



Providing solutions for your future



# Pure Lump Sum Plan Lifetime Mortgage

## Early Repayment Charge Guide

### **Important information in respect of the Early Repayment Charge**

This guide sets out what happens if you want to repay your lifetime mortgage early.

Terms in this Early Repayment Charge Guide with capital letters at the start which are defined in the General Loan Conditions have the same meaning in this Early Repayment Charge Guide.

## 1. 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 lifetime mortgage 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 Pure Retirement'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, Pure Retirement charge a fee to cover the administration costs associated with paying back the lifetime mortgage. This is currently £125.

### **There will be no Early Repayment Charge:**

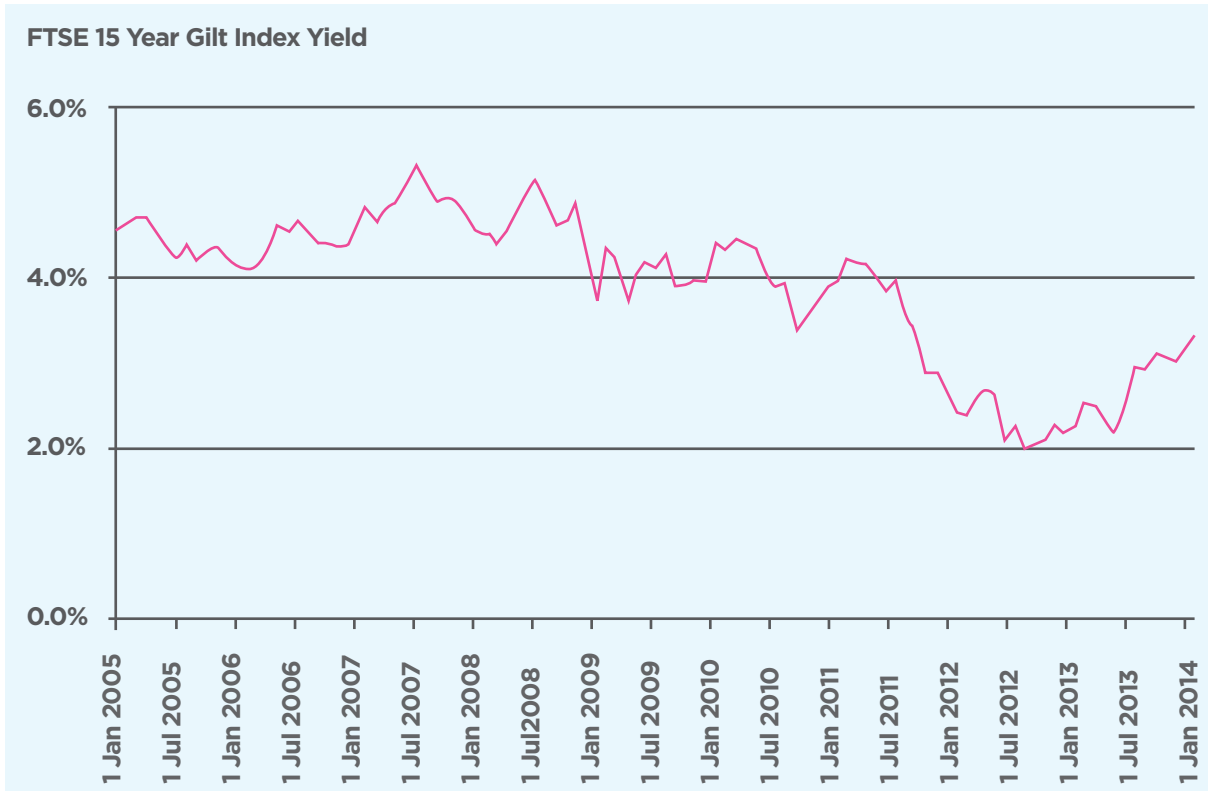
- (i) if the lifetime mortgage is repaid following your death,
- (ii) if you move permanently into long-term care because of medical necessity, or
- (iii) if you make a part repayment which we are requiring you to make because you are moving (for example, to a home of lesser value) and transferring your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

If the lifetime mortgage was taken out in joint names, then there will be no ERC following either the 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.

## 2. 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 on the next page 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 interest 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.

In your Offer document 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 in the Offer is 3.4% then the Target Benchmark Interest Rate recorded on your Offer document 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 redemption 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 redemption statement date.

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

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

### 3. How much might the Early Repayment Charge be?

The ERC in respect of the Advance will never be more than 20% of that Advance.

For the avoidance of doubt “Advance” means the amount of the lifetime mortgage made, ignoring any fees which might have been added to the lifetime mortgage, and ignoring any interest or other amounts which have been added to the lifetime mortgage. For example, if your Advance was £10,000, the maximum ERC we would charge you for repaying the lifetime mortgage 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 lifetime mortgage, 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. 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 6.75% (with interest being added to the amount owed monthly). She does not wish to add the Arrangement Fee to the lifetime mortgage. She would like to know what the ERC on her lifetime mortgage would be if she repaid at various points in the future. The Benchmark Interest Rate shown on her Offer document is 3.4% and the Target Benchmark Interest Rate shown in her Offer document is 3.6%. This Target Benchmark Rate of Interest was set when she took out the lifetime mortgage 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.

Loan repaid in year	Loan Outstanding	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 year	£37,436.98	£7,125.00	£7,125.00	£7,125.00	£5,286.33	£2,355.75	£125.00
5 years	£49,004.05	£7,125.00	£7,125.00	£7,125.00	£5,162.95	£2,311.46	£125.00
10 years	£68,611.32	£7,125.00	£7,125.00	£7,125.00	£4,913.86	£2,213.43	£125.00
15 years	£96,063.77	£7,125.00	£7,125.00	£7,017.87	£4,491.24	£2,037.39	£125.00
20 years	£134,500.28	£7,125.00	£7,125.00	£6,238.76	£4,011.90	£1,833.60	£125.00
25 years	£188,315.81	£7,125.00	£7,125.00	£5,744.13	£3,707.23	£1,703.94	£125.00

Table 1: Example ERCs, calculations valid as at 02/01/2014

Your Key Facts Illustration (KFI) contains examples of ERCs that relate to your specific circumstances. The values in the Offer document 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, 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.

**Financial Conduct Authority (FCA)**

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