

## Time is running out for UK mortgage lenders to meet the ESIS requirements

### Executive summary

If mortgage lenders want to put in place a flexible, long term ESIS solution to meet the Mortgage Credit Directive deadline of March 2019 they need to start planning now. With inevitable future changes in mortgage documentation, Capita explores the potential options for an adaptable solution that can evolve to meet future requirements.

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With most UK Mortgage lenders still needing to move towards full ESIS compliance by March 2019 – what needs to be considered?

## Background

The Mortgage Credit Directive (MCD) of 2015 that introduced the requirement to issue a European Standard Information Sheet (ESIS), was based on an established voluntary code already used by many European mortgage lenders. Although the MCD had an implementation date of 21 March 2016 it also contained a special dispensation that was included with the UK in mind to recognise the standards set by Mortgage Market Review (MMR) 2014. This dispensation can allow full compliance to be delayed until 21 March 2019 for most established UK lenders.

By early 2017, 24 of 28 EU states confirmed that they had achieved full transposition of the MCD (i.e. made all the legislative and regulatory changes needed for compliance). This included the UK with a two-stage approach of a 'KFI+' followed by full compliance in 21 March 2019. Whilst the European Mortgage Federation (EMF) cannot guarantee complete compliance within these member states they do presume that lenders will be compliant to the best of their ability.

Some UK lenders have already had to be fully ESIS compliant because of changes in their regulatory permissions or because they were new entrants to the UK lending market. Others have chosen to do so as part of scheduled change programme or following the lead set by their European 'parent' institution.

However, most UK lenders are still some way off a compliant ESIS solution.

## So what are the possible routes forward that lenders are considering?

**Relying on the current provider of their mortgage software to deliver an ESIS solution.** This assumes that the lender is satisfied with the existing relationship, product functionality and that there will be an available upgrade to deliver ESIS compliance. However, many lenders have systems that are not the latest or current version offered by their provider and so an ESIS solution may only be available with an upgrade or system migration. Do they have the appetite, resource capacity, time or budget for such a change?

**Consider building their own bolt on solution to interface with their existing systems.** The challenges of the first option has led to some lenders to consider this option. However, this requires detailed knowledge of their existing providers' system and how it would need to interface with their in-house legacy systems and other data stores. Whilst many larger lenders have dedicated IT teams with experience of building their own solutions, they rarely have intimate knowledge of externally provided systems. Also, do they have the resource capacity and regulatory knowledge to add this significant change to their system roadmap or build schedule?

**Bring in specialist resource to carry out the build of an in-house solution.** Smaller lenders have remained agile by using this approach in the past. Without dedicated developer teams, they often rely on getting in a specialist contractor that they are familiar with and who is familiar with their systems and requirements. However, this resource also needs to have intimate knowledge of an externally provided system and an organisation legacy systems. Additionally, this contracted resource needs detailed knowledge of the MCD legislation to ensure that their ESIS solution only delivers information relevant to the institutions lending criteria, many do not do foreign currency loans which can simplify the ESIS solution.

Small software houses or individuals with this range of skills will be rare. Ones that do exist will be in high demand between now and March 2019 (less than 2 years to full implementation) and would represent a potential single point of failure in the delivery of a solution. Their prototype may be having its maiden voyage with your customers.

**Engaging a large and established software provider.** Established providers of mortgage POS and application systems are all busy in building and testing solutions for the ESIS challenge. These solutions will, overall, only be available to their existing users operating the latest versions (as discussed above). However, universal solutions designed to plug into other providers' systems but with bespoke ESIS documentation are available but less common.

With a relatively short and finite timeframe left until March 2019 when choosing one of these specialists, it is essential to consider their track record of timely delivery and ongoing support as well as their willingness to tailor a solution to your business and brand. Also, consider the breadth of industry experience they must ensure they share best practices and can accommodate your specified lending criteria within your ESIS.

## Points to consider in an ESIS solution

The FCA recognises that there are differing ways to present a compliant ESIS. In their final rule book on the subject they publish illustrations of what the documents may look like (but stress these are not guidance documents).

### Implementation of the Mortgage Credit Directive and the new regime for second charge mortgages, feedback to CP14/20 and final rules

<https://www.fca.org.uk/publication/policy/ps15-9.pdf>

These examples highlight the need to understand the scope of an institution's current and future lending as it has a bearing on the content of the ESIS. Will a lender be transacting in further advances, second charges, bridging loans or foreign currency loans?

'Never say never' - but most lending institutions have an anticipated lending strategy for the short to medium term. An adaptable and flexible solution will allow it to evolve in line with anticipated changes in a lending model without impacting on the customer experience documentation or system roadmap workload.

### Keith Green, Strategic Product Director Capita Mortgage Software Solutions Ltd

"The compulsory changes that are needed for ESIS compliance in March 2019 are, on the face of it, straight forward. From the customer's perspective, little will have changed from the 'KFI+' style documents, paragraphs will be in a different order and some wording and terminology will have altered.

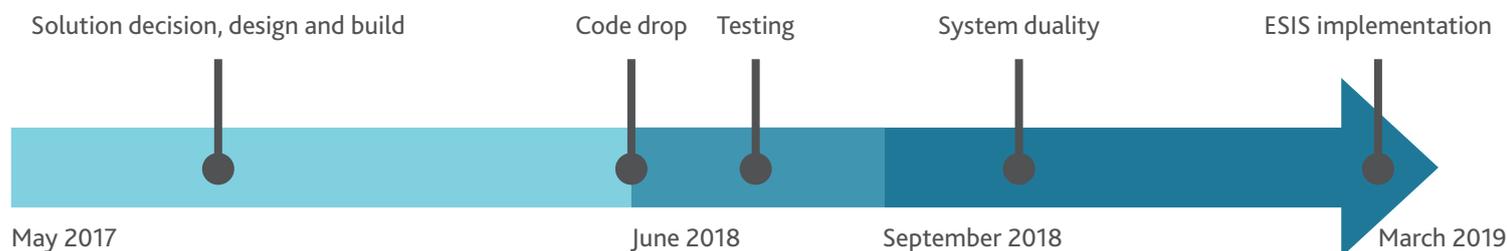
However, many lenders legacy architecture and existing data feeds may not lend themselves to a simple streamlined and adaptable solution. A compliant ESIS for an established lender may have a very complex configuration requirement when you consider the different products, borrower's details etc. When you also factor in the requirement for APRC

(Annual Percentage Rate Charge – a new formula for comparing the cost of borrowing replacing APR) calculations on past products for further advance customers that could go back 25 years, this grows exponentially.

A robust change programme for the 21 March 2019 deadline should have a period of dual running (KFI+ and ESIS) from Sept 2018, which would in turn require a code drop (software release) by June 2018. This tight timeframe may lead some lenders to consider spending money on an enhanced KFI+ engine, but this short-term view will create a legacy system that will require addressing in a few years' time.

An ideal solution should consider future planning in that it should be flexible, allow in-house edits and amendments to texts and paragraphs without the need for change requests to their IT providers. It should be provided by a partner that uses a modern platform and is established enough to commit to future enhancements and developments. This should also be a modular solution that has data feeds in a standard API (Application Programming Interface) format and therefore can stand alone and interface with other platforms and does not commit you to one provider or system in the future.

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The information required for the ESIS may need to be gathered from various existing data stores. New information, such as the APRCs, may need to be calculated and this could involve data from existing accounts and balances spanning decades. Some of this data may already be in a usable API format but other data feeds from older accounts may need API adaption to ensure it will allow flexible evolution in the future.

Other considerations for a lender include whether or not they are going to host it themselves or use a Cloud based solution.

The financial implications of ongoing costs need to be considered to fully understand your TCO (Total Cost of Ownership) as part of any business case. Consideration should be given to transactional based charges or on a fixed licence fee base depending of your business plan.”

## Jennifer Johnson, Head of Legal and Economic Affairs European Mortgage Federation (EMF)

“The MCD includes a clause which requires the European Commission to undertake a review of the Directive by 21 March 2019. The European Commission is required to consider the effectiveness and appropriateness of the provisions on consumers and the internal market, including an assessment of the use and consumer understanding of and satisfaction with the ESIS. Clearly, it is impossible to say at this stage what the assessment will entail and what kind of follow-up there might be for the ESIS, and we wouldn’t expect any very significant modifications, however it would be imprudent to rule out the possibility of any change at all.”

It is clear the UK has a requirement to be ESIS compliant by March 2019 which is the same time that the European Commission are required to undertake their review. How this assessment will be done is still unknown and the results may well take several months after the review deadline before they are published.

Whilst major change is not expected by the EMF, UK lending providers should brace themselves for some additional change which means choosing a system with built-in flexibility, a prudent option.

## Jon Peart, Managing Director Capita Mortgage Software Solutions Ltd

“It is clear that mortgage lenders have a short timeframe in which to act if they are to implement a robust ESIS solution by the 21 March 2019. The mortgage market has evolved significantly in the last 30 years and an adaptable and flexible solution will not only meet the immediate regulatory demands for customer documentation but also the inevitable future changes within the market.”

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## About Capita Mortgage Software Solutions

Capita Mortgage Software Solutions is a leading provider to the financial services industry, covering the whole lifecycle of a loan. Our mortgage and loan origination and servicing software is designed to optimise business, providing smarter technology, greater efficiency and better customer outcomes.

Capita Mortgage Software Solutions provides innovative, flexible mortgage and loan software to enable the delivery of excellent customer services and outcomes throughout the application and approval process.

We support mortgage and loan providers and brokers with the tools needed to succeed in a dynamic and consistently changing market. By partnering with our clients and understanding their needs, we focus on continually enhancing and developing our software to ensure they benefit from the most innovative and compliant solutions available.

Our mortgage sales, origination and administration products are tailor-made to improve every process at every stage of the customer lifecycle. Customer loyalty is strengthened due to faster, user-friendly customer interactions and quicker processing times. Behind the scenes, seamless integration and workflow transform the efficiency of operations to optimise productivity and minimise costs.

Our systems are live in some of the UK's largest and most innovative banking and lending organisations. Highly configurable and scalable, they are perfectly adaptable to suit the needs of all types and size of organisation.

If you would like to know more about ESIS or would like to speak to us to see how we might be able to help, please call us on 07834 523754 or email us at [cmssenquiries@capita.co.uk](mailto:cmssenquiries@capita.co.uk)

## CAPITA

Capita Mortgage Software Services  
Jessop House  
Jessop Avenue  
Cheltenham  
GL50 3SH

[cmssenquiries@capita.co.uk](mailto:cmssenquiries@capita.co.uk)  
[www.capita-software.co.uk/mortgage-software-solutions](http://www.capita-software.co.uk/mortgage-software-solutions)