Aviva Lifetime Mortgage

A guide to voluntary partial repayments

This guide is suitable if you applied for a lifetime mortgage from 28 April 2014.

Contents

	Page
How much can I repay?	2
How will you apply my payment to the loan?	2
How will making repayments affect the amount I owe?	3
Does it matter when I make repayments?	3-4
Is it always a good idea to make voluntary repayments if I can afford it?	5
How do I make a voluntary partial repayment?	5
Why have I been asked to evidence the source of my repayment or proof of my identity?	6
Need this in a different format?	6
How to contact us	6

Your Aviva Lifetime Mortgage allows you to make voluntary partial repayments, which can reduce the overall amount due when the loan becomes repayable. You don't have to make any repayments unless you want to, as the loan and interest will usually be paid back in full by selling your property when all borrowers have passed away or moved into long-term care (subject to our terms and conditions).

Contact us

To talk to us about any of the information in this guide, give us a call on:

0800 158 4177

Lines are open 9am-5pm, Monday to Friday (closed bank holidays).
We may record calls for training and monitoring purposes.

How much can I repay?

The maximum amount you can repay in each anniversary year is 10% of the total of your initial loan, any additional borrowing (any further loans you take out as part of your lifetime mortgage on top of your original loan), and all cash reserve releases (this is the money you take out from the extra amount you set aside when you first got your lifetime mortgage - if you chose to do that), excluding any interest accrued.
The anniversary year starts on the completion date of your first loan and refreshes each year. You can check your anniversary date on your completion letter or annual statement. For example, if you take an initial loan of £90, 000 and don't borrow any further money, you can voluntarily repay up to £9,000 in each anniversary year.

You can make as many repayments as you like up to the 10% annual limit, but each instalment must be a minimum of £50.

You can't repay more than 10% of the total amount borrowed in each anniversary year unless you repay the lifetime mortgage in full, including any additional borrowing, cash releases, and interest accrued. If you choose to repay your lifetime mortgage in full before death or going into long-term care, you may have to pay an early repayment charge.

How will you apply my payment to the loan?

- Your lifetime mortgage includes all the money you've borrowed over time. Each time you borrow more, we create a separate loan within it.
- When you make a repayment, we'll apply it to the loan you took out most recently. If your repayment is more than the balance of your most recent loan, it will repay that loan in full.
- We'll apply the rest of the repayment to your next most recent loan and so on until the whole repayment is complete.
- We apply the payment proportionally across two amounts - the interest bearing balance and the daily interest built up since your last anniversary date. For an explanation of interest bearing balance and to see an example of how applying the repayment proportionally work see 'Does it matter when I make repayments?'

How will making repayments affect the amount I owe?

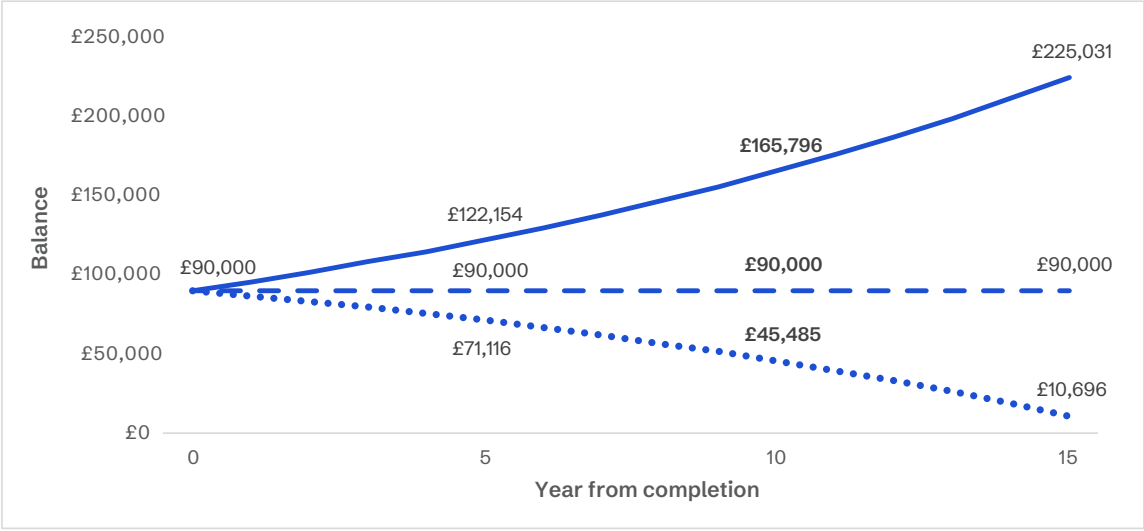
If you choose to make repayments, it will reduce the total amount due when the loan becomes repayable.

This graph shows the difference making voluntary repayments to an initial loan of **£90,000** at 6.3% can make over time. **We've shown what your loan would be in 5, 10 and 15 years.**

The solid line shows a lifetime mortgage where no repayments are made. As the graph shows, the balance after 15 years would be **£225,031.**

The dashed line shows a lifetime mortgage where the interest is paid at the end of each year. The balance after 15 years would still be **£90,000.**

The dotted line shows a lifetime mortgage where the full 10% repayment allowance is made at the end of each year. The balance after 15 years would be **£10,696.**



You don't have to make any repayments against your loan unless you want to.
If you're not sure if making repayments is right for you, you should speak to your adviser.

Does it matter when I make my repayments?

Yes, the timing of repayments can change the impact they will have on your balance.

Making repayments as soon as you can rather than saving up to pay a lump sum at the end of the year will reduce the amount of interest added to your balance over time. This is due to the way interest is charged and how repayments are applied to your account.

- **Interest calculation:** Interest is calculated daily, but only added to your balance annually on your anniversary date. The new total balance at your anniversary date is what you'll be charged interest on for the following year. This amount is called the 'interest bearing balance'.
- **How repayments are applied:** When you make a repayment we apply the payment proportionally across two amounts - the interest bearing balance, and the daily interest built up since your last anniversary date. We've included an example of how this works below.
- **Impact on interest:** Because repayments are applied proportionally, making a repayment reduces the interest-bearing balance. In turn, this will reduce the amount of daily interest charged over the remaining anniversary year.

Essentially, making repayments earlier can help lower the amount of interest charged throughout the year, leading to a lower overall balance at your next anniversary.

Here's an example of how applying the repayment proportionally works, based on an initial loan of £90,000 at 6.3% AER

When a repayment of £1,500 is made 60 days after completion of the initial loan, the outstanding balance at the end of year 1 will be £1,578.16 lower than if no repayment was made. This is made up of £1,500 repayment and £78.16 in interest that is saved by the end of year 1. The £1,500 repayment is applied as follows:

- 60 days after completion the interest bearing balance is £90,000, and £932.05 has built up in interest.
- £90,000 is 98.975% of the total amount owed. So, 98.975% of the £1,500 repayment will be applied to the interest bearing balance (£1,484.63).
- £932.05 is 1.025% of the total amount owed. So, 1.025% of the £1,500 repayment amount will be applied to the interest accrued (£15.37).
- After repaying £1,500 60 days after completion, interest will be charged on £88,515.37 instead of £90,000 for the rest of the year, saving £78.16 in interest at the end of year 1.

	Balance on the day of repayment	How £1,500 repayment is applied	Balance immediately after repayment
Interest bearing balance	£90,000	-£1,484.63	£88,515.37
Interest accrued since your last anniversary date	£932.05	-£15.37	£916.68
Total amount owed	£90,932.05	-£1,500	£89,432.05

Is it always a good idea to make voluntary repayments if I can afford it?

Making voluntary repayments can be a great way to reduce the amount owed over time, but it's important to think about your individual situation. You should weigh up the pros and cons, including whether the money could be better used elsewhere. There are many factors which could influence your decision, and it's often a good idea to seek financial advice to help you understand what's right for you.

One thing to consider is the risk of negative equity. This is where the balance of a lifetime mortgage is higher than the sale price of the property when the loan becomes repayable.

Negative equity

The negative equity guarantee means you or your estate will never have to pay back more than your property is sold for, as long as:

- it's sold for the best price reasonably obtainable and
- you have maintained the property in accordance with the terms and conditions.

However, if the balance of your lifetime mortgage is higher than the sale price of your home when your loan becomes repayable, it could mean there'll be no money left to your estate - even if you've made voluntary repayments throughout the course of your lifetime mortgage.

The risk of this happening depends on several factors, including:

- **How long until the lifetime mortgage is repaid in full:** A lifetime mortgage is designed as a long-term loan which is usually repaid when you pass away or move into long-term care. The longer you stay in your home before these events occur, the more time the loan has to build up interest. This can increase the amount owed when your property is sold.
- **Future property value:** Remember, house prices can go down as well as up
- **How much was borrowed:** The risk of negative equity increases for lifetime mortgages with a higher loan to value ratio (the amount borrowed compared to the property value). The risk also increases if repayment amounts are relatively small compared to the interest building up over time.

Making voluntary repayments does not guarantee that there will be money left to your estate from the sale of your property. The risk of negative equity should be considered against the potential benefit of making voluntary repayments. If in doubt, speak to your adviser.

How do I make a voluntary partial repayment?

To make a single repayment or to talk to us about setting up regular repayments by Direct Debit, give us a call on **0800 158 4177.**

We can accept payment by:

- Direct Debit
- Debit card
- BACS (Bankers' Automated Clearing Services which is a way to send money between UK bank accounts which usually takes 2-3 working days to go through),
- Faster Payments (a quick and free way to send money between UK bank accounts on the same day),

- CHAPS (Clearing House Automated Payment System - which is a same day bank transfer system used in the UK for sending large amounts of money quickly and securely. There is usually a fee to pay).

When you call, we'll also give you a projection showing how your repayments could reduce the amount you owe over time - helping you decide what works best for you.

Setting up a Direct Debit for regular monthly repayments

- If your lifetime mortgage has just started, wait until you have received your loan amount before calling to set up a Direct Debit.
- Let us know how much you want to repay and what day of the month works best for you (between 1st and 28th).

Important:
Your Direct Debit collection date must not fall within the 7 days before your policy anniversary date (the date your lifetime mortgage started).
For example, if your policy anniversary is 1st July, your payment date must be between 1st and 21st

Prefer not to do it over the phone?
No problem - we can send you a paper form to fill in and return

Why have I been asked to evidence the source of my repayment or proof of my identity?

Anti-Money Laundering legislation requires us to complete customer due diligence. This might mean that we'll ask you additional information about the source of funds when you make a repayment. These enquiries are standard practice across the financial services sector.

Voluntary partial repayments are only available to you if you took out a Lifetime Mortgage on or after 28 April 2014 (in our Lifestyle Range with terms and conditions from Edition 4 and upwards). If you have an earlier edition and you want to make repayments, you should speak to your adviser to discuss your options.

Need this in a different format?

Please get in touch if you'd prefer this document **(PF011893)** in large print, braille or as audio.

How to contact us

0800 068 6800

contactus@aviva.com

aviva.co.uk