

Answers to knowledge and understanding questions

Topic I



CHECK YOUR UNDERSTANDING

- 1) Liquidity is the ease and speed at which an asset can be converted to cash without a significant loss of value.
- 2) The Monetary Policy Committee (MPC) of the Bank of England sets Bank rate at a level that the Committee believes will enable the government's inflation target to be met.
- 3) Capital adequacy requirements are designed to ensure that a business holds sufficient reserves of capital to be sustainable. Regulations broadly state that, should a business run into difficulties, the business must have sufficient capital to make it very unlikely that deposits will be placed at risk. Capital in this context is often referred to as the own funds of a business, ie those obtained from shareholders and related sources, as distinct from funds deposited by customers.



TEST YOUR KNOWLEDGE

- 1) Recession; reluctance of sellers to put properties on the market or buyers to commit to purchases at a time of falling or static property prices; financial institutions concentrating on building up reserves rather than lending; tighter affordability criteria making it more difficult for people to obtain mortgages.
- 2) A combination of more stringent affordability criteria, a requirement for larger deposits and rising property prices.
- 3) They are likely to increase: people feel confident that they can afford to borrow more, which drives demand and, in turn, leads to rising prices.
- 4) Three-month Libor.
- 5) False: the level of government borrowing does have an influence on interest rates. When government borrowing increases, interest rates generally increase.

- 6) False: inflation usually increases when interest rates are reduced.
- 7) c) Building societies must devote a minimum of 75 per cent of their total lending activities to residential mortgages.
- 8) Securitised lending involves bundling together a number of mortgage loans and selling them to another business. The seller receives a capital sum that they can use to offer further mortgage loans. The buyer receives the regular income stream from borrowers' repayments on the bundled mortgages.
- 9) True: sub-prime lending is lending to those with poor credit histories.
- 10) False. A sub-prime customer is not necessarily a customer who cannot afford a mortgage loan or a bad risk for the lender. Additional assessment is needed to confirm affordability and the interest rate can be set at a level that reflects any additional risk to the lender.

Topic 2



CHECK YOUR UNDERSTANDING

- 1) c) Elena and Rita are both jointly and severally liable for the whole amount of the loan, not just their 'share' of it.
- 2) A limited company is a separate legal entity (or body) from its directors and shareholders, and is able to borrow in its own right. Shareholders receive income in the form of dividends, so in terms of taxation they are entitled to the dividend allowance as well as the personal allowance. Neither directors nor shareholders are directly responsible for the company's debts. If the company were to be wound up and could not settle its debts, a shareholder could lose any money they had invested in shares but they could not be pursued for more.



TEST YOUR KNOWLEDGE

- 1) b) Helena and Cath initially, but ultimately Cath for the whole amount because they have joint and several liability for the loan.
- 2) To purchase a family home, to arrange additional finance on a second-charge basis or to provide bridging finance.
- 3) That the trustees have authority to borrow for the proposed transaction under the terms of the trust deed.
- 4) False. A partnership is not a separate legal entity. Assets and liabilities are jointly owned by the partners.
- 5) Yes. Even though the further advance is for business purposes it would be secured on the family home, so it would be regulated, as long as at least 40 per cent of the land is used as the main residence.

- 6) No - the properties are regulated under the Mortgage Credit Directive Order 2015.
- 7) False - an undischarged bankrupt can own property, although the trustee in bankruptcy may take it to pay their debts. An undischarged bankrupt cannot acquire an interest in property, which means they cannot buy property while undischarged.
- 8) a) 5 May next year - his bankruptcy lasts for 12 months from the date he was declared bankrupt.
- 9) True.
- 10) Only if the EPA is registered with the Office of the Public Guardian; an EPA must be registered when the donor loses mental capacity.

Topic 3



CHECK YOUR UNDERSTANDING

- 1) The holder of a second charge is likely to apply a higher rate of interest than the holder of a first charge. Although the loan is secured against the asset, in the event of default they will only be repaid if there is any money left over once the holder of the first charge has been repaid in full. Therefore they are running a greater risk and will expect a higher return.
- 2) As the MCD is an EU Directive, it is binding in terms of the outcome that must be achieved and the date for implementation but member states have discretion to determine for themselves the most appropriate way to achieve the outcome. A regulation, on the other hand, is applied in all member states, exactly as it is laid down - there is no scope for flexibility.
- 3) Refer back to section 2.2.2.
- 4) A corporate mortgage is a loan to a limited company, whether secured on residential or commercial premises.
- 5) In both cases the owners would be regarded as 'accidental landlords', and any new mortgage they arranged on the property would be regulated as a CBTL mortgage.



TEST YOUR KNOWLEDGE

- 1) Yes. Second-charge mortgages that would have been subject to MCOB had they been taken out after 21 March 2016 fall within the MCOB regime.
- 2) No. The mortgage would not be regulated, because less than 40 per cent of the land is to be used as a dwelling.
- 3) Second-charge lending.

- 4) False, for two reasons: a) the CBTL regime applies only to mortgages arranged on or after 21 March 2016; b) a mortgage is only a CBTL mortgage if the borrower is an 'accidental landlord', ie is not involved in a property-letting business.
- 5) c) A lifetime mortgage.
- 6) £150,000 would form part of Andy's estate. He entered 50 per cent of the property into the plan, which means the provider would be entitled to 50 per cent of the proceeds of the sale, regardless of how much Andy received when the plan started.
- 7) b) Training and competence.
- 8) False. Regulated mortgages are regulated under MCOB, not the consumer credit legislation.
- 9) True. George wants to use a personal loan, rather than a further advance on his mortgage, to fund his home improvements, so the loan is subject to consumer credit legislation rather than MCOB. There is no upper limit on the amount of the loan covered by the legislation as the loan is not for business purposes.
- 10) b) The Consumer Protection (Amendment) Regulations 2014.

Topic 4



CHECK YOUR UNDERSTANDING

- 1) Refer back to UK Financial Regulation if necessary.



TEST YOUR KNOWLEDGE

- 1) True: the borrower is known as the mortgagor, the lender is the mortgagee.
- 2) a) Estate in fee simple absolute in possession.
- 3) False: a legal charge is known in Scotland as a standard security.
- 4) False. A further loan from the original lender is known as a 'further advance'.
- 5) c) The order of priority for repayment reflects the date order in which the charges were registered, with the earliest-dated charge repaid first.
- 6) b) Pleasant Building Society as holder of the first charge registered would receive £140,000 but Consolidated Loans would only receive £20,000, this being the amount left over from the proceeds of the sale once Pleasant Building Society has been repaid in full.
- 7) False: the survivor becomes the sole legal owner, but must hold their deceased co-owner's part in trust for the deceased's beneficiaries.

- 8) c) Tenancy in common would allow each of them to leave the value of their share to their children.
- 9) A flat with only 20 years remaining on the lease might have to be sold far below the going market rate for similar properties; it would be preferable to negotiate an extension to the lease before trying to sell the flat.
- 10) False. A building need only contain a minimum of two flats in order for the leaseholders to have the right to buy the freehold.

Topic 5



CHECK YOUR UNDERSTANDING

- 1) Land Registration Act, Land Charges Act, Law of Property Act.



TEST YOUR KNOWLEDGE

- 1) c) Charges register.
- 2) b) Possessory - Karen is the registered owner, but because she did not have the title deeds or other proof of title, there is a possibility that someone else has a claim on the property. Therefore she cannot be granted absolute title.
- 3) a) Ten years.
- 4) False: rights over unregistered land are registered with the Land Charges Registry.
- 5) The legal transfer becomes void. Title reverts to the previous owner, who holds it on trust for the new owner.
- 6) True.
- 7) d) Restrictive covenant.
- 8) True: vendors are deemed to covenant their right to sell whether or not they sell with full title guarantee.
- 9) False: the owner will have a liability for repairs to the chancel, which is a specific part of the church. The liability may be shared with other property owners.
- 10) c) To insure the property and charge the premiums to the mortgage account.

Topic 6



CHECK YOUR UNDERSTANDING

- 1) Requirements for a binding contract are: there must be offer and acceptance; there must be consideration; parties must have capacity to contract and the intention to create a legal relationship; contract terms must be certain, complete and free from doubt; it cannot be made for illegal and immoral purposes; there must be no misrepresentation, duress or undue influence involved.

The principal is the body that instructs the agent to act on their behalf.

- 2) There were many cases of insurance companies declining seemingly valid claims because the policyholder failed to disclose information about previous illnesses or medical consultations, even though the 'fact' would have had no bearing on the reason for the claim, and the majority of application forms relied on the applicant to determine, remember and list all such relevant information. This was made worse by the fact that many insurers reduced the level of pre-application underwriting and effectively asked medical underwriting questions when a claim was made, at which point problems could arise.
- 3)
 - a) SDLT is paid by the buyer.
 - b) It is levied in bands, with different portions of the purchase price being taxed at different rates.
 - c) For multiple properties purchased in a single transaction, SDLT is charged on the average value of each property, rather than on the overall total.
- 4) The Consumer Protection (Amendment) Regulations 2014.



TEST YOUR KNOWLEDGE

- 1) True: the buyer's consideration is the money for the purchase; the vendor's is the property to be purchased.
- 2) c) Ratification.
- 3) The commission each agent charges is likely to be higher than if they had sole agency.
- 4) b) The estate agent is liable for exaggerated claims about a property contained in the estate agent's particulars.
- 5) c) The EPC must be commissioned, but not necessarily received, before the property is marketed. It is the responsibility of the vendor to ensure this is done.

- 6) False. There are a number of situations in which the lender may withdraw the mortgage offer, including dishonesty on the part of the applicant, a material change in their circumstances such that the lender is not satisfied that the mortgage is still affordable for them, material defects in the condition of the property or defects in the title.
- 7) d) The buyer was responsible for arranging buildings insurance from the point at which contracts were exchanged.
- 8) True. Technically, either party can drop out from a purchase prior to the completion date, but the buyer would lose their deposit if they were to withdraw after exchanging contracts and either party might be sued by the other for breach of contract.
- 9) b) The valuation would have taken place in order to arrange a mortgage, which should be agreed before exchange of contracts.
- 10) A successful bid is binding; 10 per cent deposit is paid at the auction and contracts are exchanged the same day. There is no time to change your mind. Finance - mortgage or cash - must be in place prior to the bid. The survey and preliminary legal work must be completed before the auction. This can all be money wasted if the bid is not successful. If the bid is successful and James pulls out later, the vendor can keep the deposit and claim any shortfall from James if a subsequent sale achieves a lower price.

Topic 7



CHECK YOUR UNDERSTANDING

- 1) a) i) The property register.
ii) The charges register.
iii) The proprietorship register.
b) Absolute title.
- 2) Such action would be a breach of contract and would lead to loss of the deposit and possible court action against either party for breach of contract.



TEST YOUR KNOWLEDGE

- 1) b) Professional indemnity insurance.
- 2) If the title is defective in any way the lender might not be able to exercise its rights over the property and thus the mortgage loan might not be fully secured.
- 3) False. They would be shown in enquiries of the local authority.

- 4) A vendor who is an undischarged bankrupt would not be entitled to receive the proceeds of the sale, as their assets are controlled by an insolvency practitioner.
- 5) The seller's property information form.
- 6) b) A wardrobe would be classified as a fitting if it was a free-standing one (but not if it was built in).
- 7) c) The amount of the mortgage loan is a matter only for the buyer so would not be included in the sale contract.
- 8) c) The vendor completes a 'seller's property information form' before exchange of contracts.
- 9) b) From completion as this is the point where the ownership of the property changes hands.
- 10) True.

Topic 8



CHECK YOUR UNDERSTANDING

- 1) Solicited contact is made by the firm at the request of the customer. Unsolicited contact is initiated by the firm; unsolicited telephone contact is known as a 'cold call'.
- 2) a) The FCA defines an HNW customer as one with a minimum annual net income of £300,000, or minimum net assets of £3m.
- 3) a) At least a year. b) Knowledge of the product or service to be arranged. c) Understanding the risks involved in the proposed arrangements.
- 4) b) The sole purpose of the loan, remortgage or further advance is to raise additional money for the use of a small business.
- 5) a) Richard because he would be classified as a professional customer. Shannon must be given advice because she is exercising a statutory right to buy. Niall is potentially a vulnerable customer as a result of his recent bereavement and the adviser would need to assess Niall's circumstances sensitively.



TEST YOUR KNOWLEDGE

- 1) a) is correct. b) is untrue, in that calls can be made at an unsocial hour if the customer had previously agreed, c) is untrue, in that a call can be made on an unlisted number if the customer has agreed beforehand, d) is untrue, in that being on a mailing list is not the same as being an existing customer.

- 2) b) 12 months.
- 3) c) Three years.
- 4) True.
- 5) False. The adviser must not recommend any product if there are none in the range offered that meet the client's needs and circumstances.
- 6) b) 51 per cent.
- 7) a) Five business days.
- 8) False. An offer of advance can be provisional, but once all due diligence has been completed the final offer for an MCD regulated mortgage is binding.
- 9) MCOB 6A sets out a requirement for a seven-day reflection period once a binding offer is made for an MCD regulated mortgage but as Chen is applying to vary the terms of an existing MCD regulated mortgage, neither the requirement for a binding offer nor the seven-day reflection period apply.
- 10) False. This information must be provided before the first payment is made on a new mortgage, a further advance or a variation to the terms of a mortgage.

Topic 9



CHECK YOUR UNDERSTANDING

- 1) Unlimited, limited range or single lender. If no suitable product is available from the range available to the adviser, no recommendation should be made.
- 2) The key characteristics of the product; the effect the product would have on the customer; the scope of service, fees payable and remuneration if the advice is given by an intermediary.
- 3) a) Consumers can be confident that they are dealing with firms where the fair treatment of customers is central to the corporate culture.
b) Products and services marketed and sold in the retail market are designed to meet the needs of identified consumer groups and are targeted accordingly.
c) Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
d) Where consumers receive advice, the advice is suitable and takes account of their circumstances.

- e) Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
- f) Consumers do not face unreasonable post-sale barriers imposed by firms to change product, switch provider, submit a claim or make a complaint.



TEST YOUR KNOWLEDGE

- 1) d) the recommendation should be suitable for the customer's needs.
- 2) b) The adviser is most likely to ask about retirement plans to help them suggest an appropriate term for the mortgage, since many lenders are reluctant to agree to borrowing that will not be repaid before the customer retires.
- 3) Information about future expectations of earnings might influence the type of product that the adviser would recommend (for example, a low-start mortgage might be suitable for a trainee in a job with a recognised career path and expectation of a higher salary on qualification).
- 4) The adviser needs to know the customer's needs, circumstance, objectives and attitude to risk.
- 5) There are no rules relating to fair treatment of customers. However, guidance is provided in the regulatory guide The Responsibilities of Providers and Distributors for the Fair Treatment of Customers (RPPD) and in the 'six outcomes' for consumers.
- 6) Principle 6: a firm must pay due regard to the interest of its customers, and treat them fairly.

Topic 10



CHECK YOUR UNDERSTANDING

- 1) a) Gross profit is turnover minus the cost of basic materials to enable him to work on a day-to-day basis - paint, filler, wallpaper, brushes, etc.
b) Net profit is the gross profit minus routine business expenses, such as motor expenses (petrol, repairs and insurance); postage and stationery; telephone charges, etc.
- 2) A dividend is a portion of the profits of the company, paid to its shareholders. The level of dividend received depends on the amount of profit made by the company. In the case of small company where directors own the majority of shares, they can decide what dividends to pay. Dividends are paid without deduction of income tax at source and UK taxpayers have a

dividend allowance on which no income tax is payable. If dividend income in excess of the allowance is received, the tax is calculated after calculating the tax due on earned income and savings interest.

- 3) Self-certification involved the applicant declaring their own income and no evidence was sought to verify their claim. The rules now prohibit this and insist that evidence of income must be obtained from a source independent of the customer.

? TEST YOUR KNOWLEDGE

- 1) False. A lender cannot discriminate on grounds of race or nationality but it can impose different terms on a borrower who is living outside the UK, or decide not to lend at all, because of the increased difficulty of pursuing the borrower in the event that they default on the repayments.
- 2) No - lenders are allowed to give initial assessments based on income multiples. If Sam were to go ahead and make a mortgage application the lender would be required to carry out a full and detailed assessment of her income and that of her partner.
- 3) True: variable sales-related income is usually averaged over three or five years.
- 4) False. All businesses must maintain accurate accounts but a detailed breakdown of expenditure is only required on a tax return if the business turnover is above the VAT registration threshold.
- 5) c) Affordability checks cannot be waived for additional borrowing unless it is for essential repairs or maintenance.
- 6) b) A water bill is basic essential expenditure.
- 7) a) Personal loan repayments are committed expenditure and the lender needs to use Karen's actual figures rather than representative data.
- 8) No, this suggestion would not help Andreas, as self-certified mortgages are no longer available.
- 9) Rebecca and Rachel would have free disposable income of £1,000 per month. Their chosen product is fixed for five years, which means the lender does not have to consider the impact of future interest rate rises.

$$£1,000 \div £5.90 = £169.49$$
 so £1,000 would support a mortgage of £169,490.
- 10) c) Documents that evidence the rationale for decisions should be retained in either hard copy or electronic format for the length of the mortgage contract.

Topic 11



CHECK YOUR UNDERSTANDING

- 1)
 - a) A creditor must be owed a minimum of £5,000 to petition for bankruptcy against an individual in England, Wales and Northern Ireland.
 - b) A bankruptcy order remains in force for 12 months, and those who have been declared bankrupt in the past may be subject to a longer discharge period, if the court feels it is appropriate.
 - c) An undischarged bankrupt cannot apply for loans of more than £500, either alone or jointly with any other person, without disclosing the bankruptcy. Because an undischarged bankrupt cannot acquire an interest in land, they cannot secure a mortgage.
- 2) We saw in Topic 2 that, legally, there is nothing to prevent an individual with an existing IVA from borrowing, but lenders may be unwilling to consider an application.
- 3) No answer required.
- 4)
 - a) Concealing criminal property; arranging (ie enabling someone else to acquire, retain, use or control criminal property); acquiring, using or possessing property that the individual knows or suspects to be the proceeds of criminal activity.
 - b) Failure to disclose suspicions of money laundering to the authorities, and tipping off, ie alerting the suspect to the fact that they are under suspicion.
 - c) A group of UK trade associations that aims to foster good practice in countering money laundering, primarily through the provision of guidance notes.



TEST YOUR KNOWLEDGE

- 1)
 - b) Income received in the form of cash is not generally recorded on financial statements.
- 2)
 - a) Ranbir, because he has a record of managing credit well. Joleena has no credit history on which to base a credit score, while Barry's multiple credit cards indicate difficulty in managing his finances, as do Debbie's payday loan applications.
- 3) True.
- 4)
 - d) A person suffering from a mental illness may be regarded as lacking the capacity to contract and therefore any guarantee they give may be invalid.

- 5) False. An attachment of earnings order can only be made in relation to an employee, as it requires the employer to deduct money from the individual's pay and send it to the court for onward payment to the creditor.
- 6) c) It requires the Land Registry to note the trustee's interest in the property and notify the trustee of any dealings relating to it.
- 7) False. Misrepresentation or making false statements are crimes under the Fraud Act 2006, regardless of the outcome.
- 8) False.
- 9) All of the options given could potentially be regarded as fraudulent attempts to obtain a mortgage.
- 10) At least five years from the end of the relationship with the customer.

Topic 12



CHECK YOUR UNDERSTANDING

- 1) The cost of increasing the period of the debt; whether it is appropriate to secure a previously unsecured loan; and whether, if the customer has known payment difficulties, it would be better for them to negotiate an arrangement with their creditors.
- 2) How affordable the repayments will be once the customer is dependent on pension income. For customers nearing retirement the adviser may need to see a pension statement; for younger borrowers it may be enough to confirm that they have some pension provision. A prudent approach must be taken.
- 3)
 - a) Five years from the start of the mortgage, unless the mortgage is on a fixed rate for at least five years or the mortgage term is less than five years.
 - b) The rate in place when the mortgage started.



TEST YOUR KNOWLEDGE

- 1) True.
- 2) False. It is very likely that John will retire before the end of the mortgage term, so the lender will need to consider whether his income in retirement would support the payments.
- 3) A short mortgage term means that monthly repayments will be higher if he has a capital-and-interest mortgage. If he opts for an interest-only mortgage, he will have to make larger payments into a repayment vehicle than if he chose a longer term, and his choice of repayment vehicle may be limited (for instance, limits on savings into an ISA might rule that out as an option).

- 4) False. Interest-only mortgages carry the risk that the repayment strategy may not provide enough funds to repay the mortgage, and there are other risks, such as interest-rate risk, to consider.
- 5) c) Providing the value of the other property is equal to or greater than the sum needed to pay off the loan, this is most likely to be considered a credible repayment strategy. Using a pension commencement lump sum (PCLS) might also be a credible approach but only if the pension pot is large enough to provide a PCLS equivalent to the loan. Relying on an inheritance or a substantial increase in the value of the property are both too uncertain.
- 6) a) At least once during the term.

Topic 13



CHECK YOUR UNDERSTANDING

- 1)
- | | |
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| Absolute | Clear title is established - the most secure form. |
| Good leasehold | Applies in connection with leases longer than seven years. The leasehold is good but the right of the lessor (freeholder) themselves to grant title may not be guaranteed. |
| Possessory | The owner is registered as the owner but is not protected from a claim by another person that they owned the land before it was registered. |
| Adverse possession (unregistered land) | Applies if land has been occupied for 12 years without challenge from the legal owner - at this point the occupier may apply for possessory title. |
| Adverse possession (registered land) | Applies where the land has been occupied for 10 years without objection from the registered owner. |
| Qualified | Title subject to defect in registration. Very rare. |
- 2) a) Easements give others certain rights over the property. Covenants impose obligations upon the owner or restrict what the owner can do.
- b) A flying freehold is a part of a freehold property that extends above or below another person's property but is not next to or touching the ground. It can be a problem, because the owner of the land may fail to maintain their property, which could result in damage to the property with the flying freehold.

- 3) Buyers of leasehold properties buy the right to lease the property for a number of years, at the end of which the property reverts to the freeholder. In effect, leaseholders pay a large sum for the right to rent the property for a specified term.

? TEST YOUR KNOWLEDGE

- 1) c) It may be difficult to establish liability for commonly owned parts of the structure. The freehold is owned outright - it does not have to be renewed. The market is limited only in the sense that it may be difficult to obtain a mortgage. There is no reason specific to freehold flats why an owner may only be able to acquire possessory title.
- 2) d) An owner must have held a lease for at least two years before they acquire the statutory right to apply to extend it.
- 3) False - the premium increases as the unexpired lease term reduces, because extending the lease adds more value the nearer it gets to expiry.
- 4) d) 20 years - the difference between the value with the current short lease and the extended lease would be the most significant of the options. Option a) would have no marriage value, because the current lease still has 90 years to run.
- 5) There are a number of reasons why a lender might be reluctant to offer a mortgage - a key one is that there might be a limited market for such a property and therefore it might be difficult for the lender to sell should it ever need to repossess it. Another issue is the construction method and materials used; these might require investigation to ensure that it is structurally sound and there are no expensive maintenance requirements, which would affect its value.
- 6) False. Mundic blocks, although most common in the south-west of England, were used in construction work elsewhere in the country.
- 7) True. Lenders are not usually keen to lend on multi-use property, such as flats above shops and restaurants.
- 8) a) A brick-built, detached freehold Victorian property is likely to be most attractive to a lender. A history of mining subsidence would be of concern to a lender. The value of flats tends to be less than that of houses, and leasehold tenure can be more problematic than freehold, although the location would be an important factor.
- 9) c) and d) are correct.
- 10) False - the net yield includes running costs but not mortgage payments.

Topic 14



CHECK YOUR UNDERSTANDING

- 1) a) It would be prudent for Cheryl and Dave to invest in a building survey or HomeBuyer Report: their property is quite old and is potentially built on London clay, hence there might be structural issues.
- b) Katya's house is probably still covered by a new-build guarantee; if this is the case, she could opt for a basic valuation.
- c) Dan and Greg's cottage is old and of non-standard construction - a building survey would be a sensible option.
- d) Iqbal's house is relatively new but is probably no longer covered by a guarantee scheme - as he is on a tight budget he could opt for a basic valuation or a Condition Report.

An adviser should not recommend any particular survey to a customer, as they might be held liable if the property is later found to have defects that a different type of survey might have uncovered.



TEST YOUR KNOWLEDGE

- 1) False: a basic valuation is for the benefit of the lender but it is paid for by the borrower.
- 2) b) Building survey.
- 3) True: the insurance value is often different from both the value for lending purposes and the selling price.
- 4) b) Issues that need urgent attention.
- 5) True: the HomeBuyer Report will also report on the state of beams, rafters, etc, and any sign of dry or wet rot, etc.
- 6) False: it would depend on whether the movement was progressive. Historical structural movement is not necessarily a reason for not proceeding.
- 7) b) The lender is likely to impose a retention if structural repairs are required.
- 8) d) The lender is most likely to require an undertaking from Karen.
- 9) False: this guarantee exists only if the builder is covered by the NHBC or a similar insurance-backed scheme.
- 10) c) Ben is entitled to claim under the Buildmark insurance scheme if the cost of the work is above the minimum claim value. The builder is only held directly responsible for making repairs within the first two years.

Topic 15

? TEST YOUR KNOWLEDGE

- 1) d) A barn conversion.
- 2) c) A detached garage with a floor area of 20m².
- 3) False: there is a strong chance that local authorities will not grant retrospective planning consent. Taking down an 'illegal' extension can reduce a property's value, so lenders require confirmation that all the relevant permissions have been obtained.
- 4) True: as long as the building is not increased in size, converting a garage internally will not usually require planning consent.
- 5) False: the scheme continues for the length of the contract, regardless of a change of ownership of the property.
- 6) True.
- 7) True: as the value of Glen's share in the buy-to-let flat is below £40,000, it would not be treated as a 'major interest' which means the surcharge would not apply.
- 8) a) Solicitor's fees.
- 9) c) Yes. Remember that on buy-to-let and second homes, the nil-rate band only applies to purchases below £40,000. On properties costing £40,000 and above, SDLT is payable at 3 per cent over and above the standard rate applying to the purchase price.
- 10) True, but he cannot also use multiple property relief.

Topic 16

✓ CHECK YOUR UNDERSTANDING

- 1) a) Term insurance. The need is to provide cover for a defined term, and there is no need to build up a cash value in the plan; this makes some form of term insurance the answer. The exception is an endowment mortgage, where the plan has dual objectives - to pay off the mortgage in the event of death and to provide a lump sum to pay off the mortgage at the end of the term.
- b) There is no technical reason why whole-of-life assurance could not be used to protect a mortgage. However, there are practical reasons why it is not normally used:
 - It provides whole-of-life cover so is effectively open-ended, while a mortgage has a defined term. Due to its open-ended nature,

whole-of-life assurance is more expensive than term insurance – the insurer’s risk is far harder to define.

- Whole-of-life plans usually build up a cash value, which can be released on early surrender. While this may seem attractive, it adds to the cost of the policy, and is not an essential element for mortgage protection.



TEST YOUR KNOWLEDGE

- 1) b) Younger couple with children.
- 2) c) Middle-aged couple, children have left home.
- 3) a) Young, single person.
- 4) b) Product complexity.
- 5) a) The survivor might end up with the whole mortgage while owning only half the value of the property if it was registered as tenants in common.
- 6) False. A simple way to calculate the shortfall is described in question 8.
- 7) IHT.
- 8) b) The difference between the amount of protection that would be needed if the risk event happened, and the amount of protection the client currently has.
- 9) False. Although the mortgage offer may recommend life cover, it is up to the mortgagor to arrange it.
- 10) a) Protection of dependants from the effects of loss of income in the event of premature death.

Topic 17

✓ CHECK YOUR UNDERSTANDING

1)

Feature	Convertible term	Whole-of-life	Level term	Decreasing term
Limited term	✓		✓	✓
Can be investment-linked		✓		
Conversion to whole-of-life or endowment	✓			
Level sum assured	✓	✓ (usually)	✓	
Sum assured decreases in line with mortgage				✓
Order of cost (lowest first - rank from 1 to 4)	3	4	2	1

? TEST YOUR KNOWLEDGE

- 1) Universal Credit.
- 2) True.
- 3) b) SMI is paid as a loan.
- 4) b) Decreasing term assurance.
- 5) a) The new sum assured cannot exceed the original sum assured.
- 6) c) d) e) Stroke resulting in permanent symptoms, heart attack of specified severity, and most forms of cancer.
- 7) False.
- 8) c) HIV not resulting from a blood transfusion, an assault or a work accident.
- 9) False.
- 10) Retirement.

Topic 18



CHECK YOUR UNDERSTANDING

- 1) The ABI provides four model wording definitions for total and permanent disability.
- 2) Buildings cover should be arranged by the buyer from the date on which contracts are exchanged - the buyer is theoretically responsible for the building from that date.
- 3) $(150,000 \times 15,000) \div 180,000 = \text{£}12,500$ less the excess = $\text{£}12,000$.
- 4) No, the insurer cannot withdraw IPI cover based on claims experience. This is a major difference between ASU and IPI: the latter provides permanent cover.



TEST YOUR KNOWLEDGE

- 1) c) f) g) Damage to computers and TVs, replacement of locks and keys, and theft of the insured's money from another building.
- 2) b) Unfurnished.
- 3) b) The lender may choose to pay the outstanding premiums and add the payments to the mortgage loan.
- 4) a) The landlord's contents only.
- 5) True.
- 6) c) An ASU redundancy claim is likely to be excluded if the applicant had reason to believe the redundancy was imminent when they took out the policy.
- 7) b) PPI can be arranged to protect both mortgage borrowers for double the amount quoted to protect one.
- 8) False.
- 9) a) Separation benefit.
- 10) b) MPPI usually allows more than one claim to be made if premiums are maintained.

Topic 19



CHECK YOUR UNDERSTANDING

- 1) A deferred period during which nothing is payable.

- 2) ICOBS 6 covers the duty to give a customer appropriate information to make an informed choice.



TEST YOUR KNOWLEDGE

- 1) False. Pure protection products contain no investment element.
- 2) a) A proportion of the person's current disposable income.
- 3) c) Universal.
- 4) False.
- 5) c) Under ICOBS 5, a firm must inform the customer if it finds that parts of the cover do not apply.
- 6) a) Refuse all claims but return the premiums.
- 7) b) Fair representation.
- 8) ICOBS 5.
- 9) True.
- 10) b) KFD.

Topic 20



CHECK YOUR UNDERSTANDING

- 1) Term assurance pays out only if the life assured dies during the policy term. There is no investment element so there is no cash value or surrender value. Decreasing term assurance is designed to provide cover that reduces in line with a decreasing debt eg a capital repayment mortgage.
- 2) a) A low-cost with-profit endowment comprises two elements: with-profits and decreasing term assurance. The sum assured under the with-profits element is not large enough to cover the full cost of repaying the mortgage initially; it builds up as bonuses are added. The difference between the size of the mortgage to be repaid and the value of the policy is made up by a decreasing term assurance, so that there is always enough cover to repay the loan should the policyholder die before the end of the mortgage term. As the value of the with-profits element increases, the level cover provided by the term assurance decreases.
 - b) With a unit-linked endowment, the premiums are used to buy units in an investment fund. The objective is to ensure that the value of the units increases to provide a sum at least large enough to pay off the mortgage.

**TEST YOUR KNOWLEDGE**

- 1) True. The proportion of capital repaid gradually increases as the term of a capital repayment mortgage progresses.
- 2) False. Repayment mortgages simply repay the borrowed capital over the term.
- 3) Annual interest paid = $\pounds 150,000 \div 100 \times 3 = \pounds 4,500$
 Monthly interest paid = $\pounds 4,500 \div 12 = \pounds 375$
 Monthly repayment less monthly interest = $\pounds 711 - \pounds 375$
 Monthly capital repayment = $\pounds 336$
 Annual capital repayment = $\pounds 336 \times 12 = \pounds 4,032$
- 4) b) The increase in the interest rate means that more of Greg's monthly repayment than originally planned will be used up paying interest. The capital will reduce more slowly and so the mortgage term will have to increase to pay off the full loan.
- 5) False. The availability of funds to repay the mortgage depends entirely on the performance of the investments chosen as the repayment vehicle or sufficient funds being available from other sources.
- 6) c) A potential inheritance is not regarded as a credible repayment strategy.
- 7) False. Retirement interest-only mortgages are pure interest-only mortgages and do not require a repayment vehicle.
- 8) False. The daily rest calculation of interest benefits early payers, because their total interest is reduced.
- 9) b) The capital owed would have increased on 1 January this year.
- 10) d) Early repayment charges.

Topic 21**CHECK YOUR UNDERSTANDING**

- 1) a) The term 'qualifying policy' relates to its tax treatment. There is no tax payable on the proceeds of such a policy on death or maturity.
 b) Premiums must be payable annually, half-yearly, quarterly or monthly for at least ten years. If premiums cease within ten years, or three-quarters of the original term if this is less than ten years, the policy becomes non-qualifying. Sum payable on death must be at least equal to 75 per cent of the total premiums payable. Premiums in any one year must not exceed twice the premiums in any other year, or one-eighth of the total premiums payable.

- 2) No. They must consult a qualified financial adviser. Many mortgage advisers are not financial advisers and therefore cannot advise on investments.



TEST YOUR KNOWLEDGE

- 1) a) Reversionary bonuses cannot be removed but may be reduced if the policy is surrendered early.
- 2) 'Smoothing' refers to the building up of a reserve when fund performance is good, with the aim of ensuring that when fund performance is poor it is still possible to pay some level of bonus, ie it reduces the potential variation in the level of bonus paid across a number of years.
- 3) True. A low-cost endowment guarantees to repay the mortgage on the death of the borrower through the automatic inclusion of sufficient life cover.
- 4) False. It is the low-start low-cost with-profits endowment that has reduced premiums for the first five years.
- 5) The unit-linked endowment does not have a GSA at maturity. The maturity value is the bid value of the units, which may or may not be enough to repay the mortgage. With-profits plans have a GSA, although in the case of the low-cost version it will not be as much as the mortgage.

The unit-linked endowment is flexible, in that the premiums and sum assured can be changed (within limits). The with-profit endowment sum assured and premium are fixed at the start and cannot be changed.

The unit-linked endowment allows the investor to select from a range of funds, while the with-profit endowment offers only the with-profits fund.

In the event of early encashment, the unit-linked plan will pay the bid value of units. There will sometimes be a surrender penalty in the early years, as stated in the policy terms. The with-profits plan's early surrender value is worked out by actuaries and is unlikely to represent the plan's value at the time or include the bonuses added to date. The company might also impose a market value adjustment.

The charges on a unit-linked endowment are 'transparent' - that is, clearly stated in the policy terms. Other than a policy administration fee, the charges on a with-profit fund are taken from the fund and are worked out by the actuaries.

- 6) True: most unit-linked policies can be extended to compensate for a shortfall, subject to qualifying rules.
- 7) c) Managed (also known as balanced) funds are most commonly used in relation to investments intended for mortgage repayment.
- 8) True: converting a mortgage to repayment is the safest method of ensuring a full repayment, although it may be expensive.

Topic 22



CHECK YOUR UNDERSTANDING

- 1) Refer back to your earlier studies if necessary.
- 2) Refer back to your earlier studies if necessary.
- 3) With a defined-benefit scheme, the benefit the employee receives under the scheme is defined at the outset, either as a percentage of final salary or as a proportion of the individual's earnings averaged over the length of time for which they have worked for the employer.

With a defined-contribution scheme, agreed contributions are made but the benefit that the individual ultimately receives is dependent on the performance of the investments into which the contributions are paid.



TEST YOUR KNOWLEDGE

- 1) False. ISAs can be in single names only - but joint borrowers can have one each.
- 2) In principle this is true, but if the manager offers a 'portfolio' ISA it may be possible to contribute to both, subject to overall cash and Help to Buy limits.
- 3) True.
- 4) b) £1,150
- 5) c) It is possible to take the maximum tax-free cash and delay taking an income until later.
- 6) False. The maximum Tanya can pay in and gain tax relief is £27,500, but her employer could pay a further £12,500 to top up her contributions to the £40,000 annual allowance.
- 7) a) An ISA can accept irregular payments and can be cashed in at any time. A with-profits endowment cannot accept ad-hoc payments and is not designed to be cashed in early. A pension cannot be accessed until age 55 at the earliest. A unit trust would be a good alternative, but the tax benefits of an ISA make it more suitable.
- 8) a) £125,000 ($£500,000 \times 25\%$).

Topic 23**CHECK YOUR UNDERSTANDING**

- 1) When interest is calculated on a daily rest basis, it is charged on the balance outstanding at the beginning of each day. It is of real benefit to people who are able to make overpayments regularly, since the reduction in their balance is recognised almost immediately in the interest charged.
- 2)
- | | |
|------------------------|--|
| Standard variable rate | Simple structure but exposes borrower to risk of interest-rate rises, making budgeting difficult |
| Discounted rate | Borrower pays less than SVR for a given period but interest rate can still fluctuate |
| Tracker | Interest rate moves up and down in line with Bank rate or 3-month Libor rate |
| Fixed rate | Gives borrower certainty in terms of monthly repayment required but means they cannot benefit from reductions in interest rates until the end of the agreed period |
| Capped rate | Suits borrowers who want to make sure their payments will not exceed a certain level but also want to benefit from reductions in interest rates |
| Flexible | Allows borrower to make overpayments, or take a repayment holiday or make underpayments if they have previously made overpayments and thus are ahead of the anticipated repayment schedule |
| Offset | Can be a good option for a borrower with significant savings and no plans to withdraw them |

**TEST YOUR KNOWLEDGE**

- 1) False: discounted-rate mortgages offer a discount from the lender's SVR, so the interest rate will move up or down in line with the SVR.
- 2) True: discount mortgages usually do have an early repayment charge.
- 3) d) There may be application and early repayment fees.
- 4) c) Variable monthly costs.
- 5) True: the benefit of the daily interest calculation is that any early payments or overpayments immediately reduce the interest charged.

- 6) Will and Grace can draw down a further £46,000, which will take them up to the 80 per cent limit. The lender will need to make sure they can afford the increased payments if they do take extra funds.
- 7) Bob and Luka should seriously consider taking their financial adviser's advice. If they move the £20,000 into the offset account, they will pay mortgage interest on £100,000. This will save them £67 a month in interest (initially and increasing each month). This outweighs the loss of £33 per month gross on savings.
- 8) False: a fixed-rate mortgage usually reverts to the lender's standard variable rate at the end of the fixed-rate term.
- 9) False: not all capped-rate mortgages have a collar.
- 10) b) Cashback is not subject to tax and could be a fixed amount or a percentage of the mortgage.

Topic 24



CHECK YOUR UNDERSTANDING

- 1) a) A guarantor is someone who takes legal responsibility for repaying a loan if the individual who took out the loan is unable to do so.
b) A guarantee can be given on a full liability basis - the guarantor undertakes the responsibility for the whole debt. Alternatively, it can be given on a limited liability basis - the guarantor undertakes responsibility for the additional borrowing over and above the amount the lender would make available without the added security of the guarantee.
- 2) a) An SPV is a limited company.
b) The SPV owns the property. Individuals own shares in the SPV but do not own the property directly and are not normally liable for any debts incurred by the SPV.
- 3) A second charge is a loan secured on a property by a lender other than the first mortgagee; such loans are typically offered by banks and finance houses. Second-charge lending is regulated under MCOB rules.



TEST YOUR KNOWLEDGE

- 1) True.
- 2) b) Application and/or product fees tend to be higher.
- 3) b) The guarantor must be able to afford their own commitments as well as the guarantor mortgage.
- 4) True.

- 5) a) The bank buys the property initially.
- 6) False: self-build mortgages usually provide funds for up to 75 per cent of the land cost.
- 7) d) The landlord could claim for actual expenses incurred in replacing or repairing furnishings but cannot claim an allowance under the general description of wear and tear.
- 8) b) The SPV will be able to claim mortgage interest as a business expense in full.
- 9) True. Stamp duty is payable on the transfer of shares within an SPV, but there is no liability to stamp duty land tax because the property itself does not change hands.
- 10) a) Corporation tax - capital gains made by an SPV are treated as trading receipts.

Topic 25



CHECK YOUR UNDERSTANDING

- 1) A 'regulated mortgage contract' is one where the mortgage is through a first legal charge on land in the EEA, and at least 40 per cent of the land will be used as a dwelling.



TEST YOUR KNOWLEDGE

- 1) a) Shared-ownership properties are bought on a leasehold basis, not freehold.
- 2) False: a loan on which part is repayable at zero or a very low rate of interest is a feature of the equity-share mortgage.
- 3) False: rent paid on a portion of the property is a feature of a shared-ownership mortgage.
- 4) b) The buyer must provide a deposit of at least 5 per cent of the full purchase price.
- 5) They are using the Help to Buy shared ownership scheme.
- 6) False: 70 per cent is the maximum discount for a house or a flat.
- 7) Gary and Ayesha have been tenants for six years, which gives them a discount of 52 per cent, subject to the maximum monetary cap.
- 8) Moira and Ken meet the criteria for lifetime mortgages and home reversion plans schemes. They want to leave as much of their estate as possible to their family, so a home reversion plan would not be ideal, because they would be giving up the value of all (or part of) the house. A lifetime mortgage will allow them to leave the remaining equity to their heirs, and by taking a

drawdown plan they can take money as and when they wish while keeping the compounding effect of interest roll-up to a relative minimum. As long as house prices increase at a reasonable rate, they would have a good chance of leaving a substantial part of the property to their heirs.

- 9) False: the lifetime mortgage minimum age is usually between 55 and 60, while the minimum age for a reversion plan is at least 65.
- 10) True.

Topic 26



CHECK YOUR UNDERSTANDING

- 1) The balance is passed to the borrower.
- 2) Bridging finance might be required when a borrower wishes to move house but has not managed to sell their existing house, or the funds from the sale will not be available before completion of the new purchase is due. The finance is designed to 'bridge' the funding gap on a temporary basis.
- 3) Refer to Topic 25 if necessary.



TEST YOUR KNOWLEDGE

- 1) c) The existing mortgage must usually have been in place for at least six months.
- 2) The lender would require the completion of a consent to mortgage form by Karen's partner and her son. Alternatively, they might become parties to the mortgage, assuming joint and several liability for payment; this would require a variation of the mortgage deed.
- 3) True.
- 4) b) The lender must provide the borrower with an ESIS based on the further advance only.
- 5) a) The order of priority for legal charges on registered property is established by the date of the charge's registration at the Land Registry.
- 6) False. A second charge does not require a deed of postponement.
- 7) c) The lender does *not* have to provide a suitability report for a second-charge loan.
- 8) True. The new lender will wish to receive any surplus after the first mortgage has been paid off on possession and sale.

- 9) Dmitri would need open bridging finance as he does not have a prospective buyer for his previous home and therefore does not know how long the finance might be required.
- 10) False. With a lifetime mortgage the planholder retains ownership of the property.

Topic 27



CHECK YOUR UNDERSTANDING

- 1) No, providing the customer is not requesting an increase in borrowing greater than the cost of any application fees, unless it is to fund essential repairs or maintenance to the property.



TEST YOUR KNOWLEDGE

- 1) c) Her current lender will not need to carry out a full affordability assessment, providing she is not increasing her borrowing other than to cover application fees or to pay for essential repairs or maintenance.
- 2) c) The facility to transfer a mortgage product to a new property during the term of a special deal, without incurring charges, is called portability.
- 3) False: transfer of equity is the addition or removal of a borrower from the mortgage deed.
- 4) False: contract terms can only be changed with the consent of both parties.
- 5) True: removing a borrower from the deed may result in a fundamental change in the remaining borrower's ability to pay the mortgage.
- 6) Alan and Ann are not obliged to make any changes to their endowment policy but as the policy is designed to repay the mortgage, and Ann is now solely responsible for the mortgage, it would be appropriate to transfer the policy to Ann.
- 7) Yes. Changes to terms and conditions may affect the likelihood of a guarantee being called in and the guarantor must therefore agree to any such changes.
- 8) False: SDLT is only payable if the total of any consideration plus the share of any mortgage taken on by the new owner exceeds the nil-rate band. When one person is removed from ownership as a result of a court order or agreement between the partners in a divorce, judicial separation or dissolution of a civil partnership, the transfer will be exempt from SDLT.
- 9) d) Vacation is the technical term in England and Wales for the release from obligation when the mortgage is repaid ('discharge' in Scotland).

- 10) 'A clog on the equity of redemption' is a condition that, in the opinion of the courts, has been imposed deliberately to prevent or discourage a borrower from paying back a loan. In such cases, the court can set aside the condition, thereby allowing the borrower to make early redemption.

Topic 28



CHECK YOUR UNDERSTANDING

- 1) Under the 52-week linking rule, a borrower who has already served the waiting period for SMI and then ceases to claim payments for up to 52 weeks will not have to serve a further waiting period at the start of the second claim.
- 2) a) Under MCOB 4.8A.7, a customer seeking a mortgage to consolidate debts cannot opt for an execution-only sale. They would be defined as a 'vulnerable' customer and any mortgage must be arranged on an advised basis unless they reject the advice and recommendation.
- c) A 'credit impaired' customer is one who:
 - within the last two years has owed the equivalent of three months' payments on a mortgage or other loan, unless late payment was the result of errors by a bank or other third party; or
 - within the last three years has had one or more county court judgments, totalling more than £500; or
 - has had an IVA or bankruptcy order in force within the last three years.



TEST YOUR KNOWLEDGE

- 1) False: a lender must contact a borrower within 15 business days of becoming aware of arrears.
- 2) A lender must write to a borrower within 15 business days of it becoming aware of the account being in arrears. The letter must contain:
 - a Money Advice Service information sheet;
 - a list of due payments either missed or paid in part;
 - the total of the shortfall;
 - the total outstanding debt, excluding charges that may be made on redemption;
 - an indication of the nature and level (if possible) of charges likely to be incurred unless the shortfall is cleared.
- 3) b) A lender must keep a record of its dealings with a borrower who is in arrears for three years from the date of the dealings.

- 4) True: making interest-only payments will reduce the monthly payment, although it should only be seen as a temporary measure.
- 5) Capitalising the arrears adds the arrears to the mortgage, thereby increasing the debt and the payments due. As Gavin cannot afford the current payments, he will not be able to afford the higher payments, which will start almost immediately. He may be better asking to pay interest only for an agreed period.
- 6) True: the term of with-profit endowments cannot normally be extended.
- 7) d) If a lender decides to recover a shortfall, it must notify the borrower of its intention within six years of sale.
- 8) True: the remortgaging costs during an IVA can be deducted from the available amount.
- 9) False: in mortgage and debt consolidation, the new mortgage must meet the lender's normal affordability and LTV criteria.
- 10) b) Some mortgage rescue schemes allow the former owner to repurchase the property if their situation improves.

Topic 29



CHECK YOUR UNDERSTANDING

- 1) a) Subrogation is the right of the insurer to sue the borrower for repayment of any money paid out to the lender in the event of a successful claim on a mortgage indemnity guarantee (MIG) policy.
 - b) The fee is a higher lending charge, although in some cases MIGs are arranged by the lender without charge to the borrower. Note that where the lender levies such a fee but does not arrange a MIG, the principle of subrogation does not apply.



TEST YOUR KNOWLEDGE

- 1) d) Foreclosure.
- 2) True: the LPA receiver collects and applies rental income to the mortgage account to ensure that the mortgage payments are maintained.
- 3) c) 28 days.
- 4) c) The borrower has the right to regain possession by paying off the full mortgage debt, up to the point at which the lender exchanges contracts with a new buyer.

- 5) False: a suspended possession order, if enforced, requires that the borrower make payment. If they do not, the lender can return to court to seek possession.
- 6) False: the lender must sell a repossessed property at the best price reasonably obtainable.
- 7) False: the lender cannot 'nurse' the property to get the best price. It must sell as quickly as possible for the best available price.
- 8) True: the right of subrogation has been tested in the courts and confirmed.