

Flexi Choice

Adviser guide to the drawdown function

Our Flexi Choice plan consists of seven different product options with corresponding LTV bands ranging from a very low LTV/interest rate option (Super Lite) to a higher LTV/interest rate version (Max). Once you have calculated the initial advance and future facility the client requires, you can work your way down this scale to find the right LTV to meet the client's needs at the lowest price.

7	7	7	7	7	7	7 Max	Higher int.%
6	6	6	6	6	6 Plus	6	↑
5	5	5	5	5 Extra	5	5	
4	4	4	4 Midi	4	4	4	↑
3	3	3 Lite	3	3	3	3	
2	2 Super Lite 2	2	2	2	2	2	↓
1 Super Lite	1	1	1	1	1	1	
Lower LTV ← FLEXI CHOICE PRODUCT OPTIONS → Higher LTV							

Accessing further funds through drawdown

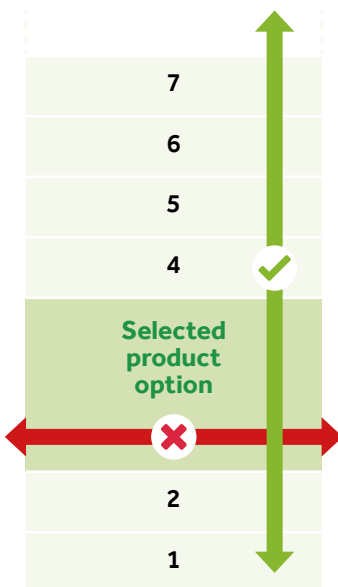
Clients can move up or down the LTV bands within their product option without incurring any penalties. They would potentially move bands when they come back to use some or all of their remaining facility.

When they need a further drawdown, we calculate their new total borrowing commitment (initial advance + accrued interest + facility), then use their age and current estimated house value (revalued annually) to calculate which LTV band will apply to that drawdown. The new drawdown will be charged at the prevailing rate for that LTV band, which could be higher or lower than the rate charged on the initial loan.

Higher bands

Clients can usually still access their remaining facility, even if a future drawdown would take them higher than the seven advertised LTV bands for their product option. Details of the current LTVs and interest rates for these higher bands are available on request. *Note – It is not possible for a client to move across from one product option to another (without repaying their existing loan and potentially incurring an ERC).*

If a client wants to take more funds (i.e. go beyond their initial facility) this will be treated as a further advance which will be calculated on the same basis as above. This will likely trigger a requirement for advice, pushing the client back to their adviser before any further action is taken.



Drawdown – working example

To help illustrate how future drawdowns work and how they are costed, we have put together an illustrative case study below.

Scenario:

- Client is currently 65 years old
- They have a home valued at £187,500
- They require a total of £45,000 of borrowing – £25,000 initially and a facility of £20,000

STEP ONE Selecting the right product option

The client requires a TOTAL borrowing commitment of £45,000 which is an LTV of 24%. The lowest Flexi Choice product option rate that will accommodate this LTV is Midi. The client takes an initial loan of £25,000 at 2.58% MER (2.61% AER)*, leaving a facility of £20,000.

Plan options	Super Lite	Super Lite 2	Lite	Midi	Extra	Plus	Max
LTV (65, single life)	17.50%	20.00%	22.50%	25.00%	27.50%	29.00%	31.00%

STEP TWO Requesting a further draw

Exactly two years later, the client comes back to access the remaining facility and take a further £10,000. The table below works through the calculation to show which LTV band this further drawdown will be applied to based on the client's home either increasing or decreasing in value by 5% each year over that period (rounded to the nearest thousand).

A (initial loan) = **£25,000**

B (accrued interest: 2.58% MER*) = **£1,306.64**

C (total facility) = **£20,000**

Total borrowing commitment = £46,306.64

House price	+5% p.a.	-5% p.a.
New house value	£206,719	£169,219
LTV required (based on new house value)	22.40%	27.36%
LTV band for new draw (↑↓=)	Super Lite (↓)	Midi (↑)

Plan options	Super Lite	Super Lite 2	Lite	Midi	Extra	Plus	Max
LTV (67, single life)	20.00%	22.50%	25.00%	27.50%	30.00%	31.50%	33.00%

In this example, if the client's house had gone down in value, the drawdown would remain on the same band at the prevailing rate, but they would move DOWN two bands to Super Lite if their house had gone up in value.

*Illustrative only. Please see our Flexi Choice Rates & LTV document for more information on current rates.

For more information

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