

Mortgage advice

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

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

| Summary of learning outcomes | Number of questions in the examination* |
|--|---|
| 1. Understand the rules relating to the regulation of mortgages according to the Mortgages and Home Finance: Conduct of Business Sourcebook (MCOB) | 6 |
| 2. Understand the definition of a home purchase plan | 2 |
| 3. Understand the house-buying process, the key parties involved and their roles | 6 |
| 4. Understand the principal types of property defect that surveys can identify and their implications when seeking a mortgage, including the options available to consumers | 3 |
| 5. Understand the process and implications of buying property at auction | 2 |
| 6. Understand the common types of borrower, how their main mortgage-related requirements may differ and what factors may disqualify people from borrowing | 4 |
| 7. Understand the economic context for giving mortgage advice | 2 |
| 8. Understand the role of a mortgage adviser and the importance and principles of providing advice, including the key factors affecting the advice given | 6 |
| 9. Understand the main features and the implications for consumers of 'gazumping' and 'gazundering' | 2 |
| 10. Understand the purpose of additional security, including that of guarantors | 2 |
| 11. Understand the fees and charges involved in arranging a mortgage, identify where these apply, the services they cover, when they become due, which are refundable and how the opportunity for refunds diminishes as the process nears completion | 5 |
| 12. Understand the principal factors affecting the value of property, including their implications for consumers seeking mortgages and when consumers should be referred for specialist advice | 4 |
| 13. Understand the different forms of valuation and survey and which might be appropriate for different properties and/or the borrower's circumstances | 5 |
| 14. Understand the main features and functions of mortgage payment protection insurance (MPPI), life assurance and accident, sickness and unemployment insurance (ASU) | 5 |
| 15. Understand the principles and procedures associated with raising additional money and the circumstances when further borrowing might be appropriate | 3 |
| 16. Understand the principles, procedures and costs of transferring mortgages | 4 |
| 17. Understand the principles of using mortgages within debt consolidate arrangements | 2 |
| 18. Understand the need to obtain Local Authority planning consent for house development/extensions | 2 |
| 19. Understand the implications for the borrower of the non-payment of mortgages, other breaches of the Mortgage Deed, non-payment of buildings insurance, non-payment of ground rent/service charges and the options available | 2 |
| 20. Understand the legal rights and remedies available to lenders in respect of non-payment from borrowers | 2 |
| 21. Understand the main provisions made by the State to assist consumers in difficulties over the repayment of mortgages | 4 |
| 22. Understand the main requirements of the legislation affecting mortgages | 3 |

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| 23. Understand the key features of the common types of mortgage product and interest rate options | 12 |
| 24. Understand the structure and features of other types of mortgage | 4 |
| 25. Understand the key features of the different types of mortgage repayment options and their advantages and disadvantages for different types of borrower | 4 |
| 26. Understand the key features of certain repayment vehicles which may be used in conjunction with interest-only mortgages | 4 |
| 27. Analyse consumers' circumstances and suitable mortgage solutions taking account of any existing arrangements | 25 case study related questions |
| 28. Apply suitable mortgage solutions to specific consumers' circumstances. | |

*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.

Important notes

- **Method of assessment:** 100 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 3 hours are allowed for this examination.
- **This syllabus will be examined from 1 September 2010 until 31 August 2011.**
- **Candidates will be examined on the basis of English law and practice in the tax year 2010/2011 unless otherwise stated.**
- **Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.**

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

- 1.1 To whom the MCOB applies;
- 1.2 Which products and services are covered by the MCOB;
- 1.3 MCOB 1 – the reasons for the regulation of mortgage activity;
- 1.4 MCOB 2 – Conduct of Business Standards: General;
- 1.5 MCOB 3 – financial promotion of qualifying credit and home reversion plans; MCOB 4 – advising and selling standards defined by the MCOB:
 - 1.5.1 the scope of service provided;
 - 1.5.2 initial disclosure requirements;
 - 1.5.3 the difference between advised and non-advised sales.
- 1.6 MCOB 5 – the pre-application disclosure requirements of the MCOB, including when the key information about a home purchase plan must be provided and the content;
- 1.7 MCOB 6 – the disclosure at offer stage requirements of the MCOB and the content of the offer document;
- 1.8 MCOB 7 – the disclosure at start of contract and after sale requirements of the MCOB, including the need to provide event driven information;
- 1.9 MCOB 10 – the elements included in the calculation of Annual Percentage Rate and the assumptions made in that calculation;
- 1.10 MCOB 11 – the MCOB guidelines on responsible lending;
- 1.11 MCOB 12 – the MCOB guidelines on charges, including early repayment charges, arrears charges and excessive charges;
- 1.12 MCOB 13 – the MCOB guidelines on arrears and possessions;
- 1.13 The requirements of the MCOB in relation to client money and assets.

2. Understand the definition of a home purchase plan

- 2.1 Definition, as given in the FSA handbook;
- 2.2 Legal definition.

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

- 3.1 England/Wales:
 - 3.1.1 role of estate agent/valuer/conveyancer/legal adviser/intermediary;
 - 3.1.2 process to contract exchange/completion and when a contract becomes binding;

3.2 Scotland:

- 3.2.1 role of estate agent/valuer/legal adviser/intermediary;
- 3.2.2 conditional/unconditional offer;
- 3.2.3 private bargain/private treaty;
- 3.2.4 acceptance/completion/conclusion of missives.

4. Understand the principal types of property defect that surveys can identify and their implications when seeking a mortgage, including the options available to consumers

- 4.1 The main property defects typically outlined in valuation and survey reports and how they affect the property transaction, including causes and possible remedies;
- 4.2 How property defects may affect the lending decision and/or require immediate remedial works – retention, decline, conditional lending.

5. Understand the process and implications of buying property at auction

- 5.1 Requirements for funding (i.e. cash/mortgage commitment) to be in place up front;
- 5.2 The legal processes for purchasing property at auction including exchange of contracts, payment of deposit and legal completion.

6. Understand the common types of borrower and how their main mortgage-related requirements may differ and what factors may disqualify people from borrowing

- 6.1 Types of borrower:
 - 6.1.1 private/residential borrowers;
 - 6.1.2 business and commercial lending;
 - 6.1.3 buy to let investors.
- 6.2 Those who may find it difficult to raise a mortgage:
 - 6.2.1 undischarged bankrupts;
 - 6.2.2 mentally incapacitated;
 - 6.2.3 minors;
 - 6.2.4 consumers with poor credit history;
 - 6.2.5 consumers unable to prove income;
 - 6.2.6 socially excluded;
 - 6.2.7 those in negative equity;
 - 6.2.8 those who have insufficient deposit.
- 6.3 Options for those who are buying abroad, including remortgage and foreign mortgage;
- 6.4 Options available for those who are 'self-builders' to finance their projects;
- 6.5 Higher lending charges and high percentage loans.

7. Understand the economic context for giving mortgage advice

- 7.1 The property market and the main conditions that affect it;
- 7.2 Interest rates and their drivers;
- 7.3 The UK mortgage lending sector, including sources of income.

8. Understand the role of a mortgage adviser and the importance and principles of providing advice, including the key factors affecting the advice given

- 8.1 Affordability, suitability, risk, term of loan;
- 8.2 Methods of verifying information supplied by consumers;
- 8.3 Methods of checking that mortgage solutions match customer immediate and long-term needs and circumstances;
- 8.4 Ways of advising clients in arrears who have differing attitudes to risk and indebtedness;
- 8.5 Ways of advising on negative equity.

9. Understand the main features and the implications for consumers of 'gazumping' and 'gazundering'

- 9.1 Gazumping;
- 9.2 Gazundering.

10. Understand the purpose of additional security, including that of guarantors

- 10.1 The options available if a client's circumstances do not fulfil a lender's criteria, including the role of a guarantor;
- 10.2 The requirement for guarantors to be advised to seek independent legal advice.

11. Understand the fees and charges involved in arranging a mortgage, identify where these apply, the services they cover, when they become due, which are refundable and how the opportunity for refunds diminishes as the process nears completion

- 11.1 Reservation fees/application fees/arrangement fees, lenders reference fees, Land Registry fees, valuation fees, estate agent fees, legal/solicitors fees, Stamp Duty Land Tax, local authority searches, bankruptcy searches, telegraphic transfer costs, environmental searches, e.g. flooding, mining;

- 11.2 Survey fees and fees for other specialist reports, booking fees, title indemnity fees, higher lending charges, brokers fees (in outline only).

12. Understand the principal factors affecting the value of property, including their implications for consumers seeking mortgages and when consumers should be referred for specialist advice

- 12.1 Type of property;
- 12.2 Location;
- 12.3 Building materials and any restrictions;
- 12.4 Age of property;
- 12.5 Freehold/commonhold/leasehold (England & Wales);
- 12.6 Tenure (Scotland);
- 12.7 Multiple use;
- 12.8 Vacant possession;
- 12.9 Reinstatement value;
- 12.10 Whether it is insurable, e.g. risk of flooding;
- 12.11 Planning permission;
- 12.12 Building regulations;
- 12.13 Contract guarantees (damp and timber, NHBC, architects certificate, Zurich Municipal);
- 12.14 History of subsidence;
- 12.15 Listed/heritage;
- 12.16 Easements, e.g. rights of way;
- 12.17 Due diligence enquiries, e.g. outstanding disputes, covenants.

13. Understand the different forms of valuation and survey and which might be appropriate for different properties and/or the borrower's circumstances

- 13.1 Forms of valuation and/or survey (basic valuation, homebuyer's survey and valuation, building survey);
- 13.2 Requirements of lenders;
- 13.3 Rights of the consumer.

14. Understand the main features and functions of mortgage payment protection insurance (MPPI), life assurance and accident, sickness and unemployment insurance (ASU)

- 14.1 Cover provided by MPPI and ASU – long-term illness, incapacity, unemployment, differences between MPPI and ASU;
- 14.2 Need for MPPI and ASU;
- 14.3 Main limitations on the insurance provided;

- 14.4 Comparing MPPI with ASU, income protection and critical illness insurance – advantages and drawbacks;
- 14.5 Life assurance;
- 14.6 Critical illness insurance;
- 14.7 Income protection insurance (PHI);
- 14.8 Buildings and contents insurance;
- 14.9 Waiver of premium benefit.

15. Understand the principles and procedures associated with raising additional money and the circumstances when further borrowing might be appropriate

- 15.1 Equity release products (lifetime mortgages and home reversion plans);
- 15.2 Further advances;
- 15.3 Drawdown facilities;
- 15.4 Release of part security;
- 15.5 Remortgages, second mortgages;
- 15.6 Bridging loans;
- 15.7 Legal implications.

16. Understand the principles, procedures and costs of transferring mortgages

- 16.1 Transfer of mortgage to a new lender – remortgage;
- 16.2 Implications of property moves;
- 16.3 Adding/removing one party from a joint mortgage;
- 16.4 Redeeming a mortgage before/at the end of its term;
- 16.5 Making additional/lump sum capital repayments on a mortgage, during its term;
- 16.6 Early repayment charges;
- 16.7 Advising on the most appropriate action for customers who are tied in to current deals.

17. Understand the principles of using mortgages within debt consolidation arrangements

- 17.1 Relationship between costs/penalties/repayments/term;
- 17.2 Risk to the consumer associated with consolidation;
- 17.3 Risks associated with moving loans from unsecured to secured status;
- 17.4 Drawdown facilities;
- 17.5 Arrangements with creditors;
- 17.6 The options available to those whose mortgage exceeds the market value of their property, commonly known as negative equity.

18. Understand the need to obtain local authority planning consent for house development/extensions

- 18.1 The legal basis of local authority planning procedures;
- 18.2 The main procedures in obtaining local authority planning consent;
- 18.3 Development limitations that apply to different categories of listed buildings;
- 18.4 Planning permission;
- 18.5 Building regulations.

19. Understand the implications for the borrower of the non-payment of mortgages, other breaches of the Mortgage Deed, non-payment of buildings insurance, non-payment of ground rent/service charges and the options available

- 19.1 When to provide a mortgage warning, ensuring that this is understood;
- 19.2 Possible courses of action available:
 - 19.2.1 debt advice agencies available to the borrower;
 - 19.2.2 switching payments from repayment to interest only;
 - 19.2.3 extension to term or consolidation of arrears;
 - 19.2.4 dealing with associated insurance products;
 - 19.2.5 the use of Government debt management programmes.
- 19.3 FSA requirements regarding the treatment of those in arrears;
- 19.4 Mortgage Rights (Scotland) Act 2001.

20. Understand the legal rights and remedies available to lenders in respect of non-payment from borrowers

- 20.1 Rights of subrogation of insurers to pursue borrowers;
- 20.2 Legal remedies on default;
- 20.3 Repossession.

21. Understand the main provisions made by the State to assist consumers in difficulties over the repayment of mortgages

- 21.1 Support Mortgage Interest (SMI);
- 21.2 52 week linking rule;
- 21.3 Homeowners Mortgage Support Scheme (HMS).

22. Understand the main requirements of the legislation affecting mortgages

22.1 England:

- Property Misdescriptions Act, Contract Law, Principles of Agency, Consumer law, Principles of testacy and intestacy, including grants of probate and letters of administration, Rights of parties to joint tenancies and tenancies in common, Legal obligations and guarantors, Lenders Rights and Borrowers Covenant, Financial Services and Markets Act 2000.

22.2 England/Wales/Northern Ireland:

- Property Law (Law of Property Act 1925, Leasehold Reform Act 1967, Leasehold Reform, Housing and Urban Development Act 1993).

22.3 Scotland:

- Rent to Mortgage Scheme, Matrimonial Homes Act (e.g. single borrowers require an affidavit), Tenancy Act, Mortgage Rights Act, Bankruptcy Act (refers to 'sequestration' in Scotland), Land Tenure Reform Act, Legislation regarding intestacy – impact upon partner where mortgagor dies intestate, Feu disposition (reference Land Certificate in England/Wales), Court decree (reference County Court Judgement in England/Wales).

23. Understand the key features of the common types of mortgage product and interest rate options

23.1 Standard variable-rate mortgages;

23.2 Tracker mortgages (variable-rate/LIBOR/base-rate tracker mortgages);

23.3 Fixed-rate mortgages;

23.4 Capped-rate (including capped and collared) mortgages;

23.5 Discounted-rate mortgages;

23.6 Cash back mortgages;

23.7 Deferred-rate low start mortgages;

23.8 Flexible mortgages;

23.9 All in one/current account mortgages, including drawdown facilities: offset mortgages;

23.10 CAT-standard mortgages;

23.11 Hybrid arrangement products, for example – 'part and part' mortgages;

23.12 The performance and volatility of fixed and variable interest rates for different types of borrower.

24. Understand the structure and features of other types of mortgage

24.1 Commercial mortgages;

24.2 Lifetime mortgages (defined term for 'equity release' mortgages for older consumers);

24.3 Low start/deferred-interest mortgages;

24.4 Self-build mortgages;

24.5 Foreign currency mortgages;

24.6 Buy-to-let mortgages (including types of tenancy);

24.7 'Right-to-buy' Council property mortgages;

24.8 Shared appreciation mortgages;

24.9 Shared ownership mortgages, including properties purchased in conjunction with a housing association and Government subsidised/sponsored schemes;

24.10 Equity share mortgages;

24.11 Adverse credit/sub-prime mortgages (for 'non-conforming' or 'non-status' borrowers, with, e.g. CCJs/arrears/discharged bankruptcy) and extra advice required to justify non-status terms;

24.12 Islamic home finance;

24.13 Self-certification and fast-track mortgages;

24.14 New Build Homebuy Scheme and Homebuy Direct Scheme.

25. Understand the key features of the different types of mortgage repayment options and their advantages and disadvantages for different types of borrower

25.1 Capital and interest repayment (repayment mortgages);

25.2 Interest payment (interest-only mortgages);

26. Understand the key features of certain repayment vehicles which may be used in conjunction with interest-only mortgages

26.1 Endowment policies, including with-profit, low-cost and unit-linked;

26.2 Personal pension schemes;

26.3 Individual savings accounts (ISAs);

26.4 The suitability of generic repayment vehicles to use with interest-only mortgages;

26.5 The action which the lender may take in respect of repayment vehicles used in conjunction with an interest-only mortgage, including deposit, legal charge, assignment and conditional mortgage offers;

26.6 Implications for the consumer of the under-performance of repayment options.

27. Analyse consumers' circumstances and suitable mortgage solutions taking account of any existing arrangements

27.1 Factors shaping consumers' circumstances and borrowing purposes;

27.2 Affordability and suitability;

27.3 The long-term performance of mortgage products;

27.4 Identifying and reviewing suitable product solutions;

27.5 The impact of new solutions on existing arrangements.

28. Apply suitable mortgage solutions to specific consumers' circumstances

- 28.1 The range of solutions available to suit different types of circumstances;
- 28.2 The criteria for matching solutions to consumer needs and demands;
- 28.3 How to explain the impact of interest rates, volatility and related technical matters to clients;
- 28.4 Factors influencing the way in which recommendations are presented;
- 28.5 How to check consumers' understanding of recommendations;
- 28.6 Consumer rights and the regulatory requirements apply to the provision of mortgage advice.

Reading List

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. The reference materials cited are authoritative, detailed works which should be used selectively as and when required.

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.

CII/PFS members can borrow most of the study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge.

Mortgage advice. London: CII. Coursebook CF6.

Reference works and additional reading

Mortgage regulation for intermediaries. Jonathan Denton...[et al]. Croydon: LexisNexis UK, 2004.

A practitioner's guide to mortgage regulation. Chris Cummings. Old Woking, Surrey: City & Financial, 2007.

Recent developments in mortgage product design. Brad Baker. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

The regulation of mortgage business. Richard Fox. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

The regulation of mortgage intermediaries. Tony Wiltshire, updated by Brad Baker, 2010. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

Periodicals

Financial Adviser. London: Financial Times Business. Weekly. Available in print and online at www.ftadviser.com.

Financial Solutions. London: Personal Finance Society. Six issues a year. Also available online at www.cii.co.uk/knowledge/financialsolutions (CII/PFS members only).

Money Marketing. London: Centaur Communications. Weekly. Available online at www.moneymarketing.co.uk.

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

Technical Focus. London: Society of Mortgage Professionals. Several issues a year. Available online at www.cii.co.uk/knowledge/mortgageprofessionals (CII/PFS members only).

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.