

THE CHARTERED INSURANCE INSTITUTE



R07

Advanced mortgage advice

**Based on the 2016/2017 syllabus
examined until 31 August 2017**

R07 – Advanced mortgage advice

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Introduction

This examination guide has been produced by the Examinations Department at the Chartered Insurance Institute (CII) to assist students in their preparation for the R07 examination. It contains a specimen examination with answer key.

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

Although the specimen examination in this guide is typical of a R07 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 R07 reading list, which is located on the syllabus in this examination guide and on the CII website at www.cii.co.uk.

Background Information

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

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

- 1) Visit www.cii.co.uk/qualifications
- 2) Select the appropriate qualification
- 3) Select your unit 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 R07 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 examination syllabus categorises R07 learning outcomes into attainment levels. Each learning outcome specifies the level of skill required of candidates and thus the level at which candidates may be tested.

The syllabus requires that candidates have the ability to explain and recommend aspects of the subject matter. Each learning outcome begins with one of these cognitive skills:

Explain - Candidates must typically be able to demonstrate an understanding of the relationships between different aspects or concepts. They may be asked how one part may impact upon or be linked to another. They may also be asked to perform a calculation to evidence an explanation of how certain elements interact with one another.

Recommend - Candidates must typically be able to demonstrate judgement across a set of facts or circumstances. In doing this, they may be asked to identify the best course of action from the options presented. If they are not asked expressly to recommend a course of action, it is likely that some judgement or application (either by way of applying concepts or a calculation) would have to be exercised in order to ascertain the correct option.

Examination Information

The method of assessment for the R07 examination is 55 multiple choice questions (MCQs) and 4 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.

The R07 syllabus provided in this examination guide will be examined from 1 September 2016 until 31 August 2017.

Candidates will be examined on the basis of English law and practice in the tax year 2016/2017 unless otherwise stated. It should be assumed that all individuals are domiciled and resident in the UK 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.

R07 examinations test the Financial Conduct Authority and Prudential Regulation Authority rules and regulations.

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

Section A consists of 55 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 response. Each question will contain only **one** correct or best response to the problem posed. One mark is awarded for each correct response identified by the candidate. No mark is awarded if the candidate either chooses an incorrect response, chooses more than one response or fails to choose any response. No marks are deducted for candidates choosing an incorrect response.

Section B contains four 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 either 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.

Advanced mortgage advice

At the end of this unit, candidates should understand the:

- Key elements of the mortgage process;
- Specialist types of mortgage lending;
- Appropriate mortgage advice to clients with complex needs and circumstances.

Summary of learning outcomes	Number of questions in the examination*
1. Explain the key elements of the mortgage process.	25
2. Explain specialised types of mortgage lending.	15
3. Explain the main challenges in the mortgage industry.	4
4. Explain the key elements of appropriate mortgage advice.	11
5. Recommend appropriate mortgage solutions to clients with complex needs and circumstances.	20

*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.

Entry guidance

It is assumed that the candidate already has the knowledge gained from study of CF6 Mortgage advice or equivalent.

Important notes

- **Method of assessment:** 55 multiple choice questions (MCQs) and 4 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2016 until 31 August 2017.
- Candidates will be examined on the basis of English law and practice in the tax year 2016/2017 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 on the right hand side of the page

1. **Explain the key elements of the mortgage process.**
 - 1.1 Explain the house buying process and the roles of key parties involved.
 - 1.2 Explain the different factors that enable the lender to assess the suitability of the property as security for a loan.
 - 1.3 Explain the factors the lender will use to assess the suitability of the borrower.
 - 1.4 Explain how to resolve issues arising post completion.
2. **Explain specialised types of mortgage lending.**
 - 2.1 Explain the features and risks of:
 - Remortgaging and further advances;
 - Second charges;
 - Buy to let;
 - Bridging finance;
 - Equity release.
3. **Explain the main challenges in the mortgage industry.**
 - 3.1 Explain the features and impact of the following on the mortgage industry:
 - Sources of mortgage funding;
 - Mortgage customer segmentation;
 - National and household debt;
 - Inflation and Government intervention;
 - Changes in distribution.
4. **Explain the key elements of appropriate mortgage advice.**
 - 4.1 Explain the following features of mortgage advice:
 - Regulatory requirements;
 - consumer protection;
 - The role of the mortgage adviser;
 - Affordability;
 - Taxation issues.
5. **Recommend appropriate mortgage solutions to clients with complex needs and circumstances.**
 - 5.1 Analyse consumers' complex needs and circumstances.
 - 5.2 Recommend appropriate mortgage solutions.

Reading list

The following list provides details of various publications 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 publications will help you keep up-to-date with developments and will provide a wider coverage of syllabus topics.

CII/PFS members can borrow most of the additional study materials below from Knowledge Services. CII study texts can be consulted from within the library.

New materials are added frequently - for information about new releases and lending service, please go to www.cii.co.uk/knowledge or email knowledge@cii.co.uk.

CII study texts

Advanced mortgage advice. London: CII. Study text R07.

Mortgage advice. London: CII. Study text CF6.

Books

Retail mortgages: law, regulation and procedure. Malcolm Waters et al. Sweet & Maxwell, 2013.

Factfiles

CII factfiles are concise, easy to digest but technically dense resources designed to enrich the knowledge of members. Covering general insurance, life and pensions and financial services sectors, the factfile collection includes key industry topics as well as less familiar or specialist areas with information drawn together in a way not readily available elsewhere. Available online via www.cii.co.uk/ciifactfiles (CII/PFS members only).

- Equity release. Brad Baker.
- Recent developments in mortgage product design. Brad Baker.
- The regulation of mortgage business. Brad Baker.
- The regulation of mortgage intermediaries (prudential requirements). Brad Baker.

Additional articles and technical bulletins are available under the Mortgages section of the website at www.cii.co.uk/knowledge/mortgages.

Journals and magazines

Financial solutions. London: CII. Six issues a year. Also available at www.thepfs.org/knowledge (CII/PFS members only).

Financial adviser. London: FT Business. Weekly. Also available online at www.ftadviser.com.

Investment week. London: Incisive Financial Publishing. Weekly. Available online via www.investmentweek.co.uk.

Mortgage strategy. London: Centaur Communications. Monthly. Also available online at www.mortgagestrategy.co.uk.

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

Money marketing. London: Centaur Communications. Weekly. Also available online at www.moneymarketing.co.uk.

New model adviser. London: Citywire. Monthly. Also available online at www.citywire.co.uk/new-model-adviser.

Reference materials

Lamont's glossary: the definitive plain English money and investment dictionary. Barclay W Lamont. 10th ed. London: Taxbriefs, 2009. Also available online via www.cii.co.uk/lamont (CII/PFS members only).

The professional adviser's factfile. Taxbriefs. London: Taxbriefs. Looseleaf, updated.

McMeel and Virgo on financial advice and financial products. 3rd rev ed. Gerard McMeel, John Virgo. Oxford University Press. Looseleaf, updated.

Examination guides

An examination guide, which includes a specimen paper, is available to purchase via www.cii.co.uk.

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 versions of the examination guides.

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. Andy, who lives in Scotland, is in serious mortgage arrears and his lender has just obtained a Calling Up Notice from the courts. This means that
 - A. he must offer peaceable possession of the property to the lender.
 - B. the lender will apply for a warrant for possession within the next 28 days.
 - C. there is a requirement for repayment of the debt within 2 months.
 - D. a receiver has been appointed to manage rental income from the property.

2. When Len bought his house he paid for both a basic valuation report and a RICS Condition Report. Len should understand that
 - A. both reports will be based on contractual agreements between him and the valuer.
 - B. both reports will include details of current market value.
 - C. only the basic valuation report will include an insurance reinstatement value.
 - D. only the RICS Condition Report will show any potential retention amount.

3. An executor is selling a property on behalf of a deceased's estate. If the property is sold with a limited title guarantee, this indicates that the
 - A. executor may not be aware of interests in the property held by third parties.
 - B. executor is aware of all interests in the property held by third parties.
 - C. property has an outstanding secured loan that has yet to be repaid from the deceased's estate.
 - D. property has sitting tenants who have yet to vacate the property.

4. Sue is moving house and wants to port her existing mortgage product from her current home to her new property, without increasing the loan amount or varying any of the terms. In accordance with the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB), this
 - A. may normally be completed on an execution-only basis.
 - B. will automatically be completed on an advised basis.
 - C. must be completed on an advised basis unless the amount of outstanding loan is less than £30,000.
 - D. must be completed on an advised basis unless the unexpired loan term is more than 10 years.

5. Kevin and Don were both successful in bidding for different properties at the same property auction. Only Don was required to submit his deposit prior to the auction. This was because only
 - A. Don attended the auction in person.
 - B. Don needed mortgage finance to complete the purchase.
 - C. Kevin attended the auction in person.
 - D. Kevin needed mortgage finance to complete the purchase.

6. A property was placed in an auction with a reserve price of £50,000. Simon made a successful bid of £70,000 and paid a £7,000 deposit on the day of the auction, but failed to complete the purchase. Excluding costs and interest, for what **maximum** amount is the auction house therefore entitled to sue Simon?
- A. £43,000
 - B. £50,000
 - C. £63,000
 - D. £70,000
7. Angus recently bought a flat in Scotland. His conditional offer was accepted on 1 May, missives were concluded on 10 May, he was given the keys on 12 May and moved in on 18 May. From what **earliest** date should he ensure that buildings insurance is in place?
- A. 1 May.
 - B. 10 May.
 - C. 12 May.
 - D. 18 May.
8. A potential property buyer in Scotland is concerned about the prospects of suffering from gazumping. He should therefore be aware that
- A. he can avoid the problem by making a sealed bid.
 - B. he can avoid the problem by noting his interest prior to making an offer.
 - C. this can only happen if he makes a conditional offer.
 - D. this can only happen if he makes an unconditional offer.
9. Maurice is buying a property and exchanged contracts on 2 June with completion taking place on 16 June. On what date did the vendor relinquish legal interest in the property?
- A. 2 June.
 - B. 16 June.
 - C. On a pre-agreed date, shortly after 2 June.
 - D. On a pre-agreed date, shortly before 16 June.
10. Sean and Tina are both buying properties. Sean commissioned a Building Survey whereas Tina commissioned a RICS HomeBuyer Report. They should be aware that
- A. both reports will include details of any possible mortgage retention amounts for property defects.
 - B. only Sean's report will include advice on the ongoing maintenance of the property.
 - C. only Sean's report will include details of major defects.
 - D. only Tina's report will include a market valuation of the property.

11. Clare and Ruth each want to extend a lease under the provisions of the Leasehold Reform, Housing and Urban Development Act 1993, but only Clare is entitled to do this. The reason for the difference is explained by the fact that
- A. Clare's lease is for a single storey property whereas Ruth's lease is for a two-storey property.
 - B. Clare's lease was originally for 25 years whereas Ruth's lease was for 50 years.
 - C. only Clare's lease has a remaining term of less than 10 years.
 - D. only Ruth's lease is a commercial lease.
12. Simon and Emma, who are engaged and plan to marry next year, own a leasehold house on a tenancy in common basis. They are considering the purchase of the freehold. The term 'marriage value' refers to the
- A. additional value created by bringing the leasehold and the freehold values together.
 - B. deemed value of the property if Simon and Emma transfer their ownership to a joint tenancy basis.
 - C. maximum amount of private residence relief Simon and Emma may claim after their marriage.
 - D. tax liability if Simon and Emma both move out and let the property.
13. Two new houses were recently built. Property X is covered by a National House-Building Council Buildmark guarantee whereas property Y is covered by the Premier Guarantee scheme. For how long will the respective guarantees last?
- A. Property X lasts for 10 years and property Y lasts for 15 years.
 - B. Property X lasts for 15 years and property Y lasts for 10 years.
 - C. Both guarantees last for 10 years.
 - D. Both guarantees last for 15 years.
14. Lee and Tom are both first-time buyers seeking a three-year, fixed-rate mortgage. Lee was permitted to obtain his mortgage without first receiving any advice but Tom was told that advice was compulsory. This is because
- A. Lee chose a repayment mortgage whereas Tom chose an ISA-linked mortgage.
 - B. Lee wanted a residential mortgage whereas Tom wanted a buy-to-let mortgage.
 - C. only Tom is purchasing a property using the Right to Buy scheme.
 - D. only Tom is classed as a professional customer.
15. As part of its affordability assessment, a lender obtained details of a mortgage applicant's regular expenditure. Which of these items will be classed as basic essential expenditure?
- A. Car loan and credit card payment.
 - B. Gym subscriptions and mobile phone costs.
 - C. Building insurance premiums and Council Tax charges.
 - D. Rental and maintenance payments.

16. Alan has applied for a seven-year, fixed-rate mortgage. In carrying out its affordability assessment, the lender should be aware that a stress test
- A. with an interest rate increase of 1% must be applied.
 - B. with an interest rate increase of 3% must be applied.
 - C. with the lender's standard variable rate must be applied.
 - D. is not required.
17. Neil and David are applying to their respective lenders for a new fixed-rate mortgage product after their previous deals have finished. As a result of the new fixed-rate deals available, Neil's monthly payments will reduce and David's payments will remain the same. During the application process, both David and Neil were required to complete new affordability assessments. This is **most likely** to be because
- A. David has requested that his loan be changed from interest only to capital and interest, whereas Neil has changed employer since his last mortgage application.
 - B. David has requested that his term be extended, whereas Neil has requested a further advance of £10,000.
 - C. Neil has requested that his term be extended, whereas David has not made any changes to his loan.
 - D. Neil has repaid an amount from the outstanding balance of his mortgage, whereas David has not made any changes to his loan.
18. Peter has applied for a remortgage to consolidate his debts. As a consequence
- A. the maximum loan to value must not exceed 80%.
 - B. he will automatically be classed as a vulnerable customer.
 - C. he may elect to proceed on an execution-only basis at outset.
 - D. the stress test that the lender applies will be more stringent than for a first-time buyer.
19. Terry has a mortgage, a second charge loan and a personal loan. He has suffered with financial difficulties and has entered into an Individual Voluntary Arrangement (IVA). At the end of the arrangement period, how will the proceeds of the IVA be distributed?
- A. Priority will be given to the main mortgage lender.
 - B. Priority will be given equally to the main mortgage lender and the second charge loan provider.
 - C. Priority will be ranked on a chronological basis.
 - D. In proportion to the size of each outstanding loan.
20. Martin has accumulated significant arrears under his repayment mortgage account and has asked his lender whether it is possible to capitalise the arrears. In accordance with the Mortgage and Home Finance: Conduct of Business Sourcebook (MCOB), the lender
- A. must automatically decline this request.
 - B. must insist that Martin obtains independent financial advice before proceeding on this basis.
 - C. should only agree to this if it increases the loan amount by less than 10%.
 - D. must consider an affordability assessment before proceeding further.

21. Adam is obtaining a self-build mortgage as part of a new build project. What **key** factor will prevent him from being eligible to reclaim VAT on the building material costs?
- A. He is an additional-rate taxpayer.
 - B. He is a self-employed builder.
 - C. The property is a buy-to-let investment property.
 - D. The property is to be used as a holiday home.
22. Chelsea is renovating a property that she purchased last year. She will use the property as her home. The property was derelict when she completed the purchase, having previously been unoccupied for 12 years. Chelsea should be aware that
- A. the building work will be zero-rated for VAT purposes.
 - B. VAT will be charged on any renewable energy installations at a rate of 7.5%.
 - C. VAT will be payable on the building works at a rate of 5%.
 - D. VAT will be payable on the building works at a standard rate of 20%.
23. A potential purchaser has commissioned a RICS Condition Report. As a consequence, he should be aware that the surveyor
- A. will grade any defects on a scale of 1 to 5.
 - B. will not inspect any permanent outbuildings.
 - C. will not test the drainage services.
 - D. will provide costs estimates for the repair of any major defects.
24. Legal searches in relation to properties X and Y came back with full title guarantee and limited title guarantee respectively. This indicates that only property
- A. X is held under a leasehold arrangement.
 - B. X is held under a freehold arrangement.
 - C. Y may have a charge on it.
 - D. Y was previously the subject of a possession order.
25. Betty has come to the end of her three-year, fixed-rate mortgage deal and is switching to a new deal with the same lender for the same loan amount. She is proceeding on an execution-only basis and as a consequence, an affordability assessment is
- A. automatically required.
 - B. automatically waived.
 - C. only required if the payment level increases.
 - D. only required if she has built up a poor payment record.

26. A lender has just obtained an outright possession order in relation to a borrower's property. As a consequence, when will the lender **usually** first acquire the right to enter the property and obtain vacant possession?
- A. 7 days after a court warrant is subsequently obtained.
 - B. 14 days after this order is issued.
 - C. 28 days after this order is issued.
 - D. 28 days after a court warrant is subsequently obtained.
27. Li is considering the purchase of a two-bedroomed apartment. She will live in the property herself and intends to let out the other room to one of her friends. Her mortgage adviser is assessing her potential property purchase. He would explain to her that
- A. as she will occupy 50% of the property, this will be a regulated mortgage contract.
 - B. she must let the other room to a non-family member in order to claim rent-a-room relief.
 - C. if she moves out of the property in 12 months' time, the mortgage would cease to be a regulated mortgage contract at that point.
 - D. any potential rental income will always be excluded from an affordability assessment.
28. Gemma is applying for interest only bridging finance for a period of 12 months. This will be secured on both her new home and her current home. She plans to repay the finance from the eventual sale of her current home and partly from a mortgage on her new home. She should be aware that
- A. the lender cannot offer an interest only facility unless the term is less than 12 months.
 - B. the lender is not required to assess any form of repayment strategy.
 - C. the lender is required to assess the value of the current home and request a copy of the new mortgage offer.
 - D. the lender must assess a suitable strategy for repayment at the start of the loan and at least once during the term.
29. Kevin and Terri are getting divorced and a Court Order has been made to transfer their matrimonial home to Kevin. Terri is to receive the sum of £125,000 as a settlement and their mortgage of £100,000 is to be transferred to Kevin and his new partner Laretta. The property is currently valued at £250,000. In normal circumstances, how much Stamp Duty Land Tax will Kevin and Laretta pay, if any, when the transfer of equity is completed?
- A. Nil.
 - B. £1,000
 - C. £1,250
 - D. £2,500
30. Peter has arranged a lifetime mortgage and Cecil has arranged a full home reversion plan. Both providers are registered with The Equity Release Council. As a result
- A. both Peter and Cecil will need to pay interest charges.
 - B. both Peter and Cecil would retain their properties if they moved temporarily into care.
 - C. only Cecil will have the option to retain his property if he moves permanently into care.
 - D. only Peter will need to pay for basic maintenance of his property.

31. Nigel has taken out a further advance on his original mortgage as well as a second mortgage. If the original mortgage deed permits additional borrowing up to an agreed limit, this means that the
- A. lender of the original mortgage has agreed to a deed of assignment.
 - B. lender of the second mortgage was not required to postpone the ranking of its charge.
 - C. original mortgage will cease to be a regulated mortgage contract.
 - D. the further advance will not be a regulated mortgage contract.
32. Nick has applied for a bridging loan to buy a new home. He is still living in his current home, and will do so until his sale completes. Under the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB), he should be aware that
- A. affordability must always be assessed if the loan is for 6 months or longer.
 - B. if he requires an interest only loan, affordability must be reassessed every 3 months.
 - C. if the loan is for less than 12 months it cannot be a regulated loan.
 - D. if the loan is for less than 12 months and secured only on the new property it will not be regulated.
33. Keith would like to take advantage of the Help to Buy equity loan scheme. What **key** factor prevents him from being eligible to do so?
- A. He requires a 40% equity loan on a house in London.
 - B. He is aged 55.
 - C. The property is a four-bedroomed house.
 - D. The property's purchase price is £750,000.
34. Paula and Ben are thinking of starting a home reversion plan on a joint life basis and have asked what would happen on Paula's death if Ben was still in good health. They were correctly advised that the
- A. nominal rent would decrease.
 - B. nominal rent would increase.
 - C. plan would automatically cease.
 - D. plan would continue without any significant changes.
35. Len is starting a full home reversion plan to raise a lump sum. As a consequence, he should be aware that
- A. there will be significant restrictions on how he can spend this money.
 - B. there will be significant restrictions on how long he can remain resident in the property.
 - C. this action will increase the size of his potential Inheritance Tax liability.
 - D. this action will result in him relinquishing ownership of the property.

36. Lionel has a mortgage, a further advance and a secured loan. All are secured against his **main** residence. He has applied to increase his further advance by £5,000. His mortgage lender should be aware that
- A. a deed of postponement will not be required under any circumstances.
 - B. a deed of postponement from the secured loan company will only be required if the total of the new loans exceeds 90% loan to value.
 - C. if the additional further advance is tacked to the first charge a deed of postponement will be required from the secured loan company.
 - D. the additional further advance will be tacked to the existing further advance and will rank as a fourth charge.
37. Peter has applied for an overdraft of £10,000, which will be secured on his home. He already has a secured loan of £20,000 and a mortgage of £100,000 which are both secured on the same property as the proposed overdraft. The property value is £300,000. Peter should be aware that
- A. a deed of postponement will be needed in respect of the mortgage and the secured loan before he may proceed.
 - B. a deed of postponement will only be needed for the secured loan.
 - C. a deed of postponement will not normally be required.
 - D. an overdraft secured against his home will not be regulated under Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).
38. Tim has applied to a lender for a closed bridging loan. As a consequence, he should be aware that
- A. this form of bridging is only available once he has exchanged contracts on his property sale.
 - B. the interest rate is likely to be higher than if it was an open bridging loan.
 - C. the loan is likely to be limited to a maximum duration of three months.
 - D. this will always result in both of his properties being put at risk.
39. Charlotte is buying a holiday cottage, which she will use herself, rather than let commercially. She has applied for a mortgage on the cottage. Charlotte should be aware that
- A. the lender cannot utilise the potential rental income in assessing affordability.
 - B. the mortgage will be regulated and the lender must assess affordability.
 - C. she will be able to claim furnished holiday letting relief.
 - D. the transaction may not proceed on an execution-only basis.
40. Christopher and Sally currently own their home as joint tenants. They are in the process of getting divorced but they will retain the property in joint names until their children are aged 18. On completion of the divorce they should be aware that
- A. it would be prudent to change the ownership of the property to a tenancy in common basis.
 - B. if the property is divided equally, they will both have a Stamp Duty Land Tax liability.
 - C. their mortgage lender will execute a new mortgage deed.
 - D. they may insist that the lender releases one party from the current mortgage.

41. One of the **key** ways in which the securitisation of mortgages is of benefit to lenders is that it
- A. helps to improve the administration process.
 - B. helps to improve corporate governance.
 - C. removes mortgage obligations from the lender's balance sheet.
 - D. reduces the likelihood that borrowers will default.
42. One of the **key** benefits of the swaps market is that it helps lenders to
- A. hedge against interest-rate movements.
 - B. offer tracker-rate mortgages.
 - C. reduce their capital adequacy requirements.
 - D. stabilise their income.
43. What fiscal measure could the UK Government use to curb inflation?
- A. Achieve a balance of payments equilibrium.
 - B. Control interest rates.
 - C. Optimise social and economic welfare.
 - D. Raise Income Tax rates.
44. What form of monetary policy may the Bank of England adopt to control inflationary pressures in the residential housing market?
- A. Decrease interest rates.
 - B. Increase personal taxation.
 - C. Introduce a programme of quantitative easing.
 - D. Place limits and controls on mortgage-lending activity.
45. Roy rents out a spare bedroom of the mortgaged property he lives in. Consequently, the entire monthly payments he receives are treated as taxable rental income and he is **NOT** claiming rent-a-room relief. This confirms that Roy
- A. is claiming an allowance for expenses.
 - B. is an additional-rate taxpayer.
 - C. receives an age-related personal allowance.
 - D. receives tax credits.
46. Dom has a buy-to-let property. In the last year, he incurred costs including £480 for buildings insurance, £2,160 for letting agency fees and £150 for service charges. How much of these, in total, is Dom eligible to claim as allowable expenses to reduce his tax liability?
- A. £630
 - B. £2,310
 - C. £2,640
 - D. £2,790

47. Pam has total taxable income of £70,000 per annum and recently sold her buy-to-let property realising a gain of £26,800. Her total costs incurred during the purchase and sale were £6,200. Assuming she has never lived in this property and made no other capital gains during the tax year, how much Capital Gains Tax will she pay?
- A. £1,710
 - B. £1,728
 - C. £2,660
 - D. £2,688
48. Gill is arranging a £50,000 business loan with her bank which will be secured by second charge on her home. She already has a residential mortgage. Gill should be aware that
- A. she cannot proceed on an execution-only basis.
 - B. the bank will need to apply for a deed of postponement before they lend.
 - C. the loan will not be regulated under Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).
 - D. the loan will only be regulated if it is tacked to her residential mortgage.
49. Terri has a secured loan, which was arranged in 2012 with a finance company. She is now in serious arrears on this loan. She also has a mortgage and a further advance with her bank, which are both secured on the same property as the loan. Payments are up to date on the mortgage and the further advance. Terri's finance company should be aware that
- A. as its loan was arranged in 2012 the procedures it must follow are contained within the Consumer Credit Acts.
 - B. if it repossesses the property, it will have its arrears paid first, before any equity is given to the bank.
 - C. it may only seek to take possession if the bank agrees.
 - D. it may seek to take possession, but must follow the procedures laid down in Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB).
50. A finance company has issued a client specific illustration for a new second charge loan. The loan is for ten years and is on a variable rate basis. They should be aware that
- A. affordability will need to be assessed on the current interest rate only.
 - B. the illustration must state the annual percentage rate of charge (APRC) based on the current interest rate only.
 - C. the illustration must state the annual percentage rate of charge (APRC) based on both the current interest rate and the highest interest rate experienced in the last 20 years.
 - D. the loan will not be regulated as it is for more than five years.

51. After receiving advice, Len is taking out a variable-rate mortgage and Joe is taking out a three-year, fixed-rate mortgage. In the case of which customer, if either, **must** the client specific illustration for the loan include the actual price or value of the mortgaged property?
- A. Both Joe and Len.
 - B. Joe only.
 - C. Len only.
 - D. Neither Joe nor Len.
52. As part of an affordability assessment for a potential borrower, an adviser is compiling both basic essential expenditure and committed expenditure figures. Consequently only
- A. basic essential expenditure can be based on relevant generic modelled data.
 - B. basic essential expenditure needs to be independently verified.
 - C. committed expenditure must cover a period of at least six months.
 - D. committed expenditure should include the cost of utility bills.
53. Stan and Eric are both seeking mortgages and each have £30,000 in their savings accounts. What **key** factor is **likely** to make an offset mortgage more attractive to Stan than to Eric?
- A. Stan has an adventurous attitude to risk whereas Eric has a cautious attitude to risk.
 - B. Stan has an interest-only mortgage whereas Eric has a repayment mortgage.
 - C. Stan is an additional-rate taxpayer whereas Eric is a basic-rate taxpayer.
 - D. Stan wants a variable-rate mortgage whereas Eric wants a fixed-rate mortgage.
54. Helen, aged 71, and Elsie, aged 72, both received advice from a mortgage intermediary. Helen was recommended a lifetime mortgage whereas Elsie was recommended a home reversion plan. Under the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB), in the case of which of these clients, if either, was there a mandatory requirement to issue a suitability report?
- A. Neither Helen nor Elsie.
 - B. Helen only.
 - C. Elsie only.
 - D. Both Helen and Elsie.
55. Two clients recently bought new homes with identical-sized home purchase plans from an Islamic bank under a Murabaha arrangement. However, the margin built into each client's arrangement differed. This difference was triggered by what **key** factor?
- A. Their ages.
 - B. Their chosen repayment term.
 - C. The condition of their properties.
 - D. The tenure of their properties.

Section B begins on the next page

SECTION B

Jack has run his own printing business for 20 years. In recent years, the business has suffered and he has found it necessary to reduce his earnings whilst the business recovers.

Jack now wishes to borrow £25,000, in total, to clear accumulated credit card balances and make £15,000 of house repairs. Although he can provide evidence of a gradual upturn in his business, he has been refused an unsecured loan. He is now enquiring about second charge and remortgage options.

Jack's current home was purchased 10 years ago for £350,000 on a joint tenancy basis with his wife, Sue. It is now valued at £425,000. The purchase was supported by a 20-year interest-only mortgage for £75,000. Jack and Sue hold a joint life unit-linked endowment policy, with a death benefit and target maturity value of £75,000. This has underperformed and current projections show a maturity shortfall of 15%, based on an assumed growth rate of 3% per annum.

Sue fulfils an administrative role in the business but has boosted their joint earnings in recent years with various temporary positions, which have averaged three days per week.

Their current lender, lender X, offers a standard variable rate of 2.79%, which applies to the existing mortgage. After assessing affordability, lender X is prepared to offer an interest-only remortgage rate of 4.29% and a 15-year term, to coincide with Jack's planned retirement date. This has an application fee of £1,495. Lender X is **NOT** prepared to offer a further advance, but is prepared to offer a new mortgage despite the relevant clause being contained within the mortgage deed.

Jack has explained that he has a personal pension plan with a current fund value of £200,000 and is making regular contributions. He has suggested that he would like to use this plan as a strategy for mortgage repayment.

Lender Y has offered a second charge interest-only mortgage for the additional amount required at a rate of 5.74%. This has an application fee of £995 and a 10-year term.

56. Jack and Sue are comparing the total interest payments for the first year under the solutions provided by lenders X and Y, together with the relevant application fees. If Jack and Sue proceed with the lender X option compared with lender Y, their first year costs will be
- A. £762.50 more.
 - B. £762.50 less.
 - C. £1,262.50 more.
 - D. £1,262.50 less.

57. If Jack and Sue's endowment policy pays out the projected amount at maturity, taking into account the additional borrowing requirement, the pension plan will need to provide what amount towards the repayment of the total mortgage?
- A. £28,750
 - B. £36,250
 - C. £40,250
 - D. £43,750
58. If Jack and Sue choose to proceed with lender Y, they should be aware of the need to
- A. consider a repayment strategy.
 - B. extend the term of the existing mortgage.
 - C. increase Sue's earnings capacity.
 - D. minimise other monthly expenditure.
59. When considering with which lender to proceed, Jack and Sue should be aware that
- A. neither of the arrangements will be a regulated mortgage contract.
 - B. a complaint in respect of both arrangements may ultimately be referred to the Financial Ombudsman Service.
 - C. only the mortgage offered by lender Y is protected under the provisions of the Financial Services Compensation Scheme.
 - D. only the mortgage offered by lender X requires an affordability assessment.
60. If Jack and Sue proceed with lender X and utilise their current repayment strategy for part of the new mortgage, they should be aware that
- A. lender X must make at least one check on the performance of the policy during the term of the mortgage.
 - B. lender X must check annually on the performance of the policy during the term of the mortgage.
 - C. they are entirely responsible for monitoring the performance of the policy and lender X is not required to make any checks.
 - D. lender X will check on the projected maturity value at outset only.

Jenny and Rick are married and purchased their first home two years ago, as joint tenants, under the Government's Help to Buy New Buy scheme. They were eligible for the **maximum** mortgage percentage under the scheme at the purchase price of £250,000. Both earn good salaries, but had previously lived in rented property.

With careers progressing well, both Jenny and Rick have job offers in a location which would require them to relocate. They have enquired about their ongoing eligibility for the Help to Buy equity loan scheme. With an increase in their property's value, and additional savings, they can offer a deposit of £35,000. They also have enough savings to cover all fees, taxes and expenses. Initial assessments completed by a mortgage lender indicate their affordability for a mortgage loan of £300,000 on a capital and interest basis.

With several new build developments in their planned new location, in the north of England, they are confident of finding a long-term home. Rick works as a lawyer and there is the possibility of a temporary secondment overseas, so they are considering the possibility of letting the property during this time to fund their mortgage payments.

Recognising that additional financial assistance could allow them to purchase their dream home, Jenny's parents have offered to increase their deposit by £65,000.

Both Jenny and Rick have taken out life assurance policies to make financial provision for each other on the death of either life. However, they are keen to minimise any other ongoing costs whilst establishing themselves in their new jobs.

61. When compared to the deposit they used for the purchase of their current property, the amount of deposit they have personally available to put towards their new property has increased by
- A. £12,500
 - B. £20,000
 - C. £22,500
 - D. £25,000
62. If Jenny and Rick take advantage of the **maximum** available mortgage and utilise all of their own funds as a deposit, together with the money that Jenny's parents have offered, what, if anything, would they require as an equity loan under the Help to Buy equity loan scheme?
- A. Nil.
 - B. £15,000
 - C. £25,000
 - D. £35,000

63. If the temporary secondment was to happen prior to completing the property purchase and they proceed with their plans for the new property, they should be aware that
- A. if both the equity loan provider and the mortgage lender agree, they may let the property.
 - B. letting is not allowed under the equity loan scheme.
 - C. they will be able to claim rent a room relief on the rental income.
 - D. the mortgage will always be classed as a consumer buy to let mortgage.
64. In respect of the Help to Buy scheme that Jenny and Rick are favouring, they should be aware that
- A. the fee charged on the equity loan from year five will be charged at the same interest rate as their main mortgage.
 - B. the fee charged on the equity loan from year five will be 1.75% per annum increasing by the Retail Prices Index each year thereafter.
 - C. no fee is charged on the equity loan for years one to three and then the fee is fixed at 1.75% per annum for the remainder of the term.
 - D. no fee is charged on the equity loan throughout the term.
65. Jenny and Rick have decided to proceed with their planned purchase and are purchasing a house for £335,000, utilising just their own funds as a deposit. If they take advantage of the Help to Buy equity loan scheme, and draw down the **maximum** available equity loan, they should be aware that on future sale of the house, they will repay
- A. 14.55% of the sale value to the equity loan provider.
 - B. £48,750 to the equity loan provider.
 - C. 20% of the sale value to the equity loan provider.
 - D. £67,000 to the equity loan provider.

Rob and Amy purchased their UK home 20 years ago for £200,000, as joint tenants, with an £80,000 interest-only mortgage. Rob has a personal pension plan that he plans to use as a repayment strategy to repay this current mortgage, utilising just the pension commencement lump sum. The property is currently valued at £450,000.

They plan to purchase a holiday property in Cyprus, where they have taken holidays for several years. They intend to let the property commercially for the next five years, but then increase their personal occupancy to coincide with their retirement plans. However, initial renovations are needed before letting commences.

They have enquired about mortgages with both UK and Cypriot lenders regarding a loan equivalent to €100,000 to purchase the Cypriot property for €400,000. Interest rate offers in the UK are 3.25% and in Cyprus 3.45%. The current exchange rate is €1.25 to £1. They have sold one of their two UK holiday homes to add to existing savings to fund the balance of the purchase. With bank accounts solely in the UK, they are aware of exchange rate implications. Potential monthly income from the new property is estimated at €2,000.

Their remaining UK holiday home is let on a commercial basis and achieved seven months' occupancy in the last financial year. This property is currently valued at £250,000, with a £50,000 mortgage balance outstanding. Rental income in the last year totalled £14,000, with mortgage payments of £150 per month and monthly management expenses of £100. They hope to fund the first year's costs on the Cypriot property from this income in the next year when they expect to see a similar rental income.

They may choose to eventually retire to their Cypriot property, but expect to retain and let out their UK home until they are sure that the move is permanent. Its sale would then cover any outstanding mortgage balance on the Cypriot property.

66. If the exchange rate is €1.34 to £1 at the time of purchase, what will be the difference in sterling in the purchase price of the Cypriot property?
- A. An additional cost of £21,492.54.
 - B. An additional cost of £36,000.00.
 - C. A saving of £21,492.54.
 - D. A saving of £36,000.00.
67. If Rob and Amy retire to Cyprus in five years' time, then sell their former **main** UK residence five years later. What percentage of the gain on the property will potentially be subject to Capital Gains Tax?
- A. 6.67%
 - B. 11.67%
 - C. 14%
 - D. 16.67%

68. If Rob still plans to use his pension commencement lump sum to repay the mortgage on his current home and the current mortgage balance remains unchanged, what total pension fund would be required?
- A. £80,000
 - B. £160,000
 - C. £240,000
 - D. £320,000
69. If Rob and Amy achieve the rental income they anticipate in the current financial year, what surplus, before tax, is potentially available to fund the Cypriot property mortgage costs?
- A. £5,000
 - B. £7,000
 - C. £9,000
 - D. £11,000
70. Based on the current exchange rate stated, the sterling equivalent of the Cypriot mortgage interest cost compared to the equivalent UK offer will be an additional monthly cost of
- A. £9.66
 - B. £13.33
 - C. £19.33
 - D. £26.66

Bill and Liz are married and are looking to relocate back to the area where they both grew up. They have a successful online business which can be easily managed from their intended home town. Bill and Liz each draw a **minimum** of £3,000 per month from the business.

A property they are interested in is being auctioned this month and they hope to purchase it, despite their current property **NOT** yet being marketed for sale. Initial exploratory reports indicate no major legal or structural problems with their proposed purchase, so they have approached their existing lender regarding bridging finance to purchase and modernise the property whilst starting the sale process of their current home.

They own their current property as joint tenants and this will be marketed at £400,000. They have a capital and interest mortgage, their preferred repayment basis, with an outstanding balance of £30,000 and a remaining term of seven years. Current monthly payments are £400.

The guide price of the auction property is £295,000. A local agent has indicated that, following modernisation expenditure of around £30,000, the property would be valued at £425,000.

Subject to survey, their lender has indicated a bridging finance rate of 1.3% per month, up to the **maximum** loan to value of 75% and an arrangement fee of 1.6% of the loan amount which is charged in month one.

Bill and Liz can raise a **maximum** of £125,000 immediately as a deposit and they have separate funds for all other necessary fees, taxes and expenses. They have already asked for quotations to insure the property.

71. If Bill and Liz proceed with their intended property purchase and are successful in making a bid, they should be aware that they may withdraw from the purchase without losing any deposit paid if the
- A. auctioneer did not advertise the property for sale prior to the auction.
 - B. insurer refuses to provide cover for the property.
 - C. lender withdraws the offer of bridging finance following an unsatisfactory survey.
 - D. vendor has significantly misrepresented the information relating to the property.
72. Bill and Liz need to understand the **maximum** bid that they can afford to make, in order to secure the property. They would utilise all of their available deposit and take a bridging loan for the remainder. Subject to the initial lender's valuation being confirmed at a **maximum** of the finished value stated, less the cost of the planned work, what is the **maximum** price they may bid at auction
- A. £346,250
 - B. £420,000
 - C. £421,250
 - D. £500,000

73. Assuming Bill and Liz purchase the property at guide price and take the **maximum** available bridging loan. In the first month, how much will they pay to their lender, in total, including the payment due on their existing mortgage.
- A. £6,416.25
 - B. £6,816.25
 - C. £8,555.00
 - D. £8,955.00
74. Should Bill die whilst the bridging loan is in force and the new property is purchased on the same ownership basis as their current property, the Inheritance Tax (IHT) implications are that
- A. an immediate IHT liability arises in respect of the total property value.
 - B. the individual allowance limit for Bill can be used to reduce the immediate IHT liability.
 - C. the value of both properties passes to Liz without any immediate IHT liability.
 - D. the value of the first property can pass to Liz without any immediate IHT liability but the second property value is added to Bill's estate for immediate assessment.
75. If Bill and Liz were to succeed at auction with a bid at £10,000 over the guide price, what **minimum** deposit would they need to pay immediately?
- A. £29,500
 - B. £30,500
 - C. £44,250
 - D. £45,750

Specimen Examination Answers and Learning Outcomes Covered

Question	Answer	Learning Outcome	Question	Answer	Learning Outcome	Question	Answer	Learning Outcome
STANDARD FORMAT						SCENARIO FORMAT		
Learning Outcome 1			Learning Outcome 2			Learning Outcome 5		
1	C	1.4	27	A	2.1	56	C	5.1
2	C	1.1	28	C	2.1	57	B	5.1
3	A	1.2	29	A	2.1	58	A	5.1
4	A	1.3	30	B	2.1	59	B	5.1
5	C	1.1	31	B	2.1	60	A	5.2
6	C	1.1	32	D	2.1	61	C	5.1
7	B	1.1	33	D	2.1	62	A	5.2
8	C	1.1	34	D	2.1	63	B	5.1
9	B	1.1	35	D	2.1	64	B	5.1
10	D	1.1	36	C	2.1	65	A	5.1
11	D	1.2	37	C	2.1	66	C	5.1
12	A	1.2	38	A	2.1	67	B	5.1
13	C	1.2	39	B	2.1	68	D	5.1
14	C	1.3	40	A	2.1	69	D	5.1
15	C	1.3	14 Questions			70	B	5.1
16	D	1.3				71	D	5.2
17	B	1.3	Learning Outcome 3			72	C	5.1
18	B	1.4	41	C	3.1	73	B	5.2
19	D	1.4	42	A	3.1	74	C	5.2
20	D	1.4	43	D	3.1	75	B	5.2
21	C	1.3	44	D	3.1	20 Questions		
22	A	1.3	4 Questions					
23	C	1.1						
24	C	1.2	Learning Outcome 4					
25	B	1.3	45	A	4.1			
26	C	1.4	46	D	4.1			
26 Questions			47	C	4.1			
			48	C	4.1			
			49	D	4.1			
			50	C	4.1			
			51	A	4.1			
			52	A	4.1			
			53	C	4.1			
			54	A	4.1			
			55	B	4.1			
			11 Questions					