Regulatory Policy Committee	**Validation of the One-in, Two-out Status and the Net Direct Impact on Business**
Validation Impact Assessment (IA)	Removing buy-to-let broking from within the scope of credit broking regulation
Lead Department/Agency	HM Treasury
IA Number	Not provided
Origin	Domestic
Expected date of implementation	March 2016 (SNR 11)
Date of Regulatory Triage Confirmation	20 January 2015
Date submitted to RPC	27 March 2015
Date of RPC Validation	13 May 2015
RPC reference	RPC14-FT-HMT-2304(2)
Departmental Assessment	
One-in, Two-out status	OUT
Estimate of the Equivalent Annual Net Cost to Business (EANCB)	-£0.59 million
RPC assessment	**VALIDATED**

Summary RPC comments

The IA is fit for purpose. HM Treasury has provided an adequate assessment of the savings to businesses from no longer having to pay certain fees to the Financial Conduct Authority (FCA) for the provision of buy-to-let broking services. The RPC can validate HM Treasury's estimate of the net benefits to intermediaries of £0.59 million each year as robust.

Background (extracts from IA)

What is the problem under consideration? Why is government intervention necessary?

"The EU Mortgage Credit Directive (MCD) requires the UK to put in place a regulatory regime for buy-to-let lending and broking to consumers by 21 March 2016. There are some existing regulatory requirements for buy-to-let brokers, whose activities are included in the scope of 'credit broking' within the regulatory regime for consumer credit. However, the Government concluded that, with the introduction of the new regime for consumer buy-to-

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let, retaining these requirements was not necessary to protect consumers and would lead to confusion. Therefore the Government decided to take the deregulatory step of removing broking on buy-to-let mortgages from the scope of this 'credit broking' activity. As a result there will be no regulatory requirements for intermediaries engaged in business buy-to-let activity, while those participating in consumer buy-to-let will be subject to the new legislative appropriate framework for consumer buy-to-let."

What are the policy objectives and the intended effects?

"The policy objective is to ensure that the regulation of buy-to-let remains proportionate to any evidence of consumer detriment and at a minimum ensures compliance with the MCD. The intended effect is that the relevant regulations are simplified and the burden on business minimised, when compared to the 'do nothing' scenario."

RPC comments

HM Treasury explains that intermediaries undertaking buy-to-let mortgage broking activities for business customers are currently regulated under the consumer credit regulations. Implementation of the EU Mortgage Credit Directive (MCD) requires the Government to introduce a new regime for the regulation of buy-to-let lending to consumers. The result is the creation of two regimes that apply to intermediaries: buy-to-let lending to consumers subject to the MCD requirements, and buy-to-let broking to business customers, which would remain subject to the consumer credit regulations.

HM Treasury explains that a two-tier regulatory landscape would be confusing and increase costs to intermediaries. HM Treasury intends to remove intermediaries that provide buy-to-let broking to businesses customers from the scope of the consumer credit regulations.

<u>Costs to Intermediaries</u>

Based on information from the FCA, HM Treasury identified approximately 800 intermediaries who are expected to provide buy-to-let broking to business customers, but will no longer require a consumer credit permission.

- One-off costs – to obtain authorisation under the consumer credit regulations, HM Treasury explains that intermediaries offering buy-to-let broking to business customers will no longer need to pay a one-off fee to the FCA to assess their application. Based on current FCA fees, HM Treasury identifies transitional benefits of £896,000 to 800 intermediaries who will not have to obtain consumer credit authorisation.

- Ongoing costs – HM Treasury explains that these intermediaries will benefit from not having to pay ongoing periodic fees to the FCA for conducting consumer credit activity. HM Treasury estimates the ongoing

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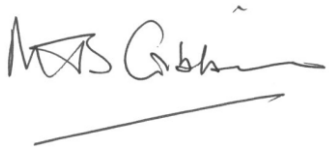
cost of retaining permission for an intermediary who earns over £1 million from their consumer credit activity to be around £2,000 each year. Scaling this estimate to make it proportionate to the income levels of the target group of 800 intermediaries, HM Treasury identifies ongoing savings of just under £499,000 per year.

HM Treasury also explains that firms will benefit from not having to devote resources to applying for authorisation under the FCA's consumer credit regime.

- Transitional benefits - Using the same assumptions above, together with FCA survey information on the current costs of making an application for authorisation, HM Treasury identifies additional transitional benefits of £1.76 million.

Overall, HM Treasury estimates that the proposals will generate net benefits to intermediaries of £0.59 million per year.

Signed		**Michael Gibbons,** Chairman

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