Chartered Insurance Institute

ER1

Certificate in Equity Release

ER1 – Equity Release

Based on the 2022/2023 syllabus
examined from 1 September 2022 until 31 August 2023

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Contents

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Telephone: 020 8989 8464
Email: customer.serv@cii.co.uk

ER1 – Equity Release

Based on the 2022/2023 syllabus examined from 1 September 2022 until 31 August 2023

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.

Supporting information for the syllabus which contains a detailed overview of the areas covered can be found on the unit page. Select Supporting information for the 2022/2023 syllabus on the right-hand side of the page.

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 2022 to 31 August 2023.

Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 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.

Equity release

Chartered Insurance Institute

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 2022 to 31 August 2023.
- Candidates will be examined on the basis of English law and practice in the tax year 2022/2023 unless otherwise stated.
- It should be assumed that all individuals are domiciled and resident in the UK unless otherwise stated.
- This PDF document is accessible through screen reader attachments to your web browser and has been designed to be read via the speechify extension available on Chrome. Speechify is an extension that is available from ***https://speechify.com/***. If for accessibility reasons you require this document in an alternative format, please contact us on ukcentreadministration@cii.co.uk to discuss your needs.
- 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

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.

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).

SECTION A

1. What type of property is **specifically** excluded from the Financial Conduct Authority's definition of a home reversion plan?

A. Farm dwellings.
B. Leasehold flats.
C. New builds.
D. Timeshare accommodation.

2. When an equity release scheme includes a buyer, what is **normally** transferred to the buyer as an inherent part of this transaction?

A. An immediate lump-sum payment.
B. Immediate vacant possession of the property.
C. An interest in the property.
D. A series of regular payments.

3. What is the difference between a home reversion plan and a lifetime mortgage?

A. Loans are not granted under a lifetime mortgage.
B. Loans are not granted under a home reversion plan.
C. The debt gradually decreases under a home reversion plan, but gradually increases under a lifetime mortgage.
D. The debt gradually increases under a home reversion plan, but gradually decreases under a lifetime mortgage.

4. For what type(s) of equity release arrangements, if any, **must** the plan provider **usually** ensure that the applicant has received independent legal advice?

A. None.
B. Both home reversion plans and lifetime mortgages.
C. Home reversion plans only.
D. Lifetime mortgages only.

5. William has a cash release lifetime mortgage. How will the capital be repaid?

A. By monthly instalments.
B. By annual instalments.
C. By reverting the property to the lender on William's death.
D. From the proceeds when the property is sold.

6. If a firm that provides advice on lifetime mortgages also provides advice on home reversion plans, how does this affect the firm's obligations in respect of initial disclosure?

A. The key features of both types of plan must be included.
B. Any initial disclosure document used can cover both types of plan.
C. The non-regulated status of home reversion plans must be clearly stated.
D. A separate initial disclosure document must always be issued for home reversion plans.

7. A firm which advises clients on home reversion plans **must** be authorised by the

A. Department for Business, Energy & Industrial Strategy.
B. Equity Release Council.
C. Financial Conduct Authority.
D. The Law Society.

8. Alan is looking for a flexible equity release scheme to give him a lump sum, future drawdown of additional funds and retention of ownership. Which product is **most likely** to suit his needs?

A. A home income plan.
B. A home reversion plan.
C. A lifetime mortgage.
D. A shared appreciation mortgage.

9. What type of home reversion plan is **most likely** to be suitable for a homeowner whose sole need for equity release is to fund the purchase of a conservatory costing £20,000?

A. A cash reversion.
B. A drawdown reversion.
C. An income reversion with escalating instalments.
D. An income reversion with level instalments.

10. A homeowner living in a freehold flat worth £240,000 has applied for a home reversion plan. What problem is he **likely** to face?

A. He must arrange for someone to act as a guarantor.
B. The plan terms can be periodically amended to his disadvantage.
C. The provider will consider the application to be unacceptable.
D. The reversion must operate on an income basis only.

11. Bob, aged 78, and Jean, aged 76, have lived in their property, which is valued at £650,000 with no mortgage, for 15 years. They have £300,000 in an investment portfolio and pension income well in excess of their outgoings. They are considering releasing £250,000 of equity from their property using a lifetime mortgage to invest in a trust for their children. The **most likely** objective of this exercise is to

A. attempt to reduce a future Inheritance Tax liability on their estate.
B. avoid a future Capital Gains Tax liability on the sale of their property.
C. plan for eventual funeral costs.
D. reduce their reliance on means-tested State benefits.

12. In 2003 Ronald took out a full home reversion plan from a provider who was a member of Safe Home Income Plans (SHIP). He now wishes to move to a warmer climate and has requested the transfer of his reversion plan to a property of the same value in Spain. What will be the provider's **most likely** response to this request?

A. They will accept it, subject to the property meeting their criteria and Ronald paying for an indemnity policy to protect their interest.
B. They will accept it, subject to the property meeting their criteria as the plan is portable.
C. They will decline it as properties overseas are not eligible for a home reversion plan.
D. They will decline it as the original plan was taken out prior to Financial Conduct Authority regulation, so no portability rules apply.

13. It is a Financial Conduct Authority requirement that consumers releasing equity using a home reversion plan

A. obtain independent legal advice.
B. are subject to enhanced credit checks.
C. are subject to medical clearance.
D. consult with their family members.

14. Gary and Fiona are married with two children and a joint estate of £600,000, but neither of them have made a will. Should Gary die, how much will Fiona inherit outright?

A. £250,000
B. £300,000
C. £435,000
D. £600,000

15. Helen wishes to effect an equity release arrangement to provide an annual income. What is the **main advantage** of taking a series of lump sums from a drawdown arrangement rather than purchasing an annuity with a single lump sum?

A. Her entitlement to State benefits will be enhanced.
B. The equity in her home will be greater in the early years.
C. The Inheritance Tax liability on her death will be lower.
D. A rising income will always be available.

16. The **main** reason it is important for clients to take independent legal advice when effecting a home reversion plan is to ensure that the

A. plan details are fully understood before it is finalised.
B. plan provider will provide the legal advice.
C. potential beneficiaries have been notified of the plan.
D. property deeds are held securely.

17. Two years after starting a home reversion plan on a single life basis, Henry decides to marry Lillian, aged 52. What condition is the plan provider **likely** to apply in order for Lillian to be permitted to move into the property?

A. Henry must make Lillian his sole beneficiary under a new will.
B. Henry must take out an indemnity guarantee policy.
C. Lillian must pay an annual rent to the provider.
D. Lillian must sign a waiver form.

18. The **minimum** inheritance guarantee under a home reversion plan is **primarily** designed to address the risk of

A. the homeowner dying or needing long-term residential care soon after the plan starts.
B. the homeowner surviving in good health for a relatively long period after the plan starts.
C. property prices falling quickly and steeply.
D. property prices rising quickly and steeply.

19. The lease arrangement in connection with a home reversion plan **must** be **formally** notified to which body?

A. The Equity Release Council.
B. The Financial Conduct Authority.
C. The Land Registry.
D. The local authority.

20. Two years after Janet set up a home reversion plan on a 100% reversion basis, she needs to go into long-term residential care and the plan ceases. To how much of the sale proceeds of her property, if any, is she entitled?

A. None of the sale proceeds.
B. The sale proceeds, less the interest generated by the original lump sum paid to her.
C. The sale proceeds, less the original lump sum paid to her.
D. The sale proceeds, less the sale costs.

21. Amy has a single life home reversion plan and her plan provider has recently confirmed that she satisfies their definition of needing to permanently enter long-term care. What is the **main** consequence of this?

A. The plan is assigned to the relevant local authority.
B. The plan is frozen until her death.
C. The property is sold and proceeds distributed according to the plan terms.
D. The property's title is transferred to her next of kin.

22. Millie's house is worth £420,000. For what **main** reason would the annuity she could secure under a home reversion plan be **significantly** lower than the annuity purchased using the proceeds of a conventional house sale?

A. The property would be sold at auction for a fraction of its worth.
B. The tax treatment would be much less favourable.
C. She would be required to pay interest for a longer period.
D. She would retain occupancy rights until death for little or no rent.

23. A homeowner with a property worth £320,000 arranged a 50% reversion under a home reversion plan for a lump sum of £88,000. If the property was worth £360,000 on death, how much is due to the reversion company, ignoring any charges?

A. £99,000
B. £108,000
C. £160,000
D. £180,000

24. What type of mortgage, if any, can **normally** remain attached to the relevant property whilst a home reversion plan is in effect?

A. A capital repayment mortgage.
B. An interest-only mortgage.
C. A lifetime mortgage with the interest rolled-up.
D. None.

25. When a home reversion plan is taken out by a 67-year-old individual on an income reversion basis, for how long will the associated lease be established?

A. 8 years.
B. 13 years.
C. 25 years.
D. For life.

26. Under the Mortgages and Home Finance: Conduct of Business sourcebook rules, where a borrower is required to pay regular interest to the lender under a lifetime mortgage, in what circumstances, if any, is an affordability assessment **NOT** required?

A. An affordability assessment is required in all cases.
B. If the borrower has the right to switch the mortgage to a rolled-up interest basis at any time only.
C. If the interest rate is fixed for five years or longer only.
D. If the mortgage provider deems a rolled-up interest mortgage to be unsuitable for the borrower only.

27. John and Karen own their property as equal tenants in common and have a lifetime mortgage secured on it, which is compliant with The Equity Release Council standards. What will happen to the mortgage should John die first?

A. John's 50% share of the mortgage must be repaid within 12 months.
B. John's 50% share of the mortgage will be automatically transferred to his beneficiaries and be their responsibility.
C. The mortgage may continue until Karen dies or moves into long-term care when it must be repaid from Karen's share of the property.
D. The mortgage may continue until Karen dies or moves into long-term care when it must be repaid from the full property value.

28. The **main** disadvantage of taking a lump sum from an equity release arrangement and investing this for income rather than taking ad hoc payments from a flexible drawdown arrangement is

A. Capital Gains Tax may be payable.
B. an increased Inheritance Tax liability will arise.
C. it can only be used to provide a pension income.
D. the value of the investment may fall.

29. Elsie has a lifetime mortgage with the interest rolled up. If Elsie's property falls into disrepair and Elsie fails to complete the required repairs within a reasonable period, what action is the lender **most likely** to take?

A. Commission the repairs and write off the cost as a loss on the mortgage.
B. Commission the repairs and add the cost to Elsie's mortgage.
C. Obtain a court order requiring Elsie to complete the repairs.
D. Obtain a court order authorising the lender to complete the repairs.

30. Boris is a basic-rate taxpayer and is using a home income plan to release equity of £50,000 to purchase an annuity. Which part(s) of the annuity, if any, will be tax free?

A. The capital content only.
B. The interest element only.
C. Both the capital content and the interest element.
D. Neither the capital content nor the interest element.

31. How can a shared appreciation mortgage affect a client's Inheritance Tax liability?

A. The entire value of the property will fall outside of the estate.
B. The executor can claim a higher nil rate band when calculating the tax liability.
C. The loan will be written under trust and therefore be immune from Inheritance Tax.
D. The value of the estate will be reduced by the loan and the relevant portion of growth in property value.

32. Anne, aged 68, receives Attendance Allowance and State Pension Credit. If she proceeds with her lifetime mortgage application, to which of these benefits, if any, may she no longer be entitled?

A. Attendance Allowance.
B. State Pension Credit only.
C. Both Attendance Allowance and State Pension Credit.
D. Neither Attendance Allowance nor State Pension Credit.

33. William has savings of £12,000 and is applying for State Pension Credit. In calculating his entitlement, how much notional weekly income will his savings be deemed to produce?

A. £4
B. £8
C. £24
D. £48

34. Ken sold 40% of his property under a home reversion plan. The following year the buildings insurance premium was £400. How much of this premium, if anything, is he **normally** responsible for paying?

A. Nothing.
B. £160
C. £240
D. £400

35. In accordance with the governing legislation, which factors should local authorities in England and Wales consider for means-testing purposes when assessing a housing grant application?

A. The applicant's income and assets only.
B. The applicant's needs and outgoings only.
C. The applicant's income, needs and outgoings only.
D. The applicant's income, assets, needs and outgoings.

36. Housing grants in Scotland are assessed on

A. an independent structural survey and the occupier's financial means.
B. the occupier's financial means only.
C. the occupier's financial means and the state of the property.
D. the state of the property only.

37. Bob, aged 60, is considering a lifetime mortgage with the interest rolled-up, but wishes to ensure that he does **NOT** leave a debt to his estate. His financial adviser has confirmed that negative equity will **NOT** be an issue with the recommended plan. This is **most likely** to be because

A. Bob is only considering a mortgage of 30% of the property's value, therefore negative equity will not be an issue.
B. Bob will also be advised to pay a higher lending charge to cover any negative equity.
C. interest rates are historically very low therefore negative equity will not be an issue.
D. the recommended plan provider is a member of The Equity Release Council.

38. Cyril and Elsie have a lifetime mortgage with interest rolled-up and are concerned that the amount owing is now the same as the value of their property. Having inherited a significant capital sum, they now wish to take action to address this situation. Which option would **NOT** be a possible solution to their immediate concerns?

A. Converting the mortgage to a full home reversion plan.
B. Fully redeeming the mortgage.
C. Making a partial repayment to the lender.
D. Moving to a higher value property.

39. Margaret took out a home reversion plan two years ago on a 25% reversion basis. Due to a recently discovered electrical problem, the property now needs rewiring. What percentage of the cost of this work, if any, will she be required to pay?

A. Nil.
B. 25%
C. 75%
D. 100%

40. Which feature of an annuity can provide protection against the impact of inflation?

A. Capital protection.
B. Dependant's payment.
C. Escalation.
D. Guaranteed payment period.

41. Sheila has a home worth £300,000 and wants to use a home reversion plan to raise a lump sum of £30,000. What restriction, if any, will **normally** be applied on how this money is used?

A. It must not be invested in a product which is deemed high risk.
B. It must not be lent to a third party.
C. It must not be used to help purchase another property.
D. No restrictions will be applied.

42. Alex and his wife, Jenny, are starting a joint life home reversion plan which is subject to a lease. Which of them **must** be party to this lease?

A. Both of them.
B. The older spouse only.
C. The younger spouse only.
D. The spouse jointly nominated as the lead name.

43. Celia and Bill started a joint life home reversion plan, under which they were obliged to make rental payments of £24 a year. What is the **likely** impact, if any, on this requirement on the first death, assuming the survivor remains in the property?

A. It will no longer have to be paid.
B. It will reduce to £12 a year.
C. It will increase to £48 a year.
D. It will remain unchanged.

44. Steve has taken out a 75% home reversion plan to raise a lump sum of £60,000. What **maximum** additional finance, if any, can be raised on this property using a capital repayment mortgage?

A. No further finance is possible on this basis.
B. £15,000
C. £45,000
D. £60,000

45. Two years after starting a joint life home reversion plan on a 100% cash reversion basis, Howard and Sarah had a large lottery win. In what circumstances, if any, will they be permitted to repurchase the equity in their house?

A. It depends on the provider's policy.
B. It is automatically permitted, subject to repayment of the lump sum plus pre-agreed interest.
C. Only a maximum of 50% can be repurchased.
D. Repurchasing is not possible under current regulations.

46. Edith, aged 76, has a house worth £120,000 and wants to generate a lump sum of around £100,000 under a home reversion plan. What **key** problem is she **most likely** to face based on this requirement?

A. Drawdown will be her only option.
B. The plan will not generate sufficient cash.
C. She will incur heavy interest charges in order to meet this requirement.
D. She will only meet this requirement if she is considered to be in very good health.

47. Following a meeting with a specialist financial adviser, Jack has been told that there is a small deficit between the amount he wants to generate from a home reversion plan and the **maximum** payable by a provider. In accordance with best practice, he should be advised to

A. automatically abandon a home reversion plan as a viable option.
B. consider alternative providers.
C. consult a different financial adviser.
D. top up the home reversion plan with a mortgage.

48. Derek has set up a home reversion plan which provides him with an annuity. What **typical** restrictions apply, if any, to the income from this annuity?

A. The capital content can be spent on a discretionary basis, but the interest element must be ringfenced.
B. A fixed amount of up to 20% of the income must be paid into a property maintenance fund and the balance can be used however he wishes.
C. He can use the entire amount however he wishes.
D. Part of the income must be used to pay interest and the balance can be used however he wishes.

49. Edna's home was worth £400,000 when she sold 25% of it under a home reversion plan for a lump sum of £50,000. The house was valued at £500,000 on her death, by which time all of the lump sum was spent. Her beneficiary's house-related inheritance, therefore, fell from £500,000 to

A. £100,000
B. £125,000
C. £300,000
D. £375,000

50. Bert has a house worth £260,000 and other assets totalling £80,000. He intends to leave everything to his only child, Joan. If Bert takes out a home reversion plan on a 30% reversion basis, this means that, ignoring any changes in property value, Joan's potential inheritance would reduce to

A. £80,000
B. £182,000
C. £238,000 plus any cash remaining from the plan arrangement.
D. £262,000 plus any cash remaining from the plan arrangement.

Section B begins on the next page

SECTION B

Stanley is a widower aged 67. He lives in a detached house that has recently been valued at £300,000 with no mortgage currently outstanding. In addition to a Basic State Pension of £6,000 per annum, he receives a pension from his former employer's scheme of £15,000 per annum and has gross investment income of £2,000 per annum.

Since his wife died he has continued to live within his income, but has mentioned that the monthly payments on a personal loan, originally taken out to build a conservatory, are quite high. There is currently £10,000 outstanding on this loan with five years remaining and he would be much happier if this were cleared and he ceased the monthly payments.

Stanley would like to buy a new car and is thinking about going on a cruise with some friends. As he has been living frugally since his wife died, Stanley wishes to increase the balance in his deposit account to provide a contingency fund of readily accessible money. Additionally, Stanley wishes to make a gift of £6,000 to his brother. He has **NOT** previously made any gifts at all. In total, including setting up costs, he is considering an amount of £30,000 in order to meet all of these goals.

A friend has suggested that he considers a lifetime mortgage at a fixed rate of 6.5%. He wants to retain complete ownership of the house for as long as he can and is **NOT** particularly concerned with maximising his estate as he has no children. Stanley has **NOT** made a will and, apart from his brother, his surviving relatives are his brother's son and an elderly aunt.

51. Based on Stanley's stated requirements, what is the **most suitable** type of arrangement for him?

A. A home reversion plan.
B. A lump-sum drawdown via a home income plan.
C. A lump-sum drawdown lifetime mortgage with interest rolled-up.
D. A monthly cash release lifetime mortgage with interest rolled-up.

52. Assuming Stanley dies intestate, which relative(s) would receive the proceeds of his estate?

A. His aunt only.
B. His brother only.
C. His nephew only.
D. It would be shared equally between his brother and his nephew.

53. Assuming that interest is charged annually, rolled-up and rates do **NOT** change, what will be the balance of the mortgage account after three years if an amount of £30,000 is drawn down at the outset?

A. £30,000
B. £34,027
C. £35,850
D. £36,238

54. If Stanley's stated investment income comprises dividends of £1,900 and deposit interest of £100, how much tax, if any, would he pay on his dividends if they increased to £2,200 in tax year 2022/2023 following investment of part of the lifetime mortgage funds?

A. Nil.
B. £17.50
C. £22.50
D. £40.00

55. For how many years after making the gift to his brother, if any, **must** Stanley survive before it becomes free from Inheritance Tax?

A. None.
B. Three years.
C. Five years.
D. Seven years.

Susan, aged 65, is divorced with a property valued at £160,000. She made a will prior to her divorce which left the house to her former spouse and anything extra to her two sons, Mark and Richard, who are both married. As part of the divorce settlement, a charge of £5,000 was recorded against the property in favour of Susan's ex-husband.

Susan makes the best of her income but feels that she does **NOT** enjoy life enough since she retired as her income will **NOT** allow her to take holidays and purchase luxury items.

Susan has been looking into lifetime mortgages on the internet. Following her own research, she tells her financial adviser that she favours a mortgage which will give her a cash sum with access to additional funds later in life, whenever she may need them.

56. How, if at all, would the advice process for Susan differ **fundamentally** from the normal advice process, given that she has already decided what she wants?

A. The process would not differ unless the adviser disagreed with her conclusions.
B. A reduced or limited fact-find would be completed.
C. Scripted questions would need to be asked and answers recorded.
D. She would need to sign an execution-only agreement.

57. Given Susan's requirements, which type of scheme would be the **most appropriate**?

A. A drawdown scheme.
B. A full reversion scheme.
C. A partial reversion scheme.
D. A shared appreciation scheme.

58. What advice should be given in relation to the charge on Susan's property and her eligibility for a mortgage?

A. The charge can remain on the property and the lender will have the second legal charge.
B. The charge can remain on the property because it is less than 5% of the property value and the lender will take a second charge, but the amount of equity that can be released will reduce.
C. The charge will make Susan ineligible for a mortgage.
D. The lender will usually require the charge to be cleared from the proceeds released.

59. In completing the initial disclosure requirements for equity release advice specified by the Financial Conduct Authority (FCA), when first meeting Susan her financial adviser

A. can choose to delay providing information about charges for the advice until a specific product is discussed.
B. can rely on Susan's oral confirmation that she does not require full disclosure.
C. must issue an Initial Disclosure Document in a format prescribed by the FCA.
D. must make Susan aware of any limitations in the product range he can offer.

60. Which alternative to taking out a lifetime mortgage may be a suitable course of action for Susan, but would require an immediate payment to her ex-husband?

A. Letting one of her bedrooms under the rent-a-room scheme.
B. Taking out a full home reversion plan.
C. Taking out a shared appreciation mortgage.
D. Trading down.

David and Mary, aged 73 and 75 respectively, are married and have three adult children. David and Mary own their home valued at £495,000 and they wish to retain full ownership.

David and Mary have a combined pension income between them of £21,000 per annum. They also have savings and investments worth £120,000, from which they take £7,200 per annum to boost their income.

David's mother lives in her own flat, which is estimated to be worth £200,000.

David and Mary want to raise £40,000 to refurbish their house. They have spare income of £300 per month, which they wish to use to help their grandchild. Neither David nor Mary have made wills.

61. What type of equity release scheme would be **most suitable** for David and Mary?

A. A home income plan.
B. A home reversion plan.
C. A lump-sum lifetime mortgage.
D. A part lump sum, part income scheme.

62. If David were to inherit the flat from his mother via her will, what **might** he legally do to prevent it from ever forming part of his estate, whilst still retaining effective control over to whom it goes?

A. Disclaim the bequest.
B. Execute a deed of variation.
C. Immediately gift the flat to a trust fund.
D. Immediately gift the flat to his children.

63. If David and Mary gift their home to their children at its market value, how much Stamp Duty Land Tax would the children pay, if anything, if the children do **NOT** currently own any other residential property but are **NOT** first-time buyers?

A. Nil.
B. £4,950
C. £17,250
D. £24,750

64. What tax, if any, may be payable by the grandchild on receipt of the £300 per month income?

A. Income Tax.
B. Inheritance Tax.
C. Pre-Owned Assets Tax (POAT).
D. No tax is payable.

65. If David and Mary die together in an accident, how would their estate be distributed?

A. It would all go to their children.
B. It would all go to David’s mother.
C. It would be split between their children and David’s mother.
D. It would be split between their grandchild and David’s mother.

Stewart, aged 75, and Elspeth, aged 72, are planning the next stage of their retirement now that Stewart intends to stand down as a councillor in nine months' time.

To celebrate, they will take a luxury five-week cruise around the Caribbean, as the retirement coincides with their golden wedding anniversary.

Their net income will drop by £1,400 per month, although expenditure is **NOT** expected to fall as they will increase their spending on socialising and luxuries. Despite the drop in income, they will both remain higher-rate taxpayers due to the level of their pensions and other income.

The couple jointly own a main residence worth £575,000 which is unencumbered and a portfolio of buy-to-let properties valued at around £1,300,000. There are no mortgages and all of the properties are let to non-family members on assured shorthold tenancies. They have no other investment assets, other than around £10,000 on deposit.

Stewart and Elspeth have considered selling part of the buy-to-let portfolio to buy an annuity, but they have ruled this out at present for tax reasons. They are considering releasing £225,000 of their equity using a lifetime mortgage with rolled-up interest. This capital will be used to buy new investment properties, which will be let to non-family members, after spending around £25,000 on the cruise. They have calculated that this will give them enough **additional** income for the foreseeable future.

66. Which **suitable** type of equity release mortgage will have the greatest positive impact on Stewart and Elspeth's **net** disposable income?

- **A.** A home income plan.
- **B.** An interest-only mortgage secured against investment property where only interest is repaid out of rent received.
- **C.** A lump-sum mortgage, with interest rolled-up.
- **D.** A monthly cash release mortgage.

67. How would Stewart and Elspeth's current approach to investment **most likely** be categorised in terms of gearing and diversity?

- **A.** High in gearing and low in diversity.
- **B.** Low in gearing and low in diversity.
- **C.** High in gearing and high in diversity.
- **D.** Low in gearing and high in diversity.

68. What is the **net** yield that Stewart and Elspeth will need to achieve on their proposed new buy-to-let investments to replace £1,000 of the lost monthly income?

- **A.** 5%
- **B.** 5.33%
- **C.** 6%
- **D.** 10%

69. Which tax is **most likely** to have been the **main** reason for Stewart and Elspeth ruling out the sale of their buy-to-let portfolio?

A. Capital Gains Tax.
B. Income Tax.
C. Inheritance Tax.
D. Stamp Duty Land Tax.

70. What is the position with regard to the Financial Conduct Authority's regulation of any equity release plan or mortgage that Stewart and Elspeth decide to take on their properties?

A. Regulation might apply to equity released from the main residence, but not to equity released from a buy-to-let property.
B. Regulation will apply to equity released from the main residence, but not to equity released from a buy-to-let property.
C. Regulation will apply to equity released from the main residence and might apply to equity released from a buy-to-let property.
D. Regulation might apply to equity released from the main residence and might apply to equity released from a buy-to-let property.

A financial adviser has been approached by Emma and Joanne, who are the daughters of one of the adviser's clients, Hannah, aged 92. Hannah lives at home on her own but due to her inability to perform certain activities of daily living (ADLs), she needs a live-in carer.

Emma and Joanne live too far away to be of much assistance but they do help with the finances, despite the fact that Hannah is mentally capable of managing her own affairs. An Enduring Power of Attorney was set up some years ago nominating Emma and Joanne as attorneys.

The cost of live-in care is substantial and it has been calculated that Hannah's investment assets will be completely depleted in around 18 months.

The property is valued at £475,000 and there is no mortgage. It underwent significant alterations to accommodate Hannah's needs five years ago.

Emma and Joanne, who are the only heirs, are **NOT** concerned about the level of their inheritance and would like to help their mother with her wish to remain at home for as long as possible.

Equity release has been discussed and Hannah will consider it, provided that some of the existing equity can be preserved for Emma and Joanne.

71. Equity release **might** be suitably used to provide Hannah with

A. an additional regular income only.
B. a home income plan only.
C. a lump sum to purchase an annuity only.
D. a lump sum or an additional income.

72. Which equity release product(s) **might** be the **most suitable** for Hannah?

A. A full reversion.
B. Any drawdown scheme.
C. Any scheme with a member of The Equity Release Council.
D. A shared appreciation mortgage.

73. Which type of long-term care plan might be appropriate for Hannah's needs?

A. A back-to-back plan.
B. An immediate care plan.
C. A long-term care bond.
D. A pre-funded care plan.

74. What **additional** authority is required to invoke the Enduring Power of Attorney if Hannah were to become incapable of managing her affairs?

A. The agreement of Emma and Joanne only.
B. The agreement of a court-appointed receiver.
C. The agreement of Emma, Joanne and Hannah.
D. Authority from the Office of the Public Guardian.

75. In accordance with best practice, who should be involved in the discussions before an application for the equity release product is made?

A. Hannah only.
B. Emma and Joanne only.
C. Hannah, Emma and Joanne only.
D. Hannah, Emma, Joanne and an independent witness.

Specimen Examination Answers and Learning Outcomes Covered

Standard Format

Question	Answer	Learning Outcome
Learning Outcome 1		
1	D	1.1
1 Question		
Learning Outcome 2		
2	C	2.1
3	B	2.5
4	B	2.4
5	D	2.2
6	B	2.4
7	C	2.3
8	C	2.5
7 Questions		
Learning Outcome 3		
9	A	3.2
10	C	3.3
11	A	3.1
12	C	3.4
4 Questions		
Learning Outcome 4		
13	A	4.2
14	C	4.1
15	B	4.3
16	A	4.2
4 Questions		
Learning Outcome 5		
17	D	5.1
18	A	5.2
19	C	5.2
20	A	5.2
21	C	5.2
5 Questions		
Learning Outcome 6		
22	D	6.1
23	D	6.1
24	D	6.1
25	D	6.1
26	B	6.1
27	D	6.1
28	D	6.2
29	B	6.1
8 Questions		
Learning Outcome 7		
30	A	7.3
31	D	7.3
32	B	7.2
33	A	7.1
4 Questions		
Learning Outcome 8		
34	D	8.1
35	D	8.1
36	C	8.1
37	D	8.1
38	A	8.1
39	D	8.1
6 Questions		
Learning Outcome 9		
40	C	9.1
41	D	9.1
42	A	9.1
43	D	9.1
44	A	9.1
45	A	9.1
6 Questions		
Learning Outcome 10		
46	B	10.1
47	B	10.1
48	C	10.1
49	D	10.1
50	D	10.1
5 Questions		

Scenario Format

Question	Answer	Learning Outcome
51	C	11.1
52	B	11.1
53	D	11.1
54	B	11.1
55	A	11.1
56	A	11.1
57	A	11.1
58	D	11.1
59	D	11.1
60	D	11.1
61	C	11.1
62	B	11.1
63	A	11.1
64	D	11.1
65	A	11.1
66	C	11.1
67	B	11.1
68	C	11.1
69	A	11.1
70	B	11.1
71	D	11.1
72	B	11.1
73	B	11.1
74	D	11.1
75	C	11.1
25 Questions		