

Lifetime Mortgage and Home Reversion Plan procedures

Includes

- **Guidance notes on Lifetime Mortgages and Home Reversion Plans**
- **Flow chart of the process involved**
- **Lifetime Mortgage Attitude Questionnaire**
- **Lifetime Mortgage Approval Form**
- **Items to be included in the suitability letter**
- **Checklist to confirm client's understanding**
- **Lifetime Mortgage Checklist**
- **Lifetime Mortgage Log**
- **Lifetime Mortgage reporting form**

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Lifetime Mortgage Definition

a *regulated mortgage contract* under which:

(a) entry into the mortgage is restricted to older *customers* above a specified age; and
(b) the *mortgage lender* may or may not specify a mortgage term, but will not seek full repayment of the loan (including interest, if any, outstanding) until the occurrence of one or more of the following:

(i) the death of the *customer*; or

(ii) the *customer* leaves the mortgaged land to live elsewhere and has no reasonable prospect of returning (for example by moving into residential care); or

(iii) the *customer* acquires another dwelling for use as his main residence; or

(iv) the *customer* sells the mortgaged land; or

(v) the *mortgage lender* exercises its legal right to take possession of the mortgaged land under the terms of the contract.

and

(c) while the *customer* continues to occupy the mortgaged land as his main residence:

(i) no instalment repayments of the capital and no payment of interest on the capital (other than interest charged when all or part of the capital is repaid voluntarily by the *customer*), are due or capable of becoming due; or

(ii) although interest payments may become due, no full or partial repayment of the capital is due or capable of becoming due; or

(iii) although interest payments and partial repayment of the capital may become due, no full repayment of the capital is due or capable of becoming due.

Lifetime mortgages and Home Reversion Plans

When advising a *customer* who is considering a Lifetime Mortgage or Home Reversion Plan, we have to:

- start by assuming it will not be suitable; and
- Only then consider it to be suitable if it can clearly demonstrate on the evidence available at the time that it is in the *customer's* best interests.

When we are recommending a *customer* to take a Lifetime Mortgage or Home Reversion Plan, the *suitability letter* must include:

- a clear explanation why taking the Lifetime Mortgage or Home Reversion Plan is the most suitable means of raising money for the client, having considered client assets, other possible sources of finance, family circumstances and possible effects on any state benefits or allowances.
- a request for the *customer* to contact the *firm* immediately should clarification or further information be needed or if the letter does not match the *customer's* understanding of why the Lifetime Mortgage or Home Reversion Plan has been recommended;
- a statement to the effect that the *firm* has relied on information supplied by the *customer* and the product provider;
- Particularly with Lifetime Mortgages, an arithmetical analysis setting out the financial implications of taking out a mortgage on a property.

The “better off” test

- The *customer* needs to be certain that they will be better served by taking out a Lifetime Mortgage or Home Reversion Plan than by not doing so.
- One major consideration is the potential loss of State Benefits. Some benefits are means-tested on the basis of savings, so they will be lost automatically on the generation of a capital sum that exceeds the means test threshold.
- The right to certain grants for home improvements and environmentally friendly modifications may also be affected by the individual’s level of savings.

The advice process

Before advice can be given it is necessary to obtain information from the *customer*.

- Perceived needs.
- The customer’s personal circumstances.
- Income and expenditure.
- Liabilities and assets.
- Tax position.
- Entitlement to State benefits and grants.
- Likely future changes to the above factors.
- Lifestyle factors.
- Attitudes and preferences.

Virtually all Lifetime Mortgages and Home Reversion Plans affect the eventual value of the estate left behind when the borrower dies.

The customer’s family should be involved in the advice process.

Arranging and suitable advice

Suitability

The firm (Simpsons of Brighton IFA and any appointed representatives) must take reasonable steps to ensure that any personal recommendation to a customer to enter into (or vary) a mortgage or equity release transaction is suitable for that customer.

We should recommend, out of all the appropriate mortgages or equity release transactions, the transaction that is the least expensive for the customer, taking into account those pricing elements identified by that customer as most important. Firms may, however, make recommendations that take account of other grounds such as speed or quality of service of the product provider.

We must not make a recommendation if there is no appropriate product within the scope of service provided.

A product (or variation of it) will be suitable if we have reasonable grounds to conclude that:

- Where relevant, the customer can afford to enter into (or vary) it.
- It is appropriate to the customer's needs and circumstances.
- It is the most suitable of those the firm has available to it within the scope of service provided to the customer.
- For an equity release transaction:
 - The customer benefits outweigh any adverse effect on any customer entitlement to means-tested benefits and the customer's tax position (e.g. loss of an age allowance); and
 - Alternative fundraising methods are less suitable, such as, in particular, a home reversion plan (where a lifetime mortgage is recommended), a lifetime mortgage (where a home reversion plan is recommended) and, where relevant, a local authority or other grant.

This conclusion must be reached having regard to the facts disclosed by the customer and other relevant facts about the customer of which we are or should reasonably be aware.

Affordability

In assessing whether a customer can afford to enter into a particular transaction, we:

- must explain to the customer that the assessment is based on:
 - current interest rates, which might rise in future; and
 - the customer's current circumstances, which might change in future; and
- should give due regard to:
 - information that the customer provides about his income and expenditure, and any other resources that he has available;
 - any likely change to these; and
 - the costs that the customer must meet after any discount period ends (assuming unchanged interest rates).

Debt consolidation

If the customer's main purpose in entering into or varying a transaction is debt consolidation, we must take account of the following, where relevant, in assessing suitability:

- Costs associated with increasing the repayment period.
- Appropriateness of the customer securing an unsecured loan.
- If we know the customer has payment difficulties, whether it would be more appropriate for an arrangement to be negotiated with the customer's creditor than to take out a mortgage.

Appropriateness: standard mortgages

In assessing whether a mortgage is appropriate to the customer's needs and circumstances, we should give due regard to the following:

- Whether the lender's eligibility criteria are met.
- Whether an interest-only or repayment mortgage (or a combination) is appropriate.
- Any customer preference for a particular term.
- Any customer need or preference for stability in payment amounts, especially having regard to the impact of future significant interest rate changes.
- Any customer preference or need for reduced initial payments.

- Any customer intention to make early repayments.
- Any customer preference or need for other features (e.g. payment holidays).

Means-tested benefits and customer's tax position: equity release transactions

If we have insufficient knowledge of means-tested benefits and tax allowances to reach a conclusion on whether customer benefits of the transaction would outweigh adverse effects, it must refer the customer to appropriate sources to establish the information (e.g. the Pension Service, HM Revenue and Customs, or Citizens Advice Bureau). If a customer declines to seek the further information, we can still make a personal recommendation where there is an equity release transaction appropriate to the customer's needs and circumstances.

We must confirm to the customer in writing or another durable medium the basis for making the personal recommendation.

Alternative methods of finance: equity release transaction

In determining whether an equity release transaction from the other market sector is less suitable, and the appropriateness of the product recommended, we must consider the following:

- Whether the product provider's eligibility criteria are met.
- Customer's preferences for his estate.
- Customer's health and life expectancy.
- Customer's future plans and needs (e.g. likely need for further funds, or to move house).
- Where relevant, any customer preference or need for stable payment amounts, especially having regard to the impact of future significant interest rate changes.
- Any customer preference or need for other features.

If a customer rejects our conclusion that an alternative method of raising funds is more suitable, it can still make a personal recommendation where there is an equity release transaction appropriate to the customer's needs and circumstances. We must confirm to the customer in writing or another durable medium the basis for making the personal recommendation.

Rejected recommendations

If a customer has rejected all of our personal recommendations, and requested information instead on an unsuitable product, we can provide that information if:

- it issues a new IDD or CIDD to show that the sale is non-advised; and
- complies with the rules below on non-advised sales.

Product information

These rules seek to ensure that, before submitting an application for a mortgage or home reversion plan, a customer receives information on the product's features and price, and on any linked or tied products.

They also seek to ensure that this information is provided when a customer applies to a broker for a further advance, to switch interest rates, or to add or remove a party to a standard mortgage, or for a further release on a home reversion plan.

This information is contained in a keyfacts illustration, or KFI. A provider cannot enter into a mortgage or home reversion plan unless the customer has submitted an application for that product. This gives the customer the opportunity to check that the product is affordable and appropriate.

These rules also apply to post-sale changes to payments due.

Restriction on provision of information other than in a KFI

We must not provide a customer with information that is specific to the amount that the customer wants to borrow or release except in the following circumstances:

- It is in the form of a KFI.
- It is provided on screen, for example a computer screen.
- Supplementary information which is not contained within a KFI is provided after or at the same time as a KFI.
- It is provided orally, for example by telephone.

When such information is provided on-screen or orally, we must provide the means for the customer to obtain a KFI as soon as practicable, through a delivery channel acceptable to the customer.

But we do not need to provide a KFI if the customer refuses to disclose key information (for example, his contact details) or where the provision of a KFI is not appropriate (for example, because the customer is not interested in pursuing the enquiry).

Supplementary information must not be provided if it significantly duplicates information provided in the KFI.

Providing a KFI

This rule applies in relation to applications for and personal recommendations on:

- a particular mortgage or home reversion plan;
- a further advance or switch in interest rates on, or the addition or removal of a party to, a standard mortgage; and
- a further release on a home reversion plan.

The adviser dealing directly with a customer must ensure the customer is, or has been, provided with an appropriate KFI in writing or another durable medium:

- before the customer submits an application to the product provider; and
- when any of the following occurs:
 - we make a personal recommendation to the customer (unless it is made by telephone, in which case we must ensure it is or has been provided within 5 business days);

- we provide written information that is specific to the amount that the customer wants to borrow or release through a particular product; or
- the customer requests written information from us that is specific to the amount that the customer wants to borrow or release on a particular product, unless we do not wish to do business with the customer.

We may comply with this rule by providing an offer document containing a KFI, if this can be done as quickly as providing a KFI.

KFIs where customer ineligible

We must not issue a KFI to a customer for a product for which the customer is clearly ineligible on the basis of the information that we have obtained from the customer or the product provider's criteria.

Uncertainty whether a mortgage is regulated

If, at the point a KFI must be provided, we are uncertain whether the contract will be a regulated mortgage, we can either provide a KFI, or seek further customer information. If we do not have reasonable evidence that the contract is not a regulated mortgage, we must provide a KFI.

Providing further information on tied products

This rule applies if the customer applies for a product which requires payments to be made relating to a tied product.

If the KFI does not contain an accurate quotation or a reasonable estimate of those payments, we must provide the customer with:

- An accurate quotation as soon as possible, and in good time before the offer document is provided.
- A right to withdraw his application for seven days from receipt of that quotation (or acceptance of the mortgage lender or reversion provider's offer if sooner) and receive a refund of any fees paid (excluding arrangement or advice fees).
- A notice with the quotation explaining these rights.

Explaining the importance of a KFI

We must explain to the customer the importance of reading and understanding the KFI.

Customer must have time to consider a KFI

We must not accept fees, commission a valuation, or undertake any other action that commits the customer to an application until the customer has had the opportunity to consider a KFI.

Information that can be requested when a customer asks for written information

This rule applies where the customer requests written information from us that is specific to the customer's requirements on a particular product. To ensure that the customer receives a KFI without unnecessary delay, we must only request the following information:

- Information necessary to ascertain whether or not the product will be a regulated product.
- Information necessary to personalise the KFI.
- Information necessary to produce the KFI (for example, details of the customer's credit record if the terms of the mortgage depend on this, or information regarding relevant tied products).
- Where it affects the availability of the mortgage or affects the information to be included in the KFI, information on:
 - whether the customer is a first-time buyer, a subsequent buyer moving home or is remortgaging without moving home;
 - whether the mortgage is for a right-to-buy or shared ownership purchase;
 - whether the customer needs to self-certify his income;
 - the location of the property to be purchased; and
 - whether the terms are dependent on a third party guarantee.

Where details of the customer's credit record are needed we must ask the customer relevant questions about his credit history or, if quicker or the customer cannot provide sufficient information, obtain the information from a credit reference agency.

Producing a KFI

In producing a KFI, we must personalise it to reflect the following:

- Customer's name.
- Date of the KFI.
- How long the KFI is valid for.
- Any date by which the product needs to commence.
- Specific product in which the customer is interested.
- Amount required, or the amount the customer wishes to draw down or receive on a regular basis.
- Price or value of the property on which the mortgage would be secured, or the equity release amount is based (estimated where necessary).
- Term of a mortgage (if the customer is unable to suggest a date at which he expects to repay the loan, for example in the case of an open-ended secured bridging loan, secured overdraft or mortgage credit card, a term of 12 months must be assumed and this assumption stated).
- Term of an instalment reversion plan.
- Estimated term of a lifetime mortgage or open-ended instalment reversion plan.
- Whether a mortgage is to be interest-only, repayment, or a combination.

A KFI must be in a document separate from any other material provided to the customer. There are other detailed rules on the content of a KFI that are not set out here. A KFI must not contain content other than that required in those rules.

Mortgages: no preference between repayment and interest-only

If the customer expresses no preference between a repayment mortgage and an interest-only mortgage, we must:

- provide a KFI for a repayment mortgage (or an interest-only mortgage if it only provides these); and
- make the customer aware that it has provided the KFI on this basis.

Amount required, or the amount the customer wishes to draw down or receive

In personalising the KFI, the amount required, or the amount to be drawn down or received is one of the following:

- The amount that the customer has asked to borrow, release or draw down.
- If a mortgage is a revolving credit agreement such as a secured overdraft or mortgage credit card:
 - (if it provides for an initial drawdown and linked borrowing facilities that would allow the customer to increase the amount of the loan without any further approval from the mortgage lender) the amount of the initial drawdown; or
 - (in all other cases) the total borrowing that the firm is willing to provide.
- For a standard mortgage, if the loan is to be released in instalments, the total amount of the loan required.
- If, on the basis of the information obtained from the customer, it is clear that the customer would not be eligible to borrow, release or draw down the amount requested, an estimate of the amount that the customer could borrow, release or draw down, based on that information.
- For a lifetime mortgage, or instalment reversion plan, if the amount that can be drawn down is variable, we must agree with the customer an expected amount to be drawn down per year.
- If the KFI relates to a further advance, the amount must be based on the amount to be advanced.

Equity release: estimated term

In estimating the term of a lifetime mortgage or an open-ended instalment reversion plan, we must, subject to using a term of at least fifteen years:

- use the following mortality table: PMA92(C=2010) and PFA92(C=2010) for males and females respectively, derivable from the Continuous Mortality Investigation Report 17, published by the Institute of Actuaries and the Faculty of Actuaries in 1999; and
- for the purposes of the KFI, the term should be rounded up to a whole year.

If the KFI is issued to two or more customers who intend to borrow jointly, or who own the property jointly, the term estimated should be based on the longest life expectancy.

If the customer requests a KFI showing a term of the customer's choice, the KFI must be issued in addition to the KFI showing the term calculated in accordance with these rules. The term chosen should be stated in the KFI.

Accuracy

We must take reasonable steps to ensure that a KFI which is issued on its behalf is accurate. This rule does not apply to a KFI provided to the firm by a mortgage lender or reversion provider.

The rule is subject to the following tolerances:

For mortgages:

- The following amounts must be accurate to within one percent or £1, whichever is the greater, below the actual figures charged by the mortgage lender:
 - total amount payable;
 - amount payable for every £1 borrowed;
 - amounts that the customer must pay by regular instalment, or the amounts of interest charged; and
 - amount by which the regular instalment, the total amount payable for loans without a term or a regular repayment plan, or the estimated amount owed, would increase following a one percentage point increase in interest rates.
- The APR in Section 5 of the KFI cannot be understated by more than 0.1%.

For mortgages and home reversion plans:

- Estimates may be used for conveyancing fees and insurance premiums.

Changes to the amount of payments due

We must give a mortgage customer the following information before any change to the amount of a payment due requested or agreed by a customer post-sale. The information must be provided in a durable medium and a single communication, and may be in the form of a KFI.

- Amount outstanding at the date the change is requested.
- Payment due and frequency of payments.
- Applicable rate of interest.
- Type of interest rate.
- Details of any known changes to the payment due, rate of interest or type of interest rate will change (for example, at the end of a fixed rate period).
- If a mortgage will become interest-only, the prominent text: "You will still owe [X] at the end of the mortgage term. You will need to make separate arrangements to repay this. When comparing the new payments on this mortgage with your previous payments, remember to add any money you may need to pay into a separate savings plan to build up a lump sum to repay the amount you have borrowed."
- Details of any charges that apply for making the changes.

Business loans and further advances

If a mortgage is for a business purpose, we may choose to provide a business illustration instead of a KFI.

Any business illustration provided by us must be limited to facilities provided under a mortgage. There are detailed rules on the content of a business illustration that are not set out here.

If, in relation to a business loan, a customer seeks an immediate increase in borrowing or overdrafts, we must provide within five business days either a business illustration for the new total borrowing, or the following information in a durable medium and a single communication.

- New amount outstanding on the business loan.
- Details of any resulting changes in repayment arrangements or interest rate charged.
- Maximum amount payable for any new or amended early repayment charge.
- Details of any charges that apply for making the changes.

LIFETIME MORTGAGES AND HOME REVERSION PLAN PROCEDURE NOTES

There are additional considerations when transacting Lifetime Mortgage and Home Reversion Plan business. Due to the main considerations and technical aspects of this type of business we have appointed a "Nominated Individual" who is responsible for the vetting of ALL cases of Lifetime Mortgages and Home Reversion Plans.

The term "Lifetime Mortgage" includes all mortgages that would be classified as "Equity Release Loans".

The 'Nominated Individual' is Tony Catt and the FSA has been informed of this.

Validation

ALL Lifetime Mortgages and Home Reversion Plans must be referred to the 'Nominated Individual' BEFORE ANY ADVICE IS GIVEN.

The 'Nominated Individual' will check :

The merits of the proposed transaction and the compliance of the recommendation with the "conduct of business" Rules.

The extent of information collected (because comprehensive information is required to ensure correct advice is being given)

Notification to FSA

The Compliance Officer must report to FSA quarterly after its annual accountancy date if there is an incidence of more than 1% of total transactions for Lifetime Mortgages and Home Reversions Plans separately which fall in the following classifications within the quarter:

- "Execution Only" cases.
- Insistent clients.
- Cases handled exclusively on a correspondence only basis.

Record keeping to demonstrate suitability

We must record:

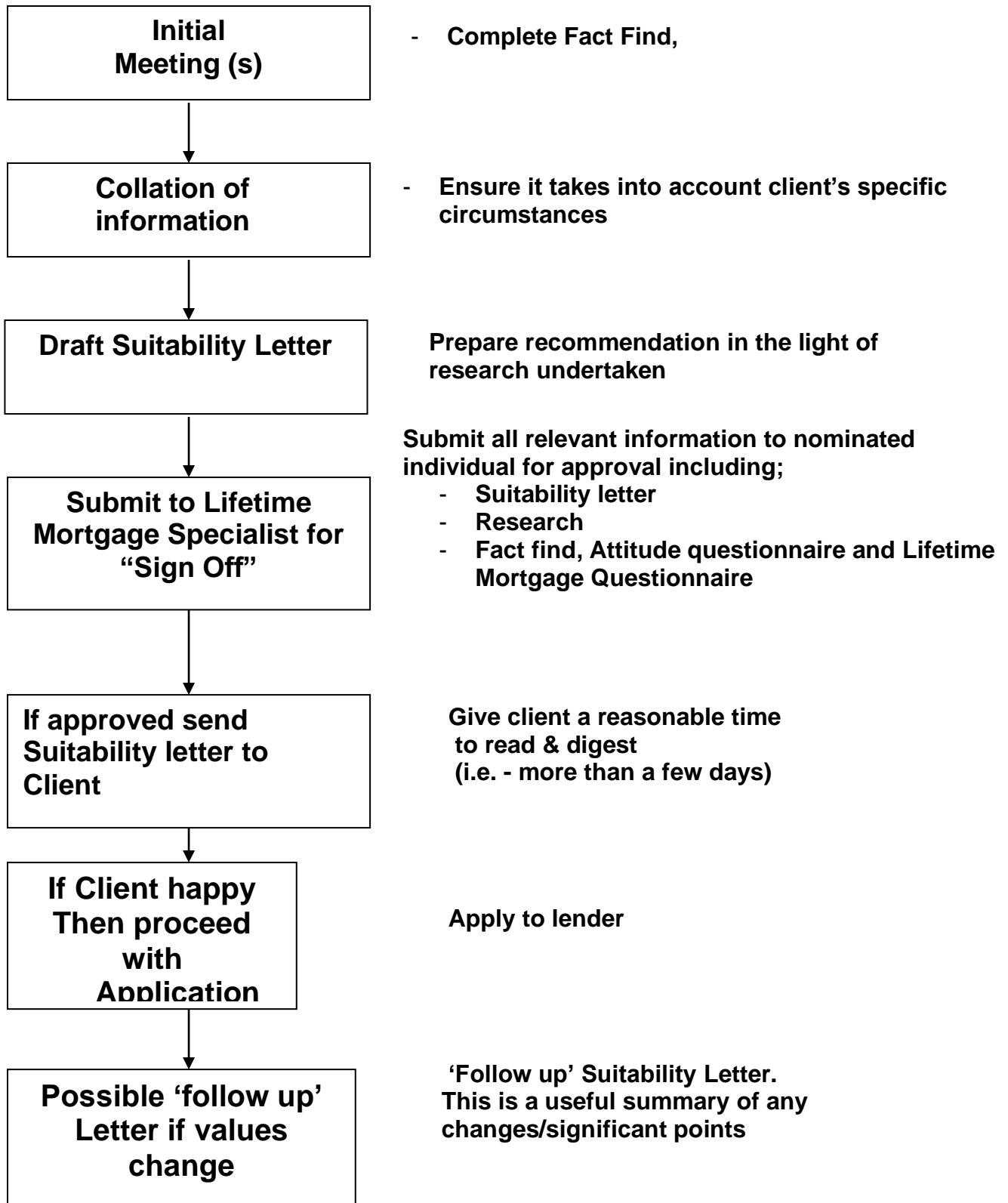
- the customer information obtained for the purposes of an advised sale; and
- why we concluded any personal recommendation given satisfies the suitability requirements (including, where relevant, the reasons for not recommending the least expensive of the products appropriate for the customer).

Records of transactions in relation to Lifetime Mortgages and Home Reversion Plans must be retained at least 3 years or the term of the loan, but probably will be retained indefinitely.

DATE

This update has been produced on 11th December 2007 and will be subject to review in line with changes in legislation and taxation from time to time

LIFETIME MORTGAGES - THE PROCESS



LIFETIME MORTGAGE APPROVAL FORM

CLIENT NAME:

CONSULTANT:

Provider:

Confirmed

A. CLIENT DETAILS – MINIMUM REQUIREMENTS

- 1. Fact-find information complete
- 2. Analysis of current circumstances
- 3. Client requirements analysed:
 - Amount and sources of income
 - Amount and nature of savings and investments
 - Amount of borrowing outstanding
 - Amounts of any benefits or grants received
- 4. Amount of loan required and reason
- 5. Alternative funding options to cover shortfalls
- 6. Choice between Lifetime Mortgage types and Home Reversion Plan
- 7. Health of clients
- 8. Clients attitude to property ownership and debt
- 9. Family and beneficiaries of will

B. QUOTATIONS

A comparison quote should be obtained from a portal (The Exchange or Assureweb) comparing interest rates and setting up costs.

Two (or ideally 3) quotes from competitive offices showing build up of debt over time by the application of interest.

C. CLIENT

Attitude to risk **must** be recorded and details of family and financial circumstances need to be obtained so that the suitability of the contract (and provider) can be verified. Confirmation that client has been made aware of potential sacrifice of benefits is required. It is also important that it is documented that the client has been made aware of the volatility (and current low level) of interest rates, even though it may be irrelevant in the case of a fixed rate scheme.

APPROVED BY.....

DATE:

Items to include in Suitability Letter for Lifetime Mortgages and Home Reversion Plans	Yes	N/A
The suitability letter must be issued <u>BEFORE</u> the transaction takes place		
Personal and financial circumstances including tax position		
Needs and priorities from the fact-finding process		
Attitude to risk and borrowing		
Disadvantages and advantages of Lifetime Mortgage and Home Reversion Plan		
Statement that firm has relied on information from client and product providers		
Why was product type selected? Link to needs, priorities, attitude to risk and financial circumstances		
Describe relevant specific options in the product		
Why product provider?		
Reasons why alternative options rejected		
Enclose client checklist and request it is read, signed and returned		
Confirm Terms of Business given to client (or enclose Terms of Business with Suitability Letter)		
Commission disclosure		
Analysis explaining financial implications of decision to take out Lifetime Mortgage or Home Reversion Plan included?		
Key Features Documents included?		
Specific client illustration included?		
Request that client contacts firm if clarification is needed		
Request cheques payable as applicable		
Request signed applications		
Enclose Client Checklist and request it is read signed and returned		

Have the following points been explained to you and do you understand?	Yes	No
The effect of selling your property under a Home Reversion Plan.		
The effect of the interest “rolling-up” adding to the initial capital borrowed and the amount of borrowing that will be outstanding over the term of the loan		
The effect of taking this borrowing will have on any future house moves		
Any effect to benefits or grants that are received, if you generate a cash lump sum or additional income		
Your family should be involved in the decision- making process, as this loan will affect the value of our estate		
Independent Legal Advice should be taken to ensure that you are aware of the consequences to your ownership of your property		
The various funding options available to you besides taking out a Lifetime Mortgage or Home Reversion Plan		
A comparison of the benefits which would be available on your death based on whether your pension fund was transferred or remained in the existing plan		

Signed by Client::

.....

Dated:

.....

Name:

.....

Signed by IFA:

.....

Dated:

.....

Name:

.....

LIFETIME MORTGAGE AND HOME REVERSION PLAN CHECKLIST

No.	QUESTION	YES	NO	COMMENTS
1.	The illustrated benefits from the Lifetime Mortgage or Home Reversion Plan.			
2.	The current and future property values			
3.	The house growth projection rate was illustrated			
4.	There is failure to include risk warnings			
5.	Past house price growth is over-emphasized			
6.	Have KFD and illustrated been sent to Client?			
7.	Is the transaction genuinely execution-only? (If yes – Q8)			
8.	Is this evidenced from the file and confirmed in writing by the Client?			
9.	Has a Fact Find been completed and did it include information on:			
A	Sex			
B	Health			
C	Occupation			
D	Marital Status			
E	Dependents			
No.	QUESTION	YES	NO	COMMENTS

G	Anticipated changes			
H	Attitude to risk and borrowing?			
10.	Advised to get family involved?			
11.	Advised to take independent legal advice?			
12.	Alternative methods of funding considered?			
13.	Were all options considered? i.e.: personal loans, borrowing from family, moving down market			
14.	Were both Lifetime Mortgages and Home Reversion Plans considered?			
15.	What was the reason/motivation for the Lifetime Mortgage or Home Reversion Plan?			
16.	Is this a justifiable reason and has it been disclosed in writing to-from the client?			
17.	Is client aware of consequences of taking out borrowing in respect of future loans or moving house in the future?			
18.	Is the client aware of any penalties for repaying the borrowing in the early years?			
19.	Is client receiving any benefits or grants? Will they still be eligible for these after generating a lump sum from this borrowing?			
20.	Was a compliant reason why letter sent?			
21.	Was the plan suitable for the client (age and the Client's objectives)?			

Report of Lifetime Mortgages and Home Reversion Plans

This report is submitted in accordance with the requirements of COB 5.3.26

Date of Report: _____ **Reporting Period:** _____

To be reported six-monthly

- 1) Number of Lifetime Mortgages

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- 2) Number of Home Reversion Plans

--

To be reported quarterly

- 3) Number of correspondence-only Lifetime Mortgages

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- 4) Number of correspondence-only Home Reversion Plans

--

To be reported quarterly if greater than 1% of relevant transactions from (1) or (2)

- 5) Number of execution only Lifetime Mortgages

--
- 6) Number of execution only Home Reversion Plans

--
- 7) Number of Lifetime Mortgages against the firm's advice

--
- 8) Number of Home Reversion Plans against the firm's advice

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Name: _____

Position: _____

FSA Ref No:	
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