

**Certificate in Mortgage Advice
and Practice (CeMAP[®])
Sample synoptic paper**

Case Study I

Alec and Clare have lived in a rented flat since they were married four years ago and have approached Western Bank to discuss the possibility of obtaining a mortgage. They are hoping to purchase a small leasehold flat which they have seen, having successfully negotiated a £2,000 reduction in the original asking price of £126,000. The flat is one of two above a high street shop, and has an unexpired lease of 75 years. Each flat and the shop comprise equal floor areas.

They are both in full-time employment, earning guaranteed basic salaries of £25,000 and £22,000 respectively. Clare also receives £2,000 per annum from a lifetime trust fund. They have asked the adviser for some information on equity individual savings accounts (ISAs), as a friend has suggested that it might be a good idea to use one of these as the repayment vehicle for an interest-only mortgage.

Alec is expecting a substantial salary increase when he completes his training in two years' time, but until then he and Clare wish to know the maximum monthly payment that they will be required to make. They also want the cheapest valuation option offered by Western Bank.

The vendor has advised them that legally the freehold for this flat cannot be purchased.

The bank's lending criteria are 3 x the main income plus 1 x the secondary income, or 2.5 x joint incomes. Additional security is required if the loan-to-value ratio exceeds 90%. The lender has also stated that it requires the loan amount to be protected by life assurance.

Question I

Which one of the following statements is true in respect of the additional security which the bank would require if an application is approved, the property is valued at the agreed price, and Alec and Clare provide a £4,000 deposit?

- A It may be possible to add the premium to the advance.
- B The name of the provider will be added to the mortgage deed.
- C The policy must be assigned to the bank.
- D The provider must be encouraged to seek independent advice.

Question 2

What is the maximum that Alec and Clare could expect to borrow from Western Bank, based on their incomes?

- A £97,000.
- B £99,000.
- C £117,500.
- D £122,500.

Question 3

How much stamp duty land tax will be saved as a result of the lower agreed purchase price?

- A Nil.
- B £20.
- C £630.
- D £1,260.

Question 4

With regard to the freehold of the flat, which factor would prohibit its purchase under current legislation?

- A The floor area of each property.
- B The number of flats in the block.
- C The purchase price of the property.
- D The remaining term of the lease.

Question 5

If Alec and Clare proceed with their preferred valuation option, what detail will this confirm?

- A Any structural defects in the property.
- B If the electrical system meets current standards.
- C The amount for which the property should be insured.
- D The correct market price for the property.

Question 6

Which of the following mortgage products would be **most** suitable for Alec and Clare?

- A A Bank of England base rate tracker.
- B A discounted rate of 1.0% below the standard variable rate for a period of five years.
- C A standard variable rate, currently 5.2%.
- D A variable rate, currently 5.2%, but capped at 5.4% for two years.

Question 7

The main benefit to Alec and Clare of the product selected in answer to the previous question is:

- A no interest penalties will be charged if they decide to make any capital reductions.
- B the interest rate charged will automatically rise or fall in line with the base rate.
- C they will know the maximum interest rate they will be charged during a given period.
- D they will pay less than the standard variable rate throughout a given period.

Question 8

With regard to the repayment vehicle in which they are interested, and the lender's requirement for protection of the loan amount, of what should Alec and Clare be made aware?

- A Combining their chosen repayment vehicle with decreasing term assurance will guarantee full repayment on death.
- B Their chosen repayment vehicle automatically includes life assurance cover.
- C Their protection product should cover the loan amount independently of their repayment vehicle.
- D The need for a guaranteed maturity value.

Question 9

Which one of the following would **not** be a benefit of the type of repayment vehicle being considered by Alec and Clare?

- A The maturity date is fixed to coincide with the end of the mortgage term.
- B The mortgage loan may be able to be repaid early.
- C The proceeds payable will not be subject to capital gains tax.
- D There is a wide choice of funds in which premiums can be invested.

Question 10

What specific information do the Mortgage Conduct of Business Rules require the bank to give Alec and Clare in respect of the most suitable mortgage product?

- A A description of the interest rates that may be available.
- B An explanation of whether it can be continued if they move house.
- C That the rate will be fixed throughout the mortgage term.
- D What happens if they do not want their mortgage any more.

Case Study 2

Nathan and Louise are first-time buyers and have approached the Island Building Society. Nathan is aged 40, and is employed as an operations manager in a local packing company and earns a salary of £31,000 p.a. Louise is aged 39 and works as a florist in a local shop and earns a salary of £10,000 p.a.

The property that Nathan and Louise intend to buy is a Victorian semi-detached house, costing £140,000, and they intend to live there long-term. Nathan and Louise have one child, Lorna, who is aged 18 and a full-time student, and lives away from home with her fellow students.

Nathan and Louise require a mortgage of £120,000 over 25 years. Although they regard their income as adequate, they want to protect their outgoings against potential rises in interest rates until Lorna completes her university course at the age of 21. During that time, Nathan and Louise would also like to save money wherever possible, and wonder how this objective may be combined with the repayment of their mortgage loan.

The Island Building Society offers lending multiples of 3.75 x first income plus 1 x second income, or 3 x joint incomes, up to a maximum LTV of 95%. The society has also advised Nathan and Louise that a higher lending charge of £550 will be required.

Nathan and Louise are undecided as to the type of repayment method they wish to use but are interested in a mortgage with a flexible investment product as they hope to be able to repay the mortgage loan early. *Their friend James has confused the issue further by suggesting that they consider a flexible mortgage.* Both Nathan and Louise have already contributed to the Society's cash individual savings accounts (ISAs) in the current tax year.

Sensibly, Nathan and Louise asked Louise's brother Gavin, a qualified surveyor, to look at the property prior to making an offer. Gavin has suggested that the house is generally sound but does require some external decoration. He feels that the lender may ask for an undertaking regarding the work.

Question 11

What is the maximum amount that Nathan and Louise could borrow from Island Building Society if they decided to reduce the size of their deposit?

- A £120,000.
- B £123,000.
- C £126,250.
- D £127,500.

Question 12

Which of the following must be provided if they choose an interest only mortgage but **not** a capital and interest mortgage?

- A A description of any insurance services that can be arranged.
- B A description of the types of interest rates available.
- C An explanation of the effects of failing to make suitable arrangements to repay the loan.
- D An explanation of the main repayment methods.

Question 13

In respect of the undertaking to complete the essential external decoration, when must this be done?

- A Before exchange of contracts.
- B After exchange of contracts but before completion.
- C Within a specified time following completion.
- D Before the end of the mortgage term.

Question 14

The Island Building Society have stated that Nathan and Louise would not be able to arrange a flexible mortgage, as James suggested. What is the most likely reason for this?

- A Their incomes.
- B The proposed loan to value ratio.
- C The fact that they may want to repay the mortgage early.
- D Their ages.

Question 15

In connection with the higher lending charge, Nathan and Louise:

- A are not protected if the property is subsequently taken into possession.
- B should seek independent legal advice.
- C will have the fee refunded at the end of the mortgage term.
- D will have the policy written in their own names.

Question 16

From the range of mortgage products available, which one of the following most closely matches Nathan and Louise's requirements?

- A Standard variable rate, currently 5.75%, with no early repayment charges.
- B Five year fixed at 5.75% with early repayment charges.
- C Three year capped at 6% with early repayment charges.
- D Three year fixed at 6% with early repayment charges.

Question 17

Bearing in mind their stated objectives, which product would initially be most suitable as a mortgage repayment vehicle for Nathan and Louise?

- A Joint unit-linked endowment.
- B Joint unit trust holdings.
- C Maxi ISAs in each of their names.
- D Mini equity ISAs in each of their names.

Question 18

If Nathan and Louise use the product selected in the previous question, what will be their tax position when the proceeds are taken to repay the mortgage loan, assuming they are both still living and their current tax status has not changed?

- A Capital gains tax may be payable, but not income tax.
- B Income tax may be payable, but not capital gains tax.
- C Income tax will be payable, but only in respect of Nathan.
- D No income or capital gains tax will be payable.

Question 19

If Nathan and Louise go ahead with the mortgage repayment method being considered and require mortgage protection in the form of additional life cover at the cheapest cost, what would be most appropriate?

- A Decreasing term assurance for £60,000 each.
- B Level term assurance for £60,000 each.
- C Joint decreasing term for £120,000.
- D Joint level term assurance for £120,000.

Question 20

If Nathan and Louise purchase the property at the stated price, what amount of Stamp Duty Land Tax will they pay?

- A £800.
- B £1,200.
- C £1,400.
- D £2,100.

Case Study 3

Paul and Kelly are customers of Marsh Bank and they are seeking mortgage advice. Paul, a sole trader, works as a graphic designer. Some years ago, however, he worked for his father, who became insolvent and Paul is unsure how this might affect his proposed mortgage application.

Paul's business has been quite successful. Full sets of accounts for each of the last few years show steady profits. Last year he turned in a gross profit of £38,000. The net profit was £28,000. Kelly is an experienced systems analyst, has been employed for the last 8 years and earns £24,000 p.a.

They are looking to purchase a four year old terraced house for £136,000, and have a deposit of £27,200, together with separate funds to cover legal and other costs. Marsh Bank makes a higher lending charge on loans over 75% LTV at a rate of £7.95%, and offers a maximum loan of 3.25 x main income plus 1 x second income.

For the past five years, Paul and Kelly have had a building society mortgage of £68,000, which is interest-only and for which they have a unitised with-profits endowment policy as the repayment vehicle. They are considering a 36-month 6.75% capped rate mortgage that the bank offers, compared with its standard variable rate of 6.34%.

Question 21

Paul is unsure what information the bank will require in order to assess his application. Which one of the following will not be required?

- A Bank reference and/or statements.
- B Existing mortgage lender's reference.
- C Memorandum and Articles of Association.
- D Profit and loss account.

Question 22

What effect, if any, is Paul's father's insolvency likely to have on any mortgage application submitted by Paul and Kelly?

- A It is likely to be automatically declined.
- B It should be processed on normal terms.
- C Only Kelly's salary can be taken into account.
- D The bank's normal maximum criteria will be reassessed.

Question 23

Assuming the purchase proceeds at the agreed price, what amount of Stamp Duty Land Tax will Paul and Kelly pay?

- A £1,360.
- B £1,700.
- C £2,040.
- D £2,380.

Question 24

What is the maximum that Paul and Kelly could expect to borrow from Marsh Bank, based on their incomes?

- A £84,000.
- B £115,000.
- C £123,500.
- D £147,500.

Question 25

The purpose of the Mortgage Indemnity Guarantee premium is to protect:

- A Paul and Kelly against long-term financial difficulty.
- B Paul and Kelly against a sharp fall in property prices.
- C the bank against any shortfall in the buildings and contents insurance.
- D the bank should it need to sell the property for less than the outstanding debt.

Question 26

Which one of the following is **incorrect** with regard to the existing repayment vehicle?

- A Market value adjusters may apply on encashment before maturity.
- B Policy premiums are subject to review after specified periods.
- C Premiums buy units in the with-profits fund.
- D Unit values will rise or fall in line with the underlying fund(s) chosen.

Question 27

Under the Mortgage Conduct of Business Rules, which one of the following is **not** correct? The adviser must always provide:

- A a description of the types of interest rates available.
- B a description of when their account details may be passed to credit reference agencies.
- C an explanation of whether their selected mortgages terms can be continued if they move house.
- D details of the exact amount of any procurement fee.

Question 28

Under Paul and Kelly's preferred mortgage product, the interest rate will:

- A not change for the first three years.
- B not rise above the stated level for the first three years.
- C only change if the standard variable rate changes in the first three years.
- D only change when the standard variable rate increases.

Question 29

Which of the following statements is **correct** in respect of the mortgage product preferred by Paul and Kelly?

- A Interest must be calculated on either a daily or monthly basis.
- B The interest rate charged will not exceed a pre-determined level during the full mortgage term.
- C The interest rate will always move in line with the Bank's standard variable rate.
- D The interest rate will not necessarily always fall in line with the Bank's standard variable rate.

Question 30

How much will the higher lending charge be if Paul and Kelly decide to proceed with the purchase, they borrow the maximum that the Bank will lend, and the property is valued at the agreed price?

- A £1010.30
- B £1033.50
- C £1146.00
- D £1410.50

Case Study 4

Luke and Jessica, both aged 23, recently consulted a mortgage broker. They were keen to purchase their first property and needed advice about how much they could borrow. They also wanted some guidance about interest-only unit-linked endowment mortgages that they have been discussing with some friends recently. Luke would also like to know whether it is worthwhile using his personal pension plan with their mortgage, a method chosen by his brother.

They have agreed a price of £120,000 on a two-bedroom terrace house. The basic valuation carried out resulted in the need for an undertaking, although the property was valued at the agreed price. Luke has savings of £5,000 towards the deposit, and his father has agreed to provide some additional funds if necessary.

Jessica has just completed a course of study and is now looking for suitable employment. Luke is a researcher in the pharmaceutical industry and has been freelance for the past three years. He has been happy with his success, having achieved a net profit of £33,500 and made personal drawings of £28,000 in the last year. His trading in the previous two years produced similar results.

Luke is keen to have some peace of mind that his mortgage repayments are protected in the event of his inability to work in the short term, particularly as Jessica has no income for them to fall back on at present. However, he is anxious to keep costs to a minimum whilst his business is building.

Luke and Jessica have been recommended a 25-year term base rate tracker interest-only mortgage at Bank of England base rate plus 0.95% in year 1 and plus 1.25% thereafter; the current Bank of England rate is 4.75%. The lender's

policy is that the maximum income multiplier for first time buyers is 3.5 x first income plus 1 x second income and the maximum LTV is 90%. It will also require mortgage indemnity cover to be taken out as necessary. On loans up to 85% LTV there is no charge. Loans over 85% LTV are charged at £8.30% from a threshold of 75% LTV. The lender pays a procurement fee of 0.35% (minimum £250).

Under the terms of the Mortgage Conduct of Business Rules, an advised sales service is offered.

Question 31

To comply with the Mortgage Conduct of Business Rules, what procurement fee will the broker have to declare to Luke and Jessica, assuming that the maximum possible loan is taken?

- A Up to £250.
- B £250.
- C £315.
- D £378.

Question 32

In relation to the recommendation made to Luke and Jessica, the Mortgage Conduct of Business Rules requires the broker to notify them:

- A annually of the need for suitable repayment arrangements.
- B how interest rates changed during the last year.
- C to seek independent legal advice.
- D what the likely interest rate at the end of year 1 will be.

Question 33

If Luke and Jessica purchase the property with the maximum possible loan, how much, if anything, would they have to pay in respect of mortgage indemnity?

- A Nothing.
- B £498.
- C £1,494.
- D £2,490.

Question 34

The results of the valuation carried out on Luke and Jessica's new property indicates that:

- A a specialist report will be required.
- B the full advance will be retained until the work has been completed.
- C the lender may require a second inspection.
- D the loan will be made in two stages.

Question 35

Luke's idea of using his personal pension plan with the mortgage is unsuitable because of his:

- A age.
- B employment status.
- C protection needs.
- D tax status.

Question 36

Luke and Jessica would like to know how much interest they will pay over the first year if they take out the maximum loan using the recommended product. Assuming a base rate of 4.75% for the first six months, followed by a 0.25% reduction for three months, reverting to 4.75% for the final three months of the year, the amount would be:

- A £5,062.
- B £6,088.
- C £6,155.
- D £6,480.

Question 37

In connection with the repayment method chosen by Luke's brother, which one of the following is correct?

- A Only part of the investment fund can be used to repay the loan.
- B Only the fund element which is commutable attracts tax relief.
- C There are legal restrictions on the geographic range of investments.
- D The terminal bonus is not available for the purpose of repaying the loan.

Question 38

Bearing in mind Luke's needs and concerns regarding the protection of his mortgage repayments, which one of the following products would be most suitable?

- A Critical illness cover.
- B Mortgage payment protection insurance.
- C Permanent health insurance.
- D Private medical insurance.

Question 39

Luke and Jessica ask for an explanation of the benefits of the type of repayment vehicle they have recently discussed with friends. Which of the following would not be a benefit of such a repayment vehicle?

- A Built-in life cover.
- B Flexible premiums.
- C Guaranteed minimum surrender value.
- D Potential tax-free sum.

Question 40

If Luke and Jessica proceed on the repayment method discussed above, what advantage would this have over the method chosen by Luke's brother?

- A A reduced bid/offer spread will apply.
- B Automatic reviews to ensure sufficient funds at the end of the mortgage term.
- C Less volatility in the underlying investment performance.
- D Tax relief on the built-in life cover.

Case Study 5

Greg and Cheryl have an £82,000 interest-only mortgage with the Brunswick Building Society on a property, which they own on a joint tenancy basis. A unit-linked endowment policy supports the mortgage, with a remaining term of 12 years. The plan is currently projected to have a shortfall of £17,000. In view of this, they plan to switch the shortfall to a repayment basis and arrange the further advance in the same way. Three years ago, they took out a secured personal loan for £13,500, from Kenton Finance, the proceeds of which they used to refurbish their kitchen. Repayments on the personal loan are £275 per month.

Greg is employed as a full-time Administration Manager, earning £33,500 p.a., and Cheryl is a full-time physiotherapist and earns £22,500 p.a. They have two children, Michael aged 15, and Joanne aged 24. The mortgage account went into

arrears for a short time three years ago, when Cheryl had to take time off work to further her studies and they were faced with paying for Joanne's wedding. They cleared the arrears within four months.

Greg and Cheryl have now approached the society for a further advance of £27,000 to finance a loft conversion on their existing property. They intend to contribute £5,000, from their savings, towards the cost of this building work. They estimate that conversion will increase the value of their property to £135,000.

The society's maximum lending criteria based on salary is 3 x main income plus 1 x second income, or 2.25 joint incomes. It also insists on a mortgage indemnity guarantee where the loan exceeds 80% loan to value.

Greg and Cheryl intend to use a building firm that has been recommended by some close friends.

Question 41

How will the personal loan arrangement affect Greg and Cheryl's application?

- A Payments will be taken into account when assessing their ability to repay.
- B The Brunswick Building Society will apply the principle of consolidation.
- C The loan will have to be repaid as a condition of making the further advance.
- D The valuation of the property for mortgage purposes will be reduced by the amount of the loan outstanding.

Question 42

Greg and Cheryl's existing repayment vehicle:

- A does not guarantee to fully repay the loan either on death or maturity.
- B features tax relief on the premiums.
- C guarantees to fully repay the loan on either death, provided premiums are up to date.
- D is guaranteed to provide a tax free surplus on maturity.

Question 43

Which one of the following will the Society require when processing Greg and Cheryl's application?

- A Consent of the MIG insurer.
- B Consent to the plans from Kenton Finance.
- C Evidence that planning permission has been granted.
- D Evidence that the design of the extension is in keeping with the neighbourhood.

Question 44

The term of the further advance offered by Brunswick is most likely to be:

- A no longer than the date of the later of Greg and Cheryl to retire.
- B set by mutual agreement.
- C the residual term of the existing policy.
- D the residual term of the existing mortgage.

Question 45

In relation to the further advance, when might tacking be required?

- A If it is consolidated with the personal loan.
- B If Kenton Finance does not agree to the further advance.
- C If the original mortgage deed does not oblige Brunswick to make further advances.
- D If the Society postpones its prior charge.

Question 46

What is the **maximum** further advance that the society would consider (before taking personal borrowings into account)?

- A £36,000.
- B £41,000.
- C £44,000.
- D £51,000.

Question 47

The society is likely to impose which one of the following conditions on any further advance offer?

- A A mortgage indemnity guarantee is arranged.
- B An additional endowment policy is assigned to it.
- C Plans and planning permission are deposited with the title deeds.
- D The personal loan is repaid prior to completion.

Question 48

In the event of Greg predeceasing Cheryl, his portion of the property will:

- A be shared between Cheryl and Joanne only.
- B pass as directed by his will.
- C pass as a life interest to Joanne and to the children on her death.
- D vest automatically in Cheryl.

Question 49

As a result of the further advance and re-arrangement of the existing loan, Greg and Cheryl should:

- A arrange decreasing term assurance to cover the further advance.
- B arrange either decreasing term assurance or level term assurance to cover the full mortgage.
- C arrange level term assurance to cover the further advance.
- D increase their endowment to cover the full advance.

Question 50

In what way, if any, is Brunswick's experience with Greg and Cheryl three years ago likely to affect their proposed new loan?

- A A lien will be placed on the maximum lending.
- B An additional guarantor will be required.
- C An additional weighting will be placed on existing outgoings.
- D It should not materially affect their decision.

Case Study 6

James and Diane purchased their flat four years ago for £130,000 with the help of an interest-only mortgage for £90,000. The repayment vehicle is a low-cost endowment policy, which has not been assigned to the lender. They are now separating and have agreed that James will pay £40,000 to Diane in return for taking full ownership of the property, which is now thought to be worth approximately £150,000.

James has approached his independent adviser, Osmans plc, for advice on the possibility of seeking a further advance from his existing lender, London Bank, to fund the agreement. Diane has already vacated the property and James has explained that he is now working in Scotland and has therefore let the property to a friend for a six-month period. The bank had not consented to the tenancy, and indeed had actually declined James' request to let several weeks ago.

James expects to return home within twelve months, and it is likely that his new partner, Sally, will then move into the property with him. He would like her name to be added to the mortgage as soon as Diane has been released from her obligations. Sally is a regular equity ISA investor and has told James that she intends to use the proceeds of this ongoing investment to help repay part or all of the mortgage early.

Question 51

In relation to the proposed divorce settlement, before releasing Diane from the mortgage deed, the lender will:

- A ask Diane to act as guarantor for James
- B carry out an assessment of James's ability to service the loan on his own.
- C not require a mortgage indemnity guarantee.
- D require Sally to be a party to the mortgage immediately.

Question 52

Before making any firm decisions regarding the continued use of his present mortgage repayment vehicle James' first priority should be to:

- A check current interim bonus rates.
- B confirm whether it is currently on target.
- C enquire if it remains qualifying.
- D ensure that it can be suitably increased.

Question 53

What additional action should James consider in respect of the repayment vehicle?

- A Assignment to the lender.
- B Immediate surrender, with the proceeds being applied to the mortgage account.
- C Transfer or assignment into James' sole name.
- D None.

Question 54

What form of additional security is the lender most likely to require if the further advance is agreed?

- A A mortgage indemnity guarantee.
- B A personal guarantee.
- C A signed disclaimer from Diane.
- D Re-assignment of the low-cost endowment policy.

Question 55

James has been advised that if his application is successful, a new mortgage deed may not need to be drawn up because:

- I the loan will be exempt from regulation.
- II the further advance will be tacked onto the original deed.
- III the original mortgage deed obliges the lender to make further advances.
- IV there are no subsequent charges registered against the property.

Which of the following is correct?

- A I and II.
- B II and III.
- C III and IV.
- D I and II and III.

Question 56

What guidance should Osmans give James with regard to the impact of the unauthorised tenancy?

- A His application may be refused because of the breach in the mortgage covenants.
- B His application is likely to be refused unless the tenant vacates the property.
- C It should have no effect if the mortgage account is up-to-date.
- D The loan cannot be granted while neither borrower occupies the property.

Question 57

James has asked Osmans which additional actions may be required by London Bank. Which one of the following will **not** be required?

- A A credit assessment check on Diane.
- B A property valuation.
- C Confirmation of James' current income.
- D Diane's agreement.

Question 58

If Sally moves in with James but does not become a party to the mortgage, what, if anything, will the lender require?

- A Completion of a consent to mortgage form.
- B Confirmation of Sally's income.
- C No further action will be required.
- D The consent of the freeholder.

Question 59

Which of the following is the lender likely to consider to be of most importance if Sally is to be added to the mortgage deed?

- A A satisfactory bankruptcy search on Sally.
- B Confirmation of Sally's income.
- C The consent of the endowment provider.
- D The consent of the freeholder.

Question 60

Which one of the following differentiates Sally's ISA from James' endowment?

- A Benefits at the end of the mortgage term will be free from tax.
- B In the main, the underlying investment will be equity based.
- C It cannot be held in joint names.
- D It does not guarantee a maturity or final value.