SESAME

Know your customer: Home finance advice

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1 Introduction

TCF Outcome 4:
Where consumers receive advice, the advice is suitable and takes account of their circumstances.

To provide suitable advice it is essential to obtain and document accurate details of your customer's circumstances. This document provides guidance on completing the key sections of your fact find to comply with the 'Know Your Customer' requirements for advice on regulated mortgages, buy-to-lets, bridging finance and equity release transactions.

2 Know Your Customer Requirements

Core Requirements:

- Gather and document sufficient information to:
  - ➢ Establish the suitability of any advice you provide to your customers.
  - ➢ Determine your customer's eligibility for a contract.
- Obtain information from an appropriate source, i.e. the customer(s) or a recognised representative.
- Ensure that the information provided is plausible and gather evidence to support the information held on file, wherever necessary.
- Decline to provide advice if your customers cannot or will not provide sufficient information to establish the suitability of advice.

2.1 Gathering sufficient information

When providing advice, sufficient information must be gathered to ensure your subsequent recommendation is suitable for your customer(s). It is important to record all details about your customer which are relevant to the advice you are giving.

Document within your fact find all information which is relevant to the case and which you rely on and reference in your suitability report.

If further information arises during the advice process, it is important to update your fact find.

2.1.1 Mandated fields

The questions included in the fact find templates are those which are likely to apply to the majority of customer circumstances. You should record any details about a customer's circumstances which could impact the advice being given. There are notes boxes provided throughout the template which can be used to record additional information, such as 'soft facts'. The information required for each case will be based on individual customer's circumstances, so we do not mandate specific fields in the fact find.

2.2 Eligibility

It is vital to gather sufficient information about a customer's circumstances to identify exclusions which may apply and confirm their eligibility for any contract recommended. This is required to demonstrate suitability of advice and helps to prevent complaints.

2.3 Accepted sources of information

2.3.1 Primary source

You need to ensure you obtain full details of the customer's needs and circumstances from the customer.

Prior to your fact find meeting your customer may have provided 'know your customer' information through the customer Portal. You should check the accuracy of this information and ensure all information is consistent.

2.3.2 Third parties

You may accept information or instructions from a third party if they are legally permitted to act on the customer's behalf – for example, they hold Power of Attorney or another court approved authority.

If you are dealing with a Power of Attorney:

- Record their details within the Power of Attorney section of the fact find
- Ensure they have the capacity to act on behalf of your customer and record evidence of this
- Record details of the attorney and keep a copy of the Power of Attorney document on file

It's important to check the Power of Attorney deed is valid and does not contain any restrictions which would prevent you from advising the attorney. It's also important to confirm nothing has happened which would have the effect of revoking the arrangement, such as mental incapacity of the donor under a general Power of Attorney.

2.3.3 Dealing with joint customers

In the case of a joint contract, both applicants must take part in the advice process unless you obtain express consent, either verbally or in writing, from one of the applicants authorising the remaining applicant to provide information on behalf of them both.

You need to record details of this consent within your customer records, adding notes on your fact find or a file note (if you have received verbal confirmation) or by uploading evidence (if you have received written confirmation).

2.4 Non-disclosure

You need to gather all the information regarding a customer's circumstances and current arrangement(s) that you require to enable you to give suitable advice.

If a customer declines to disclose information you must discuss the issues of non-disclosure with your customer. You should explain how withholding information or providing inaccurate information can affect the customer's mortgage application and future credit, regardless of whether their non-disclosure was intentional, reckless or careless.

If your customer cannot or will not provide you with enough information, you must decline to provide advice.

You cannot use the caveat that "your advice might have differed if you had more information"

3 Fact Find

Fact Find documents need to be stored in the CRM System. You can input the information onscreen and generate a pre-populated fact find.

The following documents are to record your home finance 'know your customer' information:

Document	When the document is used
Mortgage & Insurance Fact find	Fact find for advice on Residential Mortgages and Insurance
BTL Fact find	Fact find for advice on all classes of BTL business
Equity Release Fact find	Fact find for advice on Equity Release business

3.1 Fact Find mortgage and insurance

Using the mortgage and insurance fact find on the CRM System is the recommended option as any data entered will be populated into other parts of the system saving time in rekeying data e.g. Suitability Report.

When you have entered the 'know your customer' information on screen the Fact find mortgage & insurance will then produce a complete pre-populated fact find (i.e. a 'Word' version of the form) containing all of the information you have entered.

The only section that currently cannot be entered on screen is details of existing property portfolios for BTL cases. These details should be entered into the Word version of the form when you have generated your fact find.

The completed fact find should then be saved into your Documents store.

3.2 Fact Find mortgage and insurance (Template)

You are able to manually complete a fact find or other data capture form with customers, however you will be required to input that information in the CRM System as part of the customer file for future file reviews with the Customer Outcome Review Team. The template form is available on the website at:

- Mortgages > Mortgage Guidance > Know Your Customer > Forms and Templates

4 Scope of Advice

Core Requirement:

- To gather all relevant information required to provide home finance advice
- To offer to complete a full review of your customer's insurance needs

As part of your mortgage advice process, you need to consider the risks of your customer losing their home and make them aware of the options to ensure this doesn't happen.

Many customers will not be aware of all of their needs at the time of discussing their initial objectives and agreeing the scope of advice. They may also be unaware of the many options available to offer them protection. Revisiting the customer's objectives later in the fact find process is an opportunity to facilitate full reviews of customer needs and it is fair to the customer to double check the areas they are happy to consider.

For example, a customer may initially insist they would only consider life cover for a mortgage – but after benefitting from the discussion with the adviser, and being educated on the risks and their needs, the customer agrees to the review being widened to include, say, additional family protection, CI and income protection.

Gathering 'know your customer' information and completing the fact find is a discussion process and the stages of an interview at which the information becomes available will vary from customer to customer.

For further information you can refer to the **Home Finance Advice Framework** (section 9 – The Protection Conversation).

4.1 Objectives

As part of the fact finding process, you should agree with your customer what are their specific objectives (i.e. mortgage planning and/or review of insurance needs). If your customer agrees to your recommendation of a full insurance review, you need to complete all sections of the fact find which are relevant to your customer's circumstances.

If your customer declines a 'full review' then you will need to determine the areas of insurance which your customer is willing to discuss and gather all information that is relevant to the specific areas of insurance for which advice is sought. Document in the 'Notes' field (see 4.2 below) the areas which the customer declined to review and their reasons.

Completing the insurance sections of the fact find

If your customer wishes to review some, or all of their insurance needs, you may either:

- Complete the fact find for all mortgage and insurance needs; or
- Complete the fact find in stages (e.g. complete all mortgage related information, with the insurance process being completed later) – confirming this in your fact find notes.

During your fact find conversation with your customer, as the importance of insurance cover is discussed, the customer may agree to review additional insurance needs. The 'Insurance Cover Required' section documents the areas the customer agrees to review, following your discussions.

Further guidance for insurance business is available in **Know Your Customer: Insurance Advice.**

4.2 Notes – including any customer-imposed limitations

You should record the details of your customer's initial objectives (preferably in their own words).

Example of a customer objective:
You wanted to discuss mortgage finance to buy a new home valued at £200k and all the insurances which you may need.

If your customer restricts your services to mortgage advice only or does not wish to accept advice on all of their insurance needs, you need to record details of the reasons they provide for limiting the scope of your advice.

This is also an opportunity to explain the risks of not being insured and ensure they are in a fully informed position if they choose to accept these risks. In addition, you should record any specific customer restrictions for the use of providers or product types.

4.3 Supporting vulnerable customers

The FCA aims to make financial advice accessible to everyone regardless of their financial and personal circumstances. Large numbers of people would benefit greatly from advice but do not seek it or may require additional support. This can be for a variety of reasons, for example, bereavement; redundancy; health or age-related issues; financial difficulties; or where there is a language barrier.

At any time during your contact with your customer, both before and during the advice process, and in any subsequent contact, you may identify that your customer requires additional support.

For full details of our guidance please refer to **How to support vulnerable customers** which is available at: Compliance and Financial Crime > Systems and Controls > Regulatory Obligations for your firm > Guidance

5 Customer's Financial Circumstances

In order to evidence that your advice is suitable you will need to document all of your customer's relevant circumstances. You can encourage your customer to provide all the relevant information you will need by explaining why particular details of your customer's financial circumstances are required for you to give suitable advice.

Financial information is of particular importance for mortgage advice as this is needed to:

- Determine initial and future affordability for your recommendation(s); and
- Perform appropriate customer due diligence (CDD) to assist in the prevention of financial crime

For further details of the CDD process please see section 15 below or see our guide: **How to complete Customer Due Diligence.**

5.1 Mortgage and insurance fact find

The mortgage and Insurance fact find facilitates the collection of information required to provide advice for the mortgage loan and all relevant protection advice, as required. Please see the guide **Know your customer: Insurance Advice** for further details on completing the insurance sections in the fact find.

5.1.1 Dependants

Where your customer has dependants, it is important to record this fact. If your customer has no dependants, it is equally important to confirm this in your fact find. Dependants may include children and any adults who are financially dependent.

Children will generally be treated as financially dependent until they are employed. This means dependency might end, for example, from school leaving age, or after further education.

Note: To comply with GDPR you must not record details that could identify the dependant (e.g. name; full date of birth; gender). Only the following information is recorded about dependants:

- Month and year of birth (not full date of birth)
- Whether the individual is financially dependent

6 Affordability

Core Requirements:

- To calculate and agree the disposable income available for the new mortgage and relevant insurance plans;
- To discuss ongoing affordability and establish any factors which will affect your customer's ability to maintain repayments on a long term basis;
- To discuss and record your customer's intentions for repaying capital debt.

Initial affordability is based on your customer's current income and their likely expenses once a mortgage is in place. Therefore, you will need to gain a detailed understanding of your customer's financial situation and record this information in the fact find.

6.1 Income

It is important to record all sources of income, including for example: earnings, pension income, benefits and tax credits, investment income and rental income. This information will support your research and your CDD processes, i.e. examining the source of payments and deposit.

Your customer's net income should be used when analysing expenditure, disposable income and affordability.

Where your customer has a source of income that varies significantly, we would recommend you do not rely on this source when assessing ongoing affordability. Alternatively, it may be reasonable to rely on a proportion of the income, depending on how much the income varies.

For example: a customer receives regular bonus payments which have not varied for a number of years but also earns irregular overtime on a seasonal basis.
Affordability assessment: it may be appropriate to include their bonus payments as part of your affordability considerations but not include the irregular overtime payments in your calculations.

Self-employed customers
Lending criteria vary between lenders and they have different methods of assessing affordability for the self-employed. You need to ensure you record full details of self-employed earnings so you can provide the required information to your chosen lender(s) to be used for their affordability calculations.

6.2 Evidence of income

Core Requirement:

- To obtain evidence of income for all residential mortgages and remortgages (Product transfers - please see 6.2.4)

- For Buy to let cases: To obtain evidence of income where a lender includes minimum income requirements as part of their lending criteria

Lenders' requirements for evidence of income vary
We would strongly recommend you confirm to your customer during the fact find meeting that further evidence may be required

6.2.1 Employed customers

Standard documentation

- If your customer is paid monthly, 3 consecutive months' payslips and their most recent P60.
- If your customer is paid weekly, you will need to obtain 5 - 6 payslips; all of their most recent month's payslips and one from each of the previous two months and their most recent P60.

Non-standard documentation

If your customer does not have their most recent P60 the following alternatives would be acceptable:

- Three months consecutive payslips and corresponding bank *statements showing the salary being deposited into their account
- Copy of their Contract of Employment / letter confirming a change of terms / promotion and their new salary, on letter headed paper from their employer

- If your customer does not have sufficient payslips; the following alternatives would be acceptable:
- Copy of their Contract of Employment / letter confirming a change of terms / promotion and their new salary, on letter headed paper from their employer; or
- Letter from their employer confirming their salary; or
- Most recent P60 plus 3 months bank *statements showing their salary credited to the account

If your customer receives handwritten payslips or payslips that do not confirm the employer's name, you must request copies of the corresponding bank *statements to verify the receipt of funds.

6.2.2 Self-employed customers

Standard documentation

- Tax year overview and Tax calculation; or
- Last 3 years' accounts; or
- Accountant's letter and business bank *statements to demonstrate the level of income being received

Non-standard documentation

If your customer's company has been trading for less than three years, you should obtain copies of any documentation they have for the time they have been trading.

*Please see section 14.1 for the requirements for online banks statements

6.2.3 Customers with multiple sources of income

For customers with multiple occupations or other sources of income, we would expect evidence to be gathered for the income relied upon for their mortgage application as a minimum.

6.2.4 Product transfers

Where you recommend a product transfer (i.e. you are recommending the customer stays with the same lender and is simply changing to a different mortgage rate/deal), there is no requirement to obtain evidence of income, providing:

- There is no additional borrowing
- There are no material changes that would affect the payments. For example, there are no changes to:
  - the mortgage term
  - the mortgage holders
  - the mortgage repayment method (e.g. Capital/Interest or Interest Only)
- The transfer is in the best interests of the customer (for example, if the Product Transfer interest rate is lower than the lender's Standard Variable Rate (SVR); or the interest rate and charges are lower than would be paid if a remortgage were effected)

All other elements of the advice process need to be completed for product transfers and remortgages. This includes completing or updating an existing fact find, establishing the customer's needs and preferences and recommending the most suitable mortgage from those offered by both the existing lender and any alternative lenders which offer products suited to the customer.

6.3 Expenditure

The primary purpose of collecting expenditure information is to assess affordability once a new mortgage is in place. To document this future expenditure and identify the budget for the new mortgage, it is therefore important to ensure:

- All expenditure (or estimates of expenditure) that will be incurred when the mortgage is in place
- You do not include any current expenditure that will cease when the mortgage is in place (for example: existing rent if this will cease; current mortgages that are to be redeemed)

The total expenditure should identify which are 'committed' and 'discretionary' expenditures.

- The expenditure within the CRM System will automatically calculate the totals for committed and discretionary expenditure.
- In the Word templates the areas are listed under 'committed' and 'discretionary' expenditure.

Committed expenditure includes: Mortgage, rent, credit, maintenance, transport and utility/other bills.
Discretionary expenditure includes: General living costs, pensions/savings/investments, other outgoings.

The way you assess affordability will depend on your customer's circumstances. For example:

First time buyer
If your customer is a first-time buyer with no existing liabilities and not accustomed to budgeting for household costs, your discussion will be to determine if the customer can budget for all relevant expenses once the mortgage would be in place.

Remortgage
If a remortgage is being considered, your discussion will be to determine affordability once the revised payments would be in place (e.g. new mortgage costs and revised insurance premiums).

Debt consolidation
A full review of a customer's current and future expenses would be required so that you can assess the suitability of a debt consolidation recommendation. You will need to consider whether debt repayments are the only reductions in expenditure available and whether there is a risk that the customer will accumulate further debt due to overextended general expenditure that cannot be covered by the customer's income.

For details on the full process for Debt Consolidation cases please refer to the document **Guide: Debt Consolidation Advice**.

6.3.1 Foreseeable changes to income and expenditure

Changes to income and expenditure can arise unexpectedly or due to foreseeable events. Foreseeable events could include, for example, structured career progression, or marriage.

The fact find includes the following question to record relevant information relating to future affordability:

'Changes in the next 5 years?' In the additional information box, you can provide further details (i.e. timescale, amount and reasons). If an event may impact your customer's financial circumstances, the details should be recorded, to determine the plausibility of affordability. For example, your customer is pregnant and is planning to take a year's maternity leave. This would mean you would need to consider the details of your customer's maternity package and how this might affect her income over, say, the next 12 – 18 months.

6.4 Mortgage transaction costs

In addition to the monthly costs of maintaining mortgage payments, for the mortgage to be affordable, you will need to assess whether you customer has access to sufficient capital for the mortgage transaction itself and related costs and charges. This may include, for example: deposit, mortgage application/booking fee; valuation/survey fees; stamp duty (land tax); estate agent fees; removal costs; legal/conveyancing fees.

6.5 Other information

6.5.1 Credit history

Core Requirement:
- To document a customer's credit history, with full details of any past or current credit problems.

It is important you have full details of the customer's credit history prior to making a recommendation. A customer's credit rating will have significant effect on your research and recommendation. You should recommend the product that is most appropriate taking account of the customer's previous credit problems.

6.5.2 Emergency funds

When discussing your customer's level of emergency funds, you need to determine whether their provisions is sufficient, and provide appropriate advice.

The level of emergency fund required should be specific to the customer's individual circumstances. There are accepted benchmarks which may assist in formulating your recommendation, such as:

- 3 months household income; or
- 6 months committed expenditure

7 Repayment of Capital Debt

Core Requirement:

- To ensure your customer has a clearly understood and credible repayment strategy.

A mortgage which is entirely on a capital / interest repayment basis has a default repayment strategy, providing repayments are maintained. For all other mortgages you will need to consider the plausibility of your customer's plans to repay the capital.
For example, this will apply to cases where your customer has expressed an interest in:

- Interest Only – full or part
- Shared Equity

If a customer's intended repayment strategy relates to an investment product, you will need to request evidence (for example; a recent valuation or annual statement produced by the product provider). You are not permitted to assess or comment on the potential performance or returns of their investment. To ensure that your customer understands their repayment strategy, you will need to recommend that they periodically review any investment products with a designated investment adviser.
When discussing the plausibility of your customer's intentions for repayment you may accept tangible property or assets owned by the customer. For example, this could include a buy to let or second property that could be sold if or when required.

It is not acceptable for the customer to rely on a speculative repayment strategy such as an expected future inheritance or increasing property prices.

For guidance on considerations specific to Buy-to-Let and Equity Release business, please see sections 11 and 12 below.

8 Mortgage Needs and Preferences

Core Requirements:

- To discuss product features to ensure customer understanding
- To record the outcome of these discussions

The Mortgage Needs and Preferences section of the fact find records a customer's attitudes and opinions around the mortgage product features available. Discussion of the options available will:

- Assist your customer to understand the options and the related benefits and drawbacks of each feature. This puts your customer in an informed position;
- Confirm the customer's understanding and their reasoning for their preferences and priorities;
- Provide customer specific information which can be used for product and lender research

It is best practice, where possible, to record the outcome of the discussion in the customer's own words.

8.1 Prioritising preferences

You will need to help your customer understand the implications of their mortgage preferences and establish their priorities. For example, a customer may have an initial preference for 'free valuations' but may not appreciate that this may mean the mortgages available have higher interest rates.

Your customer's initial preferences should not pre-determine your subsequent advice. Discussing the options and providing examples (e.g. comparative illustrations) will demonstrate the impact of the preferences being considered. Your customer's final preferences will then be taken from an informed position.

8.2 Future interest rate movements

When discussing future interest rate movements, it is important to note that this is intended to identify those customers who would seek security or comfort in the stability of monthly repayments. You should avoid entering into speculative discussions or making predictions of future interest rates movements.

9 Other Important Information

9.1 Previous addresses

Address history is a standard lender requirement for credit searches. When dealing with mortgage customers, you need to record a minimum of three years of address details for your customer(s).

9.2 Wills

You should determine whether the customer has an up to date will. Depending on the customer's circumstances it may be relevant for your customer to review (or effect) their will.

If relevant you should recommend your customers take advice regarding their will planning. For example, it would be important for unmarried partners, or customers purchasing a property as 'house-mates' to review their will planning.

9.3 Professional contacts

If your customer has professional contacts you may wish to record the contact details (for example, estate agent or solicitor). These details can be recorded as follows:

- Fact find template – 'Professional contacts' section
- The CRM System - within the Solicitor and Agent information

10 Guarantor Mortgages

Core Requirement:

- To gather relevant fact find information from the guarantor(s)
- To complete an affordability assessment on the guarantor(s).

You will need to gather sufficient information around a guarantor's financial circumstances to be able to complete an affordability assessment for a case to proceed.

The guarantor(s) may wish to provide this information without your customer being present and you may need to arrange a separate meeting or discussion. To protect the personal information that is gathered you need to ensure the guarantor's financial details are not shared with your customer, without the guarantor's permission.

11 Specific Consideration for Buy to Let Advice

11.1 Know your customer

Suitability requirements for buy to let cases are consistent with standard mortgage advice. Your recommendation and your affordability assessment will be influenced by:

- The purpose of the investment, e.g. whether your customer is seeking income and/or capital growth
- Whether your customer is an experienced landlord with multiple properties; or
- Whether the customer is inexperienced with no / minimal properties

You will need to obtain all relevant details of your customer's financial circumstances. This will ensure you are in a position to conduct your research and provide suitable advice. For example, if your customer's sole aim is to derive income, this may support an interest only mortgage as repayments will be lower than a repayment mortgage, leaving a higher level of surplus income for your customer.

You should remember that although you are providing customer specific advice, you cannot comment on the appropriateness of a property as an investment.

You must not provide a BTL customer with any legal advice or advice in respect of tax. You should recommend that your customer seeks advice from a solicitor regarding the legal

responsibilities of being a landlord and seeks advice from an accountant/tax adviser about the tax implications of buying and owning a Buy to Let property.

11.2 Financial circumstances and affordability

You must gather sufficient information to assess affordability and provide suitable advice. This information will assist in assessing the lending criteria for potential recommendations.

Rental income is not guaranteed and you will need to account for your customer's ability to maintain mortgage payments in the event that the property becomes vacant.

Your affordability assessment will need to take account of the customer's individual circumstances and needs. For example, whether they receive income from existing BTL properties; the expected rental income from the proposed BTL property; and personal income and expenditure.

Your approach to affordability assessments and corresponding income and expenditure analysis may vary depending on your customer's circumstances, and their level of experience. However, it is best practice to obtain proof of income in all instances to ensure evidence is available should it be required by the lender for further review or audit. Where you have concerns about the customer not declaring income, we recommend you obtain both the Tax calculation and Tax year overview.

Remember, our requirements for debt consolidation advice also apply to buy-to-let advice. Please refer to Guide: Debt Consolidation Advice

11.2.1 Buy to let affordability considerations

Core Requirements:

- To gather and document sufficient information to assess whether your customer is able to maintain mortgage repayments and running costs for the property initially and on an ongoing basis

An assessment of mortgage affordability needs to be completed – e.g. is the mortgage affordable initially, following the end of a deal period, and on an ongoing basis. Additionally, BTL affordability assessment will also need to account for the costs of operating a BTL property and for periods when the property is unoccupied.
Lender criteria also include requirements which both assess initial affordability and analyse the plausibility of the proposed mortgage on a longer-term basis. These requirements will need to be considered when gathering know your customer information, conducting research, and making a suitable recommendation to your customer.

Minimum income requirements
The requirements for income vary between lenders. Some lenders set a 'minimum income requirement' (commonly this is around £15,000-£20,000pa). Some lenders do not set a specific 'minimum amount'. You will need to determine the customer's circumstances, including income, to assess affordability and the plausibility of the advice.

Stress Tests and Income Coverage Ratio (ICR)
Following guidance from the Prudential Regulation Authority 'rental stress tests' are used by lenders. These determine whether the lender considers the level of rental income sufficient to cover the mortgage payments allowing for potential rises in interest rates.

The stress tests vary between lenders and are also affected by the customer classification, product type and the term of any interest rate deal. For example, the following assessment is commonly used:

- Rental income needs to be at least 145% (ICR) of the mortgage interest payment
- Mortgage interest rate (notional) 5.5%, on an interest only basis.

Example for a £100,000 BTL mortgage:

- Interest is 5.5% (notional) x £100k = £5500pa (£458pm)
- Therefore, rent needs to be: £5500 x 145% (ICR) = £7975pa (£664pm)

While the notional mortgage interest is £458pm, the stress test requires a rental income of £664pm. The actual interest payable may, of course, be a different amount depending on the mortgage deal.

The 'know your customer' information will therefore need to include details of the expected rental income to determine the plausibility of the transaction, and the likelihood of complying with the lender's criteria.

11.2.2 Affordability for tenanted periods

You will need to assess the level of expected rental income to consider whether it is sufficient to cover both the mortgage and any running costs (see 10.2.1 re 'stress tests')

You will also need to consider whether the expected rental income is realistic and we would recommend that you obtain independent confirmation of how realistic this figure is. For example, your customer may be able to provide information from a local letting's agent, or details of rent from existing agreements.

You will need to discuss your customer's intentions for management and maintenance of the property, in order to account for all running costs. This could include, for example, agent fees, maintenance charges, and insurance.

You must document the figures used in your assessment in your fact find.

11.2.3 Affordability for untenanted periods

You will need to discuss the risk of the property becoming vacant and how the customer proposes to maintain mortgage repayments and running costs if they are not receiving rental income. You will need to agree the maximum period that the customer would wish to retain the property and how they would maintain repayments if they were unable to rent it out.

In assessing the customer's affordability, you will need to determine whether the plans to deal with untenanted ('vacant' or 'void') periods are plausible. The level of funds required, and the timescales that affordability should be assessed against, will be based on your customer's circumstances and objectives. For example, you should consider:

- Is your customer intending to generate income or build capital?
- Do they have sufficient disposable income to keep an untenanted property indefinitely?
- Have they suggested selling the property if it remained untenanted? If so, at what point would they consider this?
- Do they have landlord's insurance?

- The level of contingency fund held by a customer

Customers should maintain an appropriate level of contingency funds to cover unexpected costs and should be distinct from personal household emergency funds. The level of contingency fund will be based on customer circumstances.

For example; a customer with one BTL property will need to ensure they have sufficient funds to cover their needs; whereas a customer with a larger BTL portfolio with a record of regular rental income which can be demonstrated to cover costs may need to keep less capital available.

Examples:

Relying on surplus household income

Your customer is purchasing their first BTL property with the aim of making a capital gain at some point in the future. If your customer expected to maintain repayments indefinitely from disposable household income (during void periods), you would need to complete a full income and expenditure analysis to demonstrate this.

Relying on contingency funds

Your customer is retired and remortgaging their sole BTL property with the aim to reduce repayments and maximise the level of rental income received. If your customer relies on rental income to supplement their household income, they would not be able to maintain repayments for vacant periods indefinitely. You would need to discuss and agree a level of contingency funds to cover an untenanted period before they would consider selling the property. In this scenario, we would consider it prudent to complete a full income and expenditure analysis.

Relying on a wider property portfolio

Your customer is an experienced landlord with multiple properties, some of which are mortgage free. Customers with multiple properties are more likely to be able to rely on surplus rent and/or contingency funds to cover unexpected costs or vacant periods. To calculate the level of surplus income available, you will need full details of their existing portfolio, including mortgage liabilities, running costs and rental income payable.

In such instances high-level details of your customer's personal expenditure may be sufficient and can be grouped as detailed below:

- Transport
- Utility and Other Bills
- General Living Costs
- Pensions / Insurance / Savings and Investments
- Other

11.2.4 Capital repayment

Most BTL mortgages are written on an interest only basis with the intention of repaying the mortgage from the eventual sale of the property. You should discuss the customer's objectives and their intentions regarding repayment.

For example, if a customer is using the BTL property to generate additional income the additional costs of a repayment mortgage would compromise the income objective.

Based on the customer's circumstances and objectives you should recommend the most appropriate repayment method to your customer.

11.2.5 Limited company buy to let

You may provide advice on the BTL mortgage contract to either individual customers or to limited company customers.

You must not provide a BTL customer with any advice in respect of tax – this includes advice relating to the whether the BTL transaction should be on an individual or a limited company basis.

You should refer the customer to their accountant or tax adviser for help and advice on this aspect of their BTL plans.

12 Specific Considerations for Equity Release Advice

Equity Release is an area that poses a high risk of consumer detriment. These products are complex, expensive, and they are designed for a specific target market that is potentially vulnerable, i.e. retired homeowners with limited savings and little retirement income from other sources.

You need the CF103 or CF103a licence to provide advice on equity release transactions. Advisers holding a CF103a licence must submit all cases for pre-sale checking

Equity Release recommendations can only be considered when all other options have been explored and discounted. To ensure you have considered all other options available to your customer, you will need to have a clear understanding of your customer's circumstances and their requirements.

The following guidance confirms additional fact find requirements for equity release business.

12.1 Know your customer

You will need to clearly establish your customer's objectives. For example:

- Whether the customer wishes to supplement income and/or take a lump sum
- The customer's intentions for any lump sum

You will need to obtain all relevant details of your customer's financial circumstances. This will ensure you are in a position to conduct your research and provide suitable advice. The outcome of your discussions should be clearly documented within the fact find.

In addition to the standard mortgage advice process, you should obtain all other relevant information, for example:

- How much does your customer require?
- What is the money for?
- When is it required?
- Do they require funds in stages?

12.1.1 Supplementing income in retirement

If your customer needs to supplement their income, you will need to record all sources of income and ensure they are in receipt of all benefits they are entitled to. This could include for example, Pension Credit, Council Tax Reduction, or Health Benefits. If you are relying on your customer to confirm this, you must ensure that their information has been derived from an appropriate source, such as Citizens Advice Bureau, or HMRC.

A full analysis of state benefits can be accessed using the FreeBen system that is available to all mortgage and Equity Release authorised advisers within the network. To obtain your account/log in detail please contact **operations.support@sbg.co.uk**.

Alternatively, you can verify this information; details on benefits and how to calculate them can be found on a number of government websites including **https://www.gov.uk/**. There are also a number of free independent resources that can be used to help calculate entitlement to benefits as manual calculations will be difficult. One such resource is 'entitled to' **http://www.entitledto.co.uk/**.

12.1.2 Raising capital

It is important that all customers make their decision from an informed position. If your customer wishes to raise funds for a specific purpose, it is vital you understand their objectives and the reasoning behind their requirements to ensure your advice is both suitable and, in your customer's, best interests.

To achieve good outcomes for your customer you will need to consider the individual merits of each case and determine the risks posed of financial detriment.

It is prohibited to recommend equity release to raise capital for investment purposes

12.1.3 Involving third parties

Due the complexity of equity release products and the potential consequences of such transactions, we strongly recommend you encourage the involvement of a family member or trusted third party during your advice process.

Ensuring your customer has additional support and points of reference will aid their understanding and help in delivering positive customer outcomes.

Equity release transactions have a direct impact on the value of your customer's estate. Including potential beneficiaries and highlighting the impact a transaction will have on any future inheritance will reduce the potential for complaint in the future.

If you intend, or are requested, to issue copies of the fact find, suitability report or any other documentation, you must obtain written permission from your customer.

12.2 Alternatives to equity release

Whether your customer wishes to supplement income or raise capital, you must explore alternative solutions before considering an equity release recommendation.

In addition to ensuring they are receiving all the benefits they are entitled to, other options to discuss and consider could include:

- Eligibility for any local authority or other grants to complete home improvements
- Retirement interest-only mortgages
- Whether your customer holds any existing savings or investment plans;
- Whilst you are not able to provide designated investment advice, you will still need to record details of existing plans and discuss the option of raising income via these products.

- If this is something that your customer is interested in, you can offer to refer them to an investment adviser.

- If the customer does not wish to use their existing savings and investments, you must record their reasons for this, in your fact find
- "Trading down" their property for a less expensive one
- Borrowing money from potential beneficiaries

12.3 Other important information

12.3.1 Financial circumstances

Core Requirements:
To gather sufficient information about your customer's financial circumstances in order to:

- Determine whether an equity release arrangement is necessary or appropriate for your customer;
- Complete an affordability assessment for ongoing repayments, where relevant.

Understanding your customer's financial circumstances will allow you to determine whether an equity release transaction could be the most appropriate solution for their circumstances.

For example, if your customer is income rich but needs capital, an option might be to look at a standard interest only / repayment mortgage, or a retirement interest-only mortgage, rather than equity release arrangements.

When completing your income and expenditure analysis, you will need to discuss the possibility of your customer making interest payments, ascertain their preferences and consider the information that you will need to complete an affordability assessment.

If you are dealing with joint customers, you will need to complete your income and expenditure analysis in sufficient detail to assess affordability should one of the applicant's pre-decease the other.

12.3.2 Emergency funds

You are required to assess whether your customer has an appropriate level of emergency funds. Standard benchmarks could be three months household income or six months committed expenditure.

If your customer has a large emergency fund, £15,000 or more, you will need to treat these savings as an existing investment, i.e. you will need to discuss the possibility of your customer using some of these funds and record their reasons for not wishing to access them, if this is the case.

12.3.3 Future considerations

Discussing your customer's future plans and highlighting the potential consequences of an equity release arrangement will help your customer understand the impact of such transactions and the possible restrictions that it could bring.

For example:

- Preserving their estate for beneficiaries;
- What might happen if a customer enters into a legal relationship with a much younger person;
- What might happen if a carer or other individual moves in;
- What will happen should the customer wish to move to a different property; and

- What will happen if the property is vacant for any length of time, e.g. on abandonment, going into long-term care or death.

Additionally, you must ensure that your customer understands the importance of seeking professional and independent legal advice to consider these implications from a legal perspective.

12.3.4 Identifying a need for long term care or inheritance tax planning

There are a range of options available, including investment-based strategies, annuity options or non-product based solutions for long term care or inheritance tax planning.

If, during the course of your conversations, it is clear that your customer is interested in, or would benefit from advice on long term care or inheritance tax planning, you must refer your customer to an appropriate specialist or confirm how they can locate one.

13 Shared Ownership arrangements

Core Requirement:

- To discuss your customer's expectations for paying ongoing fees and the overall repayment of the equity loan.
- To assess the plausibility of your customer's expectations and ensure all details are fully documented.

If your customer is purchasing a home with the assistance of a home ownership scheme, you will need to be familiar with the details of the scheme. Details, such as eligibility, limits and repayment requirements vary across the UK and you will need to be familiar with details of specific schemes.

Further information on "affordable home ownership schemes" is available at the following links:

- **England**
- **Wales**
- **Scotland**
- **Northern Ireland**

13.1 Financial circumstances and future considerations

In addition to our standard affordability requirements, you will also need to assess your customer's ability to repay ongoing fees under the terms of the scheme, where relevant.

In some cases, your assessment of ongoing affordability may demonstrate a sufficient level of disposable income that can be used to absorb these fees as well as acting as a buffer for increased mortgage repayments. However, you will need to discuss your customer's expectations for the future in order to identify whether their disposable income will increase.

For example, increase in disposable income may occur where:

- The customer is a young professional with realistic chances of pay increases
- The customer has an expenditure stream that is expected to end in the next five years (e.g. a personal loan).

For further details on how to complete a mortgage affordability assessment, please refer to section 5.1 of our guidance: **Formulating your home finance advice: analysis & research**.

13.1.1 Repayment of the equity loan

You will need to discuss your customer's plans for repaying the shared ownership part of the loan. The shared equity amount is the smaller proportion of the overall equity and the level of capital to repay it will therefore be smaller.

The shared equity capital is expected to be paid on sale of the property or after 25 years (depending on the individual scheme). You should use your professional judgement to consider the plausibility of the repayment method for this proportion of the equity. For example, the customer may accept the repayment will be made on sale of the property; or it may be feasible to accumulate a lump sum from any disposable income, overtime or bonus payments. Reliance on inheritance to repay the capital would still be inappropriate.

You will need to document the outcome of your discussions and demonstrate the suitability of your advice.

14 Discussing General Insurance Needs

Owning a property is usually the largest physical asset which most customers have. Similarly, whether a home is owned or rented, the value of the contents can be considerable. A good customer outcome would be achieved by having appropriate buildings and / or contents insurance for protection of these assets.

If you are authorised for General Insurance, you can complete this business through Paymentshield or Uinsure.

It can be accessed direct via **paymentshieldadviserhub** or Uinsure can be accessed via the CRM System or **uinsure.co.uk**

If you are not authorised for a particular GI product, not a frequent writer of GI business, or if you need assistance with placing cover for your customers, you can refer your customer to another firm with the relevant permissions (e.g. Pure Protect) who can advise your customers on the best cover options to suit their needs.

Further guidance and support can be found at: **sesame.co.uk.**

15 Verifying Fact Find Information

Core Requirement:
To assess the information provided by your customer to consider whether:

- It is credible/ plausible;
- It is consistent with their circumstances;
- Any documentary evidence will be required

We rely on the accuracy of the information that is provided by customers regarding their financial circumstances for the provision of suitable advice. However, if any details do not appear credible, or conflict with other information disclosed, it is vital you challenge the information.

For example: a customer who would like a mortgage which goes up to their intended retirement age of 70 but is a self-employed builder, with no employees. Unless they have a clear business plan to employ staff and move into a supervisory role, there is a risk they would need to retire at an earlier age and may then have insufficient income to meet their mortgage repayments.

In this scenario, you would query the plausibility of the customer retiring at 70, and you would be able to review whether they could afford a mortgage in their retirement. You would need to consider the suitability of recommending a term into retirement mortgage or recommend a shorter term.

You may need to request additional paperwork to provide the information you will require when formulating your advice. For example, details of expected rental income and running costs for buy to let cases.

Documentary evidence will be required for:

- Evidence of income, as required – see sections 6.2 and 11.2
- Investment or pension plans which are ear-marked for repaying capital debt
- Investment or pension plans which will support ongoing affordability for term into retirement cases
- Exit strategies for bridging loans, wherever possible

15.1 Using online bank statements

Online statements (printed copies or screen shots) can be accepted, subject to the following:

- The statement must show, for salary payments, the amount credited and the employer's name.
- Print shows internet source i.e. https address.
- The statements must include the bank's name and the applicant's account number and name
- No amendments by hand
- Credits must show the source of the money e.g. the employer's name. The statement must show a running balance not just a list of transactions

15.2 Customer signatures

We would strongly recommend you ask your customer to complete the Customer Declaration section of the fact find once they have reviewed the information you have recorded. However, this is not a mandatory requirement.

16 Customer Due Diligence

Information is gathered throughout the 'know your customer' process to support your completion of customer due diligence (CDD).

Customer due diligence operates on a risk-based approach. You will need to determine whether you are satisfied with the level of information provided by your customer and whether further evidence is required. For example, if your customer is unable to provide standard evidence of income documentation, you need to consider why it is not available and whether there are any underlying issues such as a customer trying to mislead you.

Full details on completing customer due diligence are in our guidance **How to complete customer due diligence**

16.1 Is business 'face to face'?

The fact find asks for confirmation of whether business is conducted face to face. If it is non-face to face business, then a mitigation of impersonation check must be completed.

16.2 Source of payments (funds)

The 'source of payments' is the activity which generates the payments for a transaction (e.g. salary used to pay premiums for an insurance contract or monthly mortgage payments), not the financial institution (e.g. bank) where the money is currently held.

You need to document the source of payments and your conclusions to evidence plausibility.

16.3 Source of deposit

You need to ascertain how your customer has derived funds for a deposit and document your conclusions.

Completing an income and expenditure analysis and gathering evidence of income may demonstrate that your customer's savings have plausibly been accumulated through regular savings. If your customer has funded the deposit through some other means, you will need to understand the circumstances of any payments in order to decide if additional evidence will be required.

16.3.1 Gifted deposits

Some lenders may request a letter from the donor to confirm the gift is not a loan, is non-refundable and the donor will have no interest in the property.

Gifted Deposit letters

If your customer confirms that they have been gifted money towards their deposit, we would strongly suggest they organise for a letter to be written by the donor to avoid delaying the application process.

We would consider obtaining such a letter to be best practice in all cases.

16.4 Third party involvement

If there is a third party involved (e.g. a beneficial owner) and the third party has an interest in the property (e.g. they have some level of ownership or control), then a Third Party CDD Questionnaire must be completed.