

more 2 life Interest Choice Lifetime Mortgage Customer Product Guide

Important information in respect of the Early Repayment Charge and availability of the Cash Facility.

This guide sets out what happens if you want to repay your mortgage early and when you might be able to borrow more money.

Why is there an Early Repayment Charge?

An Early Repayment Charge (ERC) is a charge you may have to pay if you pay back your loan early.

Lifetime mortgages are designed to be paid back following death or movement into long-term care. If you decide to pay back the money before that, then more 2 life's funders will have to reinvest that money to replace the proceeds that they would otherwise have expected to receive. The reinvestment process gives rise to two distinct sets of costs. The first is the transaction costs incurred in reinvesting the money; the second is that, if the interest rates available on investments have fallen since the time when we originally loaned the money, then the cost of the replacement investments will be higher. An ERC is charged to recoup these additional costs. In addition, more 2 life charge a fee to cover the administration costs associated with paying back the loan. This is currently £125.

There will be no Early Repayment Charge:

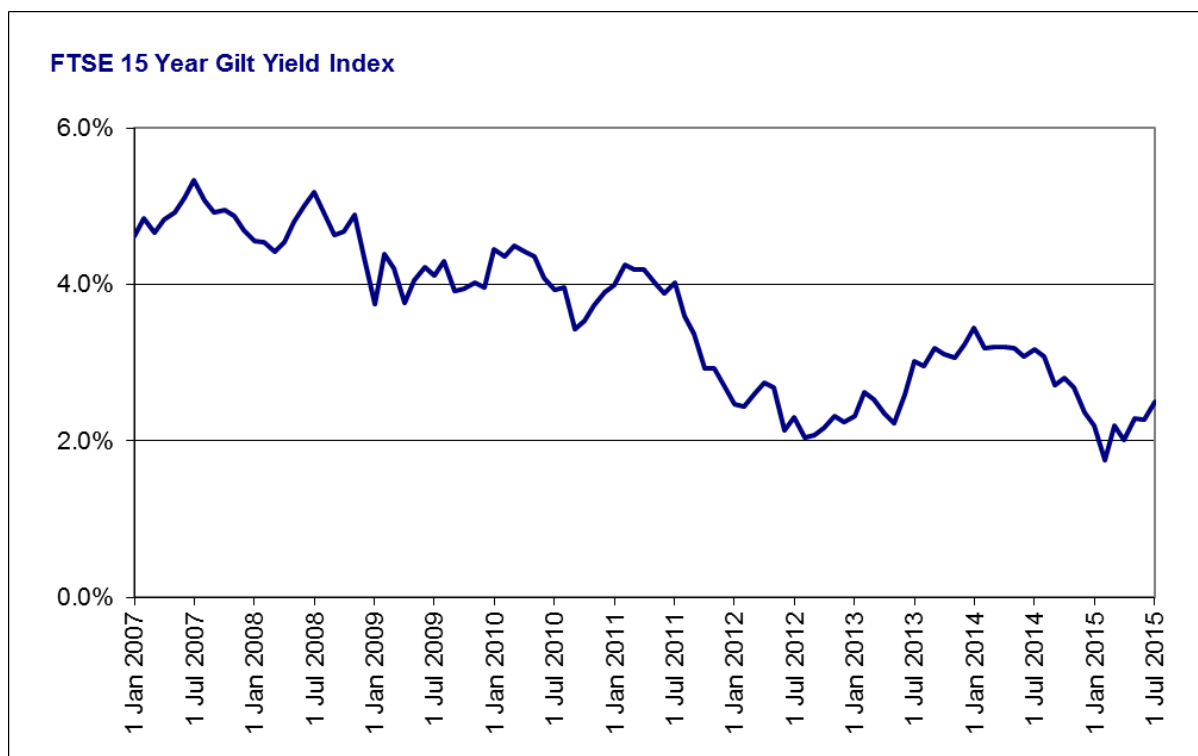
- i) If the loan is repaid following your death,
- ii) If you move permanently into long-term care because of medical necessity, or
- iii) If you make a part repayment which we are requiring you to make because you are moving to a home of lesser value and transferring your mortgage to your new home. Your new property must meet more 2 life's (or an assignee's) lending criteria at the time.

If the loan was taken out in joint names, then there will be no Early Repayment Charge following either death or move into long-term care because of medical necessity of both of you or if you make a part repayment as in (iii) above.

When is an Early Repayment Charge payable?

Whether an ERC is payable is based on deviations from the Target Benchmark Interest Rate when a customer repays their Lifetime Mortgage early. We explain more about the Target Benchmark Interest Rate below.

We base our Target Benchmark Interest Rate on the UK FTSE 15 Year Gilt Yield Index. This Index is published daily in the *Financial Times* (under "Gilts – UK FTSE Actuaries Indices", "Yield Indices", "15 yrs") The chart below shows historic movements in the FTSE 15 Year Gilt Index Yield:



The index published is shown as what is known as a semi-annual rate and is expressed as a percentage. For example, if the index value shown in the *Financial Times* is 3, then this means that the semi-annual rate is 3%.

The rate expressed as a percentage can currently also be found on their website, which at the time of printing is <http://markets.ft.com/research/Markets/Bonds>. There may be a charge for use of that website.

When an interest rate is quoted as a semi-annual rate this means that the true annual interest rate applying is equal to half of that interest rate, applied every six months. In other words, we use the semi-annual interest rate to calculate a yearly interest rate by working out in a standard arithmetical way how the interest rate compounds over a 12 month period. This tells us what the rate would be over the whole year if we applied the semi-annual rate every 6 months. The standard arithmetical way that we use to calculate a yearly interest rate is to apply the following formula:

$[(1 + \text{index}/200) \times (1 + \text{index}/200) - 1] \times 100\%$, where "Index" means the index value published by the *Financial Times*. For example, if the index value is 3 then the interest rate applied for the year would be 3.0225%.

In determining the ERC we use the true annual interest rate, worked out as we say above. We call this the Benchmark Interest Rate. The Benchmark Interest Rate we use on any business day is based on the index value published in the *Financial Times* on the previous business day, and that is itself based on the position applying at the close of the business day before that.

On your offer documentation we state a Target Benchmark Interest Rate. This is equal to the Benchmark Interest Rate for the relevant day plus 0.2%. For example, if the Benchmark Interest Rate on the Offer Date is 3.4% then the Target Benchmark Interest Rate recorded on your offer documentation will be 3.6%. The 0.2% addition included in the Target Benchmark Interest Rate is an allowance for the transaction costs incurred in reinvesting the money, as mentioned earlier in the section "Why is there an Early Repayment Charge?".

If you decide to pay back your mortgage early then we will provide you with a statement, and this will include the amount of any ERC applying. The ERC will be calculated based on the Benchmark Interest Rate applying on the statement date.

If the Benchmark Interest Rate applying on the statement date is the same as, or more than the Target Benchmark Interest Rate recorded on the offer documentation then the ERC will be zero. However, the redemption fee of £125 will still be payable.

If the Benchmark Interest Rate applying on the statement date is less than the Target Benchmark Interest Rate recorded on the offer documentation then an ERC will be payable, together with the redemption fee of £125.

How much might the Early Repayment Charge be?

The ERC in respect of any advance will never be more than 20% of that advance.

For the avoidance of doubt "advance" means the amount of the advance made, ignoring any fees which might have been added to the loan, and ignoring any interest or other amounts which have been added to the loan. For example, if your Initial Advance was £10,000, the maximum ERC we would charge you for repaying the loan early would be £2,000 plus the redemption fee of £125.

Please remember, the ERC will be calculated at the date of the redemption statement when you tell us you are repaying the loan, so you must bear in mind that any estimates of this charge provided before this date could change. This could be because the expected repayment date has moved or because the Benchmark Interest Rate may have changed or because you decided to stop paying the monthly interest payment. The ERC will not change, however, as a result of any change in practice by us, because after you have taken out a loan we retain no discretion to alter the ERC calculations in respect of that loan.

Example

Mrs Smith, age 65, is releasing £35,000 from her property at a mortgage rate of 6.2% (with interest being added to the amount owed monthly). She has chosen to pay a monthly interest amount of £25 and does not wish to add the set-up fee to the loan. She would like to know what the Early Repayment Charge on her plan would be if she repaid at various points in the future. The Benchmark Interest Rate shown on her offer documentation is 3.4% and the Target Benchmark Interest Rate shown on her offer documentation is 3.6%. The Target Benchmark Rate of Interest was set when she took out the loan and will not change.

The maximum ERC Mrs Smith would pay is £7,000 plus the redemption fee which is currently £125.

The ERC will be zero if the Benchmark Interest Rate applying on the date of the redemption statement is **3.6% or more than 3.6%**. However, the redemption fee would still be payable.

Specimen examples are given below, showing what the ERC together with the £125 redemption fee would be for various different possible values of the Benchmark Interest Rate when she repays her mortgage.

Term (Years)	Loan Outstanding	Early Repayment Charge					
		Benchmark is 1.9%	Benchmark is 2.4%	Benchmark is 2.9%	Benchmark is 3.15%	Benchmark remains at 3.4%	Benchmark is 3.6% or above
1	£36,924.06	£7,125.00	£7,125.00	£7,125.00	£4,611.25	£2,064.64	£125.00
5	£45,928.56	£7,125.00	£7,125.00	£6,877.19	£4,363.71	£1,965.14	£125.00
10	£60,816.93	£7,125.00	£7,125.00	£6,300.50	£4,020.60	£1,824.28	£125.00
15	£81,099.95	£7,125.00	£7,125.00	£5,572.03	£3,576.03	£1,636.80	£125.00
20	£108,732.24	£7,125.00	£7,125.00	£4,830.70	£3,117.10	£1,440.43	£125.00
25	£146,376.73	£7,125.00	£7,125.00	£4,339.13	£2,811.76	£1,309.34	£125.00

Your Key Facts Illustration (KFI) contains examples of the ERCs that relate to your specific circumstances. The values in the Offer Illustration are the ERCs, together with the current redemption fee, that would in practice apply in the illustrated situations, and these ERC values will not change. If you redeem early at a time which is not shown in the KFI examples, or when the Benchmark Interest Rate has moved by an amount not illustrated, or you have stopped making your monthly interest payment, then the ERC applying will be determined using the same basis of calculation, but the actual value is naturally likely to be different from any of the values illustrated.

Are additional loans available?

Your Interest Choice Lifetime Mortgage may contain a drawdown facility. When the mortgage is taken out we provide you with a Cash Facility which is stated in your offer documentation. If the Cash Facility exceeds the Initial Advance that you are taking then, once at least 6 months have passed after you take your initial loan, the excess amount will be made available to you as an Unutilised Cash Facility from which you may take Additional Advances. You must be aware, however, that we can suspend the Unutilised Cash Facility if any of certain defined situations exists. These situations are described below:

- *Increase in Benchmark Interest Rate of more than 5%*

An Initial Benchmark Interest Rate will have been specified in the offer documentation for your Initial Advance. If the Benchmark Interest Rate when you seek to take an Additional Advance is more than 5% greater than the Initial Benchmark Interest Rate then we can decline to provide the Additional Advance.

To give an example, if the Initial Benchmark Interest Rate is 3.4% and the Benchmark Interest Rate at the time you request the Additional Advance is 8.5% then we can decline to provide the Additional Advance, because the Benchmark Interest Rate is greater than 8.4%. If at a later date the Benchmark Interest Rate fell back to 8.4% or less then the Unutilised Cash Facility would become available again for Additional Advances at that time.

- *The amount you owe exceeds 85% of the property value*

When you request an Additional Advance we will determine, acting reasonably, an estimate of the property value at the time. If the amount you owe us at the time, plus the proposed Additional Advance, exceeds 85% of the estimated property value then we can decline to provide the Additional Advance. For example, suppose the estimated property value at the time is £230,000, and your loan balance at the time (including any fees that have been added to the loan and all accrued interest) is £185,000. If you request an Additional Advance of £15,000 we would add this to the amount owed (of £185,000) to give a total of £200,000. We would then compare this with 85% of £230,000 (the property value), which is equal to £195,500. Because £200,000 exceeds £195,500 we could decline to provide the Additional Advance.

However, we would be willing to provide an Additional Advance of up to £10,500, because that would keep the total within the £195,500 figure.

If you believe that our estimated property value is unreasonable then you would have to provide an independent valuer's report, using a valuer acceptable to us, at your own expense. In the event that the valuation indicated that we should have made the Additional Advance available then this cost of the valuation would be refunded to you.

- *more 2 life (or in the event that the benefit of your mortgage has been transferred to another person, then that person) no longer offers Interest Choice mortgages or other new lifetime mortgages*

We will write to you to let you know if this situation has arisen. If the situation subsequently ceases to apply then we would also let you know about that.

- *An "event of default" has occurred, as set out in the loan documentation*

"Events of Default" are defined in your loan documentation. As part of the management of any event of default, we would remind you of the implications for the Unutilised Cash Facility.

- *The property is owned on a tenants in common basis*

The cash facility will not be available if the property is owned on a tenants in common basis and either one of the owners die. We may allow Additional Advances where suitable arrangements are agreed with the beneficiaries of the deceased.