Chartered Insurance Institute

CF6

Certificate in Mortgage Advice

Mortgage advice

Based on the 2020/2021 syllabus
examined until 31 August 2021

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Contents

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute to assist students in their preparation for the CF6 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 three 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 a CF6 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 CF6 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 **https://www.cii.co.uk/learning/qualifications/unit-mortgage-advice-cf6/**
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 CF6 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 CII 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 skill level tested in each examination question is determined by the syllabus. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested. Learning outcomes for CF6 begin with *understand or analyse.* Different skill levels lead to different types of question, examples of which follow.

Understanding -	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.
Analysis -	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.

Examination Information

The method of assessment for the CF6 examination is 100 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 3 hours are allowed for this examination.

The CF6 syllabus provided in this examination guide will be examined from 1 September 2020 until 31 August 2021.

Candidates will be examined on the basis of English law and practice in the tax year 2020/2021 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.

CF6 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.

The format of the lender's criteria and mortgage product list, provided at each examination and reproduced in this examination guide, should be familiar to candidates before they enter the examination. The lender's criteria and mortgage products list could be used in answering section B of this examination. When answering a question on a specific mortgage, only products contained within the mortgage product list should be used.

Section A consists of 100 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 consists of 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.

Mortgage advice

Chartered Insurance Institute

Objective

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

- house-buying process, from making an offer to completion and the key parties involved;
- different types of borrowers and how to meet their individual mortgage needs;
- different types of mortgage product and repayment options and their suitability for the client;
- legislative and regulatory position of mortgages and the requirements of a mortgage adviser.

Summary of learning outcomes		Number of questions in the examination *
1.	Understand the rules relating to the regulation of mortgages according to the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).	6
2.	Understand the house-buying process, the key parties involved and their roles.	10
3.	Understand the different forms of valuation and survey, the factors that affect property values and the implications for consumers and mortgage lenders.	12
4.	Understand the common types of borrower and how their main mortgage-related requirements may differ, what factors may disqualify people from borrowing and the purpose of additional security including that of guarantors.	6
5.	Understand the economic context for giving mortgage advice.	2
6.	Understand the role of a mortgage adviser and the importance and principles of providing advice and positive customer outcomes, including ethical and financially inclusive approaches, and the key factors affecting the advice given.	6
7.	Understand the fees and charges involved in property transactions, including purchase/sale, remortgage, further advance and equity release.	6
8.	Understand the main features and functions of mortgage related protection products, their uses and lenders' requirements.	5
9.	Understand the principles, procedures and legal implications associated with raising additional money and transferring mortgages.	8
10.	Understand the risks associated with debt consolidation for the consumer and the implications for mortgage lenders.	2
11.	Understand the implications, rights and remedies for the borrower and the lender of non-payment of the mortgage and associated products.	4
12.	Understand the main provisions made by the State to assist homeowners and homebuyers.	4
13.	Understand the main requirements of the legislation affecting homeownership, tenure and mortgage finance.	3
14.	Understand the key features and structure of mortgage products and their interest rate options.	17
15.	Understand the key features of the different types of mortgage capital and interest repayment options.	9
16.	Analyse consumers' circumstances and recommend appropriate mortgage solutions to specific consumers' circumstances.	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: 100 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 3 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2020 to 31 August 2021.
- Candidates will be examined on the basis of English law and practice in the tax year 2020/2021 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

1. Understand the rules relating to the regulation of mortgages according to the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).

1.1 Describe the legal and regulatory definitions of mortgages and second charge loans.

1.2 Describe the rules regulating mortgages according to the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).

1.3 Apply the MCOB requirements to client circumstances.

2. Understand the house-buying process, the key parties involved and their roles.

2.1 Describe the house buying process and the roles of key parties involved in England and Wales.

2.2 Describe the house buying process and the roles of key parties involved in Scotland.

2.3 Describe the process and implications of buying property at auction.

3. Understand the different forms of valuation and survey, the factors that affect property values and the implications for consumers and mortgage lenders.

3.1 Explain the different forms of valuation and survey and the limitations of each.

3.2 Describe the factors that affect property values and the information contained within reports.

3.3 Describe the principal types of property defect and their implications for consumers and mortgage lenders.

4. Understand the common types of borrower and how their main mortgage-related requirements may differ, what factors may disqualify people from borrowing and the purpose of additional security including that of guarantors.

4.1 Describe the common types of borrower.

4.2 Describe the options available to different types of borrower.

4.3 Describe the principles and implications of different forms of additional security that may be taken to support a mortgage application.

4.4 Explain what factors may disqualify people from borrowing.

5. Understand the economic context for giving mortgage advice.

5.1 Describe the UK property and mortgage market and the economic and regulatory context for giving mortgage advice.

6. Understand the role of a mortgage adviser and the importance and principles of providing advice and positive customer outcomes, including ethical and financially inclusive approaches, and the key factors affecting the advice given.

6.1 Describe the role of a mortgage adviser.

6.2 Explain the importance and principles of providing mortgage advice.

6.3 Explain the process of assessing customer's affordability and calculate affordability.

6.4 Explain the importance of assessing suitability to provide a fair outcome for mortgage customers.

7. Understand the fees and charges involved in property transactions, including purchase/sale, remortgage, further advance and equity release.

7.1 Describe and calculate the fees and charges involved in property transactions.

7.2 Describe and calculate the relevant taxes associated with property purchase and ownership.

8. Understand the main features and functions of mortgage related protection products, their uses and lenders' requirements.

8.1 Explain the main features and uses of mortgage related protection products and the implications for consumers and lenders.

8.2 Explain the rules and regulations governing the sale of mortgage related protection products.

9. Understand the principles, procedures and legal implications associated with raising additional money and transferring mortgages.

9.1 Explain the principles, procedures and legal implications associated with raising additional money.

9.2 Explain the principles, procedures, costs and legal implications associated with transferring, amending and redeeming mortgages.

10. Understand the risks associated with debt consolidation for the consumer and the implications for mortgage lenders.

10.1 Explain the risks and implications associated with debt consolidation for the consumer and the implications for mortgage lenders.

11. Understand the implications, rights and remedies for the borrower and the lender of non-payment of the mortgage and associated products.

11.1 Explain the implications, rights and remedies for the borrower for non-payment.

11.2 Explain the implications, rights and remedies for the lender for non-payment.

11.3 Explain the regulations and the legislation governing property repossession.

12. Understand the main provisions made by the State to assist homeowners and homebuyers.

12.1 Describe the main provisions made by the State to assist homeowners in financial difficulty.

12.2 Describe the main provisions of the different forms of Government-backed schemes to assist home buyers.

13. Understand the main requirements of the legislation affecting homeownership, tenure and mortgage finance.

13.1 Describe the legislation affecting all aspects of homeownership, tenure and mortgage finance in the United Kingdom.

14. Understand the key features and structure of mortgage products and their interest rate options.

14.1 Describe the main types of mortgage.

14.2 Describe the different interest rate options available to lenders.

15. Understand the key features of the different types of mortgage capital and interest repayment options.

15.1 Describe the types of mortgage repayment options available.

15.2 Describe the implications and obligations placed on the borrower and the lender.

16. Analyse consumers' circumstances and recommend appropriate mortgage solutions to specific consumers' circumstances.

16.1 Analyse consumers' circumstances and recommend appropriate mortgage solutions to specific consumers' circumstances.

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/PFS members can access most of the additional study materials below via the Knowledge Services webpage at *https://www.cii.co.uk/knowledge-services/*.

New resources are added frequently - for information about obtaining a copy of an article or book chapter, book loans, or help finding resources , please go to *https://www.cii.co.uk/knowledge-services/* or email *knowledge@cii.co.uk*.

CII study texts

Mortgage advice. London: CII. Study text CF6.

Journals and magazines

Personal finance professional (previously Financial solutions). London: CII. Six issues a year. Available online at *www.thepfs.org/financial-solutions-archive* (CII/PFS members only).

Mortgage introducer. London: Publishing Group. Fortnightly. Also available online at *www.mortgageintroducer.com*.

Reference materials

International dictionary of banking and finance. John Clark. Hoboken, New Jersey: Routledge, 2005.*

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.

The Insurance Institute of London holds a lecture on revision techniques for CII exams approximately three times a year. The slides from their most recent lectures can be found at *www.cii.co.uk/iilrevision* (CII/PFS members only).

SECTION A

1. When considering the rules of the Mortgages and Home Finance: Conduct of Business Sourcebook, to whom do the rules apply?

A. All intermediaries, lenders, and mortgage packaging firms who advise on, provide loans and administer applications for regulated mortgages.
B. Only intermediaries and lenders who offer advice on or provide mortgage loans.
C. Only intermediaries who provide advice on mortgage loans.
D. Only lenders who provide residential mortgages.

2. How does the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) apply, if at all, to appointed representatives?

A. An appointed representative has sole responsibility for all compliance issues relating to MCOB.
B. An appointed representative does not need authorisation so MCOB does not apply.
C. The ultimate responsibility of compliance with MCOB for an appointed representative lies with the principal firm.
D. MCOB only applies if the principal firm subscribes to it.

3. Kim is arranging an overdraft facility of £2,000 to support her self-employed hairdressing business. Her bank is planning to secure this overdraft by a second charge on her home. How will this second charge be regulated, if at all?

A. It will be regulated under the Banking: Conduct of Business Sourcebook.
B. It will be regulated under the Consumer Credit sourcebook.
C. It will be regulated under the Mortgages and Home Finance: Conduct of Business Sourcebook.
D. It will not be regulated.

4. The Financial Conduct Authority expects charges made to a customer arising from the sale of a repossessed property to be

A. less than £1,500.
B. less than £2,500.
C. less than the total charges incurred during the process of handling the client's arrears.
D. not excessive.

5. James and Sarah are arranging a regulated mortgage contract as a foreign currency loan secured on their home in the UK. They both live and work in the UK. What **must** their lender offer, if anything, as part of the loan conditions?

A. A fixed rate of interest for the term of the loan.
B. A guarantee of no negative equity.
C. A limit to the currency risk faced by James and Sarah.
D. A specified currency conversion rate for the mortgage term.

6. The Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) covers **all** loans that are

- **A.** secured by a first or second charge on a property that is owned and occupied by the borrower or a close relative, where at least 40% of the property is used for this purpose.
- **B.** secured by a first or second charge on a property that is owned and occupied by the borrower or a close relative, where at least 60% of the property is used for this purpose.
- **C.** secured by a first or second charge on a property that is let out for business purposes.
- **D.** secured on a residential property.

7. Atique has purchased a new home. His offer was accepted on 2 April. He exchanged contracts on 31 May, completed the purchase on 10 June and finally moved into the house on 1 July. To protect his interests fully, from what date should Atique have buildings insurance in place on the property?

- **A.** 2 April.
- **B.** 31 May.
- **C.** 10 June.
- **D.** 1 July.

8. What is the **most common** method used in property purchase transactions in Scotland?

- **A.** Private bargain.
- **B.** Private treaty.
- **C.** Public auction.
- **D.** Sealed bids.

9. In Scotland, the term standard security refers to

- **A.** final missives.
- **B.** a legal charge.
- **C.** Land and Buildings Transaction Tax.
- **D.** a vendor's deposit.

10. Which party is responsible for the identification of the legal title of a property on behalf of the lender?

- **A.** The estate agent.
- **B.** The mortgage adviser.
- **C.** The purchaser's solicitor.
- **D.** The vendor's solicitor.

11. The **main** role of an estate agent is to

- **A.** bring a property to market.
- **B.** complete a Building Survey.
- **C.** draw up a contract of sale.
- **D.** provide a valuation for mortgage purposes.

12. When a property is being sold at auction, the final sale price is always the

A. higher of the reserve and the price when the gavel falls.
B. same as the reserve price.
C. price when the gavel falls.
D. highest sealed bid price.

13. In England, when does a contract to purchase a property become legally binding?

A. When the offer to purchase is accepted.
B. When the mortgage offer is made.
C. At exchange of contracts.
D. At completion.

14. In Scotland, which party drafts the offer to buy a property?

A. The buyer's solicitor.
B. The estate agent.
C. The vendor.
D. The vendor's solicitor.

15. When a property is sold at a public auction, when are contracts **usually** exchanged?

A. On the day of the auction.
B. At a later date once the solicitors have agreed terms.
C. 7 days later.
D. 28 days later.

16. John has exchanged contracts to buy a property in England. If he subsequently does **NOT** complete the purchase, how, if at all, would he be affected?

A. He would not be affected.
B. He could be sued by the estate agent on behalf of the vendor.
C. He could be sued by the vendor for any losses incurred plus interest.
D. His liabilities are limited only to the monies already paid.

17. When a residential property is being purchased subject to a mortgage, what is the **primary** purpose of the basic valuation report?

A. For the purchaser to ensure he pays no more than the market value for the property.
B. For the lender to assess the adequacy of the property as security for the mortgage loan.
C. For the purchaser to identify any prominent defects that exist in the property prior to the completion date.
D. For the lender to obtain a report on all key aspects of the property and its condition.

18. Following the completion of a basic valuation report, in what circumstances might a second inspection be required from the original valuer?

A. When a retention is made for the completion of essential repairs.
B. When the mortgage is subject to an undertaking.
C. When the property is flying freehold.
D. When the property is used partly for commercial purposes.

19. For which type of property would a Building Survey **normally** be recommended?

A. A newly-built detached house.
B. A 10-year-old basement flat.
C. A 30-year-old semi-detached house.
D. A 300-year-old terraced cottage.

20. When dealing with the rights of third parties and an owner's obligations, what is an easement?

A. A process whereby checks are made relating to any outstanding legal disputes involving the property.
B. A requirement to fulfil conditions imposed on the property by a previous owner.
C. A restriction on what a property owner can legally do with the property.
D. A right which one person or persons can exercise over the land of another.

21. What is **likely** to be the effect on a property's value, if any, where the property is subject to a positive covenant to maintain a small boundary fence?

A. It is unlikely to have any effect on its value.
B. It is likely to result in a significant increase to its value.
C. It is likely to result in a significant decrease to its value.
D. The property is likely to become more difficult to sell.

22. Sergio owns a flat in perpetuity, but does **NOT** own the freehold. This is because the flat is owned on a

A. commonhold basis.
B. leasehold basis.
C. shared appreciation basis.
D. shared ownership basis.

23. What is the **typical** reinstatement value of a property for insurance purposes?

A. The cost of rebuilding the property in full plus all associated fees and costs.
B. The current market value of the property.
C. The initial purchase price of the property plus discretionary increases for inflation.
D. The raw material cost of rebuilding the property.

24. When a valuer highlights to a mortgage lender that a property has sub-standard electrical wiring, what **initial** action is the lender **most likely** to take?

A. Decline the mortgage.
B. Limit the mortgage to a maximum of 75% loan to value.
C. Obtain a specialist report on the wiring.
D. Request a Building Survey.

25. A report prepared for the purchaser on the general condition and valuation of the property which identifies significant defects and repairs is known as a

A. basic valuation.
B. Building Survey.
C. desktop valuation.
D. HomeBuyer Report.

26. The **most** detailed inspection of a property highlighting a wide range of issues is a

A. basic valuation.
B. Building Survey.
C. Condition Report.
D. HomeBuyer Report.

27. A valuer arrives at a market value for a property, **primarily** based on

A. comparable evidence.
B. the asking price.
C. the reinstatement cost.
D. the requested mortgage advance.

28. Who **normally** commissions a basic valuation?

A. The borrower.
B. The borrower's solicitor.
C. The lender.
D. The vendor.

29. Over what **maximum** time period is an Individual Voluntary Arrangement (IVA) usually arranged?

A. One year.
B. Two years.
C. Five years.
D. Six years.

30. Russell and Felicity are remortgaging their home. Their nephew, Tom, is living with them following his graduation. How will Tom be involved in the remortgage process, if at all?

A. He will be named in the mortgage deed.
B. He will have to undergo a credit check.
C. He will have to complete a consent-to-mortgage form.
D. He will not be involved in the process at all.

31. Bob is planning to buy his first flat, although his income does **NOT** meet the lender's criteria. The lender is prepared to accept a guarantee from Bob's father, but only if it is secured against his father's unencumbered property. What type of security is this known as?

A. A higher lending charge.
B. A second charge.
C. An indemnity guarantee.
D. A surety.

32. James has arranged a euro-denominated mortgage to purchase a flat in Paris, which will be let to tenants with a rent of €1,000 per month. Both the mortgage payments and the rent received will be remitted from and to his UK sterling bank account. What will be the impact for James if the euro falls in value from 1.20 to 1.25 euros for each £1.00 of sterling?

A. The sterling equivalent of both the mortgage and rent will increase.
B. The sterling equivalent of both the mortgage and rent will decrease.
C. The sterling equivalent of the mortgage will increase and the rent will decrease.
D. The sterling equivalent of the mortgage will decrease and the rent will increase.

33. A borrower has applied for a buy-to-let mortgage. The lender's criteria for a **maximum** advance is based on rental coverage of 125% of the monthly mortgage interest payments at the standard variable rate (SVR). If the lender's SVR is 4% and the property's rental income is £500 per month, what is the **maximum** advance available?

A. £100,000
B. £120,000
C. £150,000
D. £156,250

34. What are the responsibilities of a guarantor to a mortgage provider, if any, when a borrower defaults on a loan?

A. The guarantor is not responsible at all.
B. The guarantor is only responsible for the arrears on the loan.
C. The guarantor is only responsible for his share of the loan.
D. The guarantor is responsible for making payments on the whole loan, including arrears.

35. According to economic theory, what will be the **likely** effect, if any, on the Bank of England base rate, when the rate of inflation increases steadily over a period of three months or longer?

A. It will be unaffected.
B. It will start to rise in the near future.
C. It will start to fall in the near future.
D. It will start to rise after 12 months.

36. A mortgage lender has just securitised part of its mortgage assets. This means that the lender will have

A. arranged for a third party to administer all of its mortgages.
B. demutualised and confirmed their listing on the London Stock Exchange.
C. raised funds in the secondary market by issuing mortgage backed securities.
D. sold a number or repossessed mortgage assets.

37. When providing mortgage advice, a mortgage adviser will detail his fees and charges, and confirm the level of service that will be provided by issuing

A. a certificate of approval in principle.
B. initial disclosure documentation.
C. a mortgage offer.
D. a suitability report.

38. When a mortgage adviser provides advice to a customer, reasonable care should be taken to ensure that it is

A. free.
B. provided face-to-face.
C. always be subject to a seven-day reflection period.
D. suitable.

39. Gary has net monthly income of £2,100, committed expenditure excluding mortgage payments of £300 per month, basic essential expenditure of £500 per month and basic quality-of-living costs of £300 per month. If a mortgage lender will consider a mortgage advance, where the monthly payments do **NOT** exceed 80% of his net monthly surplus income, what is the **maximum** permissible mortgage payment?

A. £800
B. £1,000
C. £1,040
D. £1,300

40. Janet is considering a mortgage with a monthly repayment of £575. She has total expenditure, excluding housing costs, of £800 per month. If a lender permits her to use 80% of her surplus income to service mortgage repayments, what **must** Janet's **minimum** net monthly surplus income be to obtain this new mortgage?

A. £460.00
B. £640.00
C. £718.75
D. £1000.00

41. When a centralised mortgage lender is reviewing its practices for delivering fair outcomes for its borrowers, it should ensure that each aspect is assessed

A. as part of its sales and advice function only.
B. as part of its arrears management function only.
C. as part of its underwriting function only.
D. in all areas of its business.

42. Judith has net monthly income of £1,600, committed expenditure excluding mortgage payments of £280 per month, basic essential expenditure of £400 per month and basic quality-of-living costs of £250 per month. If a mortgage lender will consider a mortgage advance where the monthly payments do **NOT** exceed 75% of her net monthly surplus income, what is the **maximum** permissible mortgage payment?

A. £502.50
B. £670.00
C. £712.50
D. £950.00

43. Fred and Wendy are buying a house with a mortgage and have been advised that a higher lending charge will be applicable. As they do **NOT** have funds to pay the charge at this time, they will be informed that

A. all lenders grant a separate loan for this purpose.
B. some lenders will add the charge to the advance.
C. there is no option but to pay the charge now from their own resources.
D. the charge is only payable if they get into difficulties with their mortgage.

44. Richard, a second-time buyer, has made an offer of £240,000 to buy a property that has an asking price of £260,000. Assuming that Richard does **NOT** own any other property, how much Stamp Duty Land Tax, if anything, will Richard save as a result of this reduction?

A. Nothing.
B. £1,300
C. £2,800
D. £3,000

45. Solicitors' fees are subject to what form of tax?

A. Capital Gains Tax.
B. Corporation Tax.
C. Stamp Duty Land Tax.
D. Value Added Tax.

46. Which fee is **usually** payable at the time of applying for a mortgage loan?

A. The basic valuation fee.
B. The Land Registry fee.
C. The redemption fee.
D. The solicitor's fee.

47. For a purchaser who does **NOT** own any other property, and is buying a residential property for £750,000, Stamp Duty Land Tax will be charged at

A. 0% and 2%
B. 0% and 5%
C. 3% and 5%
D. 3%, 5% and 8%

48. Gemma is purchasing a property valued at £150,000 and would like to borrow 92% of the property purchase price. At that loan to value level, the lender charges a higher lending charge of 7% of the loan amount over 75% of the valuation. How much will Gemma have to pay?

A. £1,785
B. £2,415
C. £2,625
D. £3,255

49. A bank has confirmed that a higher lending charge will be payable for mortgages in excess of 95% of the value of the property. Who, if anyone, does this arrangement protect in the event of repossession at a loss?

A. The lender only.
B. The lender and the borrower equally.
C. The lender first and then the borrower if any equity remains after the sale of the property.
D. Neither the lender nor the borrower.

50. For what **maximum** period are benefits from a mortgage payment protection insurance policy **normally** paid?

A. 13 weeks.
B. 1 year.
C. 2 years.
D. Until retirement age.

51. The benefit of a higher lending charge to a borrower is that it

- **A.** covers the cost of mortgage payments when they cannot be met by the borrower.
- **B.** covers the cost of a loss incurred by the borrower when he has to sell a property for less than he paid for it.
- **C.** enables the borrower to borrow a higher percentage of the property value than would otherwise be available.
- **D.** enables the borrower to purchase a property that would not otherwise be acceptable security for the loan.

52. When does the benefit under a critical illness insurance policy become payable?

- **A.** After a pre-defined period following the diagnosis of a specified condition.
- **B.** After a pre-defined period of being unable to work due to disability.
- **C.** Immediately after becoming unable to work due to illness.
- **D.** Upon accidental death.

53. When taking out an income protection insurance policy, what is the **usual** expiry date?

- **A.** One year after the end of the deferred period.
- **B.** Two years after the end of the deferred period.
- **C.** The mortgage expiry date.
- **D.** The normal retirement age of the insured.

54. Sales of mortgage payment protection insurance policies to residential mortgage customers **must** follow rules contained in

- **A.** Consumer Credit sourcebook (CONC).
- **B.** Dispute resolution (DISP).
- **C.** Insurance: Conduct of Business sourcebook (ICOBS).
- **D.** Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).

55. After having his present mortgage for five years, James now wishes to obtain a new fixed-rate mortgage product with his current lender, without varying the terms of his mortgage. Why **may** the lender adopt a less rigorous approach in approving this change, when compared to approving the original mortgage?

- **A.** A credit search has already been completed.
- **B.** James' ability to service the mortgage has already been evidenced.
- **C.** The legal searches have already been completed.
- **D.** The property has already been valued.

56. A client has a five-year fixed-rate mortgage with a building society. The five-year period will finish this month, but there is a two-year extended early repayment charge period. This condition means that

A. the existing fixed rate will continue for a further two years.
B. the client cannot make partial lump-sum repayments in the next two years.
C. the client cannot remortgage during the next two years.
D. a penalty will be applied if the client repays any part of the mortgage within the next two years.

57. John, aged 65, is to receive a lump-sum payment from a lifetime mortgage and all of the interest is to be rolled-up during the term of the mortgage. Additionally, as no payments are required from him, the mortgage lender **must** provide him with

A. a projection of the outstanding balance from years 10 to 25 only.
B. an updated valuation of the property every year.
C. details of how the firm expects the capital and interest to be repaid.
D. details of the life insurance cover that will be a condition of the loan.

58. Siobhan has a £250,000 five-year fixed-rate mortgage. There are early repayment charges (ERC) applying of 3% of the balance redeemed in years 1 and 2, reducing to 2% in year 3, and 1% in years 4 and 5. The terms of the mortgage allow a payment of up to 10% of the original balance in any one year, without any ERC being charged. If Siobhan repays capital of £50,000 for the first time during year 3, what ERC will be applied, if any?

A. Nil.
B. £500
C. £750
D. £1,000

59. Mark and Susan took out a mortgage for £80,000 in November 2017. The lender's early repayment charge for part or full repayment is 5% in year one, 3% in years two to three and 2% in years four to five. If they repaid £8,000 in May 2020, what was the early repayment charge?

A. £160
B. £240
C. £1,600
D. £2,400

60. Terri has a mortgage of £10,000 on her main residence which is to be repaid shortly from the proceeds of an endowment policy which is assigned in its entirety to her mortgage lender. She also has a second charge loan outstanding of £15,000. If Terri's endowment policy matures for the sum of £25,000 how will the insurer deal with the maturity proceeds?

A. Send £10,000 to the mortgage lender and the balance to Terri.
B. Send £10,000 to the mortgage lender and the balance to the second charge lender.
C. Send the full balance to the mortgage lender.
D. Send the full balance to Terri.

61. Which cost is **most likely** to be incurred in redeeming a mortgage?

A. Local authority notification charge.
B. Reassignment of policy charge.
C. Revaluation fee.
D. Sealing fee.

62. What is remortgaging?

A. Switching an existing mortgage to a different lender.
B. Topping-up an existing mortgage.
C. Purchasing another property.
D. Changing the terms of an existing mortgage.

63. Sarah has applied for a remortgage to consolidate her debts. She would like to proceed on an execution only basis and has chosen a two-year fixed-rate mortgage. Her mortgage lender has stated that

A. she cannot proceed on an execution only basis.
B. she may elect to proceed on a non-interactive basis from outset.
C. she must initially receive mortgage advice, but she may then proceed on an execution only basis.
D. she will be categorised as a vulnerable customer and may proceed on a non-advised basis.

64. Kris has a mortgage with his building society and a second charge loan with a finance company both secured on his home. He is now remortgaging his home. What action, if any, **must** Kris take in respect of his second charge loan?

A. He does not need to take any action.
B. He must ask the finance company to postpone their second charge.
C. He must repay the second charge before proceeding with the remortgage.
D. He may tack the remortgage first charge to the original mortgage charge.

65. When exercising its power of sale over a repossessed property, the lender **must**

A. appoint an independent receiver to handle the sale proceeds.
B. appoint a trustee in bankruptcy.
C. obtain the best price practically possible.
D. reduce any mortgage loss by claiming against higher lending charge insurance.

66. A lender has sent out an official mortgage warning letter to a borrower, who recently fell into arrears, detailing the missed payments. According to the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB), what period of time, if any, should the lender allow the borrower to consider the best course of action?

A. A maximum of 15 working days.
B. A maximum of 28 days.
C. Until no later than the due date of the next but one regular payment.
D. There is no specific deadline and a reasonable period of time should be granted.

67. Alan, aged 45, is single, lives alone and has no dependants. He earns £75,000 per annum and has a capital and interest mortgage of £300,000 with 24 years remaining. He is having difficulty in making his mortgage payments and although he is **NOT** yet in arrears, he has approached his lender for advice. What option is the lender **most likely** to recommend in the first instance?

A. Apply for Support for Mortgage Interest (SMI).
B. Consider shortening the mortgage term by 4 years.
C. Offer voluntary repossession to the lender.
D. Transfer temporarily to interest-only mortgage terms.

68. What is the **maximum** amount of savings that a 55-year-old borrower can hold before his eligibility for income support and Support for Mortgage Interest (SMI) ceases?

A. £3,000
B. £6,000
C. £8,000
D. £16,000

69. During a period of serious illness, Charlotte, aged 40, has made a valid claim for Support for Mortgage Interest (SMI). When will the first payment be made?

A. Immediately.
B. After 8 weeks.
C. After 13 weeks.
D. After 39 weeks.

70. Ivan started his mortgage in 1999 and has now successfully claimed for Support for Mortgage Interest (SMI). He has been awarded an amount that is equivalent to £24 per week. To whom is this amount directly paid?

A. £6 to Ivan and £18 to Ivan's lender.
B. £12 to Ivan and £12 to Ivan's lender.
C. To Ivan in its entirety.
D. To Ivan's lender in its entirety.

71. Why would a developer **usually** decide to sell a newly-built property on an equity share basis?

A. To make the property more affordable.
B. To defer the liability for Stamp Duty Land Tax.
C. There is strong demand for the property.
D. To maximise the term of the mortgage.

72. Under the terms of the Financial Services Act 2012, the Bank of England has overall responsibility for the

A. Financial Conduct Authority only.
B. Financial Policy Committee only.
C. Financial Conduct Authority and the Prudential Regulation Authority.
D. Financial Policy Committee and the Prudential Regulation Authority.

73. Which body is responsible for ensuring that a mortgage lender complies with data protection legislation?

A. The Competition and Markets Authority.
B. The Financial Conduct Authority.
C. The Information Commissioner's Office.
D. The Prudential Regulation Authority.

74. Under the Leasehold Reform, Housing and Urban Development Act 1993, what **minimum** proportion of qualifying owners as leaseholders, in a large block of flats, **must** be in agreement, to purchase the freehold interest?

A. 25%
B. 33%
C. 50%
D. 75%

75. Bryan, aged 47, is an existing homeowner who is seeking a property investment opportunity where he can generate the potential for income and long-term capital growth. A **suitable** option to facilitate this investment could be a

A. buy-to-let mortgage.
B. home reversion plan.
C. lifetime mortgage.
D. right-to-buy mortgage.

76. Emily's capital and interest mortgage is coming to the end of its 25-year term, but she now intends to sell the property. The lender will be taking 20% of the sale price because she had

A. a foreign currency mortgage.
B. a lifetime mortgage.
C. an Islamic Home Purchase Plan.
D. a shared appreciation mortgage.

77. The Ijara method used by Islamic Home Purchase Plan providers involves a

A. loan taken out on a property at preferential interest rates for the full term of the loan.
B. provider arranging for the customer to have legal ownership of a property at outset and the customer paying the provider an agreed price as a lump sum at the end of 30 years.
C. property being purchased by the provider who then immediately sells it to the customer at a higher price, which is then repaid over a set term.
D. property being purchased by the provider and then leased back to the customer for a set period, after which time it legally belongs to them.

78. What does an equity release remortgage achieve?

A. It allows an individual to repay the mortgage loan if the equity market performs well during the mortgage term.
B. It allows an individual whose mortgage exceeds the value of his home to move by transferring the deficit to the mortgage on his new home.
C. It allows the release of a joint mortgagor from the obligations of the mortgage and the rights to participate in any equity.
D. It provides a cash lump sum to an individual who has sufficient value in his home over and above any mortgage loan.

79. Sanira has a flexible mortgage. **Typically**, what option exists, if any, for Sanira to draw down a further sum of money subject to affordability assessment?

A. No such option is likely to exist.
B. Any further draw down will be secured by a second charge.
C. Any further draw down will always be subject to a minimum amount of £25,001.
D. The sum available as a draw down option is likely to be pre-agreed at initial mortgage offer stage.

80. A lender offers a 1% discount on its variable rate for the first year of a 30-year mortgage. What happens to this loss of interest during that first year?

A. It is added to the repayments and spread over the remaining 29 years.
B. It is added to the repayments in the second year.
C. It is charged at the end of the mortgage term.
D. It is waived in its entirety.

81. What is the **main** feature of a capped-rate mortgage?

A. The interest rate cannot increase above a given level.
B. The interest rate cannot vary for a fixed period of time.
C. The interest rate will increase each time the lender increases its variable rate.
D. The interest rate is discounted for an initial period.

82. Martin and Julie, who both live and work in London, have decided to purchase a chalet in Switzerland for their own holiday occupation. In order to avoid any exchange rate risk on the repayments, the currency of the mortgage loan should be in

A. dollars.
B. euros.
C. francs.
D. sterling.

83. Corrine has a capped and collared mortgage based on rates of 5.65% and 3.85%. The standard variable rate (SVR) on which this deal is based starts at 4.15%. If during the capped and collared period the SVR rises by 0.55% and then falls three times, each time by 0.35%, what rate will subsequently be charged?

A. 3.70%
B. 3.85%
C. 4.00%
D. 4.15%

84. What specific contract condition **normally** accompanies a discounted rate mortgage with a cash back to pay fees, in order to protect the mortgage lender?

A. A collared rate.
B. An early repayment charge.
C. An end of initial period reconciliation adjustment.
D. A subrogation clause.

85. **Typically** when is a mortgage loan released to an individual looking to build their own home?

A. At pre-set monthly intervals.
B. Following successful local authority inspections.
C. In accordance with predetermined building completion points.
D. Once full planning permission has been approved.

86. How, if at all, does the interest rate on a fixed-rate mortgage vary during the fixed period?

A. It will increase and decrease as the variable rate fluctuates.
B. It will increase as the variable rate increases, but will not decrease.
C. It will decrease as the variable rate decreases, but will not increase.
D. It will not vary until the end of the fixed-rate period.

87. Rick, an additional-rate taxpayer, has an offset mortgage of £100,000. How, if at all, will he benefit from holding £20,000 in a savings account linked to his mortgage account?

A. As an additional-rate taxpayer he will not benefit at all.
B. He will pay interest on his mortgage based on a net balance of £80,000.
C. He will receive interest on his savings account free of all taxes.
D. Savings interest above his personal savings allowance will only be taxed at 20%.

88. At the time of taking out a loan, a borrower is **most likely** to benefit from a fixed-rate mortgage when interest rates are

A. high and there is a long fixed-rate term.
B. high and there is a short fixed-rate term.
C. low and there is a long fixed-rate term.
D. low and there is a short fixed-rate term.

89. What is a tracker-rate mortgage **most likely** to track?

A. The Bank of England base rate.
B. The National Average Earnings Index.
C. The Retail Prices Index.
D. Short-dated gilts.

90. Ethel has a full home reversion plan. Who will be responsible for the eventual sale of the property on her death?

A. Her executors only.
B. Her family only.
C. The home reversion provider only.
D. Her executors and the home reversion provider jointly.

91. Which type of mortgage is **most popular** with buy-to-let investors?

A. A capital and interest mortgage.
B. An interest-only mortgage.
C. An ISA-linked mortgage.
D. A pension-linked mortgage.

92. Steve has a capped and collared interest-only mortgage at rates of 8% and 5% respectively for the next three years with a mortgage loan of £100,000. The lender's variable rate recently changed from 5.15% to 4.80%. What can Steve expect to pay during the next year if there are no further changes?

A. £4,800
B. £5,000
C. £5,150
D. £8,000

93. Which type of policy **CANNOT** be assigned to a mortgage lender?

A. A critical illness insurance policy.
B. A level term assurance policy.
C. A non-profit endowment policy.
D. A personal pension policy.

94. Simon has an interest-only mortgage which he plans to repay from the proceeds of a low-cost endowment policy. Who is **ultimately** responsible for checking that the policy is on target to repay the loan in full at maturity?

A. The endowment provider.
B. The lender.
C. The mortgage adviser.
D. Simon.

95. Harold has arranged an interest-only mortgage to be repaid from the proceeds of his personal pension plan. The pension fund value is projected to be £300,000 at his retirement. The **maximum** lump sum he can take from his personal pension, free of all taxes, based on this projection would be

A. £75,000
B. £150,000
C. £225,000
D. £300,000

96. A 25-year capital and interest repayment mortgage has daily interest applied. Assuming all due payments are made and there is no change in interest rates, what happens to the capital element of the total monthly payments between years 11 and 12?

A. It will decrease.
B. It will increase.
C. It is not possible to determine what happens.
D. It will stay the same.

97. Last year Leah arranged an interest-only mortgage over a term of 20 years. She plans to repay the mortgage from her stocks and shares ISA. Under the rules contained in the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB), when, if at all, **must** her lender check on the progress of her investments?

A. They must make one check on the progress during the mortgage term.
B. They must check on the progress at least once every five years during the mortgage term.
C. They must check on the progress once during the first fifteen years and annually for the last five years.
D. If they checked the progress at outset, no further checks are required.

98. David takes out an interest-only mortgage on a standard variable rate. Assuming interest rates remain constant, the repayments in the second year would

A. mainly consist of capital repayments with a minimal amount of interest charged.
B. mainly consist of interest charges with a minimal amount of capital being repaid.
C. remain the same.
D. reduce to reflect the interest paid in the first year.

99. Priya is a higher-rate taxpayer with an interest only mortgage. What is the **main** advantage to Priya of using a stocks and shares ISA to repay her mortgage?

A. Dividends received within the ISA are taxed at a rate of 20%.
B. Higher rate tax relief may be claimed on any contributions paid into the ISA.
C. The investment proceeds may be withdrawn with income tax deducted at a nominal rate of 10%.
D. The ISA investment proceeds may be withdrawn without liability to income tax and capital gains tax.

100. Jason has an interest-only mortgage loan, which is to be partly repaid by a low-cost endowment policy. The balance will be repaid from a stocks and shares ISA. He has also effected a mortgage payment protection policy. Which of these arrangements, if any, may be assigned to the mortgage lender?

- **A.** None of the arrangements may be assigned.
- **B.** The stocks and shares ISA only.
- **C.** The low-cost endowment policy only.
- **D.** The mortgage payment protection policy only.

SECTION B

Michelle, aged 40, has recently divorced her husband, Terry, and has retained the former marital home. She has agreed to raise the sum of £10,000 to repay Terry for his share in the property. She will then own the property in her sole name.

Michelle is employed as a training manager and has a basic salary of £45,000 with regular overtime of £4,000 and last year's performance bonus of £10,000. She has a car loan of £150 per calendar month and owes £4,000 on this loan. She also has a credit card with a balance outstanding of £5,000.

Terry, aged 50, has no savings available to use as a deposit for a new home, but has sufficient money to cover the fees, taxes and expenses. He plans to use all of the money that Michelle will pay him as his deposit, with no other money being available. He is employed as an account manager with a salary of £70,000. He has no loans or credit card debts and will **NOT** pay maintenance to Michelle.

Michelle would like to remortgage the former marital home, which is valued at £200,000. They currently owe £90,000 on their joint mortgage and there is no early repayment charge outstanding. The current charging rate is 4.5% variable. Michelle is cautious in her attitude to risk and would like to make sure that her mortgage is repaid at the end of the term. She would like a guarantee that rates will **NOT** increase for at least two years and wishes to keep her monthly payments to a minimum.

Terry has considered two new houses to purchase and would like mortgage advice. House X is priced at £110,000. House Y is priced at £95,000. He has a balanced attitude to risk and believes interest rates will remain static for some time to come. He is prepared to consider all rate options and even speculates that rates could fall.

101. Using the lender's criteria on page 42, which of the two houses, if either, could Terry afford to purchase based on his current circumstances?

- **A.** Neither of the houses.
- **B.** House X only.
- **C.** House Y only.
- **D.** Both of the houses.

102. The **most suitable** repayment method for Michelle's new mortgage would be

- **A.** a capital and interest mortgage.
- **B.** an interest-only mortgage.
- **C.** an ISA-linked mortgage.
- **D.** a pension-linked mortgage.

103. Using the list of mortgage products on page 43, which mortgage product would be the **most suitable** for Michelle?

- **A.** Capped rate at 4.5% for three years.
- **B.** Fixed rate at 2.99% for two years.
- **C.** Fixed rate at 4.99% for five years.
- **D.** Flexible offset mortgage.

104. If Michelle proceeds with her plans to remortgage the property, what formal arrangement will take place in respect of Terry's interest in their former home?

- **A.** A further advance.
- **B.** A right of redemption.
- **C.** A second charge.
- **D.** A transfer of equity.

105. Using the lender's criteria on page 42, and considering Michelle's income and committed expenditure, what surplus income figure, **net** of committed expenditure would the lender consider when assessing affordability?

- **A.** £42,200
- **B.** £47,200
- **C.** £49,950
- **D.** £54,200

Glenn, aged 42, is engaged to Rachel, aged 40. He is a sales manager with a salary of £56,000, guaranteed overtime of £5,000 and a regular bonus in the last tax year of £10,000. Rachel is a self-employed graphic designer with accounts for the last tax year showing net profits of £14,400. The previous two tax years, working backwards, showed net profits of £16,500 and £9,981 respectively. Glenn has a personal loan with fourteen months remaining and a monthly cost of £200.

Glenn has agreed the sale of his current home for the sum of £140,000 and he owes £50,000 on his mortgage. This mortgage is on a standard variable rate with no early repayment charges and is established on a capital and interest basis.

They have found a new home to purchase for the sum of £510,000. They have the equity from the sale of Glenn's home together with £250,000 from the sale of Rachel's former home. They wish to retain a sum of £30,000 for the payment of fees. Neither Glenn nor Rachel own any other property.

Rachel has a personal pension plan with a current fund value of £50,000 and an illustrated maturity value of £400,000 at age 65. She is interested in using this for the part repayment of their new mortgage. They both have an adventurous attitude to risk and believe that interest rates will fall in the near future.

They would like to protect the mortgage debt in case either of them should pass away or suffer from serious ill health. They have also agreed that the ownership of the new house should be established in such a way that Rachel can leave her share of the house to her young son, Ryan.

106. If Glenn and Rachel were to succeed with a reduced offer of £500,000 on their new home, how much Stamp Duty Land Tax would they save?

A. £300
B. £400
C. £500
D. £5,400

107. If Rachel pursues her plans to use her personal pension to repay part or all of the new mortgage, what **maximum** amount, free of all taxes, could be withdrawn from her personal pension plan, based on the illustrated maturity value?

A. £62,500
B. £100,000
C. £250,000
D. £400,000

108. To comply with Rachel and Glenn's request to ensure that Ryan is protected should Rachel pass away, how should ownership of the property be established?

A. As joint tenants.
B. As tenants in common.
C. In Glenn's sole name with Rachel as guarantor.
D. In Rachel's sole name with Glenn as guarantor.

109. Using the lenders criteria on page 42, and considering Glenn and Rachel's total combined income and committed expenditure, what surplus income figure, **net** of committed expenditure would the lender consider when assessing affordability?

- **A.** £77,127
- **B.** £77,227
- **C.** £79,627
- **D.** £80,400

110. Considering all of Glenn and Rachel's circumstances and their available deposit, how much would they need to borrow by way of a mortgage to purchase their new home if they have to pay the full asking price?

- **A.** £120,000
- **B.** £150,000
- **C.** £170,000
- **D.** £200,000

Jemima responded to a mortgage advertisement in her local newspaper and was contacted by telephone by a member of the mortgage lender's staff. They have arranged a personal visit and confirmed by email.

Jemima currently rents a flat but is now looking to buy her first home. She has £15,000 in savings, of which she plans to use £10,000 as a deposit leaving £5,000 to cover the costs and to keep a cash reserve.

Jemima earns £32,000 per annum as a human resources officer. From the end of this month, her employer is introducing a bonus scheme that will pay 2% of her salary if company earnings exceed a pre-agreed level. She may also get a salary increase of £2,000 in six month's time, if she is promoted. In addition, she is employed in a local shop, where she earns £5,000 per annum.

Jemima is looking at properties priced at around £100,000 and is currently viewing two flats. Flat A is freehold and is valued at £110,000, while flat B has a 98-year lease remaining and is valued at £99,000.

Jemima's only borrowings are two credit cards, on which she currently owes £3,000 combined.

111. Using the lender's criteria on page 42, when assessing affordability, what income figure, before deducting expenditure, will the lender use?

A. £32,000
B. £33,000
C. £37,000
D. £39,000

112. Using the lender's criteria on page 42, what amount will the lender consider as annual committed expenditure when determining affordability for the mortgage?

A. Nil.
B. £1,800
C. £3,000
D. £8,000

113. What would be the **primary** reason that flat A would be **less** attractive security than flat B for Jemima's mortgage lender?

A. Flat B has a 98-year lease.
B. It is a freehold flat.
C. The loan to value ratio will be lower.
D. The responsibility for common repairs will be set out.

114. If Jemima were to buy flat B using her intended deposit, using the lender's criteria on page 42 what higher lending charge would she have to pay?

A. £1,143.13
B. £1,253.75
C. £1,534.50
D. £2,103.75

115. What aspects of Jemima's dealings with the lender, if any, are covered by the Financial Conduct Authority's rules on real time qualifying credit promotion?

A. Personal visits, telephone conversations and other interactive dialogue.
B. Web-based interactive dialogue only.
C. Telephone conversations only.
D. None.

Lorraine is self-employed and has run her music shop from rented premises since 1998. Her accounts are up to date and her net profits for the last three years have been £70,000, £65,000 and £72,000. Lorraine has a personal loan for £2,400, with payments of £200 per month, and 12 months remaining.

Lorraine has the opportunity to buy the freehold premises from which she trades for £150,000 and is considering raising the finance by remortgaging her detached house. At present, Lorraine has a £50,000 interest-only mortgage at a fixed rate of 6%. The house is currently valued at £230,000 and has a reinstatement value of £190,000.

If Lorraine redeems her mortgage now, she will be subject to an early repayment charge of 2% of the mortgage, or six months' interest if greater.

Lorraine does **NOT** want to use any of her savings to buy the shop and is keen to **minimise** her mortgage payments for the next two years, during which time she expects interest rates to rise before falling again.

116. Lorraine has decided to arrange a £200,000 remortgage, using the **most suitable** two year fixed rate from the list of mortgage products on page 43. **Ignoring** any early repayment charges, all fees, insurances, and mortgage repayment vehicles, her **total** mortgage interest costs over the two-year period would be

A. £5,980
B. £7,980
C. £11,960
D. £15,960

117. If Lorraine redeems her mortgage now, what early repayment charge will she have to pay?

A. £1,000
B. £1,500
C. £3,000
D. £4,600

118. What is the **main disadvantage** to Lorraine of buying her freehold business premises in the way that she is considering?

A. Buildings insurance premiums on the house will increase significantly.
B. Selling the business in the future would also mean selling her home.
C. She risks losing her home if she cannot meet the mortgage payments.
D. The interest rate payable will be higher than on a commercial mortgage.

119. Using the lender's criteria on page 42, in the affordability assessment undertaken by the lender, what amount, if any, is currently considered as annual committed expenditure?

A. £Nil.
B. £200
C. £2,000
D. £2,400

120. What type of life assurance policy would be **most suitable** to protect Lorraine’s current mortgage loan?

A. A decreasing term assurance policy.
B. An increasing term assurance policy.
C. A level term assurance policy.
D. A mortgage payment protection policy.

Maurice is divorced and now lives with his new partner, Jane. He works as a sales manager with a basic salary of £50,000 per annum and annual bonuses which have hit the annual **maximum** of £10,000 in each of the last three years. He makes monthly maintenance payments of £150 to his ex-wife, Linda, and retains an interest in the former martial home, although there is no mortgage outstanding. This property will be retained by Maurice and his ex-wife, in joint names, for at least a further five years until their children reach the age of 18. Jane is employed as a trainee accountant earning £15,000 per annum and hopes to qualify within the next two years.

Maurice and Jane have found their ideal house, which will cost £125,000. They require a mortgage and have concluded that their **primary** need is to keep the monthly costs to the **lowest** possible level to cover the period until Jane qualifies.

They are strongly considering using a personal pension, set up in Maurice's name, to fund the mortgage loan and are looking into the pros and cons of this approach. The pension has a current fund value of £300,000 and Maurice has 15 years to normal retirement age.

Maurice and Jane are concerned about protecting the mortgage should either of them pass away. They also wish to protect their payments in the short term should either of them lose their income from sickness or redundancy.

Maurice and Jane have total savings of £20,000, and they are willing to use £15,000 of this amount as a deposit.

121. Using the lender's criteria on page 42, if Maurice and Jane use their planned amount of savings as a deposit, and raise a mortgage for the remaining amount, what higher lending charge will they pay?

A. £775.00
B. £1,137.50
C. £1,259.38
D. £1,300.00

122. How much, if anything, should Maurice and Jane budget for the cost of Stamp Duty Land Tax on their ideal house?

A. Nil.
B. £1,250
C. £1,875
D. £3,750

123. Using the lender's criteria on page 42, what is the **minimum** amount that Maurice and Jane **must** pay as a deposit towards their ideal house in order to avoid incurring a higher lending charge on their mortgage?

A. £6,250
B. £12,500
C. £18,750
D. £31,250

124. Using the list of mortgage products on page 43 and assuming that they use their intended savings as a deposit, which is the **most suitable** mortgage product for Maurice and Jane?

A. Capped rate of 5.25% for five years.
B. Fixed rate at 2.99% for two years.
C. Fixed rate at 3.99% for two years.
D. Fixed rate at 4.99% for five years.

125. To fully protect the mortgage and meet Maurice and Jane's desired needs, what protection policies would be **most suitable**?

A. Level term assurance with critical illness cover.
B. Mortgage protection with income protection insurance.
C. Mortgage payment protection insurance and level term assurance.
D. Mortgage payment protection insurance and mortgage protection.

<table>
<tr><td>Maximum loan to value</td><td colspan="2">90% of the purchase price or valuation, whichever is the lower.</td></tr>
<tr><td>Self-employed applicants</td><td colspan="2">For income purposes, take the higher of the average of the last three years' actual net profit or the latest actual net profit figure if the net profit figure progressively increases year on year.</td></tr>
<tr><td>Other income</td><td colspan="2">Guaranteed overtime, i.e. employer will confirm in writing that it is guaranteed - take 100%.

Regular overtime, i.e. not confirmed as guaranteed, but evidenced by payslips, P60 etc - take 50%.

Where an applicant has two sources of income, the full value of both income amounts may be used.

Car allowance - take 100% providing it is contractual.

Bonuses - use 50% of confirmed bonus for the previous tax year.</td></tr>
<tr><td>Committed expenditure</td><td colspan="2">Committed expenditure should be deducted from annual income when considering affordability, using the following criteria:
• For loans, the annual cost of repayments is the committed expenditure amount.
• For credit cards, assume a 5% monthly payment of the balance outstanding as committed expenditure.
• For maintenance payments, the annual cost of payments is used as committed expenditure.
• If an existing mortgage is to remain in place, the monthly payments must be taken into account as committed expenditure.</td></tr>
<tr><td>Other</td><td colspan="2">• Leasehold properties must have 25 years left to run after the term of the mortgage has expired.</td></tr>
<tr><td rowspan="4">Higher lending charge</td><td>• Up to and including 85% of valuation</td><td>Nil.</td></tr>
<tr><td>• 85.01% to 87.49% of valuation</td><td>7.0% of the amount of the loan over 75% of the valuation.</td></tr>
<tr><td>• 87.5% to 90.0% of valuation</td><td>7.75% of the amount of the loan over 75% of the valuation.</td></tr>
<tr><td>• Loans above 90% (where available)</td><td>8.50% of the amount of the loan over 75% of the valuation.</td></tr>
</table>

LIST OF MORTGAGE PRODUCTS

Type	Interest Rate	Maximum Loan to Value (excluding higher lending charge)	Completion Fee	Early Repayment Charge Period	Early Repayment Charges
Standard variable rate	5.70%	90%	Nil	Nil	Nil
Lifetime discount	4.50%	80%	£300	Nil	Nil
Fixed rate for two years	3.99%	90%	£300	Two years	3%
Fixed rate for two years	2.99%	60%	£500	Two years	4%
Fixed rate for five years	4.99%	90%	£350	Five years	5%
Tracker rate for three years	3.5% ≈	80%	£500	Three years	3%
Discounted rate for two years	3.95% (1.75% off standard variable)	90%	Nil	Two years	3%
Capped rate for three years	4.50%	90%	£300	Three years	4%
Capped rate for five years	5.25%	90%	£350	Five years	4%
Flexible offset mortgage*	4.70%	80%	Nil	Nil	Nil

*** Flexible offset mortgage**

- Daily interest.
- Up to two payment holidays per year.
- Regular overpayments of any amount.
- Lump-sum overpayments – minimum £500 per overpayment.
- Borrow back overpayments – minimum £1,000 per withdrawal.
- Offsetting of saving account interest applies.

≈ Tracker Rate

- Rate shown is the charging rate - inclusive of Bank of England base rate plus percentage margin.

STAMP DUTY LAND TAX

	Residential
Value up to £125,000	0%
£125,001 - £250,000	2%
£250,001 - £925,000	5%
£925,001 - £1,500,000	10%
£1,500,001 and over	12%

Important Note: For residential properties purchased between 8 July 2020 and 31 March 2021, Stamp Duty Land Tax (SDLT) does not apply up to £500,000. For purchases above £500,000, the band rates above apply as normal. Additional SDLT rules still apply as below.

- *Stamp Duty Land Tax (SDLT) is payable in England and Northern Ireland only. Land Transaction Tax (LTT) is payable in Wales and Land and Buildings Transaction Tax (LBTT) is payable in Scotland. The rates for LTT and LBTT are different to the rates shown above.*
- *Additional SDLT of 3% may apply to the purchase of additional residential properties purchased for £40,000 or greater.*
- *SDLT may be charged at 15% on interests in residential dwellings costing more than £500,000 purchased by certain corporate bodies or non-natural persons in some circumstances.*
- *First-time buyers benefit from SDLT relief on purchases up to £500,000 when purchasing their main residence. On purchases up to £300,000, no SDLT is payable. On purchases between £300,000 and £500,000, a flat rate of 5% is charged on the balance above £300,000.*
- *Additional rates of LBTT and LTT apply in Scotland and Wales respectively for the purchase of additional residential properties. First-time buyers benefit from LBTT relief in Scotland. There is no LTT relief for first-time buyers in Wales.*

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome
Standard Format Section		
Learning Outcome 1		
1	A	1.2
2	C	1.2
3	C	1.1
4	D	1.2
5	C	1.3
6	A	1.2
6 Questions		
Learning Outcome 2		
7	B	2.1
8	A	2.2
9	B	2.2
10	C	2.1
11	A	2.1
12	C	2.3
13	C	2.1
14	A	2.2
15	A	2.3
16	C	2.1
10 Questions		
Learning Outcome 3		
17	B	3.1
18	A	3.3
19	D	3.1
20	D	3.2
21	A	3.2
22	A	3.2
23	A	3.2
24	C	3.3
25	D	3.1
26	B	3.1
27	A	3.2
28	C	3.1
12 Questions		
Learning Outcome 4		
29	C	4.4
30	C	4.1
31	D	4.3
32	B	4.2
33	B	4.1
34	D	4.3
8 Questions		
Learning Outcome 5		
35	B	5.1
36	C	5.1
2 Questions		

Question	Answer	Learning Outcome
Learning Outcome 6		
37	B	6.1
38	D	6.2
39	A	6.3
40	C	6.3
41	D	6.4
42	A	6.3
6 Questions		
Learning Outcome 7		
43	B	7.1
44	A	7.2
45	D	7.1
46	A	7.1
47	B	7.2
48	A	7.1
6 Questions		
Learning Outcome 8		
49	A	8.1
50	C	8.1
51	C	8.1
52	A	8.1
53	D	8.1
54	C	8.2
6 Questions		
Learning Outcome 9		
55	B	9.1
56	D	9.2
57	C	9.1
58	B	9.2
59	B	9.2
60	C	9.2
61	D	9.2
62	A	9.2
8 Questions		
Learning Outcome 10		
63	C	10.1
64	B	10.1
2 Questions		
Learning Outcome 11		
65	C	11.3
66	D	11.2
67	D	11.1
3 Questions		
Learning Outcome 12		
68	D	12.1
69	D	12.1
70	D	12.1
71	A	12.2
4 Questions		

Question	Answer	Learning Outcome
Learning Outcome 13		
72	D	13.1
73	C	13.1
74	C	13.1
3 Questions		
Learning Outcome 14		
75	A	14.1
76	D	14.1
77	D	14.1
78	D	14.1
79	D	14.2
80	D	14.2
81	A	14.2
82	D	14.1
83	B	14.2
84	B	14.2
85	C	14.1
86	D	14.2
87	B	14.2
88	C	14.2
89	A	14.2
90	C	14.1
91	B	14.1
92	B	14.2
18 Questions		
Learning Outcome 15		
93	D	15.2
94	D	15.2
95	A	15.1
96	B	15.1
97	A	15.1
98	C	15.1
99	D	15.1
100	C	15.2
8 Questions		

Question	Answer	Learning Outcome
Scenario Section		
Learning Outcome 16		
101	C	16.1
102	A	16.1
103	B	16.1
104	D	16.1
105	B	16.1
106	C	16.1
107	B	16.1
108	B	16.1
109	B	16.1
110	D	16.1
111	C	16.1
112	B	16.1
113	B	16.1
114	A	16.1
115	A	16.1
116	D	16.1
117	B	16.1
118	C	16.1
119	D	16.1
120	C	16.1
121	C	16.1
122	A	16.1
123	C	16.1
124	C	16.1
125	C	16.1
25 Questions		