and clearer. For example, some firms used legal language and jargon when simple, plain

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\* These are on our website at [www.fsa.gov.uk/pubs/policy/ps186/examples\\_disclosure.pdf](http://www.fsa.gov.uk/pubs/policy/ps186/examples_disclosure.pdf)

English explanations would be better. Also, explanations were often misleading or inconsistent with information elsewhere in the KFI. There were also several instances where:

- it was unclear whether fees were added to the loan amount;
- explanations of charges, additional features or whether the consumer could make overpayments were poor; and
- the early repayment charge cash examples were missing or failed to include fees.

#### *Total cost information (KFI Section 5)*

There were also instances where the total amount payable incorrectly reflected the monthly cost figures and fees stated in the same KFI. One cause of this was a failure to include fees in the calculation. As a result, these KFIs understated the total amount payable, the cost per £1 borrowed and the APR.

#### **Next steps**

In light of these findings, you should review your mortgage disclosure documentation to consider whether you need to make changes to improve the quality and to deliver clearer, simpler and more user-friendly key facts documents to consumers.

As well as contacting the firms we sampled to provide individual feedback, we will work closely with firms, trade associations and other stakeholders to communicate our detailed findings and to clarify the application of our rules where we have identified common misunderstandings.

Because we consider disclosure to be an important part of the mortgage regime, we will look at re-visiting this area in the future to find out whether the disclosure documentation produced by the mortgage market has improved. Our emphasis at this stage is to work with firms to improve the quality of these disclosures. However, if serious problems remain when we conduct our follow up work, we will take appropriate action with individual firms.

If you have any questions about the information in this letter, please raise them with your usual supervisory contact.

Yours sincerely

[Name]

[Position]