YOUR INTEREST ONLY MORTGAGE

Provided by Scottish Widows Bank

DIFFERENT METHODS OF REPAYING YOUR MORTGAGE

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INTEREST ONLY

An interest only mortgage means that the monthly payments you make only cover the interest on the loan. They don't pay back any of the money you have borrowed (the capital).

As long as you've made all your monthly interest payments, this means that the amount you owe at the end of the mortgage term will be the same amount you borrowed. In order to repay the capital, a lump sum is required at the end of the mortgage term. It is your responsibility to make sure you have a plan in place that will repay the amount you owe at the end of the term.

An interest only mortgage is a higher risk than a repayment mortgage. It is your responsibility to ensure you'll be in a position to fully repay the capital amount you owe at the end of the term, and few repayment vehicles can securely guarantee this.

PART INTEREST ONLY

You may have part of your mortgage arranged on a repayment basis and part on an interest only basis. (This information is clearly provided on your annual statement.) This will mean that at the end of the term the amount of the mortgage being paid on an interest only basis will need to be repaid by a lump sum.

You need to make sure you have a plan in place that will repay the interest only amount that you'll still owe at the end of the term.

REPAYMENT

With a repayment mortgage the monthly payment you make gradually pays off both the amount you borrowed (the capital) as well as the interest that applies. Assuming that you make all of your monthly payments when they are due, the loan amount is guaranteed to be fully repaid at the end of the term.

HOW WILL MY INTEREST ONLY MORTGAGE BE REPAID?

When you apply for an interest only mortgage, we'll ask you to provide copies of evidence that an appropriate plan is in place to repay the debt. We will ask to see the evidence regularly for review throughout the life of your mortgage until it is repaid.

Important note – since the value of most investments can go up or down and we don't provide advice on repayment plans WE CANNOT GIVE ANY GUARANTEE that the repayment plan will be sufficient to repay the outstanding balance (capital) at the end of your mortgage term. So even though we may accept a repayment plan and be prepared to lend you an amount on interest only based on our assessment of it, that does not guarantee that the plan will produce enough money to repay the interest only part of your mortgage. As with any investment, there is a risk and we strongly recommend you take independent financial advice.

ACCEPTABLE REPAYMENT PLANS

The following table sets out the plans we will accept and the information you need to provide to us.

Sale of property to be mortgaged, if it's a main residence		
Criteria	**Evidence required**	**Assessment method**
Sole applicants must have a minimum income of £100,000 pa. For joint applications, one of the applicants must have a minimum income of £100,000 pa, or the joint applicants must have a minimum combined income of £150,000 pa. The income requirement is calculated on the total of basic, overtime, bonus and commission for employed applicants, or the latest year's income for self-employed applicants. Maximum term of mortgage to state pension age or anticipated retirement age (no lending into retirement). Up to 50% LTV can be on interest only. Borrowing over 50% and up to 75% LTV must be on a repayment basis.	No additional evidence is required. We'll use the valuation carried out on application to calculate the equity available.	There must be at least £200,000 equity in the property. We can use the full equity amount to support interest only lending. You must ensure your client understands the requirement to sell their property at the end of the term to repay the outstanding loan.

Sale of property to be mortgaged, if it's a second home		
Criteria	**Evidence required**	**Assessment method**
Sole applicants must have a minimum income of £100,000 pa. For joint applications, one of the applicants must have a minimum income of £100,000 pa, or the joint applicants must have a minimum combined income of £150,000 pa. The income requirement is calculated on the total of basic, overtime, bonus and commission for employed applicants, or the latest year's income for self-employed applicants. Maximum term of mortgage is normally to state pension age or anticipated retirement age (no lending into retirement), although longer terms can be considered.	No additional evidence is required. We'll use the valuation carried out on application to calculate the equity available.	No minimum equity requirement. We can use the full equity amount to support interest only lending. You must ensure your client understands the requirement to sell their property at the end of the term to repay the outstanding loan.

Bonus		
Criteria	**Evidence required**	**Assessment method**
Sole applicants must have a minimum income of £100,000 pa. For joint applications, one of the applicants must have a minimum income of £100,000 pa, or the joint applicants must have a minimum combined income of £150,000 pa. The income requirement is calculated on the total of basic, overtime, bonus and commission for employed applicants, or the latest year's income for self-employed applicants. Maximum term of mortgage to state pensions age or anticipated retirement age (no lending into retirement). We will allow the term to run up to 11 months past the lower of the two.	If received monthly, the latest three payslips. If received quarterly, the latest four payslips showing bonus payments. If received half yearly, the latest two payslips showing bonus payments. If received annually, the latest two years payslips showing bonus payments. An average value should be calculated and used. Payslips must show the applicant's name, employer, pay date and gross bonus amount.	An annual bonus figure is calculated from the payslips provided as evidence. Where bonus is paid annually, the average of the bonus received in the last two years is used. 30% of this bonus figure is then multiplied by the term of the mortgage required for the amount of interest only lending available. There's an expectation that the applicant will make periodic lump sum repayments to reduce the amount outstanding during their interest only mortgage and it's important they understand this. Early Repayment Charges would apply as normal where any overpayment concession is exceeded. Where any bonus is to be used as a repayment plan, no bonus income earned by any applicant to the mortgage will be used in our affordability assessment.

Cash		
Criteria	**Evidence required**	**Assessment method**
Sole applicants must have a minimum income of £100,000 pa. For joint applications, one of the applicants must have a minimum income of £100,000 pa, or the joint applicants must have a minimum combined income of £150,000 pa. The income requirement is calculated on the total of basic, overtime, bonus and commission for employed applicants, or the latest year's income for self-employed applicants. Cash must be held in £ sterling. Maximum term of mortgage to state pension age or anticipated retirement age (no lending into retirement).	Copy of statement dated within the last month, and a previous statement showing the cash amount being held for a minimum of three consecutive months. The cash can be held across more than one account.	If a minimum of £50,000 has been held in savings or current account for a minimum of three consecutive months, 100% of the current cash balance can be used to support interest only lending. If statements show a fluctuating cash balance then the lowest balance will be used. If savings are also being used as source of deposit, evidence of an amount sufficient for both the repayment plan and deposit must be provided.

Pension		
Criteria	**Evidence required**	**Assessment method**
Must be a UK pension. The term of any interest only lending must not exceed the lower of state pension age or anticipated retirement age. We'll allow the term to run up to 11 months past the lower of the two.	Copy of latest pension statement dated within the last 12 months.	The pension must have a minimum projected total fund value of £400,000, of which a maximum 15% of this amount will be used to support interest only lending. Where a projected total fund value does not show on the pension statement, such as on a final salary scheme, if the projected lump sum is at least £100,000, up to 60% of the projected lump sum value can be used. Where a statement gives a range of projected values, the middle of three figures or the lower of two will be used. Pension cannot be combined to reach the minimum threshold. Pension contributions should be declared under the 'Total monthly payment towards repayment plans', and will be used in our affordability calculations. Your client must understand the need to maintain pension contributions.

Endowment		
Criteria	**Evidence required**	**Assessment method**
Must be a UK policy. Both with profits and unitised plans permitted.	Copy of the latest projection statement dated within the last 12 months.	Endowment companies will present three growth rates to a client with the middle projection being the most likely outcome. We allow up to 100% of the projected amount using the middle projection figure (usually at 6%).

UK based Stocks & Shares ISAs, Unit Trusts, OEICs or Investment Bonds		
Criteria	**Evidence required**	**Assessment method**
Only UK based investments quoted within the FTSE index and held in sterling are acceptable.	Copy of the latest statement dated within the last 12 months.	We'll compare the value of the asset with the amount of interest only lending required, taking into account the remaining term of the mortgage and future market volatility. The valuation we assign to the investment is 80% of the current value, which must be greater than £50,000*. The total can be made up of a combination of Stocks & Shares, Stocks & Shares ISA, Unit Trusts, OEICs and Investment Bonds. For example, if applicant one has £30,000 Stocks & Shares and applicant two has £30,000 Stocks & Shares ISA, combined this equals £60,000 and is therefore acceptable as a repayment plan. Using 80% of the current value, this is sufficient to cover £48,000 of interest only lending. *For existing customers the current value minimum threshold does not apply if the total amount of interest only borrowing is not being increased.

UK based stocks & shares		
Criteria	Evidence required	Assessment method
Only shares quoted within the FTSE index and held in sterling are acceptable.	Copy of share certificates, nominee account statement or confirmation from a recognised stock broker containing evidence of share holdings, together with their valuation. Must be dated within the last 12 months.	As above for UK based Stocks & Shares ISAs, Unit Trusts, OEICs and Investment Bonds.
Sale of second home/Buy to Let (UK)		
Criteria	Evidence required	Assessment method
Due to valuation and verification requirements this is restricted to properties within the UK.	Completed 'Interest Only Other Residential Property' form. If the mortgage lender is outside Lloyds Banking Group we need a copy of the latest mortgage statement dated within the last 12 months.	We'll check the ownership of the other residential property and assess its value. We'll compare the equity available in the property with the amount of interest only lending required. Current equity within the property must be over £50,000. We'll use 80% of the current equity available in the property to support interest only lending. Note there must be at least £50,000* equity available in each individual property being used to support interest only lending. *For existing customers the current value minimum threshold does not apply if the total amount of interest only borrowing is not being increased.
Sale of another residential property not yet purchased		
Criteria	Evidence required	Assessment method
Due to valuation and verification requirements this is restricted to properties within the UK.	We'll need property details, acting solicitor to confirm intended ownership of the second property and details of any loans to be secured against this property. We may carry out a property valuation and land registry search.	We'll confirm the intended ownership of the second property prior to producing a mortgage offer. Current equity within the property must be over £50,000. We'll use 80% of the current equity available in the property to support interest only lending. Note there must be at least £50,000* equity available in each individual property being used to support interest only lending. *For existing customers the current value minimum threshold does not apply if the total amount of interest only borrowing is not being increased.

Important points

Repayment plans cannot be accepted if they include the name of anyone NOT named on the mortgage.

We will periodically review our list of acceptable repayment vehicles and where we feel appropriate make changes to our acceptable list.

When requesting any future additional services this may be subject to you providing suitable evidence of a repayment vehicle from our current list of acceptable plans.

WHAT WILL HAPPEN IF MY PLAN(S) WILL NOT BE SUFFICIENT TO REPAY THE CAPITAL?

We strongly recommend that you review your plans at least once a year. We'll write regularly to ask you to provide us with a copy of evidence that your plans are on track to repay the capital amount that you will owe at the end of your term. If we're not satisfied your plans are on track or you don't provide evidence, we may change some, or all, of the mortgage on to a repayment basis and this will increase your monthly mortgage payment. We'll write to you to confirm this will happen, and what your new monthly payment will be.

IMPORTANT – PLEASE NOTE THE FOLLOWING POINTS:

- We are not providing advice on your repayment plan(s) or making any guarantees that your plan(s) will be sufficient to repay the outstanding balance (capital) at the end of the mortgage term.
- You should review your plan(s) regularly during the term of your mortgage to make sure it is on track to repay the outstanding balance.
- Periodically, we will ask you to provide evidence of your repayment plan(s). If you are unable to satisfy us that your repayment plan(s) remains on track to repay the outstanding balance on your mortgage, we may ask you to transfer some or all of your mortgage onto a capital and repayment basis.
- Please remember it is your responsibility to ensure you have sufficient funds to repay your outstanding balance at the end of the mortgage term. If you are unable to do so, your home may be repossessed to repay the outstanding balance.

YOUR HOME MAY BE REPOSSESSED IF YOU
DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

FURTHER INFORMATION

If you have any questions about taking out an interest only mortgage, or the suitability of any repayment plan(s), please speak to your mortgage adviser.

For information about your mortgage, please call our customer service team on 0345 845 0829.
Lines are open 8am to 6pm Monday to Friday (Wednesday from 10am).

Or visit our website www.scottishwidowsbank.co.uk

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Copies of our literature can be provided in large print or in Braille and additional assistance is available to any customer upon request.
If you have any special requirements please contact our customer service team on 0345 845 0829.

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