

Pre-contract buyer's illustration example

This illustration example is for applicants seeking waivers or modifications of requirements under the Consumer Credit (Agreements) Regulations 1983 (as amended), for agreements secured on land (typically shared equity mortgage agreements).

For such agreements, it is often the case that it is not possible for the lender to disclose to the borrower information regarding the:

1. Annual Percentage Rate (APR)
2. Total charge for credit
3. Total amount repayable

This is because most shared equity loans link the repayment amount to the value of the property on the date of repayment. As it is not possible for the lender to accurately determine the value of the property when the agreement comes to an end, the lender cannot disclose the information listed above, at the time of entering into the agreement.

On receipt of such an application, consider whether the exemptions applied for would prejudice consumer interests. We take into account the information provided by the lender, in lieu of the information required to be disclosed by the regulations.

This information provided in lieu could be in the form of a pre-contract **buyer's illustration**, showing indicative amounts that the borrower may have to pay over the term of the agreement. We require that the buyer's illustrations are provided to the potential borrower sufficiently in advance of them signing the agreement, so that they have time to understand their potential repayment obligations. Lenders should ensure that the explanations accurately reflect the terms of the agreement.

All illustrations should highlight any assumptions that have been made and should show how the amounts to be re-paid will be calculated. The information should be plain and simple to understand, thereby giving the borrower a clear indication of the possible cost of credit.

We expect the information provided to be clearly understood by a lay person with limited financial knowledge of the factors that will impact the amount repayable.

The buyer's illustration should be included with the application submitted. The simplicity and clarity of the document will significantly contribute to the determination of the application.

Below are some examples of buyer's illustrations that we would like firms to replicate. **Please note: we only expect the format to be replicated and not the figures.** Figures should be adapted as necessary in accordance with the terms of the agreement. Where you wish to use an alternative illustration, please provide an explanation of why you feel this would be better for the consumer.

1. Explanations regarding calculation of interest payments or any other charges or fees

If the agreement has a fixed rate of interest throughout its term, a worked example would be as follows:

Table 1

Purchase price	£200,000
Loan Amount	£40,000
Percentage of purchase price funded by loan	20%
(Initial) Rate of interest	3%
Annual Interest payment (in the first year)	£1,200
Monthly interest payment (in the first year)	£100

If there is an **initial** interest rate, the above example can be adapted as applicable to the agreement. Any other charge that is applied as a rate should also be similarly explained.

2. Explanations regarding calculation of variable interest rates and interest charges

If the rate of interest is linked to a variable index such as the Retail Price Index (RPI) or the Bank Base rate, then an explanation as to how the interest rate will be calculated should be provided. The example below should be adapted in accordance with the agreement.

The initial rate of interest is 3% (as in Table 1). The interest rate will increase each year by RPI plus 1%. Therefore, your interest payments will also increase.

Purchase Price	£200,000	Loan Amount	£40,000
Initial interest rate	3%	Yearly increase of interest rate	RPI + 1%

The table below shows how the variable interest rate may affect your monthly interest payments, where the annual RPI is 3% and where the annual RPI is 6%.

This is just an example. The actual increases may be different, and will be dependent on the actual rate of RPI.

Table 2

Note: figures are rounded to two decimal places.

Year	Assumed annual RPI = 3%			Assumed annual RPI = 6%		
	Total yearly increase of interest rate 3+1 = 4%			Total yearly increase of interest rate 6+1 = 7%		
	Interest Rate (Percent per year)	Annual Interest charge	Monthly interest charge	Interest Rate (Percent per year)	Annual Interest charge	Monthly interest charge
1	3.00%	£1,200	£100.00	3.00%	£1,200	£100.00
2	3.12%	£1,248	£104.00	3.21%	£1,284	£107.00
3	3.24%	£1,296	£108.00	3.43%	£1,372	£114.33
4	3.37%	£1,348	£112.33	3.67%	£1,468	£122.33
5	3.50%	£1,400	£116.67	3.93%	£1,572	£131.00
6	3.64%	£1,456	£121.33	4.21%	£1,684	£140.33
7	3.879%	£1,516	£126.33	4.50%	£1,800	£150.00
8	3.94%	£1,576	£131.33	4.82%	£1,928	£160.67
9	4.10%	£1,640	£136.67	5.16%	£2,064	£172.00
10	4.26%	£1,704	£142.00	5.52%	£2,208	£184.00

3. Explanations regarding calculation of the repayment sum

Where the repayment sum (either in part or full) is linked to the value of the property, the borrower should also be provided with illustrations regarding the calculation of the repayment sum. The illustrations should show the effects of a range of growth rates (including a negative rate of growth) in the property value.

Table 3 below should be adapted in accordance with the agreement. A more appropriate set of growth rates can be used if it can be justified why they better reflect the situation.

Table 3

Purchase Price		£200,000				
Loan Amount		£40,000				
Percentage of property price funded by loan		20%				
Year	Assumed Growth rate is -2% per year		Assumed Growth rate is +2% per year		Assumed Growth rate is +5% per year	
	Market value of property	Repayment Sum <i>(if no part early repayment)</i>	Market value of property	Repayment Sum <i>(if no part early repayment)</i>	Market value of property	Repayment Sum <i>(if no part early repayment)</i>
1	£196,000	£39,200.00	£204,000	£40,800.00	£210,000	£42,000.00
2	£192,080	£38,416.00	£208,080	£41,616.00	£220,500	£44,100.00
3	£188,238	£37,647.60	£212,242	£42,448.40	£231,525	£46,305.00
4	£184,474	£36,894.80	£216,486	£43,297.00	£243,101	£48,620.20
5	£180,784	£36,156.80	£220,816	£44,163.20	£255,256	£51,051.20
6	£177,168	£35,433.60	£225,232	£45,046.40	£268,019	£53,603.80
7	£173,625	£34,725.00	£229,737	£45,947.40	£281,420	£56,284.00
8	£170,153	£34,030.60	£234,332	£46,866.40	£295,491	£59,098.20
9	£166,750	£33,350.00	£239,019	£47,803.80	£310,266	£62,053.20
10	£163,415	£32,683.00	£243,799	£48,759.80	£325,779	£65,155.80

It should be clearly explained to the borrower that the above sums do not include the interest payments.

4. Explanations regarding early repayment (or part redemption) of a loan

Where applicable it should be explained to the borrower how the early repayment of a loan can be made, and what its effect on the final repayment sum will be. For example, the explanations must clarify, where applicable:

- a. The valuation of the property at the time of the early repayment
- b. How the value of the loan and equity share percentage outstanding will be calculated
- c. How the interest payments (or any other fee or charge) will change after the early repayment has been made

Table 4 below should be adapted in accordance with your agreement

Table 4

	<i>Assumed Growth rate 2% per year</i>	<i>Assumed Growth Rate 5% per year</i>
Purchase Price of the property	£200,000	£200,000
Loan amount	£40,000	£40,000
Percentage of the purchase price funded by loan	20%	20%
Years after which part redemption of loan is made	6	6
Average growth rate in property value during the period	2%	5%
Value of the property assessed at the end of 6 years	£225,232	£268,019
Early repayment of the loan amount (5% of property value)	£11,261.60	£13,400.95
Percentage of the value of the property for which payment is outstanding	15%	15%
Value of the property assessed after 10 years (when agreement comes to an end)	£243,799	£325,779
Repayment Sum at end of agreement (redemption date)	£36,569.85	£48,869.85
Total Repayment Amount <i>including early repayment</i>	£47,831.45	£62,270.80
Total Repayment Amount <i>with no early repayment</i>	£48,759.80	£65,155.80

The total repayment amount would be higher, with no early repayment. For example, in the case of 2% average growth in the value of the property, the total repayment amount would be £48,759.80 instead of £47,831.45. In the case of the 5% annual growth, the total repayment amount would be £65,155.80 instead of £62,270.80.

It should be clearly explained to the borrower that the above figures do not include interest charges.

5. Explanation regarding the effect of early repayment on interest charges

As a result of the part early repayment there may be a change in the annual and monthly interest charges. Table 5 illustrates the effect of part early repayment after year 6. The table can be adapted in accordance with the terms of the agreement.

Table 5

Purchase Price	£200,000	Loan Amount	£40,000
Percentage of purchase price funded by loan	20%		
Assumed growth rate of property market	2% per year		
Property value after Year 6	£225,232		
Initial interest rate	3%	Yearly increase of interest rate	RPI + 1%
Assumed annual RPI	3%	Total yearly increase of interest rate	3+1 = 4%

Year	Calculation of interest where there is no part early repayment			Calculation of interest where there is part early repayment after year 6		
	Interest Rate (Percent per year with RPI linked increases)	Annual interest charge	Monthly interest charge	Interest Rate (Percent per year with RPI linked increases)	Annual interest charge	Monthly interest charge
1	3.00%	£1,200	£100.00	3.00%	£1,200	£100.00
2	3.12%	£1,248	£104.00	3.12%	£1,248	£104.00
3	3.24%	£1,296	£108.00	3.24%	£1,296	£108.00
4	3.37%	£1,348	£112.33	3.37%	£1,348	£112.33
5	3.50%	£1,400	£116.67	3.50%	£1,400	£116.67
6	3.64%	£1,456	£121.33	3.64%	£1,456	£121.33
				Part early repayment (5% of property value paid £11,261.60) Interest charged on remaining 15% of original capital - £30,000		
7	3.79%	£1,516	£126.33	3.79%	£1,137	£94.75
8	3.94%	£1,576	£131.33	3.94%	£1,182	£98.50
9	4.10%	£1,640	£136.67	4.10%	£1,230	£102.50
10	4.26%	£1,704	£142.00	4.26%	£1,278	£106.50

The shaded items in the table above show how, as a result of part early repayment of 5% of the equity share loan, the interest charge drops from £1,456 in year 6 to £1,137 in year 7, even though the rate of interest has increased from 3.64% in year 6 to 3.79% in year 7.

7. Explaining payment obligations

Terms and conditions can be difficult to understand and so it is helpful to the consumer to have an outline of their payment obligations. We encourage firms to provide information similar to Table 6 below, which provides an example which can be adapted. **This is not an exhaustive list. All applicable payment obligations in the agreement should be included.**

Table 6

Payment obligation	When it becomes payable	Where the obligation appears in the agreement
Interest	Interest is payable monthly and increases each year	Clause xx
Management Fee	Only payable if payments are not made by direct debit	Clause xx
Loan Repayment (including reasonable costs and expenses)	<ol style="list-style-type: none"> 1. When you sell the home 2. End of agreement term (10 years) 3. If you are in breach of any obligations 4. If you become bankrupt 	<p>Clause xx</p> <p>Clause xx</p> <p>Clause xx</p> <p>Clause xx</p>
Early repayment		Clause xx
Valuation charge		Clause xx
Default payments		Clause xx

All of the above illustrations should be replicated as closely as possible, in accordance with the terms of the agreement. Where applicable, the illustrations should be adapted to reflect other variable factors which may impact the amount the borrower will pay. If you wish to provide alternative illustrations, you must explain the reasons why this would be better for the consumer.

7. Personal Worked Examples

Personal Worked Examples should be based on the actual terms of the agreement with details of the *actual* value of the property, *actual* loan amount and *actual* percentage of the equity mortgage. It should include the following;

- a) Details of the terms of the agreement, in a clear, simple format. If any assumptions are used, this must be made clear in bold writing. See example below.

Purchase price	£200,000 (actual value)		
Loan Amount	£40,000 (actual loan amount)		
Percentage of purchase price funded by loan	20% (actual percentage)		
Length of Agreement	25 years (actual duration of the agreement)		
Initial Rate of interest	3% (actual initial rate)	Yearly Increase	RPI + 1%
Assumed annual RPI	2%	Total Yearly Increase	2+1 = 3%

The annual RPI figure here is assumed. Your actual increases may be different and will depend on the actual rate of RPI.

- b) An illustration of how the interest payments are calculated, over the term of the agreement. Again, if any assumptions are used, this must be made clear. (See points 1 and 2 above).

- c) An illustration of the potential repayment sum, in comparison with early repayment. Any assumptions used must be clearly highlighted. (See point 5 above).
- d) An illustration of the potential total cost of credit (repayment sum with interest). Any assumptions must be clearly highlighted. An example of this is in the table below.

Table 7

Purchase Price	£200,000*	Loan Amount	£40,000*
Percentage of purchase price funded by loan		20%*	
Assumed growth rate of property market		2% per year	
Assumed RPI		3%	
Initial interest charge	3%*	Yearly increase of interest charge	RPI + 1% (3+1 = 4%)

*The lender to substitute actual figures, where known, when preparing personal worked examples.

Year	Market value of property	Calculation of total cost of credit where there is no early repayment		Calculation of total cost of credit where there is early repayment after year 6	
		Repayment Sum	Annual interest charge	Repayment Sum	Annual interest charge
1	£204,000	£40,800.00	£1,200.00	£40,800.00	£1,200.00
2	£208,080	£41,616.00	£1,248.00	£41,616.00	£1,248.00
3	£212,242	£42,448.40	£1,296.00	£42,448.40	£1,296.00
4	£216,486	£43,297.20	£1,348.00	£43,297.20	£1,348.00
5	£220,816	£44,163.20	£1,400.00	£44,163.20	£1,400.00
6	£225,232	£45,046.40	£1,456.00	£45,046.40	£1,456.00
				Part early repayment (5% of property value paid £11,262) Interest charged on remaining 15% of original capital - £30,000	
7	£229,737	£45,947.40	£1,516.00	£34,460.55	£1,137.00
8	£234,332	£46,866.40	£1,576.00	£35,149.80	£1,182.00
9	£239,019	£47,803.80	£1,640.00	£35,852.85	£1,230.00
10	£243,799	£48,759.80	£1,704.00	£36,569.85	£1,278.00
Total		£48,759.80	£14,384	£47,831.45	£12,775

Total Repayment	£63,143.80	£60,606.45
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The costs are above are only indications. The actual repayment amounts will vary.

As the table shows, early repayment can make a significant impact on the total amount the borrower repays. This should be highlighted to the consumer.