TOPIC 26

Raising additional funds from property

LEARNING OBJECTIVES

A property is a valuable commodity, and those who have built up equity in property might be able to use it to release funds, to spend on improving the property or on other things. This is achieved by securing further borrowing on the property, either by increasing the existing mortgage or by taking out a second charge. This topic looks at the ways in which a property owner can use their property to raise additional funds.

By the end of this topic you should have an understanding of the following:

- further advances and drawdown facilities;
- second charges;
- bridging loans;
- equity release.

THINK . . .

We have already introduced many of the products and concepts covered in this topic so you may find that the most challenging aspect is remembering the differences between the different methods of releasing funds.

You will find it easier to understand this topic if you have a good understanding of first- and second-charge lending and the order of priority for repayment – look back to Topics 3 and 4 if you need a reminder. We have covered equity release products too, so look back to Topic 25 to make sure you understand what equity release is and how it works.

26.1 What is a further advance?

A further advance is a 'top-up' to an existing mortgage, usually over the remaining term of the existing loan. It is generally the most cost-effective way to

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raise additional funds and involves considerably less legal and administrative work than remortgages and second-charge loans. However, in some cases a remortgage may offer the owner a better deal overall, and second mortgages can often be used to avoid potential problems involved in further advances.

DISCLOSURE OF ALTERNATIVES

As the FCA expects customers to be able to make informed decisions about their financial affairs, MCOB rules require lenders to inform customers seeking to raise additional funds from their property that there are alternative options.

The lender must inform customers that a second-charge loan or a remortgage could be a suitable alternative to a further advance, although further advice on the alternatives or their suitability is not required. A similar requirement to outline the alternatives applies to those advising on second charges or remortgages.

IN BRIEF

FURTHER ADVANCES – KEY FACTS

Each lender has its own approach to the terms and conditions of further advances. The details below are typical.

- Further advances usually run for the remainder of the term of the original mortgage, although it may be possible to arrange the advance over a shorter term. Some lenders set a minimum term between five and ten years.
- Lenders may consider further advances taking the total mortgage to between 80 and 90 per cent LTV, although some set a lower maximum LTV.
- Lenders may set a lower LTV limit if the further advance is not for home improvements or repairs, and some may not consider advances that are not for property-related purposes.
- The lender may set a minimum property value for considering further advances.
- Lenders generally require the existing mortgage to have been in force for at least six months.

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- Many lenders will only consider further advances on a repayment basis.
- The advance will be based on interest rates and options available at the time, which are likely to differ from the original loan. Many lenders have specific further advance products.
- Application and product fees are generally lower than for a regular mortgage.
- Early repayment penalties may apply to the further advance if it is on a special rate.
- Many lenders will allow overpayments up to a specified percentage of the original advance.

The lending market is highly competitive; there is no guarantee that the original mortgage lender will be an automatic choice for additional finance. All lenders actively pursue this type of business where their records identify high-quality lending opportunities.

An application for a further advance follows the same principles as a new mortgage application. Because the lender has information about the applicant's track record and the property, and there is no conveyancing, the process is usually faster and less costly.

26.2 What information does the lender need for a further advance?

As with a mortgage, gathering information is the first stage in the further advance process. There are two aspects:

- assessment of the ability to repay – the borrower's status and track record;
- adequacy of the property as security for the further lending.

Stringent checks must be in place to confirm the information submitted in support of the application.

26.2.1 Assessing ability to repay

- Affordability is assessed in the same way as for a new mortgage application (see Topic 10).

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- **Regular and irregular expenditure** – comprehensive details must be obtained, as defined in MCOB. Particular scrutiny will be given to other borrowings and normal household expenditure.
- **Family/household circumstances** – the lender will assess the overall family circumstances. For example, the number of dependants will often affect ability to repay the loan.

  Since the original advance was made, one party to the mortgage might have left the home or others might have moved in. If the former applies, the person who has left will be unlikely to take on additional debt burden with no benefit. In the latter case, the lender will require the person who is not a party to the mortgage to sign a 'consent to mortgage' form, to waive rights of residence. This also applies to children aged 17 at the time of application who intend to live in the property as their main home.

  The lender can also permit a new occupant to become a party to the mortgage, subject to status, and hence become jointly and severally responsible for the debt – this requires a variation of the mortgage deed.
- **Conduct of existing account** – the lender will review the account history to find out whether the applicant has a track record of meeting their repayments. Many lenders insist that arrears be cleared before a further advance is considered. If a borrower has had problems in the past but has maintained the account well for a number of years, it is unlikely to adversely affect the lender's decision.

26.2.2 Assessing the security

- **Reassessment of the property as security** – as we saw in Topic 14, building societies must conduct a formal assessment of the property. The assessment does not have to involve a formal valuation; it could be made by comparing the property with similar properties that have sold recently or by checking sales data as part of a desktop valuation. Other lenders have no similar statutory duties – they can assess the security in any way that meets their lending practices.
- **Property value** – this constrains the size of the loan. Since the original loan was granted, the property may have increased or decreased in value. Even if work has been done to improve the property, there is no guarantee of an enhanced value. Many lenders will not require a valuation if the property has been valued in the previous 12 months, unless there has been significant work that might have increased its value.
- **Loan to value** – if the original LTV was high, a new valuation may be needed to determine whether the property offers sufficient security for the higher borrowing commitment. The LTV is the most crucial factor, and the lender must be confident that total new borrowing will be in line with its lending criteria.

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- **Advance for home improvements** – if this is the purpose of the advance, the lender may be prepared to consider the enhanced value of the property once the work is completed. Plans and estimates will be required, and evidence of planning permission in some cases. Work may be subject to final inspection by a valuer.
- **Local authority/legislation conditions** – if the loan is for improvements or repairs, these must be consistent with conditions imposed by local authorities or national town and country planning legislation, such as planning consent, listed building consent and building regulations. Failure to take sufficient account of these factors can result in the local authority imposing an enforcement order to undo work after it has been done, thus leaving the borrower with a higher mortgage on a property with a lower value, and a bill for the reinstatement work. The lender would be left with a property that might not offer adequate security for the increased loan. Planning consent and building regulations were covered in detail in sections 15.1 and 15.2. Check back to refresh your memory.
- **Location and neighbourhood** – a long-term perspective is taken. Is the area new or well-established, improving or declining? Are there any plans to develop infrastructure and local amenities? Are there any plans to build roads or housing estates that might affect the value?

26.3 What else must a lender consider in relation to a further advance?

26.3.1 Postponement of second charges

You learned in Topic 4 that a second charge ranks after a first-charge mortgage for repayment: the Law of Property Act 1925 states that the priority is determined by the date of registration at the Land Registry. In the case of unregistered land, the lender holding the title deeds is regarded as the first-charge holder, and subsequent charges will be prioritised by the date their interest was recorded in the Land Charges Registry. The law relating to further advances and existing second-charge holders is complex. The following information covers the basic principles, and may not apply to all situations.

SECOND CHARGES AND FURTHER ADVANCES

If Lender A secures a mortgage of £90,000 on a property worth £130,000 and Lender B provides a second charge on the same property for £10,000 the following year, Lender A's mortgage has priority over that of Lender B. In the event of default, A will be repaid first and so incurs less risk.

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If Lender A makes a further advance of £5,000 two years after the original mortgage, however, this £5,000 will rank third (ie behind the original two loans) in priority for repayment. This means that the third loan represents a higher risk to Lender A.

Lender A may not be prepared to take its place in a line of mortgagees because of the higher risk involved in being last in the queue for repayment. In some instances, Lender A might ask Lender B to postpone its prior charge in favour of the new one. If Lender B does not agree, Lender A may offer a remortgage to consolidate both debts, and Lender B will lose out altogether.

To set aside a second charge, a deed of postponement must usually be executed. The process of adding a subsequent mortgage to an original one after postponing an intervening second charge is called 'tacking' – the further advance is 'tacked' on to the original mortgage.

DEED OF POSTPONEMENT

Effectively allows a new loan from the original mortgage lender to 'jump the queue' and become part of the first charge.

There are three situations where a deed of postponement is not required:

- if the first charge holder had no notice of the other charge at the time when the further advance was made;
- if the mortgage deed obliged the first-charge holder to make further advance, the obligation was registered at the Land Registry, and at the time the lender entered into the obligation, it had not received any notice from a second-charge lender. Any obligation can be subject to appropriate assessment and acceptance at the time of application;
- the lender agreed a maximum lending limit with the borrower, with a facility for the borrower to take some of the borrowing now and take the rest at some future date. An example would be a drawdown mortgage that allowed the borrower to draw down further amounts up to a predetermined limit.

In these circumstances, the original mortgagee takes priority and the new advance becomes part of the first charge.

If none of the factors above apply, the lender will need to seek a deed of postponement in its favour.

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CASE STUDY: DEED OF POSTPONEMENT NOT REQUIRED

Lynette obtains a mortgage from the Academic Bank: £100,000 towards purchase of the property, which is worth £200,000. The mortgage deed contains an option that allows Lynette to take total borrowing up to 75 per cent of the original LTV, subject to specified conditions.

As the mortgage deed commits the lender at the outset to subsequent advances, all such advances are first mortgages and the Academic Bank will have priority over any second-charge holders.

RANKING OF SECURITIES IN SCOTLAND

The ranking of securities in Scotland is governed by the Conveyancing and Feudal Reform (Scotland) Act 1970. The holder of a first security receives notice of a second or subsequent (postponed) security. The previous ranking of the prior lender is then restricted to cover its existing advances, interest and expenses. The provisions of the Act may, however, be varied between the debtor and creditor by a ranking agreement.

26.3.2 Higher lending charge

Many lenders require a higher lending charge where the LTV exceeds a particular threshold, typically 75–80 per cent. This applies where the further advance takes the lending above the threshold – or even higher above the threshold, if the original mortgage already exceeded the threshold. The borrower pays an additional amount (or it is debited to the mortgage account).

26.3.3 Listed buildings

As we saw in Topic 15, listed building consent is required where the owner wants to demolish a listed building or change it in a way that would affect its character as a building of special architectural or historic interest. As with planning consent, any changes made without listed building consent may result in the local authority requiring reinstatement to the previous position.

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26.3.4 Architect's certificates

If the advance is to fund building work and is not being carried out by an NHBC member, the lender may require work to be signed off by a professionally qualified architect. This confirms that the job has been done to a required standard. Typically, either an architect or a surveyor will be appointed to oversee the work, regardless of whether it is carried out by an NHBC member.

The architect's costs can be substantial and are the borrower's responsibility. A typical fee is 12.5 per cent of build cost; this can increase as the level of supervision increases.

26.4 What are the MCOB rules in relation to further advances?

MCOB 7, 7A and 7B detail the rules that govern how lenders must deal with mortgages that are already in place, including further advances.

Before the customer submits an application for a further advance, the lender must supply information that meets the pre-application disclosure requirements in MCOB 5 and 7.6. The requirements differ depending on whether the advance is on a regulated mortgage (taken out before 21 March 2016) or an MCD regulated mortgage (taken out from 21 March 2016).

For an MCD regulated mortgage that requires the lender to approve further advances, MCOB 7B.1 requires the lender to provide an ESIS that meets the requirements for pre-application disclosure in MCOB 5A, unless one has already been provided. The ESIS and the APRC must be based on the further advance only.

For a regulated mortgage, the lender must provide an illustration or ESIS that meets the pre-application disclosure requirements in MCOB 5 or 5A, unless one has already been provided or the lender is applying the tailored provisions for a loan to a high-net-worth borrower, or the loan is for business purposes.

The illustration or ESIS must be based on the amount of the further advance only and include a section that shows the total amount of borrowing and the new total payment.

26.5 What is a drawdown facility?

Modern flexible and offset mortgages usually offer a 'drawdown' facility, which allows the borrower to take further advances without a formal application. When the original mortgage is arranged, the borrower is given a maximum amount of borrowing, typically 75 per cent LTV. Assuming that they have not taken the maximum at the start, they can then draw down further funds as they require in future, up to the agreed limit. The further advances usually

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require a short application form and a small application fee, although the lender must check that the advance is affordable.

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AFFORDABILITY RULES

Changes to MCOB affordability rules from 26 April 2014 resulted in lenders carrying out affordability checks before allowing drawdown of further funds.

As the facility is clearly stated as a term of the mortgage in the mortgage deed, any further funds released will form part of the first charge, and will not require a deed of postponement over any second or subsequent charges.

26.6 What is second-charge lending?

We recapped in section 26.3.1 how second charges are ranked behind first charges in priority for repayment. This means the lender takes a higher level of risk than with a conventional mortgage and thus charges a higher rate of interest.

TAKING A SECOND MORTGAGE TO AVOID AN HLC

Jaysharan and Marie have a property valued at £200,000 and a mortgage of £145,000. They wish to borrow a further £20,000 to build a conservatory. Their existing lender applies a higher lending charge (HLC) on loans over 75 per cent LTV; this means a higher lending charge on £15,000 of the proposed loan.

Taking a second mortgage might incur a higher interest rate but the couple will avoid the higher lending charge, so it might work out as a better deal.

The use of second charges was common in the 1970s, often to increase initial borrowing to buy a property. The majority of mortgage lending was done by building societies and restricted to 75 per cent LTV, so, to increase borrowing to buy a property, it was common for second charges (often from an insurance company) to be arranged at the same time as a mortgage. Second charges can still be of value today where a further advance would take the borrower above the lender's HLC threshold, and would allow the borrower to avoid an HLC.

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There is no requirement under general property law for the first charge lender to agree to a second charge because its own position will not generally be affected. However, a first charge lender has the right to include a clause in the mortgage deed (which most major lenders do) allowing them to place a restriction on title at the Land Registry. This means that the Land Registry cannot register any further charges without the first-charge holder's agreement.

In the case of unregistered land, the lender holding the title deeds will be regarded as the first-charge holder. A second-charge lender's interest would be recorded by an entry in the Land Charges Registry.

The length of a second charge would not usually run past the end of the first charge, although the lender could agree to a longer term if it felt it was appropriate. The existence of a second charge can be an early warning sign of problems, especially if the borrower has already been turned down for a further advance by the first lender. Finance houses tend to charge higher rates of interest in line with the higher risk, so a borrower choosing to use a finance house may indicate a need to secure a lump sum urgently.

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CHECK YOUR UNDERSTANDING 1

If a mortgage is in default, the lender will eventually proceed to possession and exercise its power of sale to recover the debt. The holder of the first charge takes what is legally due to it from the proceeds, then passes the balance of the sale money (if any) to the second lender, who takes what is due to it. When all secured lenders have been satisfied, what happens to the balance, if any?

26.7 What are the regulatory requirements for second-charge lending?

Since 21 March 2016, second charges have essentially been subject to the same MCOB rules on advising and selling standards as first-charge mortgages, and are subject to the same definition – ie 40 per cent of the land to be used as a dwelling, etc. This aims to ensure that people use second-charge loans only when they are suitable and affordable, and that the lender will treat them fairly, particularly if they go into arrears. The rules apply retrospectively to second-charge loans in place before 21 March 2016 – known as 'back book loans'.

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IN BRIEF

REGULATORY REQUIREMENTS

When arranging a second charge, the lender must:

- meet the Initial Disclosure requirements, including an outline of the firm's scope of service and its remuneration;
- provide an ESIS for product disclosure;
- provide an 'adequate explanation' of the product, its key features and how they will impact on the customer, including what happens if the customer defaults;
- confirm key details when the contract starts;
- follow the same post-sale procedures as for first-charge mortgages.

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BUSINESS LOANS EXEMPTION

MCOB rules only apply to second charges taken out for business purposes if the loan is for £25,000 or less.

The rules relating to advising and selling are the same as those for first-charge mortgages, including execution-only sales. This means the lender must assess affordability, including the stress test for future interest rates.

Second charges are often used for debt consolidation purposes and, historically, second charges show higher levels of payment problems than first charges. For this reason, MCOB requires second-charge lenders either to:

- take reasonable steps to ensure the consolidated debts are repaid when the new loan starts; or
- include the existing debts in the affordability assessment.

Lenders can only roll up interest and charges into the loan if the borrower decides to do so. The lender cannot do so automatically. Some second-charge lenders offer interest-only loans where the interest rolls up and is repaid with the original loan at the end of the term, typically between two and five years. Some bridging loans can also be arranged on the same basis over a shorter term of between one and two years.

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26.8 What is bridging finance?

CHECK YOUR UNDERSTANDING 2

We introduced bridging finance in Topic 2. Can you recall when bridging finance might be required?

There are two types of bridging finance:

- **Closed bridging** – the borrower has a confirmed 'exit strategy' (ie feasible plan) for repaying the loan within an agreed timescale. Typically, this is through the sale of the existing property and it requires the borrower to have exchanged contracts with a buyer. Closed bridging usually starts at or just after exchange of contracts or conclusion of missives. This is less risky than lending to someone who has no buyer. In other, less typical cases, the borrower might have funds secured, but they will not be available before purchase of the second property.
- **Open bridging** – the borrower needs finance to buy the new property but does not have a firm buyer for their existing property. This can represent a high risk for lender and borrower because there is no guarantee that the property will be sold within a reasonable period of time. Borrowers should be advised to think very seriously before committing to this arrangement. Open bridging interest rates are higher than those for closed bridging, due to the increased risk.

Bridging finance is offered by banks, some of the largest building societies, and specialist bridging lenders. Lenders are much more willing to lend for closed bridging than open bridging. The availability of funds and lenders' attitudes may also depend on the economic conditions at the time. Note that the practice of many developers of taking properties in part exchange has reduced the need for bridging finance to some extent.

Let's consider some typical standard requirements:

- The lender usually requires details of the new property and sight of the mortgage offer on it. It may also ask for evidence that the current property is being marketed actively.
- The lender requires details of the borrower's exit strategy.
- The lender sets a minimum loan amount, typically around £30,000.
- Lending on residential property is typically available at up to 70–75 per cent LTV for first-charge loans, and slightly less for second-charge loans.
- Lending is usually arranged on an interest-only basis, because it will be repaid relatively quickly.

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- Terms can range from hours to years, although most lenders limit open bridging to 12 months. They might be prepared to review the loan at that point and extend it if the borrower has met all the payments and the property market has not deteriorated.
- Once the decision has been made, the funds can often be made available within days.
- Some lenders may lend on an interest roll-up basis, with the interest paid with the capital when the property is sold. The main consideration is the value of the property offered as security, because the loan is for a fixed term, the amount of interest can be calculated, and the lender can ensure the total loan represents a 'safe' LTV. As a result, the lender is unlikely to be concerned with the borrower's income or credit history.

Bridging finance is more expensive than a conventional mortgage, with typical charges including a valuation fee, legal fees, an application fee or a completion fee, loan interest, and an exit fee.

26.9 What regulatory requirements apply to bridging finance?

A bridging loan is a short-term mortgage. It will be regulated through MCOB if it is:

- taken out by an individual/individuals or trustees;
- secured on land in the UK, of which at least 40% will be (or is intended to be) used as a dwelling by the borrower (or trust beneficiary) or a member of their immediate family.

Bridging loans are usually on an interest-only basis. They can either be on an interest roll-up basis, where no interest payments are made during the term, but accrued interest is paid with the original capital at the end of the term, or requiring interest payments during the term.

MCD-EXEMPT BRIDGING LOAN

A regulated mortgage contract or an article 3(1)(b) credit agreement either of no fixed duration or which is due to be repaid within 12 months, used by the consumer as a temporary financing solution while transitioning to another financial arrangement for an immovable property (FCA, no date).

If a bridging loan meets certain criteria, it will be defined as an MCD-exempt bridging loan and not subject to the full MCOB requirements, although the lender must still ensure it is suitable, the borrower can afford it if payments are required and there is an acceptable exit strategy. To be an MCD-exempt bridging loan, it must have a term of less than 12 months.

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If an MCD bridging loan requiring regular repayments extends beyond 12 months, the lender must assess affordability as if it were a new loan.

A bridging loan is not a regulated mortgage if it is taken out for business or investment purposes, and it is intended that it will never be occupied by the borrower or their family.

A second charge bridging loan will be exempt if it:

- is for more than £25,000 and is for business purposes;
- requires four or fewer repayments.

26.9.1 Provisions of MCOB 4.7

MCOB 4.7 (advice) requires the firm to assess whether a bridging loan would be appropriate to the customer's needs and circumstances in broadly the same way as a normal mortgage. Additionally, the lender must consider whether it is appropriate for the customer to make regular payments and to gain access to finance quickly. Part of the assessment requires the firm to consider whether a 'normal' regulated mortgage would be more appropriate than a bridging loan.

The rules also require that, where bridging finance is appropriate, the firm must make the customer aware that they will have to demonstrate they have a credible repayment strategy in place.

26.9.2 Provisions of MCOB 11

MCOB 11 (responsible lending) requires the lender to assess the affordability of the bridging loan. This requirement does not apply when the bridging loan is on an interest roll-up basis, although the borrower must be made aware of the impact of rolling up the interest on the remaining equity in the property. Where the borrower intends to use the sale of their existing property to repay the bridging finance, guidance (not rules) in MCOB 11 suggests that the lender should ask for an independent survey of the property in order to satisfy itself that the property represents a valid repayment strategy.

Another potential repayment strategy is for the borrower to take out a mainstream regulated mortgage at the end of the bridging period, assuming they can afford the payments. MCOB 11 guidance suggests that the lender should seek evidence that there is a guaranteed offer or an offer in principle for the replacement mortgage. If no such offer exists, the lender should assess the borrower's income and expenditure to establish whether such an offer is likely. If there is no offer, and the bridging finance is provided on the basis that the borrower's financial position might improve in the future and allow them to arrange a standard mortgage, the lender will be in contravention of the rules.

There is no requirement for the lender to carry out a review of the repayment strategy during the term of an interest-only bridging arrangement.

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EXTENDING THE TERM OF BRIDGING FINANCE

A lender cannot agree to an extension of the bridging loan unless the borrower makes a positive choice to extend it. Unless the finance is a secured overdraft for business purposes or for a high-net-worth customer, an extension to a bridging loan must be treated as a new loan and subject to an affordability assessment.

If the extension is on an interest roll-up basis, the affordability assessment is not required, but the lender must consider with the borrower the impact of the extension on the remaining equity in the property.

26.10 Equity release

We looked at equity release products in Topic 25. This topic will consider the uses of equity release.

Homeowners in, or nearing, retirement often have a requirement for additional cash or income, whether to improve the home, pay unsecured debts, take a holiday or clear a mortgage. They have equity in their property, which will normally allow them to raise additional finance by a conventional remortgage or a further advance. This route is likely to pose problems because:

- any additional income produced by investing the cash raised will be eroded by the increased mortgage payments;
- they may not have sufficient income to validate the extra borrowing;
- to make payments affordable they may have to extend the mortgage term past retirement age, or they may already be in retirement.

There are alternatives in this situation:

- **Lifetime mortgage** – the mortgage is on an interest-only basis, with no defined term. The interest payable is usually rolled up rather than paid when due.
- **Home reversion plan** – the property is sold in return for a lump sum or an income, together with a guaranteed tenancy for life.
- **Retirement interest-only mortgage** – as only interest is payable on the mortgage, the monthly cost will be lower than a conventional repayment mortgage. However, affordability may still be a problem.

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CHECK YOUR UNDERSTANDING 3

We covered both lifetime mortgages and home reversion plans in Topic 25. Make sure you understand the key features of these products and the differences between them. Revisit your studies for Topic 25 if necessary. In this topic we are going to consider the advantages and disadvantages of each type of product.

A potential disadvantage of both types of equity release is that increases in income or capital resulting from the scheme may affect eligibility for means-tested benefits, such as Universal Credit, Pension Credit and Council Tax Reduction.

TABLE 26.1 USING LIFETIME MORTGAGES

Advantages	Disadvantages
With an interest roll-up plan, no monthly payments are required. This means that all the cash or income raised can be used as the borrower wishes	Interest may roll up quickly, depending on the rate charged
Most lifetime mortgages offer a no-negative-equity guarantee, so the debt will never exceed the value of the property, although this is not a regulatory requirement. It is a requirement of the Equity Release Council's statement of principles, rules and guidance and product standards	'Younger' borrowers are likely to live for many years, allowing the debt to increase significantly
The borrower can benefit from the additional finance without having to move house	The borrower has little control over the increasing debt and may see their children's legacy significantly reduced. Many products now offer the facility to repay up to 10% of the initial borrowing each year, which does offer some control to those who can afford to make such payments
The borrower retains ownership of the property	It may not be possible to move house, because repaying the mortgage plus rolled-up interest may leave insufficient capital to buy another property
If the property increases in value at a higher rate than the interest accrues, the borrower's estate will benefit	
A hybrid scheme starts with regular interest payments, but allows the borrower to switch to interest roll-up whenever they wish. This allows them to reduce and control the effect of interest roll-up	

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TABLE 26.2 USING HOME REVERSION PLANS

Advantages	Disadvantages
No interest is payable or rolled up. This means that the planholder does not have to worry about repayment	The cash or income provided will be at a discount to the value of the property given up
The scheme will probably provide more cash for a given age than a mortgage-based scheme	The owner loses all rights to the increase in value of the part of the property given up
Although losing ownership, the planholder is guaranteed tenancy for life	If the planholder dies relatively shortly after starting the arrangement, it will have been a very costly way of raising the cash or income
Part-reversion is available, allowing the planholder to retain an interest in some of the equity in the property	Schemes are quite inflexible and moving may be a problem
	Any improvements made to the property will not benefit the planholder, as the provider owns it

26.10.1 Retirement interest-only mortgages

The relatively new regulatory category recognises the needs of some borrowers who either have an interest-only mortgage that they will not be able to repay at the end of the term, or those who wish to release capital from the equity in their property in retirement. These borrowers do not want the perceived expense of rolling up interest over the longer term, as happens with a roll-up interest lifetime mortgage.

As the category will be treated as a standard interest-only mortgage, the lender must assess affordability in the usual way, which may prevent some borrowers from taking this option.

THINK AGAIN ...

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- outline the key features of a further advance?
- explain why a first-charge holder might seek a deed of postponement for a further advance?

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- summarise the regulatory requirements that apply to second-charge lending?
- explain the difference between closed and open bridging finance?
- outline the advantages and disadvantages to a borrower of a lifetime mortgage?
- outline the advantages and disadvantages to a borrower of a home reversion plan?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Reference

FCA (no date) *Glossary terms* [online]. Available at: www.handbook.fca.org.uk/handbook/glossary/?starts-with=M

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Test your knowledge

?

Use these questions to assess your learning for Topic 26. Review the text if necessary.

Answers can be found at the end of this book.

1) Which of the following is **true** of a further advance?

   a) It must finish at the same time as the original mortgage.

   b) The same loan-to-value limit will apply, regardless of the purpose of the further advance.

   c) The existing mortgage must usually have been in place for at least six months.

   d) The lender will not need to reassess the property as security, as it would have been valued for the original mortgage.

2) Karen has requested a further advance but her personal circumstances have changed since she obtained the original mortgage. Her partner has now moved into the property and her son has returned to live at home since graduating from university. Assuming Karen meets all the other criteria for a further advance, what action would the lender need to take in relation to the change in occupants?

3) The value of the security should be reassessed if a further advance is requested. True or false?

4) In relation to a further advance on an existing Mortgage Credit Directive regulated mortgage, in order to comply with MCOB, the lender must provide the borrower with:

   a) an illustration based on the further advance only.

   b) a European Standardised Information Sheet (ESIS) based on the further advance only.

   c) an ESIS based on the total borrowing.

   d) an illustration based on the total borrowing.

5) The order of priority for legal charges on registered property is established by:

   a) the date of the charge's registration at the Land Registry.

   b) the date the loan came into force.

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c) the date the solicitor received confirmation of the charge from the lender.

d) the size of the loan.

6) A deed of postponement is required for all second charges. True or false?

7) Which of the following is **untrue** in relation to MCOB rules and second charges?

a) MCOB rules apply to new and existing second-charge loans, regardless of when they started.

b) When arranging a new second-charge loan, the lender must provide the borrower with an ESIS.

c) The lender must provide a suitability report to give an adequate explanation of the product.

d) A second-charge loan of £30,000 secured on the borrower's home for business purposes would not be subject to MCOB.

8) General property law does **not** require a first-charge lender to agree to a second-charge for it to go ahead. True or false?

9) Dmitri has accepted a new job in Manchester and bought a house there, but the sale of his previous home in Derby fell through and he has not yet found a new buyer. He needs bridging finance – which type is most likely to be appropriate?

10) An advantage of a lifetime mortgage is that the planholder is guaranteed a tenancy for life. True or false?

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