Legal & General Partnership Services Ltd.

Mortgage Advice Standards

Contents

1. Introduction/General

1.1 The purpose of this document is to:

- Outline the standards expected of advisors when providing mortgage advice to clients;
- Aid the consistency of service provided by advisors; and
- Provide a 'quick reference' guide to advisors to assist them in providing the best possible service to their clients.

1.2 These advice standards should be read and used in conjunction with the operating procedures, the client review, the MROS, the sales process and specific training provided.

1.3 If you require advice regarding them, please contact the Business Support Team (see glossary of addresses).

1.4 The Launchpad system does not fully support all mortgage types e.g. mortgages with more than 2 applicants. See section 4.1 for further details.

1.5 Legal & General Partnership Services Ltd (LGPSL) is only authorised to advise on certain types of regulated mortgage contracts. LGPSL is **NOT** authorised to advise on Home Reversion Schemes or Shariah Law (Islamic) mortgages. The advice standards and Launchpad system do not support advising on non-regulated mortgage contracts, Home Reversion Schemes or Shariah Law mortgages.

- Exception – non-regulated buy to let mortgages will be supported (refer to section 19) insofar as the client review must be completed as deemed appropriate by your firm.

1.6 All mortgage sales must be on an advised basis i.e. LGPSL do not allow execution only business. (See section 21 for guidance on rejected advice). You must recommend the mortgage is fully protected where this is affordable (see section 8 of the protection and general insurance advice standards) to the client(s).

1.7 In the case of 'self selling' i.e. where the advisor requires and wishes to obtain a product for themselves, this must be carried out on a fully advised basis and such sales must be signed off by the supervisor or point of compliance contact.

1.8 These advice standards are designed to assist you in ensuring that your clients are treated fairly, that they receive all the information necessary for them to make an informed decision, they are communicated with in a clear manner and receive compliant advice.

1.9 You cannot access a lender or special rate through a mortgage club or network other than the Legal & General Mortgage Club or directly with the lender.

2. What Is And What Is Not A Regulated Mortgage Contract?

2.1 To be a regulated mortgage contract, at least 40% of the total land must be given as security by way of a first legal charge and be used as, or in connection with, a private dwelling.

2.2 Business loans secured against a residential property will be regulated provided 40% of the land is used as or in connection with a private dwelling and the business is not a large business (turnover of less than £1M). In determining whether the business is large, you must give due regard to annual turnover, annual reports and business plans. A single buy to let is not considered a business loan.

2.3 Buy to let (BTL) mortgages are not regulated by the Financial Services Authority (FSA) unless they are let to immediate family (e.g. mother, father, brother, sister, daughter and son), or the borrower or family member intends to live in the property at any stage. The 40% rule described above applies.

- Where the applicant has several BTL properties and the applicant's main source of income is derived from their BTL portfolio, the loan should be treated as for business purposes

- Where the applicant is a limited company buying a BTL property this must be treated as for business purposes and is not therefore supported by Launchpad

2.4 Mortgages arranged in the UK secured on properties overseas are not subject to regulation by the FSA.

2.5 Where the clients live abroad and are purchasing a property in the UK, this will be regulated where advice is provided from the UK.

2.6 Mortgages on commercial properties will not be regulated unless it is a commercial property where more than 40% of the land is used as, or in connection with, a private dwelling by the borrower or immediate family. In this case it will be a regulated commercial mortgage

2.7 Home Reversion Schemes are regulated by the FSA. LGPSL is **NOT** authorised to advise or introduce Home Reversion Schemes. (Please refer to section 17 for further information).

2.8 Shariah Law (Islamic) mortgages are regulated by the FSA. LGPSL is **NOT** authorised to advise on Shariah Law mortgages but can make introductions to an approved third party provider ABC International Bank plc trading as alburaq (please refer to section 20 for further information).

2.9 Variations made to mortgage contracts entered into before 31 October 2004 are not subject to FSA regulation if there is no increase in the original loan amount (unless the variation results in the original loan being replaced).

2.10 Second charge mortgages and secured loans with a different lender are not currently regulated.

2.11 Note - management information must be held on non-regulated business conducted (see operating procedures section 3.6).

3. Initial Disclosure Document (IDD)

3.1 Accuracy

3.1.1 You must ensure that the content of this document is explained to your client and is accurate in respect of the range of mortgage products offered, the scope of service and fees i.e. whole of market/limited panel/sole lender.

3.1.2 The document must reflect an advised sale where a personal recommendation is given rather than a non-advised basis where a personal recommendation is not provided. The exception to this is where the client has received advice and rejected it (see rejected advice section 21).

3.1.3 An IDD must reflect the scope of advice and be specific to the customer and the interview.

3.1.4 If, after the IDD has been issued, a client cancels or does not attend a meeting and no advice has been given, the advisor must abort the case and ensure that an explanation is added to Launchpad with confirmation that advice has not been given.

3.2 Timing

3.2.1 The IDD must be issued on first making contact with a client where you make or anticipate making a personal recommendation or give, or anticipate giving, personalised information to a customer either;

- Entering into a regulated mortgage contract
- Varying the terms of a regulated mortgage contract (adding or removing a party, taking out a further advance, switching all or part of the loan from one type of interest rate to another).

3.3 Initial Contact By Telephone

3.3.1 Where initial contact with your client is by way of telephone, the following verbal disclosure must be given and the IDD must be issued, in a durable format, within 3 business days of the contact.

- Name of firm and the purpose of the call.
- Scope of service provided (whole of market, limited panel or sole lender).
- If the scope is not whole of market the fact that the customer can request a list of lenders whose products are offered and whether the firm provides service in relation to all the contracts generally available from the lender.
- Whether the firm will provide advice.
- That this information will be confirmed in writing.

3.4 Types Of IDD

3.4.1 Standard mortgage IDD - where you are advising on standard mortgages only i.e. not lifetime.

3.4.2 Combined IDD - where you may be advising on mortgage, protection and or general insurance.

3.4.3 Lifetime IDD - where you are advising on a lifetime mortgage. Please refer to Section 16 below.

3.5 Unknown Whether The Mortgage Contract Is Regulated

3.5.1 Where it is unknown at the initial contact whether the mortgage is regulated or not you must, either;

- Seek to obtain the necessary information to determine the status; or
- Treat it as a regulated mortgage contract by issuing an IDD. Where it is subsequently identified that the contract is in fact not regulated, the template letter held on the guides and library section of the

Launchpad homepage must be issued to the client explaining the implications e.g. possible loss of protection and that LGPSL will not be responsible for any advice given. A copy of this letter must then be retained on the client file.

3.6 Non-regulated Mortgage Contracts

3.6.1 Where it is established at initial contact with the client that the mortgage contract to be advised on is non-regulated, the Launchpad system and advice standards may not support such sales.

3.6.2 You must make it clear to the customer that LGPSL is not responsible for your advice on a non-regulated mortgage contract.

3.6.3 It would be prudent to document the advice given in respect of such sales as evidence may be required by the Professional Indemnity Insurers.

3.7 Advising On Regulated And Non Regulated Mortgage Contracts

3.7.1 Where you are likely to advise upon a regulated and non-regulated mortgage contract in the same interview, you must indicate this within the IDD page on the Launchpad system. The IDD will be produced with an additional notification which must be given to the client explaining the difference between a non regulated and a regulated mortgage contract.

3.8 When The IDD Should Be Re-issued

3.8.1 If the scope or level of service you offer changes throughout the sales process, you must re-issue a further IDD e.g.

- Where the initial IDD states that you are advising from the whole of market and this is amended to a limited panel.

- Where a combination IDD is issued initially but the client subsequently rejects protection advice.

- Where a client has been given advice which is subsequently rejected and an application is proceeded with in relation to the client's own choice of product.

3.8.2 An explanation should also be added to the client review notes, clarifying the reason for the change to the scope or level of service.

3.9 Ability To Provide IDD During Face To Face Sales

3.9.1 If you intend meeting a client away from your normal place of work, you will still be expected to provide an IDD even if you do not have printing facilities. It is therefore essential you carry copies of the appropriate IDD with you.

4. Processes/Mortgages Requiring Manual Intervention

4.1 Manual Processes

4.1.1 The following mortgages are not supported by Launchpad with the exception of the Initial Disclosure Document and therefore will need to be processed with manual intervention:

- Loans with more than 2 applicants (including those where a guarantor is the third applicant) regulated and non regulated mortgages may be completed manually if required using the following process. However, you may also use Launchpad for this type of application. Please see section 4.1.2

Process:

- You must create a client on the system and produce your Initial Disclosure Document from the Launchpad system.
- Obtain a paper client review from the guides and library section of the Launchpad homepage and customise as appropriate.
- You must obtain a Key Facts Illustration direct from the lender.
- You must produce a MROS using the template version found in the guides and library section of the Launchpad homepage.
- You must send a copy of the complete sales record to the Sales Quality Review Team (see glossary of addresses for contact details) having noted the individual Launchpad case number on the paperwork. This must be submitted prior/at the same time as the mortgage being applied for.
- For payment of the procuration fee you must complete and follow the instructions on the Mortgage Club submission form. The form can be found under the guides and library section on the Launchpad home page. You must ensure that you add the individual Launchpad case number to this form.

- Where you have provided advice and the application does not proceed you must still forward your file as above having noted on the paperwork the reason why the case has not proceeded.

4.1.2 For loans with more than two applicants, as an alternative to the manual process you may set up the cases on Launchpad – for example if there is a protection requirement for the co-purchaser. You must complete a client review for each co-purchaser and cross reference by quoting the URN in the notes section of the client review for each case

4.1.3 The KFI must show the names of all applicants so you will need to obtain this from the lender and either attach the KFI in a .pdf format to Launchpad or send a copy to the Sales Quality Review Team (see glossary of addresses) quoting the relevant URN.

4.1.4 You must ensure that the MROS is sent to each party of the mortgage at the same time to their own address if this is different. All co-purchaser names MUST be quoted on the MROS. To do this you will need to use the manual MROS template on the guides and library section of the Launchpad homepage. Again, this should be attached to the case in a .pdf format or sent to the Sales Quality Team.

4.1.5 For mortgages where there is a guarantor, please see section 6.3 for further guidance.

4.2 Manual Key Facts Illustrations

4.2.1 The Launchpad system will not support the production of all Key Facts Illustrations in the following situations

- Further advances
- Lifetime (equity release)
- Split term and repayment combination cases
- Secured bridging loans
- Commercial mortgages
- Business loan mortgages - other than capital raising remortgages

- Shared appreciation
- Multi Part mortgages (i.e. 2 interest rate products or more)

4.2.2 If a Key Facts Illustration is obtained from a lender's website or other means, it will be necessary for you to input key information onto the Launchpad system and a copy must also be either;

- attached to Launchpad if provided by the lender in a .pdf format,
- or if it cannot be converted to a pdf format, sent to the Sales Quality Review Team, (see glossary of addresses for contact details) using the risk team submission sheet' listed under guides and library section on the LGPSL Launchpad home page.

5. Record Retention

5.1 You must retain a complete client file, most of which is retained on Launchpad, for 6 years after the business relationship with the customer has ended. The business relationship ends when the last policy sold expires.

5.2 It is best practice to retain copies of the following documents at a Head Office location:

- Evidence of income; and
- The mortgage application form
- Any other relevant correspondence

5.3 Records must be accessible within 2 business days.

5.1 Revisiting Existing Clients

5.1.1 When revisiting a client and the original advice was given more than 6 months ago, you should ensure that a new client review is created. You should NOT overtype the existing client review or use information in the existing document to make a new recommendation

5.1.2 If a case is not proceeding or has completed, the Launchpad record must be closed down. In the event of a re-mortgage/further advance, a new record must be completed.

6. Client Situation

6.1 Foreign Citizen

6.1.1 You must ensure that you advise foreign citizens to seek advice with regard to any tax implications of purchasing a property in the UK. You must give reasonable time for the client to seek such advice.

6.1.2 You must consider the lender's requirements when completing mortgage recommendations for foreign citizens.

6.2 Will Arrangements

6.2.1 All clients should be advised to review their will arrangements.

6.3 Guarantors

6.3.1 A guarantor is an individual who commits to the lender that she or he will repay a mortgage if the principle debtor defaults. LGPSL consider there to be two types of guarantor :

1) Where the guarantor's regular income is not used to support the mortgage and;

2) Where the guarantor's regular income is used to support the mortgage payments and is taken into account in assessing affordability/the amount that can be borrowed.

6.3.2 For mortgages where there is a guarantor, you have the option to process the case manually (see section 4.1 for further guidance on how to do this) or to use Launchpad. The following guidance assumes the case is to be processed electronically.

Guarantors whose income is not being used to support the mortgage

6.3.3 Create a combined IDD, a copy of which should be given to all parties including the guarantor.

6.3.4 As the guarantor's income is not being used to support the mortgage, you do not need to complete a full client review for the guarantor. However, you must confirm in the notes section that this is a guarantor mortgage and that they have been advised to seek independent legal advice as per the MROS.

6.3.5 A guarantor does NOT need to be named on the KFI but they must be named on the MROS and receive a copy of this at the same time to their own address, if different.

6.3.6 The MROS must document the guarantor's responsibility to repay in the event of the borrowers defaulting.

6.3.7 The guarantor should be advised to seek independent legal advice to ensure they understand their liabilities and commitments as a guarantor. This must be documented in the MROS.

Guarantors whose income is being used to support the mortgage

6.3.8 Create a combined IDD and ensure all parties receive a copy, including the guarantor.

6.3.9 For a joint case plus guarantor, you must complete the client review for each party and cross reference the URN in the notes section of the client review.

6.3.10 For a single application plus guarantor, a joint client review may be completed instead of two separate cases but you must add notes in the client review to explain that one party is acting as a guarantor.

6.3.11 You MUST record full details of the guarantors expenditure in the client review to establish affordability. To source in Trigold for a single party plus guarantor where the guarantor has been entered as client 2 in the client review, when the datahub box comes up, swap the clients round so that the guarantors income is showing under client 1 and press the 'guarantor button' which will allow you to demonstrate that the mortgage recommended is the most appropriate. You must print preview a KFI to store the product list but obtain the KFI direct from the lender.

6.3.12 To source in Trigold for a joint case plus guarantor, you will need to add the guarantors income to client 1 and press the 'guarantors button' which will allow you to demonstrate that the mortgage recommended is the most appropriate. You must print preview a KFI to store the product list but obtain the KFI direct from the lender. You should also ensure that the salaries are returned to their correct amounts after sourcing.

6.3.13 The guarantor does NOT need to be named on the KFI but they must be named on the MROS and receive a copy of this at the same time to their own address, if different. Where the MROS is for a joint case plus guarantor, this will need to be done manually using the template on the guides and library section of the Launchpad homepage.

6.3.14 The MROS must document the guarantor's responsibility to repay in the event of the borrowers defaulting.

6.3.15 There are many different situations where it may be appropriate to use a guarantor and consideration should be given to present and future affordability and reference should be made to the lender's lending policy for the criteria that is acceptable for these mortgages.

6.3.16 The guarantor should be advised to seek independent legal advice to ensure they understand their liabilities and commitments as a guarantor. This must be documented in the MROS.

6.3.17 Where the guarantor's income is being used to support the loan, a fully protected mortgage should be recommended for all parties. Please see section 8 of the protection and general insurance advice standards.

6.4 Applicants At Different Addresses

6.4.1 You must ensure that, where applicants reside at different addresses, duplicates of the Initial Disclosure Document, Key Facts Illustration and the MROS are sent to each address.

6.5 Multiple Mortgage Sales

6.5.1 You must ensure that where you recommend more than one mortgage for more than one property (e.g. remortgaging the main residence to raise a deposit, so the client can help their child purchase a first home), a MROS is given for each.

6.6 Foreign Currency Mortgages

6.6.1 These are only permitted where the client is paid in the currency of the mortgage e.g. a client paid in Euros may have a mortgage in Euros. This is to eradicate the risk to your clients of movements in the exchange rate, which can result in increased overall cost.

6.7 Use Of Funds Raised By A Mortgage

6.7.1 LGPSL consider it unsuitable and will not allow money to be released from a property to be placed into a regulated investment product for any purpose.

6.8 Inter-Generational Mortgages

6.8.1. An inter-generational mortgage is one where homeowners pass their mortgage to their offspring or to a non-family member on their death allowing the amount of inheritance tax to be paid to be reduced. The recipient(s) can either take the mortgage on or, if they do not want to do this, they can sell the property and repay the loan.

6.8.2. You must ensure that for this type of mortgage all other relevant mortgage advice standards and lifetime advice standards, where appropriate, are applied.

6.8.3. You must ensure that you source the whole of the market via Trigold initially using standard income multiples to demonstrate that other lenders have been considered

6.8.4. Where your client has a preference for an inter-generational mortgage, you must explain that there may be an IHT liability on the remaining equity in the property. As you are unable to give advice in this area you must advise the client to seek appropriate legal and/or financial advice regarding this issue and give them adequate time to do so. This must be documented in the MROS.

6.8.5. You should also make your client aware of the risk that if a mortgage is taken and house prices fall, the beneficiaries may obliged to repay a debt that is larger than the value of the home. Again this should be documented in the MROS.

6.8.6. You must explain to the client that the lender will carry out future eligibility checks including affordability checks if the beneficiaries retain the mortgage. If the lender does not think that they can afford to service their loan, the clients will have limited options.

6.8.7. You must explain to your clients the importance of making a Will or recommend that their Will is updated. This is to ensure that the beneficiaries of the inter-generational mortgage are documented. The lender does not require the details because on death they will continue to operate the mortgage in the name of the executors while probate is obtained. It is important to discuss with the client the details of who they intend to leave the mortgage to. Consideration must be given to the future beneficiaries of the property/mortgage because affordability checks will be undertaken by the lender.

6.8.8. Before the application proceeds, you must advise your client to involve the future beneficiaries (and their family if they are not the beneficiaries) in any discussions. This is so the client can manage their family's expectations in the event of their death.

6.8.9. If your client is the beneficiary of this type of mortgage, then you must follow the usual sales process and the mortgage advice standards will apply in full.

6.9. Cascaded Mortgages

6.9.1. A cascaded mortgage is where the client is unaware that they have adverse credit or where the client does not reveal the extent of their adverse credit to the adviser. The lender undertakes a credit search on receipt of the application form which reveals the adverse details. There are some lenders who will automatically 'cascade down' their range of products and offer a sub prime mortgage with a corresponding higher interest rate to reflect the increased risk.

6.9.2. The lender will not release the details of the credit search to you or to the client. As the client may have no knowledge of the defaults and is therefore unable to supply information, you will not know the level of adverse credit and therefore cannot allow the application to proceed without establishing if a cheaper and more suitable product is available from a different lender.

6.9.3. The following procedure must be completed in all cases where a cascaded mortgage has been offered :

- Once the lender has confirmed that a cascaded mortgage has been offered instead of the original full status mortgage, you should immediately contact the client to advise that the mortgage application should not be pursued until they have completed their own credit search. This should also be confirmed in writing to the client and a standard letter is available for your use in the guides and library section of the Launchpad homepage. You must either attach the letter to Launchpad in a .pdf format or add notes to the client review to record what you have written and why. The credit search can be done immediately over the internet using websites such as Experian, Equifax or Callcredit or via Trigold which has a direct link to Equifax.

- The customer will then need to supply the details of the credit search to you and you will need to transfer the information to the notes section of the client review.

- Where a client refuses to provide you with details of the credit search, there are two possible outcomes. If the mortgage has gone to offer stage, you will be unable to stop the mortgage going through but you should issue the letter to the client mentioned above which advises them not to pursue the application. If the mortgage has not reached offer stage then you will NOT be able to follow the rejected advice process. You must either encourage the client to undertake the credit search so that you can re-source or walk away from the business

- Once the details have been obtained, you can then re-source the market and re-advise the client by re-issuing the MROS. Alternatively, you may wish to issue a standalone letter and attach this to Launchpad explaining the reason for the revised recommendation.

- In both cases you must point out the reasons for the recommendation and the financial implications – i.e. that in view of the adverse credit, the interest rate is not likely to be the most competitive.

- For those clients who are aware of some adverse credit but do not have full details, you should not recommend any product until the client can provide full details i.e. they do a credit search or can provide you with more information.

6.10. Sub Prime Mortgages - Adverse Credit Record Keeping

6.10.2. Where you are recommending a sub prime mortgage, you must ensure that you obtain the full details of the client's credit history.

6.10.3. The reason for recommending a self certified mortgage must be fully documented in the MROS. You must also explain and document that this may not be the least expensive option as full status mortgages will generally be cheaper.

6.10.4. Where you have answered 'yes' to the questions in the client review relating to defaults, CCJ's and arrears, you will automatically be asked to provide details of the number of the defaults/CCJ's/arrears, the total value and whether they are satisfied or not.

6.10.5. In addition, you will need to record the following in the notes section of the client review :

- The firm involved

- Whose name the debt is in

- The date registered or the date the CCJ(s) occurred
- The date satisfied, if appropriate
- Details of any IVA's, if appropriate, such as the firms involved, amounts paid etc.

7. Contacting Clients

7.1 Express Consent

7.1.1 You must ensure that you obtain, in advance, express consent if you wish to contact an existing client to review their circumstances.

7.1.2 For new clients you should seek to obtain this express consent at the time of sale.

7.1.3 You must ensure that you remain in regular contact with your customer to avoid this express consent expiring. This should be at least every 12 months.

7.1.4 Further guidance is contained within section 4 of the operating procedures

8. The Client Review

8.1 Introduction

8.1.1 The purpose of the client review is to capture factual information regarding your client's personal and financial circumstances, together with their aims and objectives with regards to mortgage and protection requirements.

8.1.2 Although many fields are not mandatory in the client review due to variations of type of business and client circumstances, you should always aim to accurately complete all relevant non-mandatory fields. This will enable you to adequately justify any subsequent recommendation.

8.1.3 The questions in the client review are designed to ensure that adequate and relevant data is captured to allow you to make a suitable recommendation in a compliant manner.

8.1.4 You must ensure that the details collated are recorded accurately. Where appropriate you must seek further verification if there is any doubt in respect of the information provided.

8.1.5 If you collate additional information to the specific questions on the client review, you must record these in the notes section.

8.2 Affordability/Evidencing Income

Evidencing Income

8.2.1 You must seek to obtain evidence of income in all cases unless there is a valid reason, that is above suspicion, why the client cannot provide this. On occasions it may not be possible to obtain evidence before application. However, this is expected to be in a handful of cases and very few, *if any,* where the client is employed. Examples of where this may be the case :

- Where proof of income is not readily available by virtue of the nature of the clients employment, the basis of remuneration or sources of their income or;

- Where the client has a deadline for entering into a mortgage contract (e.g. auction sale) and therefore there is insufficient time to complete the usual enquiries. This is expected to only be in exceptional cases.

8.2.2 The evidence that you obtain must be detailed in the MROS, together with the figures the documentary evidence confirms.

8.2.3 If you have been unable to obtain any form of evidence, the income declared must be documented in the MROS with a clear explanation of why the client has been unable to provide this. You should satisfy yourself that the figures declared are reasonable by having appropriate discussions e.g. for a self employed person you may discuss trading performance to date, current and future contracts and estimated profit margins to assess overall profitability. Details of such discussions must be fully documented in the client review.

8.2.4 You must endeavour to obtain evidence in a form that is acceptable to a lender for a mainstream product rather than products that allow clients to self certify their income as these are generally more expensive. If this cannot be obtained, you must still endeavour to seek some form of evidence e.g. bank statements, tax return, accountants letter or a documented telephone call with the accountant. This supports your affordability assessment and helps protect you against the risk that some clients may seek to over inflate their income.

8.2.5 Even if the lender does not require evidence of income in view of the fast-track process being used (i.e. typically low LTV's reducing the credit risk to the lender), or where the client is porting an existing loan, you must still apply section 8.2.1.

8.2.6 Where documentary evidence is provided to support the income declared, you must have sight of the original documents and be satisfied that these are authentic. It is best practice to retain evidence of income at a Head Office location.

8.2.7 Advisors encountering clients where the reason for non disclosure is suspicious must withdraw from the sales process and make a Suspicious Activity Report (SARS). The following are examples of what ‘suspicious’ might be :

- Clients wishing to overstate their income in order to obtain a larger mortgage than the lender would be prepared to advance based on true earnings;

- Clients wishing to include earnings which have not been declared to the Inland Revenue.

8.3 Self-Certified Income/Products

8.3.1 Mortgage products that allow clients to self certify their income have a valid role in a limited market place for individuals who have difficulty in providing acceptable proof of income (see section 8.2.1) .

8.3.2 If you ultimately recommend a product that allows the client to self certify their income, you must point out in the MROS that these products are not likely to be the most competitive.

8.4 Affordability

8.4.1 You must satisfy yourself that the mortgage you recommend is affordable whether it be fast-track, self certified or a full status product. You must assess affordability both pre and post any benefit period applicable to the product and this must be documented in the MROS.

8.4.2 Affordability needs to be considered as a whole allowing, where possible, for the mortgage to be fully protected as well. You must explain to your client in the MROS that your affordability assessment is based on current interest rates and their current circumstances, both of which may change in the future.

8.4.3 Although they will need to be considered for eligibility, the lenders criteria for income multiples must not be the sole basis of your affordability assessment. Clear evidence of the client’s financial position must be obtained.

8.4.4 If your client can provide evidence of a good payment history of a loan requiring similar payments, this may support your affordability assessment but is not evidence of income in itself. A full budget planner must still be completed.

8.4.5 If ultimately, in your opinion, the desired mortgage amount is not affordable having considered and discussed ways of reducing the amount required, you must confirm this and issue the client with a MROS stating this as your recommendation. Where you cannot conclude that the mortgage is affordable, you cannot use the ‘rejected advice’ route as the FSA rules do not allow you to facilitate an unaffordable loan.

8.4.6 Where a mortgage is being recommended, it is mandatory to fully complete the budget planner in the client review. The budget planner must take into account expected future expenditure and not existing expenditure.

8.4.7 The surplus income figure is the amount available for the package you are recommending (mortgage pre and post benefit period plus protection). This is a starting point for discussion as the client may wish to reduce discretionary outgoings to increase funds available. If you recommend a package over the surplus income figure, you will need to carefully justify this.

8.4.8 If your client has a shared ownership property, the additional costs of this e.g. rent must be considered and recorded in the budget planner. The percentage split between client and mortgage provider must be recorded in the notes section of the client review.

8.4.9 You must ensure that the income recorded in the client review is the same as that on the lenders application form. Any discrepancies must be clearly explained in the client review notes.

8.5 Affordability After Benefit Periods

8.5.1 Loans subject to a benefit period, after which payments may increase, must also be assessed for affordability at the end of this benefit period, based on the current interest rates.

8.5.2 The assessment should be as you would consider immediate affordability and should be justified in the MROS.

8.6 Expected Changes In Financial Circumstances

8.6.1 Expected changes in income and expenditure to support affordability may be considered although each must be judged on its merits. For example, an increase in income, a decrease in expenditure or dependants being financially dependant for a short period may be some factors to consider.

8.6.2 These must be recorded in the client review and clearly documented in the MROS.

8.7 Loans And Other Financial Commitments

8.7.1 The client review will enable you to gather information regarding your client's loans and other financial commitments e.g. hire purchase, overdraft, credit cards etc.

8.7.2 You must ensure that these are reflected in the income and expenditure section and incorporated into your assessment of affordability.

8.8 Interest Rate Options

8.8.1 You must ensure your client is made aware of the key types of interest rates available by referring to the 'guide to buying your home' brochure and the potential risks and benefits each carry.

8.8.2 The client review will prompt appropriate questions to assist you in deciding the most appropriate interest type for your client. Where a product is recommended that appears to contradict the information collated an alert will be raised and you must ensure that, if you proceed, you must provide justification in the MROS

8.8.3 Fixed rates (e.g. fixed, capped, cap and collar) are primarily suitable for clients that have a need or preference for stability of payments. This may be first time buyers or existing borrowers where income is slightly stretched and financial budget planning is essential.

8.8.4 Variable products (e.g. discounts, trackers) are primarily suited for clients with a need or preference to keep payments low in the early years. This may be a first time buyer who needs to direct finances elsewhere in the early years e.g. furniture, works to property and clients who can financially manage the potential fluctuation in interest rates.

8.8.5 If a lenders standard variable rate (SVR) is recommended you must ensure that this is fully justified, as a discounted rate will always be cheaper.

8.8.6 At the end of any initial benefit period the client should be advised to review their mortgage arrangements as the rate the lender may transfer them to may not be competitive.

8.8.7 You must make a recommendation as to the term of any proposed interest rate fixture such as a fixed rate or discounted rate. This should be based on the client's circumstances, needs and preferences whilst considering any specific event the client may have in the future. This must be fully documented in the MROS.

8.9 Mortgages With Unsecured Element

8.9.1 If this type of mortgage is taken you must explain to the client that the unsecured borrowing linked to the mortgage is not regulated by the FSA, but is instead subject to the rules of the Consumer Credit Act 1974.

8.9.2 The advisor must record the following in the MROS , having discussed each area with the client:

- Why the unsecured element is required.
- The maximum amount the customer intends to draw down from the unsecured element.
- That the preferential rate on the unsecured borrowings are only available whilst they remain with this product/lender. The client may therefore find that they are restricted in the future.
- That the assessment of affordability has taken into account the maximum amount that the customer intends to draw on this facility

and that if the client increases their borrowing to a greater amount, they will need to satisfy themselves that the amount is affordable.

- If this is for debt consolidation purposes and the unsecured element equals or exceeds the amount of the debt consolidation then the following paragraph should be added to the MROS :

  Of the unsecured element, £x is being used for the purpose of consolidating existing liabilities. From the information that you provided, I have been able to determine that although the interest rate charged will be lower, the overall cost of repaying these liabilities is likely to increase as the term is longer. In addition, the preferential rate is only available whilst you remain with your current lender.

- If the amount of the debt consolidation exceeds the unsecured element then section 18 should be followed in full.

8.9.3 The advisor must also explain that the right of recourse detailed in the IDD with regards to FSA/FOS will not be available for the unsecured loan. This must be fully documented in the MROS. The client should also be advised to refer to their Key Facts Illustration for further details of the terms of the unsecured borrowing.

8.10 Mortgage Application Form

8.10.1 The information recorded on the mortgage application form should mirror that recorded in Launchpad. If there are any discrepancies, there must be an explanation recorded.

8.10.2 It is best practice to retain a copy of the mortgage application form at a Head Office location and ensure that it is retrievable within two business days.

9. Affordability

9.1 Recommending The Least Expensive

9.1.1 The rules require that where more than one mortgage contract is identified as being suitable, the least expensive should be recommended, taking into account other features that may be important to the customer e.g. quality of service or flexible and offset facilities.

9.1.2 When considering the least expensive, you must discuss with your client whether monthly payments, overall cost, cost in the first X years etc, is of most importance to them and ensure your sourcing supports this.

9.1.3 If you identify more than one suitable product and you do not ultimately recommend the least expensive, you must justify the overriding preference of the client in the MROS and the notes section of the client review.

9.1.4 You should document in the MROS how you have identified that the product recommended is the least expensive based on the pricing elements identified as being most important to the customer.

9.1.5 You must answer all the needs and preference questions in the product requirement section of the client review. You must then filter and sort the mortgages in Trigold in accordance with these needs and preferences. This will ensure the relevant product appears on the sourcing page, which is then stored within Launchpad once the KFI has been print previewed. If this is not possible, it should be clearly evidenced in the client review or MROS how the product has been identified as the most appropriate.

9.2 Considerations To Reducing The Monthly Payment

9.2.1 Before concluding that a client cannot afford the loan amount requested, you must consider ways of reducing the cost e.g.

- Increase deposit.
- Convert some or the entire mortgage to interest only (N.B. If this is recommended it must be explained to the customer the risks of not having a repayment vehicle and it must be documented in the MROS why this is appropriate and that the customer is aware of the risks).
- Consolidate other debts.
- Change product type (e.g. from fixed to discounted)
- Follow the guidance for affordability within the protection and general insurance advice standards as it may be necessary to prioritise protection needs.
- Recommend a reduction in borrowing if further deposit not available.
- Increase mortgage term.

9.2.2 The above are not in any particular order of preference. The advantages and disadvantages of these must be considered in accordance with the client's circumstances, and relevant details recorded in the MROS.

9.3 Non Salaried Income

9.3.1 The client review will provide assistance in gathering information in respect of non-salaried income, savings and investments.

9.3.2 Where reliance is placed upon non-salaried income e.g. income from investments, you must make the client aware that you are unable to provide advice in respect of these arrangements as to the level of income, maturity values and level of guarantees unless you are qualified and licensed to arrange such products.

9.3.3 Where non-salaried income is in the form of rent from other properties owned and is being relied upon to support the new mortgage arrangements, you must ensure your client fully understands the risks of:

- Tenants failing to pay
- Property being empty for long periods
- Property falling into negative equity
- The risk of rental income being lower than expected/required mortgage payments
- Being liable for the maintenance of the property and responsibility to insure.

9.3.4 This must be incorporated into the MROS.

9.4 Affordability Into Retirement

9.4.1 For loans where the term extends beyond retirement, you must conclude that the mortgage payments will remain affordable. E.g. this may be by way of pension income, investment income, where one party remains in employment and there is the ability to repay on this sole income, trust funds etc. The source of the post retirement income and the evidence seen must be recorded in the MROS.

9.4.2 Where reliance is placed upon non-salaried income, you must make the client aware that you are unable to provide advice in respect of these arrangements regarding the level of income, maturity values and level of guarantees. Unless you are qualified and licensed to arrange such products.

9.4.3 This must be incorporated into the MROS.

9.5 Joint Customer Where The Recommendation Is Only To One Customer

9.5.1 There may be a situation where you are conducting a client review for more than one customer but you are recommending that only one customer apply for a mortgage.

9.5.2 In this instance you must clearly document why you have recommended this.

9.5.3 You must also document how you determined that it was affordable, or if both clients have income, you must document whether the second income will be needed to service the loan.

9.5.4 The MROS must be given in joint names and must be amended to clarify these points.

9.5.5 You must also add a clear warning that the customer taking out the mortgage is solely responsible for the mortgage repayments.

9.5.6 In all circumstances a KFI should be issued in the name of the borrower.

10. Deposit

10.1 Consideration Of Existing Assets

10.1.1 It is not a requirement to consider all existing assets to increase the amount of deposit. However, you must point out to the client the amount required to avoid a Higher Lending Charge and the fact that realising such assets may reduce the overall cost of borrowing.

10.1.2 If the client is able to provide a higher deposit that will result in a lower interest rate being available to them, this must be brought to their attention.

10.1.3 Disposal of certain assets to provide a larger deposit may give rise to a tax liability and this may need to be taken into account, e.g. the sale of shares. This must be noted to the client and they should be advised to discuss this matter with an expert on domestic taxation.

10.2 Higher Lending Charge (HLC)

10.2.1 HLC must no longer be referred to as MIG (Mortgage Indemnity Guarantee)

10.2.2 You must explain to the client the purpose of the HLC and make clear that it does not remove their liability to repay any amounts owing in the event of repossession. This must be documented in the MROS.

10.2.3 You must explain to your client that if the HLC is added to their loan amount, interest will be charged at the prevailing rate. The Mortgage Key Facts Illustration will detail any HLCs.

10.2.4 You must discuss the potential of reduced borrowings by the client to avoid the HLC.

11. Existing Mortgage Arrangements

11.1 Early Repayment Charge On Existing Arrangement

11.1.1 Where an existing mortgage has an early repayment charge, you must ensure that you conduct an investigation into what the existing lender can offer before sourcing a mortgage elsewhere.

11.1.2 If a change to a new lender is justified, full details of this justification must be kept on the client file and also full details of the justification given in the MROS.

11.2 Retention Products

11.2.1 Retention products are those where terms other than the interest rate remain unchanged. LGPSL will be treating all lender retention products as regulated mortgage contracts regardless of whether they were sold pre or post 31 October 2004. PI insurance will cover these products and LGPSL will take compliance responsibility.

11.2.2 The following sales process must be adhered to for all retention cases:

- Issue an IDD
- Complete a full client review
- Obtain details from the client/lender of the retention product on offer. Add the details of this product to the quote screen on Launchpad, under add manual mortgage illustration.
- Source from the whole of the market using Trigold and print preview the best product in order that an audit trail may be viewed by the Risk Team.
- Complete the recommended and chosen section as appropriate on the quote screen.
- Produce and issue an MROS.
- Complete the application screen for payment of the procuration fee.

11.2.3 In some circumstances, the lender offering the retention product will provide a Key Facts Illustration. This must be attached to Launchpad in a pdf format or if it cannot, then it must be sent to the Sales Quality Review Team using the Risk Team submission form found in the guides and library section on the Launchpad homepage. If a KFI is not available from the lender, you must document where you obtained the information regarding the retention product in the notes section of the client review, i.e. from the client or lender. This must also be documented in the MROS.

11.2.4 Where the cheapest product is not recommended due to the customer having an overriding preference, please see section 9.1.

12. Additional Features

12.1 General

12.1.1 There are many different interest rates on the market and it is possible to combine these with additional features e.g. overpayment facility, underpayment facility and cashback. You must ensure that any additional features your client has stated a preference for are documented in the client review and incorporated into the MROS.

12.2 Speed Of Completion

12.2.1 Where your client indicates that speed of completion is important, you are able to apply for more than one mortgage product but only if each of these products is identified as being suitable. You should inform your client that this may result in several credit searches being undertaken and recorded.

12.2.2 A Key Facts Illustration must be provided on each with particular attention given to fees, i.e. you will need to confirm any fees that are non-refundable if the mortgage application does not proceed. You may wish to document this with your client for future reference.

12.2.3 A MROS must be issued on the final product you recommend. It must make reference to the fact that other products were applied for, especially where these may have been a less expensive option. You must make clear that the overriding preference was for speed of completion and ensure that this preference is recorded in the client review.

12.3 Offset

12.3.1 An offset mortgage is where a client's main current account or savings account (or both) are linked to the mortgage and are usually, but not always, held with the mortgage lender. Generally, the monthly mortgage interest amount is calculated on the outstanding mortgage liability less any amounts held in the clients current or savings accounts. Linked accounts used to reduce the mortgage interest payments will not attract interest payable to the customer. Therefore, as the current account and saving balances increase, the client will pay less mortgage interest.

12.3.2 Consideration must be given on these types of mortgage to balance the benefits of being able to offset with the possibility that the underlying rate may not be as competitive as a discounted variable tracker product with flexible features e.g. facility to make overpayments without penalty.

12.3.3 You should be able to demonstrate that if recommending an offset product it is the most suitable product for the customer's needs i.e. that the client has sufficient savings to make offsetting cost effective and likes the idea of built in flexibility to make over and underpayments. This should be clearly documented in the MROS.

13. Recommending The Method Of Repayment

13.1 Repayment Type

13.1.1 You must discuss and consider the following three options with your client. It may be necessary to example each by way of Key Facts Illustrations.

13.1.2 The repayment type you recommend should be detailed in the MROS, together with why this is suitable and any risks associated with the arrangement.

13.2 Repayment

13.2.1 Such loans are suited to clients who require a guarantee that their loan is fully repaid at the end of the term.

13.2.2 If a client has indicated a preference or a need is identified for this option (e.g. no repayment plans in place) and a 100% repayment loan is not recommended, this must be fully justified in the MROS.

13.3 Interest Only

13.3.1 An interest only mortgage means that the monthly payments cover only the interest on the loan. The payments do not pay off the amount of the mortgage so at the end of the term, assuming none of the payments have been missed and no additional lump sum payments have been made, the client will owe the same amount that was borrowed at outset. The client will have to have a lump sum available to pay the mortgage back in one go at this time.

13.3.2 Such loans are primarily suited to clients who have a repayment vehicle in place which aims to repay the original loan amount at the end of the term, or those effecting a new investment arrangement for this purpose.

- Save regularly. The client makes payments into a savings or investment scheme each month to build up a lump sum to pay off the loan when the mortgage term ends. Where reliance is placed on repayment vehicles, consideration needs to be given to the level of payment expected and the level of guarantee the arrangement provides. Advice must not be given in respect of these arrangements and where clients are unsure of these arrangements, they must be advised to seek independent advice unless you are qualified and licensed to advise on such products. Where clients indicate a desire to place any reliance to receive a specific sum to repay the full loan amount at the end of the term, an interest only option may be the most suitable. The repayment plans must be documented in the MROS and client review, along with any associated risks for any element of interest only mortgage.

- Convert to a repayment mortgage later or part repayment mortgage. This might be a suitable option if, say, the clients earnings are low now but are expected to be higher in the future. This expectation needs to be clear from the client review and detailed in the MROS

- Use a lump sum – for example, selling something such as a business, endowment or pension

- Sale of the property being mortgaged. This is only suitable if the client does not have a need to live in the property e.g. sale of a buy to let or a second home. If downsizing to a smaller property, this must be feasible based on the current equity in the property.

13.3.4 In all of the above examples you must cover the risks associated with the plan for capital repayment and if you feel that the plan is not feasible you will NOT be able to recommend the mortgage.

13.4 Combination (Interest only and repayment)

13.4.1 Such loans will be primarily suited to those clients with some existing arrangements or those effecting a new investment arrangement for this purpose.

13.4.2 Where the expected payment is not for the full amount of the loan, it is likely to be suitable for the client that part of the loan is at least on a repayment basis.

13.4.3 Please refer to section 13.3 above for further guidance on the Interest Only portion of the clients mortgage.

14. Mortgage Term

14.1 General Standards

14.1.1 The term of the mortgage will be a discussion point between yourself and the client. Affordability also plays a key part in this decision making process.

14.1.2 In order to reduce the overall cost to the client, the starting point for considering an appropriate term should be the shortest term within the client's affordability levels. However, the client's needs and preferences must also be considered.

14.1.3 Guidance on some other areas is given below.

14.2 Client Preferences

14.2.1 Normally you should recommend the shortest term within the client's affordability. However, where clients have preferences overriding this standard, these should be considered, documented in the client review and incorporated into the MROS.

14.3 Existing Investment Policy Being Used As A Repayment Vehicle

14.3.1 If affordable and still appropriate to the client's needs and preferences consider using the maturity date of such arrangements.

14.4 Retirement

14.4.1 Normally you must ensure that the mortgage is repaid before retirement age (exception: lifetime loans).

14.4.2 If this does not meet the client's needs and preferences and affordability has been determined, terms into retirement may be suitable. The source of the post retirement income and the evidence seen must be recorded in the MROS. Please see affordability guidance (section 8.2) for further guidance.

14.5 Remortgaging/Moving

14.5.1 The current term of existing mortgage arrangements must not automatically be carried forward, although it should be considered.

14.5.2 An assessment of the client's situation should be undertaken to ensure that the client's current needs, circumstances and preferences are considered to determine the length of the new mortgage.

14.6 Maximum Age For New Or Existing Policies

14.6.1 In some instances, the associated protection product may have a maximum age limit attached which may be a factor in considering the appropriate term.

14.7 Split Term

14.7.1 Where the term of the mortgage is split e.g. £50,000 repayment for 10 years, £50,000 interest only for 8 years, both terms will need to be clearly justified in the MROS.

14.7.2 Where lenders do not offer this facility, you must incorporate an explanation into the MROS that, effectively, this arrangement requires a lump sum payment on the intended first term arising.

14.7.3 You must ensure careful consideration is given to the risks e.g. early repayment charges and the risk of investments not achieving desired targets.

14.8 Interest Only Mortgages

14.8.1 For interest only mortgages the monthly payment will not vary depending on the recommended term. As such it is not appropriate for the justification of the term to be linked solely to affordability. It is expected that through discussion with the client additional justification for the recommended term should be identified and could include the following examples :

- The term is equal to the repayment vehicle(s)
- The term is equal to retirement age which was the customers preference.
- The term selected is X years as this was the customers preference.

14.8.2 The relevant justification must be detailed to the client in the term section of the MROS.

15 Mortgage Sourcing

15.1 General Principles

15.1.1 LGPSL will provide a panel of lenders that are representative of the whole market.

15.1.2 You must initially source from this panel and only if no suitable mortgage can be found, you will then be able to source off panel.

15.1.3 You must update your sourcing system daily to ensure it reflects an up to date position.

15.1.4 In order to evidence that the product chosen is most appropriate for the client, you must filter and sort the mortgages in Trigold in accordance with the client's needs and preferences. This will ensure the relevant product appears on the sourcing page, which is then stored within Launchpad once the KFI has been print previewed. If this is not possible, it should be clearly evidenced in the client review or MROS how the product has been identified as the most appropriate.

15.1.5 Where there are more than 2 applicants you must obtain your KFI directly from the lender.

15.2 Packagers

15.2.1 Packagers can be used where specialist knowledge of a particular market is required or where outsourcing of administrative services is needed. LGPSL has an approved packager panel this can be found on the BP centre via the following instructions from the BP homepage : LGPSL, LGPSL section, mortgages, full list of packagers.

15.2.2 When using a packager, you are still required to select the most appropriate product from those lenders suggested as you are responsible for the advice given. You must therefore review the alternative product suggestions made by packagers to satisfy yourself that the product is the least expensive or otherwise the most suitable before recommending it to your customer. You must add to the client review notes your justification for recommending the product out of those available.

15.2.3 It is also your responsibility to ensure that the KFI is issued to the client at the appropriate time. As you will not have been able to use Trigold to source the mortgage, you must obtain the KFI direct from the lender. This should be attached to Launchpad in a .pdf format or if it cannot be converted to a .pdf format, sent to the Sales Quality Review Team (see glossary of addresses) using the Risk Team Submission sheet listed under the guides and library section on the Launchpad home page

15.2.4 You must also ensure that the MROS justifies the reason for your recommendation.

15.3 Key Facts Illustration (KFI)

15.3.1 You must only provide a KFI to clients if they are eligible for the mortgage product being illustrated.

15.3.2 You must provide a KFI if you:

- Make a personal recommendation to a customer to enter into a regulated mortgage contract
- Provide information to a customer that is specific to the amount they wish to borrow on a particular mortgage product
- Provide a way for a customer to make an application.

15.3.3 You must provide the KFI before an application is made and ensure the customer has had reasonable time to consider the contents.

15.3.4 You must explain the importance to your clients of the need to read and understand the KFI.

15.3.5 You should take reasonable steps to confirm the accuracy of the KFI sourced from Trigold. This may include comparison against a KFI separately sourced directly from the lender.

15.3.6 As a minimum, you should verify that the details of the mortgage per the KFI issued to the customer are consistent with those specified on the mortgage offer document issued to the customer by the lender.

15.3.7 In the event that product details differ between the KFI and the offer letter for the same product, you should :

(i) investigate discrepancy with the lender and if these cannot be resolved, consider the need to re-source the market to meet the customers requirements.

(ii) Report KFI related errors to the Business Support Team (see glossary of addresses).

15.4 Guidance On KFI Completion

15.4.1 Part of the KFI will be automatically populated in some areas. The following areas will require your manual intervention:

15.4.2 Section 2 (which service are we providing?) This will default to 'recommend' but should be altered if the mortgage is not a personal recommendation and the non-advised route has been followed.

15.4.3 Section 4 (description of this mortgage) This gives the option (in a section titled 'other information') to add any relevant information e.g. the fact that the mortgage was approved in principle by the lender.

15.4.4 Section 6 (what you will need to pay each month) Assumed Start date – this will default to 2 months hence. Unless you are aware of any reason to change this, it should be left at the default setting.

15.4.5 Section 8 (what fees must you pay?)

Fee	This area will hold a description of the fee charged by the Lender or third party. If the fee could be changed during the lifetime of the mortgage, the word 'current' needs to be written next to the description. Examples of charges are listed below. These will change from lender to lender. - Arrangement fee - Valuation fee/ homebuyers/ structural survey - these will need to be changed depending on which the client decides to pay for. You must also add a re-inspection fee, if you are aware that this will take place at the time of the sale e.g. for new build. - Booking fee - A Higher Lending Charge - Telegraphic transfer - Final redemption charge - Mortgage discharge fee - Deeds release fee

	- Insurance admin - Redemption admin early repayment charge - Discharge admin fee - Re-inspection fee (see valuation fee) - Other fees – this is a free text option for you to populate. Any fees payable to a third party must also name the person or firm who will be receiving the fee.
Payable	Any fee that is added to the mortgage will affect the APR calculation. This area can be edited, so if the lender allows the client to pay fees up front you may change any of the following. Examples of how fees are payable are listed. - **Up front** (any fees that are payable by the client, at any point in time, during the mortgage application) - **Added** (fees added to the mortgage on completion) - **On completion** (fees payable by the client on completion) - **On redemption** (fees excluding early repayment charge, payable when the mortgage is redeemed)
Refundable	If fees are refunded on completion, for example basic valuation, this section will be populated. If you make a separate agreement with the client to refund any fees, this can also be edited with the change.
Fee details	This is a free text box that would need to be populated with the following information when the situations apply. - Confirm that the client has requested a fee be added to the mortgage. - Explain on 'estimated' fees that it is just an estimate and that further costs might need to be paid by the customer. - If a client is able to add a fee to the mortgage insert ' If you wish you can add this fee to the mortgage, this would increase the amount you borrow to £X and would increase the payments shown in section 6. If you want to do this, you should ask for another illustration that shows the effect of this on your monthly payments. - **If the fee is refundable and to what degree. On each fee charged you must explain if this will be refunded if the mortgage does not proceed.**
Fee Amount	The amount of fee charged to the client must be accurate. If the fee is unknown you are able to add the word 'estimate' and it would, in this instance, be best to over estimate than under.

15.4.6 Section 9 (insurance) conditional insurance – all details of the conditional insurance/s must be given on the quote. The client is entitled to a 7 day cooling off period with full refund of costs (less cost of advice) once the full cost and details are known.

15.4.7 Section 13 (using a mortgage intermediary)

15.4.8 Procuration fees – The sourcing system will give a selection option for you to choose from. Where the fee is less than £250 you need only state that the amount received was 'no more than £250' unless requested by the client. For fees over £250, which haven't pre-populated, the amount you should quote is the <u>gross</u> fee payable, irrespective of your tiering structure. The name of the mortgage lender making the payment, the name of the mortgage intermediary and the name of any third parties who will be paid should also be shown.

15.4.9 Surveys or packaging – The value of additional payments made in relation to either must be disclosed. If the packager has given you a material cash or non cash inducement to place your business through them as opposed to going directly to the lender then you will need to disclose both your procuration fee and the inducement from the packager on the KFI.

15.4.10 Inducements – a cash value for any material non cash inducements that the mortgage lender provides you with must be stated here. An example may be ‘Anytown Bank will pay ‘Anytown Advisor’ an amount of £350 in cash and benefits if you take out this mortgage.

15.4.11 After section 14 (contact details)– You must ensure that the following details are accurately documented; advisors name, full address and telephone number.

15.5 Re-Issuing A KFI

15.5.1 The KFI you give to the customer must accurately reflect the terms of the mortgage being applied for. If there is a material change to the proposed mortgage after the application has been submitted, you must revisit the advice you have given and issue a new KFI.

15.5.2 A material change is a change to the product terms or a change to the loan amount of more than 5% since the last KFI was given to the customer. If the change is less than 5%, you are not required to provide the client with a new KFI unless requested by the customer as this will be confirmed in the lenders offer letter.

15.6 Approval In Principle/Decision In Principle Process

15.6.1 When completing a product-specific AIP / DIP, the advisor should adhere to the following process:

- Issue the Initial Disclosure Document;

- Complete the client review to amber as a minimum;
- Source Trigold;
- Produce the appropriate Key Facts Illustration and make a recommendation;
- Complete the AIP/DIP;
- If the AIP/DIP is declined, or offers reduced or enhanced terms;
    - Re-source Trigold to re-confirm most appropriate and/or identify a more appropriate product; or
    - Reduce borrowing in client review and re-issue a Key Facts Illustration if this product is still the recommendation.
- Complete the client review to blue in order to apply and create a MROS for product specific AIP/DIP's as this is a recommendation; and
- If the product-specific AIP/DIP is declined and / or another product is recommended and applied for, the MROS should be re-issued for the new recommendation.

15.6.2 If the customer's circumstances require the completion of a non-specific Approval In Principle (AIP)/Decision in Principle (DIP) where no product can be selected or advised upon (for example, where a property has not yet been identified) advisors should adhere to the following process:

- Issue the Initial Disclosure Document
- Complete the client review to amber as a minimum
- Justification to be recorded in the notes section of the client review that there is a valid reason to approach a specific lender for a non-specific AIP/ DIP. (For example (but not limited to); the lender will offer advances over 100%; no higher lending charge; allows guarantors etc)
- When the property details are known, a full product source to be conducted on Trigold from all panel lenders.

15.7 Negative Equity

15.7.1 You should always make the client aware of the risk that if the property prices fall they could be exposed to a position of negative equity.

15.7.2 If the new loan means that the value of the clients property immediately falls below the amount owed on the mortgage, (i.e. ‘negative equity’), you must explain the risks to the customer i.e. the sale of the property at current prices will not be sufficient to repay the debt to the lender.

15.7.3 An explanation of the risks should be documented in the MROS.

16. Lifetime Mortgages

16.1 Definition

16.1.1 The definition of a 'traditional' lifetime mortgage is as follows:

- Clients are retired, interest to be rolled up; or
- Clients are not retired, (but will during term), interest to be rolled up; or
- Where a lender has deemed the loan you are recommending as a lifetime mortgage.

16.1.2 The lifetime mortgage standards detailed below will also apply, in the main, to interest only mortgages sold within a term that matures after a customer's 80th birthday where:

- There is no proven ability or intention to repay the capital before the client's 80th birthday and/or,
- Repayment of the capital amount is expected to be made on the death of the client.

16.2 Disclosure

16.2.1 The disclosure requirements for each definition above differ, and are as follows :

- For 'traditional' lifetime mortgages as per 16.1.1, the Initial Disclosure Document (IDD) and Key Facts Illustrations (KFI) will reflect that the advice being given is for a lifetime mortgage.
- For interest only mortgages as per 16.1.2, the IDD and KFI will be for a standard mortgage and not a lifetime mortgage.

  If your scope of service changes throughout the sales process, you should reissue your IDD.

16.2.2 There are parts of section 16 that are not relevant for the advice you will provide on interest only mortgage arrangements as detailed in 16.1.2 above:

As follows:-

16.3.2; 16.3.7; 16.8.1; 16.14.1; 16.14.2; 16.18.1.

16.19.1 - bullet 2 and bullet 5

16.20 - The requirement changes slightly for interest only mortgages:- You will need to recommend your client's family are informed of the mortgage arrangements in view of the impact on the estate.

16.3 General Guidance

16.3.1 In order to provide advice in this area, you will need to obtain the specific lifetime mortgage licence in addition to holding CF7, CF2, Full FPC and CeMAP/MAQ or equivalent qualifications and attend the LGPSL 2 day workshop.

16.3.2 The Council of Mortgage Lenders have put together best practice notes for lifetime mortgages, the contents of which you should bear in mind when providing advice in this area. You can obtain a copy at http://www.cml.org.uk/cml/policy/guidance/lifetime

16.3.3 The Association of Mortgage Intermediaries have produced a useful fact sheet titled Equity Release Fact Sheet 26. You can obtain a copy at http://www.a-m-i.org.uk/

The FSA have produced a useful consumer factsheet about equity release titled 'raising money from your home', which can be accessed via the following web address: http://www.fsa.gov.uk/consumer/pdfs/raise_home.pdf. You can order a printed copy of the factsheet free of charge from the FSA Leafletline on 0845 456 1555.

You should familiarise yourself with the content of these documents and may also wish to provide your client with copies.

These fact sheets may be superseded and you should ensure that you remain up to date with these.

16.3.4 Where 'client' is used throughout this section this should also be interpreted to refer to more than one client where appropriate.

16.3.5 Currently the Trigold system does not support lifetime mortgages and therefore you will be unable to source these mortgages using this system. You will need to obtain your KFI directly from the lender.

16.4 Lifetime Standards That Apply To 'Right To Buy's'

MAS that apply	MAS that don't apply	Heading/Comments
16.1.2	16.1.1	Definition of 'Traditional' Lifetime Mortgage
16.2.1		
16.3.1/16.3.4/16.3.6	16.3.2/16.3.3/16.3.5/16.3.7	General Guidance Section relating to Lifetime Mortgages and Home Reversion Schemes; Equity Release fact sheet; Trigold not supporting Lifetime Mortgages
16.5.1/16.5.2/16.5.3		
16.6 all FINTAL		
	16.7 all (SHIP)	Section related to SHIP only
16.8 all		
	16.9.1	KFI Term for Lifetime Mortgages
16.10 all		
16.11 all		
	16.12 all	Ways to release equity
16.13		
	16.14	Alternatives to Lifetime Mortgages
	16.15	Protecting equity in the property
	16.16 Affordability rules in MAS apply	Affordability for loans requiring payment
	16.17 MAS section 17 applies	Debt consolidation
	16.18	Existing loans and mortgages
	16.19	Re-mortgaging Lifetime Mortgages
	16.20	Additional risks and future needs
	16.21	Legal Advice and/or family involvement
16.22.1	16.22.2	Rejected advice – IHT and investment

16.5 Risk Team Requirements

16.5.1 All advisers must pre-notify the Business Support Team by telephone on 0845 0701303 and select option 1 for all lifetime sales prior to submission of the application to the lender.

16.5.2 In all instances the ‘Risk Team Submission Form’ which can be found in the guides & library section on the Launchpad homepage, must be submitted to the Sales Quality Review Team (see glossary of addresses), together with a copy of the mortgage application form and FINTAL input and output, prior to/at the same time as the mortgage being applied for. This must include the individual Launchpad case number. A copy of the MROS and KFI, both having been provided to the customer, must also be submitted if these cannot be attached to Launchpad.

16.5.3 Where the lifetime advice standards apply to the interest only mortgage you are recommending, you must answer ‘yes’ to the question ‘lifetime mortgage’ found in the section ‘add manual mortgage illustration’. This can be found on Launchpad under case overview, then click ‘illustrations’, then click on + add new manual mortgage illustration. On the next screen, scroll down to ‘loan details’ and you will see ‘lifetime mortgage’ and a drop down box. Select ‘yes’.

(The above does not refer to the question in the IDD screen that asks if this is a lifetime mortgage. You should only answer yes to this if you require a lifetime IDD).

16.6 FINTAL

16.6.1 For all lifetime mortgages, you must assess your client‘s eligibility for means tested benefits (MTB) and the impact that releasing equity may have on these benefits. This assessment must be undertaken using the FINTAL system (see 16.13).

16.6.2 If you are unable to use FINTAL for any reason, you must obtain approval to proceed without using this system from the Business Support Team (see glossary of addresses). A record of this approval must then be documented within the notes section of the client review.

16.7 Safe Home Income Plan (SHIP)

16.7.1 We recommend that all lifetime mortgages sold by AR firms of LGPSL should have the SHIP mark (Safe Home Income Plan). Further information can be found at www.ship-ltd.org

16.7.2 If however there is a product without this mark that you feel is justified, please contact the Business Support Team for consent to proceed before advice or a recommendation is given to your client. A record of this approval must then be documented within the notes section of the client review and the standard paragraph added to the MROS, indicating a non-member of SHIP. Advisors must also include an explanation of what SHIP is, the protection this scheme offers to customers and what the potential benefits/consequences are of not having a product with the SHIP mark.

16.8 Additional Suitability Requirements For Lifetime Mortgages

16.8.1 You must ensure that all relevant advice standards for standard mortgages sales are also applied to lifetime mortgages.

16.8.2 Lifetime mortgages are primarily suitable for older clients.

16.8.3 If the date of retirement is less than a year away for both or one of your clients, you must advise your client to seek appropriate advice on their retirement provision options. If your client declines to seek such advice you must document this in the MROS and point out the risks of this i.e. that a change of circumstances could impact the advice being given and that your advice is based on their current circumstances.

16.8.4 An exception to the above may be if your client requires an immediate lump sum for a specific purpose that is likely to be spent prior to retirement. In these instances, please contact the Business Support Team for approval to proceed. A record of this approval must then be documented within the notes section of the client review.

16.8.5 If the client is within 4 months of retirement age and can provide you with all of their pension related income projections, an assessment using FINTAL can be made using these assumptions and advice given as appropriate. It must be made clear to the client in the MROS that the advice is based on assumptions and that if these turn out to be incorrect or the client's intentions change, this may impact the advice given.

16.9 Term

16.9.1 The KFI provided by the lender will calculate the term using mortality rates as required by FSA (the minimum term will be 15 years). However, if your client requests an illustration using a different term, you must also provide this.

16.10 Client Review

16.10.1 You must ensure all appropriate areas of the client review are completed along with the notes section to clarify any additional points, in particular :-

- The Lifetime tab in product requirements, must be completed in its entirety.
- If the answer to the question, 'is it likely that any equity release will have an adverse effect on MTBs?' is 'Yes', you must give details from whom the advice has been sought if the assessment was from another source other than yourself using FINTAL. If the answer is 'No', and this is from a different source other than FINTAL, you must document where such advice was received. Recommendations proceeded without using FINTAL will need the appropriate Business Support Team approval.
- If the answer to the question, 'what is the purpose?' is 'other', details must be added to the notes section of the client review. It is important that you obtain and document a full breakdown of the purpose, as this will enable you to advise whether a lump sum, income, drawdown or combination product is the most suitable. The purpose must be confirmed in the MROS.
- If the answer to the question, 'would a local authority or other grant be less suitable?' is 'no', you must give details of how this assessment has been made if part of the purpose of the loan is for essential home improvements. Within the notes section you must evidence the

considerations given to other methods of raising funds as described in 16.11 below if this is not captured in full in the MROS.

- Within the income and expenditure planner, the client's income, fixed expenditure and discretionary expenditure must be recorded to reveal a disposable income figure. This is to help verify that a lifetime mortgage involving interest roll up, instead of a loan requiring monthly interest payments, is needed and suitable. For example, if the client requires a small amount and can afford the repayments then a personal loan may be more suitable.

- Within the personal details section, the 'are you in good health?' question is mandatory. If the answer to this is 'no', full details and the potential implications e.g. relating to the advice being given must be documented in both the notes section of the client review and MROS.

  There are product providers that will pay out enhancements due to ill-health, for example they may approve a larger lump sum. There are also products being developed that, if your clients die in the early years, the provider may charge a lower rate and refund the clients estate. You will need to satisfy yourself that your client will meet their criteria. If your clients have severe health problems their application could be declined, you must therefore obtain details to ensure they are eligible.

- The client review and MROS must detail the client's savings, investments and current liabilities for you to ensure a lifetime mortgage is suitable and the most appropriate method of releasing equity.

- If your scope of service includes protection, the client review must collate your client's existing protection arrangements. In some instances your client may still need, for example, income protection where the loan requires repayment and they are not yet retired. A lifetime mortgage does not automatically mean there are no potential protection or buildings and contents insurance needs.

16.11 MROS

16.11.1 An MROS specifically related to lifetime mortgages can be found in the guides and library section of the Launchpad homepage. The paragraphs are available for your use and must be used where appropriate. However, you must also ensure this document is client specific and that it covers the key areas that may have impacted your advice. You will therefore need to amend/freetext this document.

16.11.2 The MROS should document the client's key current circumstances that have impacted on the advice you have given and detail why your recommendation is suitable. For example, you must reiterate back to the client the purpose of the loan to enable you to justify the benefit method (lump sum or income) and the client's current financial circumstances for you to conclude that a lifetime mortgage is the most suitable recommendation for your client.

16.11.3 Where a replacement MROS is required, for example, the Sales Quality Review Team have asked for clarification of a specific point documented in the initial MROS, this must be issued to the client. We would encourage you to get this pre-approved by the Sales Quality Review Team, before re-issuing.

16.12 Ways To Release Equity

16.12.1 You must consider your client's objectives and whether this can be met by an income, lump sum, drawdown facility or a combination. You will need to remain up to date with what each lender is offering.

16.12.2 LGPSL consider it unsuitable and will not allow money to be released from a property :

- To be placed into a regulated investment product to generate an income and/or capital growth
- For Inheritance Tax planning purposes
- For significant funds to be placed on deposit for a later non-specific use. Money for 'rainy day'/'emergency fund' will be allowed, but this will be case specific. This will depend on the client's lifestyle, impact on state benefits and how long the money is intended to remain in the

bank account. As a general rule we will allow £6,000 for this. If you are unsure, contact the Business Support Team for guidance (see glossary of addresses).

If the client's objective is to generate an income, there are specific lifetime mortgages that provide this facility.

16.12.3 If the monies raised are to be gifted to assist family members there may be tax and legal implications and therefore your client must be advised to seek appropriate legal and or financial advice. You must give them time to seek such advice. If your client declines to seek such advice this must be documented in the MROS. Where advice is sought, your client will need to confirm to you that they wish to proceed based on the advice they have received and you should document this in the MROS.

16.12.4 If your client wants to release a lump sum to invest in property i.e. buy to let or holiday homes, this is acceptable. However, the client must be made aware of the risks, for example:

- Holiday home – running costs, maintenance costs, council tax, and the cost of travelling to and from must be clearly explained to the client.
- Buy to let – market risk, risk of no tenants, bills, maintenance, and cost of letting agents.

Furthermore, the client must be informed that these subsequent property transactions may not be regulated.

16.13 Assessing Impact On Means Tested Benefits

16.13.1 In order to use FINTAL, you must know accurate details of your client's income, benefits, savings and investments and record these in the client review. Approximate figures may have a significant effect on the output produced by the system in calculating whether or not the client is entitled to state benefits or not and the amount they may receive. If the income or existing provisions sections do not allow a full breakdown you must use the notes section in the client review.

16.13.2 Using FINTAL, you must assess the client's eligibility for MTB and the impact that releasing equity may have on this at the date of your recommendation. You must attach a printed record of the input of information into FINTAL supplied by the client, to the MROS. You must ensure that the client understands the importance of the accuracy of this information and potential consequences if it is not accurate. A printed version of the FINTAL client-oriented report must be given to the client and you must explain the report to the client. The findings of the FINTAL assessment must be taken into consideration when making a recommendation. For example, your recommendation may be that the customer would be worse off and should not therefore proceed.

16.13.3 The key means tested benefits that may be impacted are :

- Benefits for those under pension age:
  - Income-based jobseeker's allowance
  - Income support
  - Council tax benefit
- Health benefits – free prescriptions, free school meals, free milk and vitamins, free sight tests, help with the costs of glasses and dental treatment,
- Benefits for those over pension age:
  - Pension credit
  - Council tax benefit
  - Health benefits – help with costs of glasses and dental treatment, other elements are free to those over 60.

16.14 Alternatives To Lifetime Mortgages

16.14.1 You must consider and discuss with your client whether other methods of releasing funds may be more suitable. These discussions should be documented in the MROS and where an alternative method is deemed more appropriate, you must inform your client of this and advise they proceed down this route. For example, but not exhaustive:

- A mainstream mortgage if clients can afford the interest payments and their need is for a lump sum.
- Local Authority grants for essential repairs, e.g. leaking roofs, windows.
- Home Reversion Plans – (refer to section 17)

16.14.2 Discussions of alternative methods must be fully documented in the MROS and if appropriate the client review notes.

16.15 Protecting Equity In The Property

16.15.1 You must ensure that where your client has a desire to protect part of the equity in their property, you recommend a product that has this guarantee. For example, the client may wish to leave a bequest to their family or others inside their estate. Both Home Reversion Schemes and lifetime mortgages that have this guarantee. If you believe a customers needs may be best suited by a Home Reversion Scheme, you will need to make clear that you cannot give advice or make a recommendation and you should suggest that the customer makes their own arrangements to seek advice. This must be documented in the MROS.

16.16 Affordability For Loans Requiring Payment

16.16.1 Where a lifetime mortgage requires payments to be made by your client, you must conclude that this is affordable and that a non-lifetime mortgage would not be more suitable and ensure this is carefully documented in the MROS. You must details the client's income and expenditure in the client review

16.16.2 Where there is evidence that affordability may be an issue, you must only recommend an equity release product where no payments are made until the sale of the property. This must be documented in the MROS.

16.17 Debt Consolidation

16.17.1 Refer to section 18 for full details on debt consolidation, which must also be applied, in context, to lifetime mortgages.

16.17.2 It should be explained in the MROS, where applicable for debts being repaid out of equity, that the interest rate applied to a lifetime mortgage may be higher than existing borrowings and given that the term is likely to be extended, the overall cost is likely to increase. The MROS should also explain that, for example, although no repayments have to be made, interest is charged and rolled up onto the capital amount, which increases the debt and therefore the overall cost. Any monies owed are payable when the loan is ultimately repaid.

16.18 Existing Loans And Mortgages

16.18.1 The following are examples of when releasing equity to repay an existing mortgage may be appropriate:

- Where your client has a change in lifestyle, i.e. now retired and wants to have more holidays, enhance their lifestyle.
- Where your client has had an enforced change in their circumstances i.e. now redundant or forced to take early retirement and wish to maintain their lifestyle.
- Where your client has an existing mortgage, which is affordable, but wishes to release monies now for a specific reason.

16.18.2 If your client is unable to afford their mortgage and this is not due to a forced or chosen change in their circumstances you must contact the Business Support Team if you feel it appropriate to proceed.

16.18.3 Where your client wishes to release monies to fund a shortfall, for example, an endowment shortfall, you should not recommend a lifetime mortgage until the shortfall has crystallised as subsequent funds to reduce borrowings could attract early repayment charges. Lifetime mortgage products may not be available at that time and your clients must be made aware of this fact. Before recommending a lifetime mortgage to fund a shortfall, alternative methods must still be considered. You should always advise your clients to use any endowment compensation to reduce their mortgage.

If your clients decline this advice and do not intend using any compensation to reduce their mortgage, you must make the inherent risks clear e.g. the increased overall cost of interest.

16.19 Re-Mortgaging Existing Lifetime Mortgages

16.19.1 Where the client has an existing lifetime mortgage and wishes to remortgage to a more favourable interest rate, this will be considered acceptable providing it is affordable to the client, taking into account the additional costs of setting up the new lifetime mortgage and any early redemption penalties, where applicable.

16.20 Additional Risks And Future Needs

16.20.1 You must consider the following and ensure your client is made aware by discussing and documenting in the MROS, other impacts and/or risks of releasing equity. For example, but not exhaustive :

- Potential risks of losing the home: Your client can live in the property for as long as they wish. This is their legal right, provided they comply with the terms and conditions of the lifetime mortgage. For example,
  - The client may need permission from the lender before allowing any other person to occupy any part of the property.
  - If your client does not comply, the lender has the right to require your client to repay the amount owed and they may lose their home
- The impact of increases or decreases in house prices against the growing debt, i.e. loss of equity.
- What happens to respective partners if they die or need long term care? Where one of a couple dies, the household income may reduce. You will need to discuss the impact this will have on the survivor. The mortgage itself must be repaid on the death of the last survivor or if they move into long term care.

- What happens if your client decides to move? If your client wants to move home after taking out a lifetime mortgage, they can transfer it to their new property, subject to the lenders' lending and property criteria at that time. If they decide to move to a smaller, lower value property, they may need to pay back some of the mortgage.

- What are the potential impacts on their estate for which your client should seek appropriate advice? By taking a lifetime mortgage, with interest rolled up, the amount owed to the lender will reduce the amount left to the estate once the property has been sold by that amount.

- Your client will be expected to maintain their property and that if they do not, the lender may be able to insist on repairs and charge this to your clients.

- What happens if your client requires a further advance in the future? Most lenders will offer access to further advances, subject to the terms and conditions of the specific plan, usually at the end of a specific period, typically 2 or 5 years. The interest rate at the time of the further advance may be higher or lower than that originally offered at the outset and it would further reduce the amount left to the estate, as the loan amount will have increased.

16.21 Legal Advice And/Or Family Involvement

16.21.1 You must recommend your client seeks independent legal advice and explain why you are recommending this, i.e. to ensure they understand the contract they are entering into. You must also advise that your client consults with their family to manage expectations in the event of their death, before the application proceeds. These discussions must be documented in the MROS and the client must be given adequate time to seek such advice and/or involve the family. You must document in the client review how family involvement is to be managed.

You must provide your client with adequate time to seek legal and/or appropriate financial advice. However, should your client decline these recommendations, this should be documented in the MROS.

16.22 Rejected advice

16.22.1 If your client rejects your recommendation and wishes to proceed with, for example, a different product, you must follow the normal rejected advice process. Please refer to section 21 of the mortgage advice standards.

16.22.2 However, in the following circumstances you will not be able to apply this process as you will not have provided advice in the first instance :

- IHT planning
- Releasing equity to invest to generate an income and/or capital growth.

16.23 Wills

16.23.1 You must recommend that your client reviews their Will arrangements. Where your clients have not made a Will, you must recommend they do so.

17 Home Reversion Schemes

17.1 Home Reversion Schemes are regulated by the FSA. LGPSL is NOT authorised to advise on or introduce Home Reversion Schemes.

17.3 A Home Reversion scheme is where a client sells all or part of their home in return for a cash lump sum, a regular income, or both. The home, or part of it, then belongs to the reversion company and the client becomes a tenant. They have the right to live in the property under a lease for life or until a specified event occurs – normally the client dying or moving into long term residential care.

17.4 If you believe a customers needs may be best suited by a Home Reversion Scheme, you will need to make clear that you cannot give advice or make a recommendation and you should suggest that the customer makes their own arrangements to seek advice. This must be documented in the MROS.

17.5 Home Reversion Plans may be appropriate to a customers needs if, for example:

- The client wishes to guarantee leaving a percentage of the property's equity to their estate (there are lifetime mortgages that may now offer this as well).
- The client has a need to raise more funds than a lifetime mortgage will allow.
- The client's attitude to ownership is not an issue as with Home Reversion Schemes ownership transfers to the product provider.

18. Debt Consolidation

18.1 General principles

18.1.1 You must ensure that all relevant advice standards applicable to loans without an element of debt consolidation are also applied.

18.1.2 Where debt consolidation forms part of the loan amount you must ensure the following are discussed and considered:

18.1.3 By adding the debt to the mortgage, although the interest rate may be reduced, the term over which it is repaid may increase the overall cost. To illustrate the impact on the overall cost you should follow one of these options :

1) Produce, discuss and print preview two Key Facts Illustrations to clearly show the cost (one showing the total mortgage including the debt consolidation and the other showing the mortgage excluding the debt consolidation) or;

2) Manually calculate the revised total cost :

- Generate a KFI for the product for the value of the loan, including the amount to be consolidated.
- Refer to section 5 of the KFI where it illustrates the amount the customer is to pay back. This is expressed as :

  '£x.xx for every £1 borrowed'

- Use this figure to calculate the total cost of the amount to be consolidated.

Example :

Amount of loan	£100,000
Amount of debts to be consolidated	£ 10,000
Term	25 years
Interest rate	6%

Total cost of £110,00 as per KFI = £1.93 for every £1 borrowed

£1.93 x £110,000 = £212,300

Total cost of £10,000 = £1.93 x £10,000 = £19,300

Total cost of £100,000 = £1.93 x £100,000 = £193,000

18.1.4 Using the figures from this example, you would detail the assessment in the MROS as follows :

£10,000 of your mortgage is for the purpose of consolidating debts. So that you fully understand the approximate costs of adding this to your mortgage, I have calculated the following :

The total cost of repaying your mortgage including any consolidated debts as illustrated in your Key facts Illustration is £212,300

If I exclude the amount you are consolidating, this amount will reduce by approximately £19,300 to £193,000. I have calculated the reduction by (i) taking the difference in total cost between the two KFI's I have provided you with (ii) taking the amount you are consolidating and multiplying it by the cost per £1 of borrowing as detailed in the Key Facts Illustration. If you followed option 1 in 18.1.3 above use (i). If you followed option 2 use (ii). These figures assume interest rates quoted remain unchanged throughout the term and are approximate. The difference between these figures takes no account of your maintaining payments on your unsecured debts, the current monthly cost of which is £x.

18.1.5 If the liability was previously unsecured you must explain the implications of securing the amount. For example, default on payments now places your home at risk. You must ensure this is documented in the MROS.

18.1.6 You must ensure that where there is a history of payments difficulties or arrears that, before proceeding, you advise your clients to discuss more favourable terms with their creditors. Where this advice has become necessary you must ensure it is documented in the MROS.

18.1.7 If you are consolidating liabilities that are currently in one clients' name, it should be explained to the client and documented in the MROS that consolidating these to the mortgage will mean that the other client will now be jointly responsible for the debt.

19 Buy to Let Mortgages

19.1 Definition Of A Regulated Buy To let

19.1.1 A buy to let arrangement will be a regulated mortgage contract ONLY if:

- More than 40% of the land is to be used as or in connection with a private dwelling
- The property is to be rented to immediate family
- The borrower or family member has the intention to reside in the property at any time during the lifetime of the mortgage.

19.2 Sales Process For Regulated And Non Regulated Buy To Let

19.2.1 The sales process for regulated buy to let will be the same as a residential mortgage with the exception of the additional requirements to the MROS.

19.2.2 Each client review will only support 9 product requirements. If you have a client who has more than 9 properties, you will have to create a new client in Launchpad for the balance in order to be able to continue to submit cases. The new case must be fully completed in line with the first entry. To ensure that a connection between each case is established, you must cross reference the other case reference number in the client review notes.

19.2.3 The process below should be followed for non regulated buy to let:

- Create the IDD (not to be issued to the client).
- Complete the client review.
- Source the mortgage using Trigold, or obtain quote from the lender directly and add manually to the system.
- Create a MROS and confirm in the client review notes that it is' non regulated buy to let' and if it has been issued to the client.

- On the application screen proceed with 'start, finish, exchange and complete' to enable payment of procuration fee.

19.3 Additional Suitability Requirements

19.3.1 You must inform your client of the following and ensure that they are incorporated into the MROS where relevant:

- Professional advice should be sought on legal, tax, financial and property management issues.
- There is a risk of the property being un-let or commanding a lower rent than anticipated.
- Tenants may default on payments.
- The property value may fall as well as rise and there may be difficulty in selling the property.
- That they are responsible for the maintenance and insurance of the property.
- There may be tax implications on the sale and purchase.
- The suitability of the property as an investment is not being advised on, just the mortgage.
- That you have advised the client to read the CML website on buy to let mortgages and properties which can be found at:

  http://www.cml.org.uk/cml/consumers/guides/buytolet

- That it is their responsibility to conform to HMO regulations which have made it mandatory for landlords to obtain licences for houses in multiple occupation. They may apply for such a licence from their local authority and if they fail to do so, could face fines of up to £20,000.

20. Shariah Law (Islamic) Mortgages

20.1 As written in Islamic Law (Shariah), it is forbidden for Muslims to pay or receive interest which means that practising Muslims cannot use conventional mortgages. Shariah Law mortgages solve this problem by having the property change hands twice i.e. the bank will buy the house outright and then act as a landlord. The homeowner, in addition to paying rent, will pay a contribution towards the purchase of the property.

20.2 LGPSL is NOT authorised to advise on Shariah Law mortgages but firms can make introductions to an approved third party adviser – ABC International Bank plc trading as alburaq.

20.3 LGPSL must be able to verify that leads provided to alburaq for Shariah Compliant Home Finance (Islamic mortgages) have been provided properly and that the appropriate ‘express consent’ has been obtained from the customer. AR firms must use a customer consent form, in the format shown in section 20.5 (below), for this purpose.

20.4 When collecting the customer’s details, introducer fees must be disclosed to the customer. Fee disclosure should be included on the customer consent form, in the format shown below.

20.5 Customer Consent Form

“If you need to arrange Shariah Compliant Home Finance, we can introduce you to alburaq who provide finance that adheres to Islamic values and complies with Islamic Shariah.

Please complete the ‘express consent’ form below, to allow us to make this introduction. We will request that alburaq contacts you for an appointment, Thank you

To alburaq

Please take this form as my/our absolute authority to contact me/us and keep me/us advised as to my/our Shariah Compliant Home Finance arrangements. I/we shall expect to hear from you on a regular basis with regard to all mortgage needs.

Customer Name (print) ____________________

Customer Signature : ______________________Date : __________

Customer Name (print) : ____________________

Customer Signature : ______________________Date :__________

Name of individual making the introduction (print) :

____

LGPSL AR firm name (print) : _______________________________

If your Shariah Compliant Home Finance arrangement completes, alburaq will pay ~ *insert AR firm name* ~ 0.15% of the finance amount for making the introduction. For example, if the amount of finance is £100,000, alburaq will pay £150.

20.6 The original signed customer consent form should be retained by the AR firm. A copy of the signed express consent must be sent to LGPSL, Business Support Team (see glossary of addresses for details).

20.7 When collecting customer information to make the introduction, AR firms can collect only : customer name, address, telephone contract details and e-mail address.

20.8 Customer details should be passed together with the name and agency number of the individual making the introduction and the name of the AR form to both alburaq and LGPSL by e-mail :

- alburaq–info@alburaq.co.uk
- LGPSL – LGPSLBusinesssupport@landg.com

20.9 There is no requirement to record details of Shariah Compliant Home Finance introduction on the point of sale system.

21. Rejected Advice

21.1 The process if the client rejects the recommendation

211.1 All sales must initially be on an advised basis. Where the client rejects this advice, you must ensure that the advice you have given is documented on the MROS and issued to the client. You are able to proceed with a product of the client's choice, but only after you have given advice and your personal recommendation.

21.1.2 The MROS will enable the ability for you to:

- Confirm your advice, the fact that it was rejected and why the application is no longer proceeding, or;
- Confirm your advice, the fact that it was rejected, details of the product the client wishes to proceed with and key points as to why this is less suitable.

21.1.3 Prior to providing information on a product of the client's choice, you must issue a further Initial Disclosure Document confirming that advice is not being given in respect of the product being applied for.

21.1.4 No sales must commence on a non-advised basis.