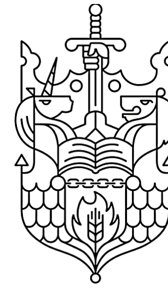

ER1

Certificate in Equity Release

ER1 – Equity Release

Based on the 2021/2022 syllabus
examined until 31 August 2022

ER1 – Equity Release

Based on the 2021/2022 syllabus examined until 31 August 2022

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ER1 – Equity release

Based on the 2021/2022 syllabus examined until 31 August 2022

Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the ER1 examination. It contains a specimen examination with answer key.

Ideally, students should have completed the majority of their studies before attempting the specimen examination. Students should allow themselves two hours to complete the examination. They should then review their performance to identify areas of weakness on which to concentrate the remainder of their study time.

Although the specimen examination in this guide is typical of an ER1 examination, it should be noted that it is not possible to test every single aspect of the syllabus in any one particular examination. To prepare properly for the examination, candidates should make full use of the tuition options available and read as widely as possible to ensure that the whole syllabus has been covered. They should also endeavour to keep as up-to-date as possible with developments in the industry by reading the periodicals listed in the ER1 reading list, which is located on the syllabus in this examination guide and on the CII website at **www.cii.co.uk**.

Background Information

CII examination questions undergo a rigorous writing and editing process before reaching an examination. The questions are written to strict guidelines by practitioners with relevant technical knowledge and experience. Questions are very carefully worded to ensure that all the information required to answer the question is provided in a clear and concise manner. They are then edited by an independent panel of experienced practitioners who have been specifically trained to ensure that questions are technically correct, clear and unambiguous. As a final check, each examination is scrutinised by the Senior Examiner and a CII assessment expert.

Occasionally a question will require amendment after the examination guide is first published. In such an event, the revised question will be published on the CII website:

1) Visit **www.cii.co.uk/learning/qualifications/unit-equity-release-er1/**
2) Select ‘exam guide update’ on the right-hand side of the page

Candidates should also refer here for the latest information on changes to law and practice and when they will be examined.

Syllabus

The ER1 syllabus is published on the CII website at **www.cii.co.uk**. **Candidates should note that the examination is based on the syllabus, rather than on any particular tuition material.** Of course, the tuition material will provide the vast majority of the information required to perform well in the examination, but the CII recommends that students consult other reference materials to supplement their studies.

Skill Specification

The examination syllabus categorises ER1 learning outcomes into cognitive skill levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The ER1 syllabus requires that candidates have the ability to apply and analyse knowledge and understanding of the subject matter. Each learning outcome begins with a cognitive skill that encompasses one of the following:

Know - Knowledge-based questions require the candidate to recall factual information. Typically questions may ask 'What', 'When' or 'Who'. Questions set on a *know* learning outcome can only test knowledge.

Understand - To answer questions based on understanding, the candidate must be able to link pieces of information together in cause-and-effect relationships. Typically questions may ask 'Why'. Questions set on an *understand* learning outcome can test either knowledge or understanding or both.

Apply - To answer application questions, the candidate must be able to apply their knowledge and/or understanding to a given set of circumstances. Questions set on a *be able to apply* learning outcome can test knowledge and/or understanding as well as application.

Analyse - To answer questions requiring analysis, the candidate must be able to break information down into parts, identify how each piece relates to the whole, associate relevant aspects and determine courses of action. Typically questions will relate to a given set of circumstances or provide data which requires analysis so a conclusion can be drawn.

Assess - To answer questions requiring assessment, the candidate must be able to evaluate and judge information presented and reach a conclusion. Typically questions will relate to a given set of circumstances and behaviours and require the selection of the correct or best assessment.

Examination Information

The method of assessment for the ER1 examination is 50 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.

The ER1 syllabus provided in this examination guide will be examined from 1 September 2021 to 31 August 2022.

Candidates will be examined on the basis of English law and practice in the tax year 2019/2020 unless otherwise stated.

The general rule is that the new tax year and changes arising from the Finance Act will be examined from 1 September each year. Other changes, not related to the Finance Act, will not be examined earlier than 3 months after they come into effect.

ER1 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

When preparing for the examination, candidates should ensure that they are aware of what typically constitutes each type of product listed in the syllabus and ascertain whether the products with which they come into contact during the normal course of their work deviate from the norm, since questions in the examination test generic product knowledge.

Section A consists of 50 multiple choice questions. A multiple choice question consists of a problem followed by four options, labelled A, B, C and D, from which the candidate is asked to choose the correct or best response. Each question contains only **one** correct response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

Section B contains five case studies each followed by five questions. **Four** options follow each question. The options are labelled A, B, C and D. Only **one** of these options will be correct or best. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

If you bring a calculator into the examination room, it must be a silent battery or solar-powered non-programmable calculator. The use of electronic equipment capable of being programmed to hold alphabetic or numerical data and/or formulae is prohibited. You may use a financial or scientific calculator, provided it meets these requirements.

Candidates are permitted to make rough notes. Candidates are **not** permitted, in any circumstances, to remove any papers relating to the examination from the examination room.

Examination Technique: Multiple Choice Questions

The best approach to multiple choice examinations is to work methodically through the questions.

The questions are worded very carefully to ensure that all the information required is presented in a concise and clear manner. It cannot be emphasised too strongly that understanding the precise meaning of the question is vital. If candidates miss a crucial point when reading the question it could result in choosing the wrong option. Candidates should read carefully through the question and all the options before attempting to answer.

Candidates should pay particular attention to any words in the question which are emphasised in bold type, for example, **maximum**, **minimum**, **main**, **most**, **normally** and **usually**. Negative wording is further emphasised by the use of capital letters, for example **NOT**, **CANNOT**.

Candidates should not spend too much time on any one question. If they cannot make up their mind, they should leave the question and come back to it later.

When all of the questions have been answered, it is prudent to use any remaining time to go through each question again, carefully, to double-check that nothing has been missed. Altering just one incorrect response to a correct response could make the difference between passing and failing.

After the Examination

Rigorous checks are made to ensure the correctness of the results issued. A pre-defined quota of passes to be awarded does not exist. If all candidates achieve a score of at least the pass mark, then all candidates will be awarded a pass grade. Individual feedback on the candidate’s examination performance is automatically provided and will indicate the result achieved and, for each syllabus learning outcome, the percentage of questions in the examination that were answered correctly.

Chartered Insurance Institute

Equity release

Objective

At the end of this unit, candidates should be able to understand the:

- principles of equity release and the types of schemes available;
- suitability and affordability of the different types of equity release products;
- risks to the consumer associated with equity release;
- application of suitable equity release solutions according to the circumstances of different consumers.

Summary of learning outcomes		Number of questions in the examination*
1.	**Know the definition of equity release, home reversion plans, lifetime mortgages and alternative methods of equity release/capital raising**	**1**
2.	**Understand the principles of equity release, the types of equity release schemes available and the circumstances for which such schemes might be appropriate**	**7**
3.	**Understand the types of consumer at whom equity release is targeted and their personal requirements, wants and needs**	**4**
4.	**Understand the circumstances in which equity release may be appropriate**	**4**
5.	**Understand the impact on consumers' future options**	**5**
6.	**Understand the key features, relative advantages and disadvantages of different types of equity release arrangements and principal alternatives**	**8**
7.	**Understand the rules relating to State benefits and taxation, the sources of information and specialist advice regarding the implications on these of entering into an equity release arrangement**	**4**
8.	**Analyse the suitability and affordability of the different types of equity release plans and the main alternatives for different types of consumer**	**6**
9.	**Assess the advantages, disadvantages and potential risks to consumers associated with taking out equity release and when these might arise**	**6**
10.	**Assess the relative levels of risk for different consumers taking account of their individual circumstances.**	**5**
11.	**Apply suitable equity release solutions to the circumstances of different types of consumer.**	**25 case study related questions**

* The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

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Important notes

- Method of assessment: 50 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2021 to 31 August 2022.
- Candidates will be examined on the basis of English law and practice in the tax year 2021/2022 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- Candidates should refer to the CII website for the latest information on changes to law and practice and when they will be examined:
  1. Visit *www.cii.co.uk/qualifications*
  2. Select the appropriate qualification
  3. Select your unit from the list provided
  4. Select qualification update on the right hand side of the page

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1. Know the definition of equity release, home reversion plans, lifetime mortgages and alternative methods of equity release/ capital raising

1.1 Describe the main product definitions.

2. Understand the principles of equity release, the types of equity release schemes available and the circumstances for which such schemes might be appropriate

2.1 Describe the principles of equity release.

2.2 Describe the different types of equity release schemes.

2.3 Describe the market participants and their roles.

2.4 Describe the relevant regulation applied to equity release schemes and home reversion plans.

2.5 Compare the features of home reversion plans and lifetime mortgages in relation to other schemes.

3. Understand the types of consumer at whom equity release is targeted and their personal requirements, wants and needs

3.1 Describe the types of consumer at whom equity release is targeted.

3.2 Explain the requirements for capital sums and extra income.

3.3 Describe the suitability of equity release.

3.4 Describe the eligibility criteria for home reversion plans.

4. Understand the circumstances in which equity release may be appropriate

4.1 Explain how consumer needs, health and individual circumstances, preferences and objectives inform and lead the advice process.

4.2 Explain the importance of consumers taking independent legal advice and the FCA requirement to confirm consumers have done so.

4.3 Compare the advantages and disadvantages of investing equity released for income and drawdown equity release.

5. Understand the impact on consumers' future options

5.1 Explain the impact of equity release on inheritance tax planning options, ability to vary and right to move.

5.2 Explain the legal considerations which can impact on consumer options.

6. Understand the key features, relative advantages and disadvantages of different types of equity release arrangements and principal alternatives

6.1 Describe the key features of different types of equity release arrangements and principal alternatives.

6.2 Explain the advantages and disadvantages of different types of equity release arrangements and principal alternatives.

7. Understand the rules relating to State benefits and taxation, the sources of information and specialist advice regarding the implications on these of entering into an equity release arrangement

7.1 Describe the conditions for eligibility for State benefits.

7.2 Explain the impact of the rules of State benefits on equity release arrangements.

7.3 Explain the impact of the rules of taxation on equity release arrangements.

8. Analyse the suitability and affordability of the different types of equity release plans and the main alternatives for different types of consumer

8.1 Determine the suitability and affordability of the different types of equity release plans and the main alternatives for different types of consumer.

9. Assess the advantages, disadvantages and potential risks to consumers associated with taking out equity release and when these might arise

9.1 Describe the advantages, disadvantages and potential risks to consumers associated with taking out equity release and when these might arise.

10. Assess the relative levels of risk for different consumers taking account of their individual circumstances

10.1 Assess the relative levels of risk for different consumers taking account of their individual circumstances.

11. Apply suitable equity release solutions to the circumstances of different types of consumer

11.1 Apply suitable equity release solutions to the circumstances of different types of consumer.

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Reading list

The following list provides details of further reading which may assist you with your studies.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

The resources listed here will help you keep up-to-date with developments and provide a wider coverage of syllabus topics.

CII study texts
Equity release. London: CII. Study text ER1.

Journals and magazines
Personal finance professional (previously Financial solutions). London: CII. Six issues a year.

Reference materials
International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2013.*

Harriman's financial dictionary: over 2,600 essential financial terms. Edited by Simon Briscoe and Jane Fuller. Petersfield: Harriman House, 2007.*

Examination guide

If you have a current study text enrolment, the current examination guide is included and is accessible via Revisionmate (*www.revisionmate.com*). Details of how to access Revisionmate are on the first page of your study text. It is recommended that you only study from the most recent version of the examination guide.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements.

* Also available as an ebook through eLibrary via *www.cii.co.uk/elibrary* (CII/PFS members only).

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SECTION A

1. An equity release scheme **primarily** aims to provide
A. additional funds in retirement.
B. additional income or capital whilst a borrower is unable to work due to ill health.
C. a short-term savings fund.
D. long-term capital accumulation.

2. Mavis currently needs £10,000 for home improvements and may need a further £5,000 next year to visit her daughter in Australia. She wishes to retain full ownership of her property. Which equity release arrangement would be **most suitable**?
A. A drawdown mortgage.
B. A home income plan.
C. A home reversion plan.
D. A shared appreciation scheme.

3. Emily took out a mortgage secured against her property and is **NOT** required to make any capital repayments. When the property is eventually sold, the loan will need to be repaid together with a payment based on the percentage increase in the property value. This type of arrangement is known as a
A. drawdown equity release scheme.
B. home income plan.
C. home reversion plan.
D. shared appreciation mortgage.

4. A mortgage intermediary **must** take reasonable steps to ensure that an illustration which it issues or is issued on its behalf, other than that provided by the mortgage lender, is accurate with regard to the total amount payable within what tolerance?
A. 1% or £1, whichever is greater.
B. 1% or £1, whichever is lower.
C. 1% or £10, whichever is greater.
D. 1% or £10, whichever is lower.

5. All lifetime mortgage schemes stipulate a **minimum** age for borrowers because
A. the facility is only ever available to borrowers who have passed State Pension age.
B. it is a requirement under the Consumer Credit Act 2006.
C. the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) specifies a minimum age.
D. the transaction is not economically viable if the borrower is below a certain age.

6. Which organisations **most commonly** provide lifetime mortgages?
A. Accountancy firms and stockbrokers.
B. Banks, building societies and insurers.
C. Investment houses and unit trust offices.
D. Legal firms and solicitors' practices.

7. What do the Equity Release Council product standards state regarding negative equity?
A. It can only arise on lifetime mortgages linked to life policies.
B. It is limited to a maximum of 5% of the property's valuation.
C. The risk must be notified to customers in a prominent way.
D. There is a guarantee that the estate will not be liable.

8. Jennifer, aged 62, requires an equity release arrangement to fund an extension to her property. She has stated that she wishes to retain full ownership of her property. Which type of equity release arrangement would be **unsuitable**?
A. A capital and interest mortgage.
B. A home reversion plan.
C. An interest-only mortgage.
D. A lifetime mortgage with the interest rolled-up.

9. Sid and Sadie have arranged a 50% reversion under a joint life home reversion plan. If Sid subsequently requires long-term residential care whilst Sadie is in good health, what would **normally** happen under the plan?
A. The couple would have to make a partial repayment to the provider.
B. The plan would cease and the property would have to be sold.
C. The plan would continue until Sadie died or also went into long-term residential care.
D. The provider would make a supplementary payment to the couple.

10. The **minimum** age requirement for a single applicant of a home reversion plan is **typically**
A. 40 years old.
B. 50 years old.
C. 60 years old.
D. 80 years old.

11. For which generic group of individuals is equity release **most likely** to be suitable?
A. Divorcing couples.
B. First-time buyers.
C. Retired individuals.
D. The unemployed.

12. Trudy wants to start an equity release arrangement **primarily** to fund a world cruise. Which type of arrangement is **likely** to be **least suitable** for this purpose?
A. A home income plan.
B. An interest-only cash lump sum plan.
C. An interest-only drawdown plan.
D. A lifetime mortgage with the interest rolled-up.

13. James has effected an equity release scheme to raise money to purchase an annuity so he can fund his domiciliary care requirements. If he then needs to enter residential care, what will **usually** happen with regard to the loan and the annuity?

A. His annuity will continue to be paid to him and the loan will remain outstanding on his house.
B. His annuity will be redirected to the care home and he will regain full ownership of his house.
C. His annuity will be redirected to the equity release provider and he will regain full ownership of his house.
D. His annuity will continue to be paid to him and his house will be sold to repay the equity release loan.

14. In what circumstances, if any, would equity release be **more appropriate** than trading down for an individual with a moderate approach to risk?

A. In no circumstances.
B. In a climate of falling house prices and rising interest rates only.
C. If the individual prefers to stay in the current property only.
D. In all circumstances.

15. A home reversion plan provider is **NOT** required to obtain confirmation that an applicant's legal rights have been protected, when the

A. individual is aged 59 or under.
B. individual's knowledge, expertise and experience deems it unnecessary.
C. individual has no living relatives and has not made a will.
D. transaction value is under £10,000.

16. In comparison with a maximum lump sum lifetime mortgage, a **potential disadvantage** of using a drawdown mortgage to supplement retirement income is

A. the arrangement fees will always be higher.
B. the interest rate may be higher on future drawdowns.
C. a new valuation fee is always payable for every drawdown.
D. the no negative equity guarantee is not available with this type of plan.

17. Ed started a single life, home reversion plan on a 60% reversion basis when his house was worth £220,000. Three years later, when it was worth £280,000, he moved permanently into long-term care. How much of the sale proceeds **must** be paid to him, ignoring any charges?

A. £88,000
B. £112,000
C. £132,000
D. £168,000

18. Fred and Sheila have started a joint life home reversion plan on a 100% reversion basis. If Fred died two years later and Sheila moved permanently into long-term residential care, what would happen under the terms of the plan?

A. The local authority would take charge of the property.
B. The property would be assigned to Sheila's next of kin.
C. The property would be sold and a proportion of the proceeds would be paid to Sheila.
D. The property would be sold and the provider would retain all the proceeds.

19. Tony lives in a property which he owns with his wife, Jill, as equal tenants in common. On his death, what will happen to ownership of the property?
A. It will all go to Jill.
B. It will all go to his estate.
C. 50% will be retained by Jill and 50% will go to his estate.
D. 50% will be retained by Jill and 50% will go to his next closest relative.

20. When the sole borrower under a home income plan dies, the existence of a no negative equity guarantee will avoid what potential impact?
A. An Inheritance Tax liability.
B. A shortfall charge against the estate.
C. The sale of the deceased's property.
D. A transfer of the property ownership to the lender.

21. Lou is interested in taking out an equity release arrangement to buy a conservatory and has stated that he may wish to move house in the future. In terms of portability, which type of scheme is **most likely** to give him the **least** amount of flexibility?
A. A drawdown mortgage.
B. An equity release mortgage with the interest rolled-up.
C. A full home reversion plan.
D. An interest-only mortgage.

22. The terms of Marvin's equity release plan include a **minimum** inheritance guarantee. What type of plan is Marvin **most likely** to have?
A. Home income plan.
B. Home reversion plan.
C. Rolled-up interest lifetime mortgage.
D. Shared appreciation mortgage.

23. Joe and Anne have a joint lifetime mortgage. Joe now needs constant medical attention and is to go into a nursing home, whilst Anne will stay in the family home. What effect, if any, will this have on the lifetime mortgage?
A. All of the outstanding balance will need to be repaid immediately.
B. All of the outstanding balance will need to be repaid within six months.
C. Half of the outstanding balance will need to be repaid.
D. The lifetime mortgage will not be affected.

24. With a home income plan, the income is **usually** provided by what type of annuity?
A. A compulsory purchase annuity.
B. A deferred annuity.
C. A lifetime annuity.
D. A temporary annuity.

25. What does a no negative equity guarantee mean when applied to a lifetime mortgage with the interest rolled-up?
A. The estate of the borrower will have to repay a maximum of the original loan plus interest.
B. The maximum repayment by the estate of the borrower cannot exceed the value of the property.
C. The total amount of interest charged cannot exceed the original loan.
D. The total amount of interest charged plus the original loan cannot exceed the value of the property.

26. Laura has released £50,000 of equity in her property by taking out an interest-only lifetime mortgage on a variable-rate basis. Assuming her payments are maintained, how much will she owe at the end of the third year?
A. Significantly less than £50,000.
B. Approximately £50,000.
C. Significantly more than £50,000.
D. It depends on the movement of interest rates.

27. When a lifetime mortgage is taken out on a rolled-up interest basis, when is the interest element of the loan **usually** repaid?
A. As soon as the loan to value ratio reaches 100%.
B. At the end of a pre-agreed term.
C. On a monthly or annual basis.
D. On the death of the borrower or when the property is sold.

28. Geri wishes to take out an equity release arrangement and will require occasional lump sums. Which type of arrangement is **likely** to be the **most suitable**?
A. A drawdown lifetime mortgage.
B. A maximum lump-sum lifetime mortgage.
C. A full home reversion plan.
D. A home income plan.

29. The **main advantage** of taking out a partial home reversion plan compared to a full home reversion plan is that
A. additional equity can be released in the future if needed.
B. a higher cash sum would be received at the outset.
C. there is no exposure to future property price volatility.
D. there is no Capital Gains Tax payable on the proceeds of the sale.

30. Maureen, who has never been married, owns a property valued at £350,000 and has no other capital. If she takes out a lifetime mortgage for £50,000 and gifts this sum to her sister, which tax may potentially be avoided?
A. Capital Gains Tax.
B. Income Tax.
C. Inheritance Tax.
D. Stamp Duty Land Tax.

31. To what extent, if at all, can a borrower's entitlement to Income Support be affected by starting a lifetime mortgage?
A. It is affected as it takes into account both the income and capital generated.
B. It is affected as it takes into account the income generated only.
C. It is affected because it is not payable to lifetime mortgage borrowers.
D. It is not affected.

32. Potential lifetime mortgage borrowers should be aware that the non-means-tested entitlement to free personal care applies **only** to which part of the UK?
A. England.
B. Northern Ireland.
C. Scotland.
D. Wales.

33. Capital or savings of up to how much are ignored for Pension Credit means testing?
A. £6,000
B. £10,000
C. £12,000
D. £16,000

34. Jenny, aged 85, lives alone in a property valued at £500,000 and has very little income. She needs to raise £50,000 and is considering taking out a lifetime mortgage. What option should she be advised to consider **first**?
A. A home reversion plan.
B. An interest-only mortgage over 10 years.
C. A shared appreciation mortgage.
D. Trading down to a smaller property.

35. Kim and Ajay have a total estate of £250,000. They have significant surplus income from their retirement pensions and want to maximise the estate left to their heirs. If they decide to release some of the equity in their home to make a one-off gift to their heirs, which mortgage product would be **most suitable**?
A. A capital and interest mortgage.
B. An interest-only mortgage.
C. A lifetime mortgage with the interest rolled-up.
D. A shared appreciation mortgage.

36. Mildred has no dependants and wishes to release equity from her home to purchase insurance against a possible future long-term need. If she wishes to know exactly what percentage of her home will be forfeited if she goes into care, which type of equity release arrangement would be **most suitable**?
A. A fixed-rate lifetime mortgage.
B. A home reversion plan.
C. An interest-only mortgage.
D. A shared appreciation mortgage.

37. Harry and Ethel, both aged 70, have personal loan and credit card debts totalling £25,000 which they are finding difficult to repay. Why **might** a lifetime mortgage with the interest rolled-up be an appropriate option?
A. Only the capital is repayable prior to death.
B. Only the interest is repayable prior to death.
C. No capital or interest is repayable until the second death.
D. The interest rate will always be lower.

38. Tim and Kelly, both aged 65, live in a property worth £600,000. They have no other assets and each receive a pension of £10,000 per annum. They want to release the **maximum** possible lump sum from their property using an equity release arrangement whilst retaining full ownership of the property. Which type of arrangement is **likely** to be **most appropriate**?
A. A full home reversion plan.
B. A home income plan.
C. A lifetime mortgage with the interest rolled-up.
D. A partial home reversion plan.

39. Harold and Madge have just taken out a 75% home reversion plan. How much of the ongoing maintenance costs of the property, if any, will the provider have to pay?
A. Nil.
B. 25%
C. 75%
D. 100%

40. Ray and Barbara took out a **maximum** lump-sum lifetime mortgage two years ago when Ray was aged 75 and Barbara was aged 80. Ray died last year and Barbara is to marry Joe, aged 60, who will move in with her. What effect will this have on the lifetime mortgage?
A. A part repayment may be necessary.
B. The loan will have to be repaid in full immediately.
C. The loan will have to be repaid in full within six months of him moving in.
D. The loan will have to be repaid in full within nine months of him moving in.

41. Dana wants to access additional funds from a property which is subject to a lifetime mortgage at a capped rate of interest. In a market of rising house prices, what, if any, is the **most** desirable trend of interest rates?
A. Falling interest rates.
B. Rising interest rates.
C. Static interest rates.
D. Interest rates are irrelevant.

42. What **might** be the adverse effect(s) of releasing equity to produce additional income for an 80-year-old individual, ignoring the impact on the eventual estate?
A. Additional Income Tax only.
B. Additional Income Tax and a reduced Additional State Pension only.
C. Additional Income Tax and the loss of some State benefits only.
D. Additional Income Tax, the loss of some State benefits and a reduced Additional State Pension.

43. A borrower is starting a lifetime mortgage with interest rolled up for an amount of £40,000 with a fixed interest rate of 6%. Ignoring any other costs, approximately how much would be owed to the lender if the borrower died after 7 years?
A. £40,000
B. £56,800
C. £60,145
D. £63,754

44. Tom has a mortgage for £63,000 which is subject to an early repayment charge on the amount redeemed of 5% in year one, 4% in year two, 3% in year three, 2% in year four and 1% in year five. If Tom redeems the mortgage after two and a half years and assuming there is no change in the loan amount, how much early repayment charge will be payable?
A. £630
B. £1,260
C. £1,890
D. £2,520

45. Billy has just taken out a 60% home reversion plan. How much of the ongoing buildings insurance premiums, if any, will he be obliged to pay?
A. Nil.
B. 40%
C. 60%
D. 100%

46. A borrower has a lifetime mortgage with the interest rolled-up. What personal circumstance is **most likely** to give rise to the **greatest** equity erosion risk?
A. A change in marital status.
B. A change in taxation status.
C. Failing health.
D. Longevity.

47. Horace has taken out a home income plan to address the problem of a low occupational pension. What **key** risk will be triggered by choosing a level annuity?
A. The liability to Inheritance Tax will be increased.
B. The likelihood of capital erosion will be increased.
C. The value of the benefits on early death will be reduced.
D. The value of the income payments will be eroded by inflation.

48. Doris has a property worth £150,000. Why is a mortgage lender **unlikely** to grant her a lifetime mortgage in excess of this amount?
A. It would fall outside the terms of the Financial Services Compensation Scheme.
B. It would trigger a Capital Gains Tax charge.
C. Doris would be required to transfer ownership.
D. The collateral would be insufficient.

49. Why is a monthly drawdown lifetime mortgage considered a lower risk than a lump-sum capital release scheme?

A. The amount of interest accrued in the early years is lower.
B. The borrower can hand over the property to the lender at any time.
C. The interest rate is always lower.
D. There is always a guarantee of no negative equity.

50. Under a lifetime mortgage, what is the relationship between the loan to value ratio and the risk of equity erosion?

A. The higher the loan to value ratio, the greater the risk of equity erosion.
B. The lower the loan to value ratio, the greater the risk of equity erosion.
C. The higher the loan to value ratio, the more volatile the rate of equity erosion.
D. The lower the loan to value ratio, the more volatile the rate of equity erosion.

SECTION B

Alice, aged 78, owns a house in Essex which is valued at £330,000. Alice has never been married. She would like to increase her income and is considering downsizing to a bungalow nearby. She has seen a suitable property, which is valued at £278,000, and she would invest the equity released from the sale of her house to increase her income.

Alice is also keen to look at an alternative to moving house and is interested in either a lifetime mortgage or a home reversion plan. Her **only** income at present is her State Pension, although she also has £5,000 invested in an online deposit account. Her home contents and other assets are valued at £25,000.

Alice has received quotations showing that the **maximum** lump sum she could release from a lifetime mortgage would be £82,500. From a home reversion plan, the **maximum** lump sum would be £100,000.

Alice is in good health, but is concerned that she may suffer from Alzheimer's disease in the future as this runs in her family. If this rendered her unable to handle her own financial affairs, she would want her son-in-law to manage her finances.

51. If Alice were to die now, how much Inheritance Tax, if any, would be due on her estate if her daughter is the sole beneficiary?
A. Nil.
B. £2,000
C. £14,000
D. £144,000

52. If Alice completed an equity release arrangement, suitability records relating to the transaction **must** be retained by her adviser for a **minimum** of
A. three years.
B. five years.
C. six years.
D. seven years.

53. Which legal instrument would allow the administration of Alice's financial affairs if she became legally incapable?
A. A codicil.
B. A deed of variation.
C. A Lasting Power of Attorney.
D. A living will.

54. Apart from the value of Alice's property, what **main** factor will determine how much the providers are willing to advance?

A. The balance of Alice's current savings.

B. Her current pension income.

C. Her life expectancy.

D. The property price trends in Essex.

55. Why is Alice able to get a higher lump sum from a home reversion plan than from a lifetime mortgage?

A. Her current state of health will influence the scheme provider's decision.

B. The scheme provider will receive a higher amount if she dies in the early years.

C. Under a lifetime mortgage, the lender is responsible for the upkeep and maintenance of the property.

D. Under a lifetime mortgage, the lender may have to wait longer to recoup its capital after her death.

Barry and Margaret started a home income plan 21 years ago with a provider who was at that time a member of Safe Home Income Plans (SHIP). The capital is invested in an annuity to provide income and the interest payments are serviced out of the annuity.

At the time they entered into the arrangement, they were both aged 65 and only had their State Pensions and a small amount of additional income to live on.

They borrowed 50% of the £60,000 value of their bungalow and invested all of this into the annuity. Since they started the arrangement, the value of their property has increased to £200,000.

The annuity was set up on the basis that if the total payments made as income did **NOT** cover the purchase price on death, a balance payment would be made to their estate.

56. What taxation advantage that was **originally** a benefit of Barry and Margaret's plan is no longer available to new customers?
A. All annuity income was treated as capital.
B. Income Tax was only paid on the excess of income above the amount invested.
C. Part of each annuity payment was not taxable.
D. Tax relief was given on the mortgage interest.

57. What type of annuity did Barry and Margaret decide to purchase?
A. A capital-protected annuity.
B. A contingent annuity.
C. A guaranteed annuity.
D. A with-proportion annuity.

58. At the time of starting the arrangement, what would Barry and Margaret have been advised regarding the ownership of their property?
A. It will transfer wholly to the lender at the outset.
B. It will transfer wholly to the lender on the second death.
C. They will be joint owners with the lender.
D. They will retain full ownership until they both die or enter long-term care.

59. What particular non-tax change has made the type of arrangement held by Barry and Margaret significantly less attractive for new planholders?
A. An increase in annuity rates.
B. An increase in inflation.
C. The introduction of Savings Credit.
D. A reduction in annuity rates.

60. The code of practice guarantee in relation to Barry and Margaret's plan is unlikely to be called upon because

A. inflation is unlikely to increase significantly.

B. interest rates have fallen.

C. of the current value of the property.

D. of their current ages.

Brendan is aged 75. On the advice of his financial adviser he started a lifetime mortgage cash lump-sum scheme three years ago on which he makes no regular repayments.

Brendan has used some of the proceeds to undertake maintenance on his property. He has also considered whether to invest for income or just to keep the capital as a nest egg for future expenditure.

Brendan's neighbour, Charlie, aged 64, owns a property of similar value to Brendan's and has an equivalent level of income. He is now entering into a similar scheme with the same provider. Under this arrangement, Charlie will be making regular payments and the capital sum will **NOT** reduce.

61. Had Charlie chosen the same scheme as Brendan, how would their respective benefits have compared?
A. Brendan's interest rate would have been lower.
B. Brendan's interest rate would have been higher.
C. Charlie would have received more cash.
D. Charlie would have received less cash.

62. What restriction, if any, will the provider have placed on Brendan's use of the funds?
A. None.
B. Brendan can only use the funds for agreed capital projects.
C. Brendan can only use the funds for income generation.
D. Brendan can only use the funds for property maintenance.

63. How is interest treated under the scheme recommended to Brendan?
A. He pays the accumulated amount on a pre-agreed date.
B. He makes occasional payments.
C. The interest is deducted from the annuity instalments.
D. The interest is paid on death or when the property is sold.

64. When considering the treatment of interest, what **must** the mortgage provider take into account when considering Charlie's circumstances, but **NOT** in Brendan's circumstances?
A. Affordability.
B. Age.
C. Income Tax.
D. State of health.

65. What will Charlie pay to his mortgage provider?
A. Capital only.
B. Interest only.
C. Capital and interest.
D. A monthly rental payment.

Shirley entered into a lifetime mortgage arrangement when she was aged 85, in which she mortgaged her £75,000 bungalow to her provider.

The lender gave her a capital payment of £20,000 on a one-third shared appreciation basis.

Shirley decided to use the entire proceeds to add a conservatory to her property, which had the immediate effect of increasing the value of her property to £87,500.

Shirley has recently died. The bungalow has increased in value to £150,000 and the total value of her estate is £200,000.

66. **Excluding** any final additional fees and charges, how much will be paid to the mortgage provider as a result of Shirley's death?
A. £37,500
B. £45,000
C. £75,000
D. £95,000

67. What will happen to the property as a result of Shirley's death?
A. It will revert to her estate, which will be responsible for the debt.
B. It will revert to the mortgage provider.
C. One-third will be owned by the mortgage provider and two-thirds owned by her estate.
D. Two-thirds will be owned by the mortgage provider and one-third owned by her estate.

68. In what circumstances, if any, would Shirley's lifetime mortgage arrangement have effectively become an interest-free loan?
A. If the value of Shirley's property had remained at £75,000 or decreased at the time of her death.
B. If the value of Shirley's property had only increased by £20,000 at the time of her death.
C. If the value of Shirley's property had only increased by one-third at the time of her death.
D. In no circumstances.

69. What regular payments, if any, would Shirley have been required to make to her mortgage provider during the period of the loan?
A. Regular payments are not required.
B. Capital payments only.
C. Interest payments only.
D. Both capital and interest payments.

70. Which tax, if any, may be payable by Shirley's personal representatives if they sell her property for more than the probate value during the period of administration prior to distributing the estate to her heirs?
A. Capital Gains Tax.
B. Inheritance Tax.
C. Stamp Duty Land Tax.
D. No tax will be payable.

A few years ago, Ronald and Connie started an equity release arrangement which involved them becoming tenants in the property which they had owned and lived in for 40 years.

When they released the equity, the property was worth £100,000. The property was subsequently sold following the death of Connie, the survivor, for £160,000. None of this was paid to their estate as a result of the original agreement.

Ronald and Connie had originally selected this arrangement to generate a cash lump sum to help their only son buy a property.

A few months earlier, their friends, Diane and Robert, had entered into an equity release arrangement which required regular monthly payments.

71. Into what type of arrangement did Ronald and Connie agree to enter?
A. A drawdown mortgage.
B. A home reversion plan.
C. An interest roll-up plan.
D. A shared appreciation mortgage.

72. If Ronald and Connie had started their arrangement today, in what circumstances, if any, would it be protected under the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB)?
A. In all circumstances.
B. Only if it was arranged by an independent financial adviser.
C. Only if it was arranged direct with the provider.
D. In no circumstances.

73. Ronald and Connie were required to sign a rental contract under their arrangement. Who was the other party to the contract?
A. The annuity company.
B. The finance provider.
C. Their leaseholder.
D. Their main beneficiary.

74. What proportion of the value of Ronald and Connie's property was subject to the equity release arrangement?
A. 37.5%
B. 50.0%
C. 62.5%
D. 100%

75. In the event of the need for a further lump sum at a later date, what potential advantage would Diane and Robert have compared to Ronald and Connie?

A. The ability to obtain additional funds may be available.

B. A lower rate of interest would apply.

C. No Stamp Duty Land Tax would be payable.

D. Repayment of the additional capital may be deferred.

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
Standard Format						Scenario Format		
Learning Outcome 1			**Learning Outcome 7**			51	A	11.1
1	A	1.1	30	C	7.3	52	A	11.1
1 Question			31	A	7.2	53	C	11.1
			32	C	7.2	54	C	11.1
Learning Outcome 2			33	B	7.1	55	B	11.1
2	A	2.5	**4 Questions**			56	D	11.1
3	D	2.2				57	A	11.1
4	A	2.4	**Learning Outcome 8**			58	D	11.1
5	D	2.1	34	D	8.1	59	D	11.1
6	B	2.3	35	A	8.1	60	C	11.1
7	D	2.4	36	B	8.1	61	D	11.1
8	B	2.5	37	C	8.1	62	A	11.1
7 Questions			38	C	8.1	63	D	11.1
			39	A	8.1	64	A	11.1
Learning Outcome 3			**6 Questions**			65	B	11.1
9	C	3.4				66	B	11.1
10	C	3.4	**Learning Outcome 9**			67	A	11.1
11	C	3.1	40	A	9.1	68	A	11.1
12	A	3.2	41	A	9.1	69	A	11.1
4 Questions			42	C	9.1	70	A	11.1
			43	C	9.1	71	B	11.1
Learning Outcome 4			44	C	9.1	72	A	11.1
13	D	4.1	45	D	9.1	73	B	11.1
14	C	4.1	**6 Questions**			74	D	11.1
15	B	4.2				75	A	11.1
16	B	4.3	**Learning Outcome 10**			**25 Questions**		
4 Questions			46	D	10.1			
			47	D	10.1			
Learning Outcome 5			48	D	10.1			
17	B	5.2	49	A	10.1			
18	D	5.2	50	A	10.1			
19	C	5.2	**5 Questions**					
20	B	5.2						
21	C	5.1						
5 Questions								
Learning Outcome 6								
22	B	6.1						
23	D	6.1						
24	C	6.1						
25	B	6.1						
26	B	6.1						
27	D	6.1						
28	A	6.2						
29	A	6.1						
8 Questions								