

# Financial Planning Report

Prepared for:

Mr & Mrs A Client



Prepared by:

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# SUITABILITY REPORT

## Introduction and basis of advice

Your financial affairs have been analysed and my advice is set out below. I am authorised to provide advice on all areas addressed in this report and the recommendations that follow are based on my understanding of your current financial position and objectives. I would ask that you read the report carefully and check that it reflects your financial position, priorities and attitude to risk.

It is important that you understand my advice. You should read this report in conjunction with the relevant illustrations, remuneration disclosure and Key Features documents, which all provide important information about the recommendations contained within this report. I do stress that if you do not understand any of the information contained within the Key Features document or this report then please contact me as a matter of urgency.

You have also been provided with a copy of our Client Agreement. This explains my status as an Independent Financial Adviser, our terms of business, the services we offer and how we can be remunerated for these services.

Date of Client Agreement	Date of Identity Verification	Date of First Meeting	Date of Last Meeting
1/1/2011	1/1/2011	1/1/2011	1/2/2011

If you believe that the information in any of the documents provided is incorrect please let me know as soon as possible. I would also mention that if any information has not been disclosed, it is possible that my advice may not take account of all your personal requirements and could ultimately have been different. I cannot accept responsibility for any non-disclosed information which could have affected my advice. Nor can I accept any liability should you suffer any loss due to the non-disclosure of material facts which have not been brought to my attention.

## Summary of current position & objectives

Please find below a summary of your current position:

Name	Mr A Client	Mrs A Client
Date of Birth	1/1/1970	2/2/1970
Marital Status	Married	Married
Number of Financial Dependents	2	
Occupation	Estate Agent	Teacher
Employment Status	Employed	Employed
Tax Status	Basic Rate Tax Payer	Basic Rate Tax Payer
Monthly Net Income	£2000	£1500
Monthly Expenditure	£2000	
Smoker	No	No
State of Health	Good	Good

You have recently purchased a new home and have asked that I put forward a recommendation for a suitable mortgage. I understand the property is valued at £250,000 and you require a mortgage loan of £100,000 to facilitate the purchase. You have also requested that I put forward a

recommendation for suitable life insurance to cover the eventuality that you were to die during the term of the mortgage.

I have undertaken an analysis of your needs and requirements and have made a recommendation on the basis of the information you have provided. You have specifically requested that I focus my advice on the following:

- To ensure you have suitable protection in place to cover the financial consequences of your death
- Advice on the repayment of your mortgage

### **Attitude to Risk**

We discussed at some length your attitude to risk and in particular the relationship between risk and reward. The more risk you are prepared to accept, the greater the long term rewards will often be. It is important to maximise your return, but also ensure you are not exposed to a level of risk that is unacceptable to you. It is therefore imperative that your attitude to risk and maximum capacity for loss is clearly defined at outset.

Your risk profile was deemed to be **Cautious**, which can be described as follows:

#### Mortgage

*Ensuring that mortgage capital and interest are guaranteed to be repaid at the end of the term is important to you. You are not prepared to take risks with their mortgage.*

#### Protection

*You are not prepared to take any form of risks relating to rising (reviewable) premiums but are not prepared to self-insure, preferring instead to pass this risk onwards through insurance.*

If you feel that this does not accurately reflect your attitude to risk please contact me as a matter of urgency.

A full summary of my company's attitude to risk definitions can be found in the appendix of this report.

## Mortgage Recommendation

I provide impartial and independent mortgage advice. I have researched the whole of the market place to find the mortgage which best reflects your individual needs and circumstances.

I understand you wish to take out a new loan to:

- Fund the purchase of your main residence.

To this end, I have recommended the following mortgage:

	Mortgage Details
Lender	Nationwide
Type of Mortgage	Capital Repayment
Commencement Date	1 / 10 / 2011
Loan Amount	£100,000
Loan to Value	40%
Term	25 Years
Monthly Repayment	£500
Product	Fixed Rate
Variable Rate	5.0%
Introductory Rate	3.90%
Date Introductory Rate Expires	1 / 10 / 2014
Early Redemption Penalty	3% / 2% / 1%

The following fees apply to this mortgage:

	Mortgage Related Fees
Arrangement Fee	£199
Valuation Fee	£150
Transfer Fee	£30
TOTAL	£379

I confirm that you have elected to add any associated fees to your mortgage.

I have recommended this mortgage for the following reasons:

- Based on my research the recommended mortgage offers a competitive rate of interest
- Based on my research the recommended mortgage offers the cheapest monthly repayment
- The recommended mortgage best reflects your circumstances and objectives
- The recommended lender is financially strong
- You would prefer a repayment mortgage as this will ensure the repayment of your mortgage in its entirety at the end of the mortgage term
- The associated legal fees will be covered by the recommended mortgage provider
- You liked the idea of a fixed rate mortgage as this will provide certainty of affairs and the ability to budget during the introductory period

**An early redemption penalty applies on the recommended mortgage. A charge will be applied if you redeem or transfer your mortgage to an alternative lender within the redemption period. I refer you to your personal illustration for further information.**

**The interest rate on your mortgage will revert to the lender's current variable rate once your introductory rate expires. This could mean that your monthly payments increase substantially. Assuming interest rates remain unchanged, I believe the payments will still remain affordable to you. However I am unable to predict how interest rates and your circumstances may change in the future.**

Stamp Duty will be payable on the purchase of your property. Stamp Duty is a property tax levied by the Government. No Stamp Duty is payable on property purchases up to £125,000. Stamp Duty is payable at the rate of 1% of the purchase price from £125,000 to £250,000, 3% of the purchase price from £250,001 to £500,000, 4% of the purchase price from £501,000 to £1m and 5% on properties over £1m.

The Chancellor announced in his March 2010 Budget a two year Stamp Duty holiday. This means that first time property buyers will pay no Stamp Duty on purchases up to £250,000 with effect from 25th March 2010 to 25th March 2012.

Under the terms of the mortgage, you must maintain suitable buildings insurance for a sum not less than that specified by the lender's valuer.

Full terms and conditions of your mortgage are contained within your mortgage offer letter issued by the lender. Please note that because the formal mortgage offer is subject to valuation and the production of satisfactory references, the mortgage illustration does not constitute the offer of a mortgage. On receipt of your mortgage offer letter please read it carefully and contact either your solicitor or myself if you have any queries.

### **Further Information and Risk Warnings**

Further information concerning the above can be found in the Key Facts document provided and the appendix of this report. A summary of the risk warnings associated with these recommendations can also be found in the appendix of this report.

Finally, I have stressed the importance of not over-committing yourself in terms of your mortgage repayments and other expenses. I would like to take this opportunity to confirm that the above recommendation is affordable to you and you have sufficient regular income to cover the monthly repayment of your mortgage now and for the foreseeable future.

**Your home may be repossessed if you do not keep up the repayments on your mortgage**

## Level Term Assurance Recommendation

You wish to establish suitable protection for the following reasons:

- You would like to ensure that your mortgage balance would be repaid in the event of your death

To this end, I have recommended a level term assurance plan for the following reasons:

- The selected product reflects your stated needs and objectives
- The amount of cover will remain the same throughout the term of the policy
- The plan will pay out an amount equal to the sum assured in the event of the death of the assured within the agreed term

We agreed that the cover should run for a term of 25 years because:

- It meets your primary objectives
- It will provide protection over the term of your mortgage

### Options Available

**Waiver of Premium** - Provides a means of insuring your life insurance monthly premiums. In the event that you are unable to work through ill health, payments are made until the end of the policy term, a specified age or until you are able to return to work. The payments are made after a set deferment period.

**Total Permanent Disability Benefit** - The inclusion of this option means that the recommended Insurance Company will pay out if you become totally and permanently disabled, and (depending on the definition included within the policy schedule) you are unable to carry out your own occupation, or perform a certain number of recognised activities of daily living.

**Critical Illness Protection** - Critical illness protection provides a tax-free payment in the event of a life assured being diagnosed with a pre-determined critical illness, within the agreed term of the policy.

I confirm you did not wish to include this feature due to the following reasons:

- The additional cost was prohibitive
- You did not feel this feature was necessary

### Summary of Recommendations

Having researched the market place, I have recommended the following:

Life Assured	Provider	Type of Premium	Monthly Premium	Total Premium Over Expected Term	Life Sum Assured	CIC Sum Assured
Joint	Legal & General	Guaranteed	£25	£7,500	£100,000	£0

*Please be aware in the event of a claim, the selected sum assured may not be sufficient to meet all of your financial requirements. However, I confirm that the highlighted level of cover was deemed acceptable at this time.*

I have recommended the above for the following reasons:

- They offer a competitive premium for the policy required
- The research tool I have used to review the market place showed them to be offering the most suitable and competitive product to meet your needs and objectives
- They are well established and financially strong
- They have provided us and our clients with an excellent service in the past
- They are known for having a good claims history and paying claims quickly
- The level of cover has been selected to match your outstanding mortgage balance

Your premiums are guaranteed and will not change during the duration of the cover. If you have opted for indexation your premiums will rise each year in line with the Retail Price Index.

I have recommended that the plan be established on a joint life, first death basis.

In view of your circumstances and stated objectives I have not recommended that this policy be placed under trust at the current time. In the event of a claim, the proceeds will be paid into your estate and may be subject to inheritance tax.

### **Further Information and Risk Warnings**

Further information regarding the recommended product can be found in the Key Features Document provided and the appendix of this report. A summary of the risk warnings associated with my recommendations can also be found in the appendix of this report.

### **Alternative products considered but discounted**

I confirm due consideration was given to a range of products, but the alternatives were subsequently discounted for the following reasons:

#### *Family Income Benefit Plan*

- You preferred any benefit to be paid as a lump sum

#### *Whole of Life protection*

- You only required protection over a specific term
- The cost of whole of life protection was not within the allocated budget

#### *Decreasing Term Assurance*

- You required the amount of protection to remain level throughout the term of the policy

# Important Information

## Cost of Services

There are various ways I can be remunerated for my advice and the provision of my services. A summary of these options can be found below and further details can be found in our Service Agreement and “Key facts about the cost of our services” document provided.

### 1. Commission

If you buy a financial product, the product provider may pay my company a commission. Although you pay nothing up front that does not mean the service is free; you are still paying indirectly through the product charges. The amount of commission received will vary depending on the amount you invest and (sometimes) how long you invest for or your age.

### 2. A Fee

Whether you buy a product or not, on completion of my work you will pay a fee for the advice and services you have received. This fee can be paid directly by you, or in the event that you buy a financial product it may be possible to arrange for the recommended product provider to pay the agreed fee directly to my company out of the product charges.

In the event that my company receives a commission from the product provider, this can be passed on to you in one or more ways. For example - It could be used to reduce my fee, reduce the product charges or increase the investment amount. Alternatively I can simply refund the commission to you in full. Please note – You may have to pay VAT on any fees.

### 3. A combination of fee and commission

This is a combination of the above. The fee would be payable by you and the commission by the recommended provider.

On this occasion we have agreed that I will be remunerated via a mixture of a fee and commission payable by the recommended product providers. The fee payable on the recommended mortgage is £400. This will be paid by the recommended mortgage company. The amount of commission payable on the protection policy is highlighted in the illustration provided.

For the sake of completeness I have also summarised the commission payable on the protection product recommended in this report in the table below:

Company	Product	Initial Commission £	Annual Commission £
Legal & General	Level Term Assurance	£1,000	£1.50 pm

## Cancellation Notice

You have a legal right to cancel your plan if you change your mind. Once your plan is set up you will be sent a “Cancellation Notice” telling you about your right to change your mind and how to cancel. You will then have 30 days (14 days for ISA and Unit Trust investments) in which to cancel. If your

investment falls in value before your cancellation notice is received, an amount equal to the fall in value will be deducted.

### **Affordability & Emergency Fund**

You should keep some money immediately accessible to cover any unforeseen emergency expenditure that may arise. I would normally recommend that you retain an emergency fund equal to three month's expenditure within an immediate access deposit account as a bare minimum. I confirm you are happy with the level of your emergency reserve. I would also like to take this opportunity to confirm that the above recommendations are affordable to you.

### **Our service proposition**

My company offers a number of service propositions which govern the type of service and the regularity of contact and reviews you will experience as well as any on-going costs you can expect to incur. Full details of these propositions have already been discussed and provided. I confirm that you have elected for the following service:

- A focused and limited advice transaction service instigated by client request.

### **Financial Services Compensation Scheme ('FSCS')**

The FSCS was set up under the Financial Services and Markets Act 2000 and exists to protect clients of FSA authorised firms and covers deposits, insurance and investments. The scheme can pay compensation to clients who have lost money as a result of their dealings with FSA authorised firms that are unable to pay claims against them, usually because they are insolvent or have stopped trading.

The limit of protection varies between different types of products. For life assurance and non-compulsory insurance (e.g. home and general) the compensation level is 90% of the claim with no upper limit. For investments and mortgages the limit is £50,000 per person per firm. The maximum level of compensation on deposit based accounts increased to £85,000 per person per firm from 31st December 2010.

### **Aspects of your financial affairs not addressed but deemed important**

I practice a comprehensive approach to financial planning. I believe it is my duty to ensure that all aspects of your financial affairs have been considered, even those areas that may not be of immediate concern to you. To this end, I would like to draw your attention to the following. If on further consideration you wish to discuss any of the below in more detail please do not hesitate to contact me.

#### *Retirement Planning*

- You are happy with your existing pension arrangements

#### *Income Protection*

- You are happy with your existing income protection arrangements

### *Wills and Lasting Power of Attorney*

- I understand you have not made a Will. To this end your estate would be subject to the laws of intestacy. This is unlikely to result in your estate being distributed in accordance with your wishes. I would recommend that you contact your solicitor to write a Will as a matter of urgency.

### *Savings and Investment*

- It was agreed that we would address this issue at a later date

## Confirmation

I have identified your objectives and I hope you agree that the recommendations made correspond to your current needs and future requirements. If you have any queries concerning the content of this report, or should you feel the recommendations are in any way an inaccurate reflection of your circumstances and future objectives please contact me immediately.

Report written by **A.N Adviser**

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

We the undersigned have received this report. We accept the recommendations and confirm we have received all supporting literature including Key Features Documents, fund fact sheets and illustrations.

Accepted by **Mr A Client and Mrs A Client**

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

Signature \_\_\_\_\_ Date \_\_\_\_/\_\_\_\_/\_\_\_\_

# APPENDIX

## **Attitude to risk**

My company classifies attitude to risk as follows:

### **Mortgage**

#### **Cautious**

Ensuring that mortgage capital and interest are guaranteed to be repaid at the end of the term is important to you. You are not prepared to take risks with their mortgage.

#### **Balanced**

Part capital repayment, part interest only. You understand that a percentage of the mortgage is guaranteed to be repaid at the end of the term (capital repayment percentage). However, part of the mortgage is interest only and the capital aspect of this percentage will need to be repaid at the end of term. You understand that an investment backed repayment vehicle is required to repay the capital and that this may fluctuate to some extent. You are prepared to take some risk for potential return on investment.

#### **Balanced/Adventurous**

You understand that only the interest is being repaid on their mortgage and that the capital will need to be repaid at the end of the term. You understand that an investment backed repayment vehicle is required to repay the capital and that this may fluctuate to some extent. You are prepared to take some risk for potential return on investment.

#### **Adventurous**

You understand that at the end of the mortgage period the lender will require the repayment of the loan in full and unless you have sufficient capital available from elsewhere you would either have to sell the property to repay the loan or the lender would repossess it.

### **Protection**

#### **Conservative**

You are not prepared to take any form of risks relating to payment of premiums and prefer to rely on your own resources and to self-insure.

#### **Cautious**

You are not prepared to take any form of risks relating to rising (reviewable) premiums but are not prepared to self-insure, preferring instead to pass this risk onwards through insurance.

#### **Balanced**

You are prepared to risk rising (reviewable) premiums and prefer to pass risk onwards through insurance.

#### **Adventurous**

You have only limited interest in life assurance as you also actively invest money on which to draw rather than pay much in the way of premiums for protection.

**Speculative**

You are not interested in life assurance as you would rather actively invest money than pay premiums for protection.

## Risk Warnings - Level Term Assurance

In addition to the risks shown below, I recommend you read carefully the section entitled “risk factors” in the Key Features Document provided which highlights any possible disadvantages of affecting this plan.

- For a full explanation of the features of this plan please refer to the personalised illustration and Key Features documentation supplied by the product provider.
- The figures on any quotations provided are for illustration purposes only and are not guaranteed.
- At no time during or at the end of the term does this policy provide a surrender or encashment value. If you stop paying premiums the cover will cease. If the policy pays out cover will cease.
- The recommendations are based on current taxation, law and practice and the current legal and administrative framework and are based on my current interpretation and understanding of those, all of which may be subject to change.
- Your final premium will be subject to underwriting.
- The Insurance Company will not pay out if you do not provide them with any information they request, or if the information you do provide is incorrect.
- During the term of the policy you may suffer an illness which affects your future insurability. If you survive the policy's full term, the cover will lapse and you may not be able to obtain further cover at acceptable rates.
- Where Waiver of Premium protection has not been included, the inability to continue premium payments after suffering an accident or illness may be experienced.
- Where no escalation has been selected. You should be aware the effects of inflation may erode the benefits assured over time.
- Where selected, the Insurance Company will only pay out if you are diagnosed as suffering from a critical illness which is covered by their highlighted descriptions. For further information, I refer you to the key features document.

## Risk Warnings - Mortgage Recommendation

In addition to the risks shown below, I recommend you read carefully the section entitled "risk factors" in the lender's product information which highlights any possible disadvantages of affecting this plan.

- It is a legal requirement to provide you with a key facts document, but the document is not a legally binding contract and does not oblige the provider illustrated to provide you with the mortgage described. It is strongly recommend that you do not enter into any binding agreement or commit yourself to any financial undertakings until you have received, read and understood a satisfactory offer letter.
- Your monthly repayments could be considerably different should interest rates change.
- Past levels of interest rates are no guarantee of future rates.
- You may have to pay other fees or taxes in addition to those illustrated in my report.
- Your home could be at risk if you do not keep up with your repayments.
- The recommendations are based on current taxation, law and practice and the current legal and administrative framework and are based on my current interpretation and understanding of those, all of which may be subject to change.
- The value of your property is based on the valuer's opinion rather than fact. If the value of your property drops, the loan amount may be greater than the property's value. You should also be aware property and land can be difficult to sell, so you may not be able to sell the property when you want to.
- If details are given incorrectly, withheld, or are false in any way, then the lender will almost certainly reject your application. This will make it much more difficult, or even impossible to apply to another lender.
- In most instances you will not be entitled to exercise a right to cancel a mortgage contract.

## Technical Notes – Glossary of Mortgage Terms

### **APR**

The Annual Percentage Rate is a term defined in consumer credit legislation with the intention of providing a standard basis for comparing different forms of credit with all costs included.

### **Arrangement Fee**

This is a fee paid to the lender in connection with certain types of mortgages. It is usually paid on completion, but sometimes with the application.

### **Base Rate Tracker**

With a base rate tracker the interest rate is variable but set, for a predefined period, at a rate equal to the lender's base rate or a rate comparable to, or slightly above the Bank of England base rate.

### **Buy to Let Mortgage**

Buy-to-let mortgages are provided for the purchase or remortgage of investment properties in the private rental sector. Assessment of a borrower's affordability can be based on projected rental income and / or their earnings.

### **Capped Rate**

A capped rate mortgage has a maximum interest rate for a given term. The interest rate you pay cannot go higher than the agreed capped rate, thus you know the maximum amount your monthly repayments could rise to. However, if the basic interest rate falls below the capped rate, repayments will also reduce.

### **Cash back**

A payment you receive from the lender when you take out a mortgage.

### **Conveyance**

This is the deed by which a freehold unregistered title changes hands. If the property is leasehold and unregistered it is called an assignment. If the title is registered the deed is called a transfer.

### **Current Account & Offset Mortgages**

A current account mortgage allows you to operate your mortgage borrowing through a current account. This method enables you to save interest as your normal cash-flow will alter the outstanding mortgage loan. An offset mortgage allows you to keep your balances e.g. mortgage, savings, current account etc in separate accounts but all balances are offset against each other thus allowing the possibility of reducing the interest paid which could result in the mortgage being repaid early.

### **Discount Rate**

The interest rate is set at a discount to the lender's standard variable rate. The discount rate will apply for a specified period and may increase or decrease as the lender's standard variable rate itself increases or decreases.

### **Early Repayment Charges**

This is a fee charged by a lender if you repay part, or all, of your mortgage or move your mortgage to another lender before the agreed date.

### **Exchange of Contracts**

This is the point at which you and the person selling the property sign and swap identical contracts that show the price and which fixtures and fittings are being sold, as well as the date on which everything is to be completed. When contracts are signed, everything becomes legally binding.

### **Fixed Rate**

The interest rate is guaranteed to remain unchanged for a specified period. At the end of the fixed rate period, the interest rate will usually change to the lender's standard variable rate prevailing at that time.

### **Flexible Mortgage**

The interest rate of a flexible mortgage is variable and calculated daily instead of annually. This means any capital repayment of the loan will immediately affect the interest charged on the outstanding balance. By making regular overpayments, the interest saved can be quite significant over the term of the mortgage. Most lenders will also allow funds to be drawn from the account up to the original mortgage balance or even allow payment holidays.

### **High Lending Charge**

This is a fee levied by the mortgage lender if you borrow more than a given amount. Many mortgage lenders will lend up to 90% of the value of a property without charging this fee.

### **Income Multiple**

This is a calculation used by mortgage lenders to determine how much they will lend. This is typically three times a single income, or two and a half times joint income. However, many lenders now base their lending on affordability which takes account of your income and outgoings.

### **LTV**

The loan to value refers to the size of the mortgage as a percentage of the value of the property i.e. a £90,000 mortgage on a house valued at £100,000 has an LTV of 90%.

### **Mortgage Payment Protection**

If you cannot work or are made redundant this policy will pay your mortgage for you.

### **Portability**

A term used to describe a mortgage that can be transferred between properties when you move house.

### **Remortgage**

This is the act of switching a mortgage to a new lender.

### **Repayment Mortgage**

Under a repayment mortgage your monthly repayments contain an element of capital and the interest payable on the loan. The majority of your monthly payment relates to interest in the early years. However, if you keep up repayments it guarantees that your mortgage will be repaid in full at the end of the term.

### **Self-Certified**

You will normally be asked to provide pay slips or company accounts to prove your income on applying for a mortgage. If it is difficult or extremely inconvenient to provide this documentation, you can elect to self-certify your income. Lenders will charge higher rates than average and offer a more limited range of mortgages if you choose to self-certify your income.

### **Stamp Duty**

This is a tax payable on the purchase of a property by the purchaser.

### **Tracker Mortgage**

These mortgages track a benchmark such as the Bank of England base rate. The tracker rate will apply for a specified time and may increase or decrease as the benchmark itself increases or decreases.

### **Valuation Fee**

A fee payable to the lender to check what a property is worth and if it is suitable to lend a mortgage on.

### **Variable Rate**

This is the standard interest charged by the lender. It can go up and down at the lender's discretion and your repayments will change accordingly.

## **Notes on financial products**

### **Level Term assurance**

Term assurance offers a cost effective means of obtaining life and / or critical illness cover over a specified term. The sum assured is paid out if the life assured was to pass away or be diagnosed with a predetermined critical illness (if included) within the set term. The cover can remain level or you can choose an option before the policy starts for the sum assured to increase at regular intervals throughout the term. This is a useful option if the level of cover needs to keep pace with the effects of inflation.

### **Mortgage**

A mortgage is a loan secured against a property. 'Secured' means that if you do not keep up the payments, the lender can sell your home to get its money back. There are two types of mortgages available:

#### **Interest Only**

The monthly payments cover only the interest on the loan. They do not pay off any of the capital. It is imperative that a separate savings or investment vehicle is set up to build up a lump sum to pay off the mortgage at the end of the term. It is the borrower's responsibility to ensure they have enough money to repay the mortgage.

#### **Repayment Mortgage or Capital and Interest Loan**

The repayments are designed to gradually pay off the amount owed as well as paying the interest charged on the loan. Providing all the agreed repayments are met, the loan will be fully paid off at the end of the mortgage term.