

Lifetime mortgage

Variable Gilt Index Early Repayment Charges Explained



Available to customers who applied for their lifetime mortgage on or after 24 January 2022.

Your lifetime mortgage is designed to be repaid when you (and the second borrower if you have a joint lifetime mortgage) die or need long-term care subject to the terms and conditions. But circumstances can change, and you may find that you want to repay your loan in full at an earlier date. If you need to do this, you may have to pay an early repayment charge.

This booklet covers the **Variable Gilt Index** early repayment charge, and in it we explain:

- Why we make this early repayment charge
- When you would need to pay it – or not
- How the early repayment charge works
- How to check how much the early repayment charge will be

When you take out a lifetime mortgage you will need to speak to your equity release adviser to understand which type of early repayment charge best suits your personal circumstances. We currently offer a Fixed Percentage and a Variable Gilt Index early repayment charge and once your lifetime mortgage completes, the type of early repayment charge you've chosen can't be changed. It will also apply to any further money you borrow from us after the initial loan.

Fixed Percentage - Early Repayment Charge

If you would like more information on our Fixed Percentage early repayment charge:

- Speak to your equity release adviser
- Give us a call on **0800 158 4177** (calls may be recorded or monitored)
- Download a copy from our website at aviva.co.uk/adviser/documents/view/pf011601c.pdf

Variable Individual Gilt - Early Repayment Charge

If you applied for your lifetime mortgage before 24 January 2022, you may have chosen the Variable Individual Gilt early repayment charge, which is no longer available to new customers. For more information:

- Speak to your equity release adviser
- Give us a call on **0800 158 4177** (calls may be recorded or monitored)
- Download a copy from our website at aviva.co.uk/adviser/documents/view/pf011231c.pdf

Why is there an early repayment charge?

Lifetime mortgages are usually repaid when the borrower dies or needs long-term care. We use relevant statistics to determine how far in the future we might expect loans to be repaid and set our rates and fees accordingly. If a loan is repaid early we may need to recover our costs. For example, the transaction costs of reinvesting the money or the cost of changes in long-term interest rates.

When we don't make an early repayment charge

In certain circumstances we **don't** apply an early repayment charge when a lifetime mortgage is repaid. They're summarised below and you can find more information on each in the lifetime mortgage terms and conditions.

1. If you are joint borrowers and your lifetime mortgage is repaid within 3 years of the date on which the first of the borrowers dies or needs long-term care.
2. When the lifetime mortgage is repaid because you and all borrowers have either died or meet our long-term care criteria.
3. You move to a new property and we agree you can transfer your lifetime mortgage to that property.
4. If you want to move to a new property that doesn't meet our current lending criteria, but you're eligible for downsizing protection.
5. You want to sell part of your property and we give our consent.
6. You'd like someone to move into the property with you as a joint borrower and for the lifetime mortgage to be repayable when the last person dies or needs long-term care.
7. If you're making voluntary partial repayments up to a maximum of 10% per year of the total amount borrowed, you won't pay an early repayment charge on these repayments.
8. Once your early repayment charge term has ended. This will be on the relevant anniversary of the completion date of your lifetime mortgage, as shown in your completion letter.
9. If the gilt yield on the repayment date is the same or higher than it was on the completion date of your lifetime mortgage.

Why we use gilts

A 'gilt' is another word for a UK government bond. The government issues these to raise money for public spending. The term 'gilt' or 'gilt-edged security' refers to their primary characteristic as an investment: their security.

The interest rate on your lifetime mortgage is fixed at the start, but as the loan is designed to last for the rest of your life, we need an independent guide to what's likely to happen to interest rates over the same timescale. Gilts give a good indication of long-term interest rates, which is why we use changes in gilt yields (the rate of return the government offers on its gilts) to calculate early repayment charges. There are two advantages of this:

1. Gilts are impartial and transparent. They're a truly independent guide as Aviva has no say in whether gilt yields rise or fall.
2. You won't have to pay an early repayment charge if gilt yields have risen. But if gilt yields fall this would mean we'd lose out when reinvesting, so then we would make an early repayment charge.

To track the financial performance of individual gilts, we refer to a 'Gilt Index'.

How the Variable Gilt Index early repayment charge works

To work out if we need to apply an early repayment charge, and how much the early repayment charge will be, we use the UK FTSE Actuaries 15 Year Gilt Yield Index. This is an index of gilts included in the FTSE Actuaries UK Gilts Index Series and is published daily in the Financial Times. The series is a broad-based family of indexes and related bonds information based on all eligible UK government bonds.

When a customer repays their lifetime mortgage, we look at the movement in the Index's redemption yield on the date the lifetime mortgage completed and on the date it's repaid.

- If the redemption yield percentage is the same or higher than it was at completion, there is no early repayment charge to pay.
- If the redemption yield percentage has fallen by 0.125% or more we will make an early repayment charge unless one or more of the exemptions apply.

The charge will not be more than 25% of the total amount you've borrowed.

If, after taking out your initial loan, you apply for additional borrowing or take withdrawals from your cash reserve, the early repayment charge for those would depend on how long you've held each individual loan and what the current gilt yield is compared to when each loan was taken out.

How long does the early repayment charge apply for?

The term for which the Variable Gilt Index early repayment charge applies depends on your age when you apply for the loan. There's a minimum term of 5 years.

To work out this early repayment term, we use age 88 as an 'end age'. If you are applying on your own, the difference between age 88 and the age you are when you apply will be the early repayment charge term. For joint-life customers, because there's an increased likelihood that one of you will live longer and the loan will be in place for a longer period, we make an adjustment of 4 years, extending the early repayment charge term accordingly.

You can still apply for a lifetime mortgage if you're close to 88 or over that age. The minimum term of 5 years would apply.

Please note: The numbers above reflect our current terms and are subject to change. We continually review relevant data to ensure our assumptions remain valid and may change our early repayment charge terms accordingly.

Your key facts illustration and offer document will confirm the early repayment charge term(s) for your loan(s) and these will not change.

Examples using our current terms:

- If you're 75 when you apply, the term would be 13 years (88 minus 75).
- For a joint application, if the younger person is 75 when you apply, the term would be 17 years (that's 88 minus 75, plus 4 years).
- If you're 84 when you apply, the minimum term of 5 years would apply.
- If you're 90 when you apply, the minimum term of 5 years would apply.

How to check what the early repayment charge will be

If you're considering repaying your lifetime mortgage early, you can find out if an early repayment charge applies and how much you would need to pay in a number of ways:

- Online with **MyAviva**. Your current early repayment charge is shown at all times, alongside other ways you can manage your lifetime mortgage online. To register for MyAviva go to **direct.aviva.co.uk**
- Call us on **0800 158 4177** (calls may be recorded or monitored) to ask for an early repayment charge quote.
- Take a look at your most recent **annual statement** for details of what the early repayment charge was at the statement date. It will have changed since then as interest will have been added, but it's a quick way to get an idea of what you'd need to pay.
- If you like you can **work out the early repayment charge yourself**. We show how to do it in the next section of this guide.

Work out your early repayment charge in 5 steps

To work out your early repayment charge you'll need:

- **Your latest annual statement**
- **Completion letter** – If you have more than one loan you'll need the letter for each loan. If you can't find your completion letter, call us on **0800 158 4177** (calls may be recorded or monitored).

The early repayment charge is calculated as:

Loan balance (£) x Remaining early repayment charge term (years/days) x Fall in gilt yield (%)

Please note: The maximum early repayment charge will never be more than 25% of the amount borrowed.

Subsequent loans: If, after taking out your initial loan, you apply for additional borrowing or take withdrawals from your cash reserve, the early repayment charge for those would depend on how long you've held each individual loan and what the current gilt yield is compared to when each loan was taken out. You'll find the gilt yield when you took your loan out on your completion letter.

Step 1 - Check if there is a fall in the gilt yield %

- Check what the gilt yield was on your completion date - you'll find this in your completion letter.
- Then check the gilt yield on the day you're working out the early repayment charge. You can find this in the Financial Times by looking up the UK FTSE Actuaries 15 Year Yield.
- If the gilt yield is now higher than (or the same as) when you completed the loan, you won't need to pay an early repayment charge. If it's lower, make a note of the percentage fall and move on to step 2.

Please note: If you have more than one loan you'll need the completion letter for each loan.

Step 2 - Check the amount owed shown in your latest annual statement

- Check your latest annual statement and make a note of the total amount you owed at the statement date. That's the amount you've borrowed including any interest added to that date.

Step 3 - Calculate the daily interest from your latest annual statement

- You also need to take account of the interest added from the date of the statement to the date you plan to make the early repayment.
- Work out the daily interest charge by first multiplying the amount owed in step 2 by the interest rate (also shown on your statement) to get the annual interest.
- Divide the answer by 365 to get the daily interest amount.
- Then work out the number of days from the statement date to your planned repayment date to see how many days' interest need to be added. In summary:

Daily interest charge = (Total amount owed x Interest rate) / 365

Interest since most recent statement = Daily interest amount x Number of days since statement

Step 4 - Calculate the remaining early repayment charge term

- Check the early repayment term on your completion letter.
- Work out the number of years left. This is the full early repayment charge term less the time that has passed since you took the loan out (completed years plus completed days/365).

Please note: If you have more than one loan you'll need to calculate the remaining term for each loan using the term and end date for each loan.

Step 5 - Calculate the early repayment charge

- Add the amount you owed at your last statement date (step 2) to the interest added (step 3).
- Multiply the total by the remaining term (step 4).
- Then multiply the answer by the fall in gilt yield percentage (step 1).
- This will tell you the early repayment charge that would apply on your planned early repayment date.

Early repayment charge =

Loan balance [Amount owed on statement (step 2) + Interest (step 3)] x Remaining early repayment charge term (years/days) (step 4) x Fall in gilt yield % (step 1)

Please note: If you have more than one loan you'll need to do this calculation for each loan.

Example repayments

To help you work out your repayment we've included two examples.

- See Example 1 below if you've borrowed only your initial loan amount.
- Use Example 2 on page 7 if you've taken out more than one loan, for example additional borrowing or cash reserve release since your initial loan.

Example 1 – one loan

You took out a lifetime mortgage with an initial loan for £77,000 on 5 May 2020 and haven't made any further borrowing since that date. You'd like to calculate the early repayment charge on 1 October 2021.

Step 1 – Check if there is a fall in the gilt yield %

Work out the change in gilt yield between the completion date of your loan and the repayment date.

The gilt yield is shown on your completion letter.

- Gilt yield at completion date: 1.36%

Make a note of the early repayment charge (ERC) term as you'll need to use it in step 4.

Completion letter

What happens if you do not want this lifetime mortgage anymore?

If you repay your lifetime mortgage early and an early repayment charge (ERC) is payable, the amount of the charge is calculated as:

(1) Amount you owe (£) x (2) Remaining ERC term (years/days) x (3) Fall in gilt yield (%)

(1) Amount you owe is the total amount you've borrowed plus the total interest accrued up to the repayment date.

(2) Your ERC term is **24 years.**

(3) Your lifetime mortgage is linked to the UK FTSE Actuaries 15 Yrs Gilt Yield Index and the redemption yield on the date your loan completed was **1.36%.**

Gilt yield on completion day **1.36%**

-

Gilt yield on the repayment day. For example, if you plan to repay on 1 October 2021, use the yield from close of business 30 September 2021 **0.88053%**

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Example change in gilt yield **Fall of 0.48%**

Step 2 – Check the amount owed shown in your latest annual statement

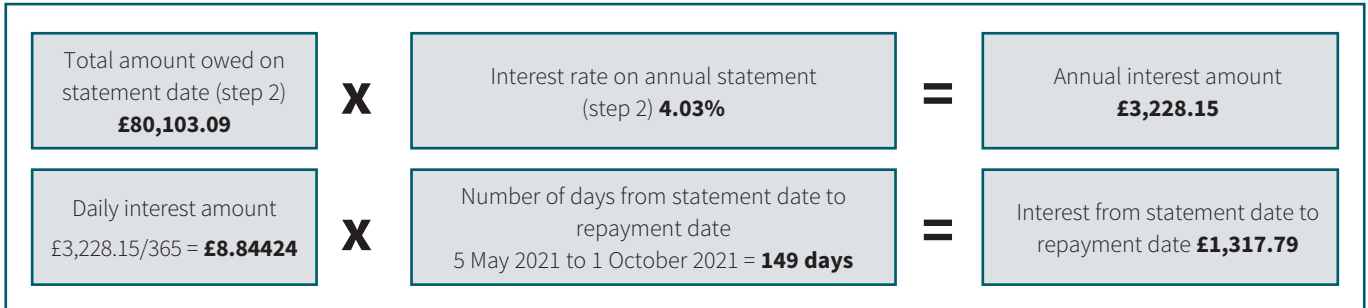
Make a note of the total amount you owe on your last anniversary date and the interest rate from your latest annual statement.

Annual statement

Your plan summary		This is a breakdown of your lifetime mortgage, between 5 May 2020 and 4 May 2021	
Date	Description	Amount(£)	
5 May 2020	Amount Borrowed	77,000.00	
4 May 2021	Fixed interest charged at 4.03%	3,103.09	
Total amount you owe on 4 May 2021		£80,103.09	

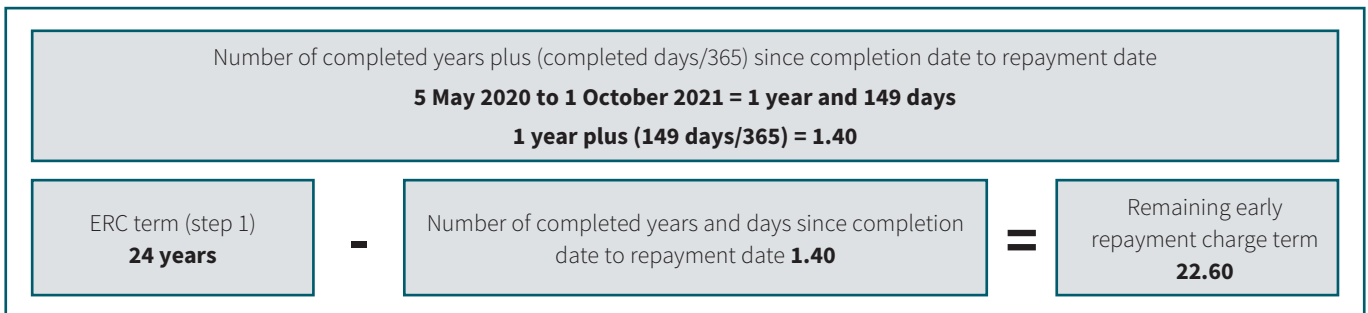
Step 3 – Calculate the daily interest from your latest annual statement

- Anniversary date: **5 May 2021**
- Repayment date: **1 October 2021**
- Total amount owed: **£80,103.09**
- Interest rate: **4.03%**

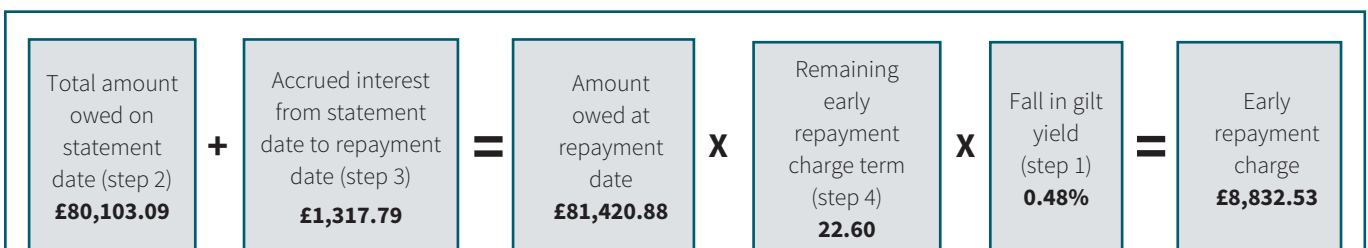


Step 4 – Calculate the remaining early repayment charge term

- Completion date: **5 May 2020**
- Early Repayment Charge (ERC) term on the completion letter (step 1): **24 years**
- Repayment date: **1 October 2021**



Step 5 – Calculate the early repayment charge



Remember to compare this early repayment charge amount to 25% of the initial loan amount – which is the maximum early repayment charge

$$£77,000 \times 25\% = £19,250$$

In this example the early repayment charge would be the lower amount of **£8,832.53**

The total amount to repay the loan on the repayment date of 1 October 2021 would be the total of the amount owed plus the early repayment charge: £81,420.88 + £8,832.53 = £90,253.41

Example 2 – more than one loan

You took out a lifetime mortgage and have used it to borrow as follows:

- Main loan of £22,500 on 6 December 2017
- Additional borrowing of £18,870 on 26 February 2020

You would like to calculate the early repayment charge on 1 October 2021

Each loan will need its own early repayment charge calculation, so you'll need the completion letters for all of the loans.

Step 1 – Check if there is a fall in the gilt yield %

Work out the change in gilt yield between the completion date of your loan and the repayment date.

The gilt yield is shown on your completion letter.

- Gilt yield at completion date of main loan: **1.18%**
- Gilt yield at completion date of additional borrowing: **0.87%**

Make a note of the early repayment charge (ERC) term as you'll need to use it in step 4.

Main loan completion letter

What happens if you do not want this lifetime mortgage anymore?

If you repay your lifetime mortgage early and an early repayment charge (ERC) is payable, the amount of the charge is calculated as:

(1) Amount you owe (£) x (2) Remaining ERC term (years/days) x (3) Fall in gilt yield (%)

(1) Amount you owe is the total amount you've borrowed plus the total interest accrued up to the repayment date.

(2) Your ERC term is **28 years**.

(3) Your lifetime mortgage is linked to the UK FTSE Actuaries 15 Yrs Gilt Yield Index and the redemption yield on the date your loan completed was **1.18%**

Additional borrowing completion letter

What happens if you do not want your lifetime mortgage anymore?

You can repay your lifetime mortgage in full at any time but if you do so you may have to pay an early repayment charge at the same time.

If you want to repay your lifetime mortgage early you will need to repay all your borrowing at the same time.

If an early repayment charge (ERC) is payable for this additional borrowing, the amount of the charge is calculated as:

(1) Amount you owe (£) x (2) Remaining ERC term (years/days) x (3) Fall in gilt yield (%)

(1) Amount you owe is the total amount you've borrowed plus the total interest accrued up to the repayment date for this additional borrowing.

(2) Your ERC term for this additional borrowing is **21 years**.

(3) Your lifetime mortgage is linked to the UK FTSE Actuaries 15 Yrs Gilt Yield Index and the redemption yield on the date your additional borrowing completed was **0.87%**.

Main loan

Gilt yield on completion day **1.18%**

-

Gilt yield on the repayment day. For example, if you plan to repay on 1 October 2021, use the yield from close of business 30 September 2021 **0.880053%**

=

Example change in gilt yield **Fall of 0.30%**

Additional borrowing

Gilt yield on completion day **0.87%**

-

Gilt yield on the repayment day. For example, if you plan to repay on 1 October 2021, use the yield from close of business 30 September 2021 **0.880053%**

=

Example change in gilt yield **Rise of 0.01%**

In this example, as the gilt yield is higher than the gilt yield on the completion day of the additional borrowing an early repayment charge will not apply to the amount that is owed on the additional borrowing loan.

Step 2 – Check the amount owed on all loans shown in your latest annual statement

Total amount you owe for each loan and interest rate for each loan from your latest annual statement.

Annual statement

Your plan summary		This is a breakdown of your loans under your lifetime mortgage, between 6 December 2019 and 5 December 2020	
The total amount you owe across all loans on 5 December 2020 is £51,545.36.			
Initial Loan taken out on 6 December 2017 with a fixed interest rate of 3.89%			
Date	Description	Credits (£)	Debits (£)
6 December 2019	Balance brought forward		30,890.58
5 December 2020	Interest charged		1,201.64
Total amount you owe this loan on 5 December 2020			£32,092.22
Additional borrowing taken out on 26 February 2020 with a fixed interest rate of 5.40%			
Date	Description	Credits (£)	Debits (£)
26 February 2020	Amount Borrowed		18,870.00
15 April 2020	Voluntary partial repayment	200.00	
5 December 2020	Interest charged		781.73
Total amount you owe this loan on 5 December 2020			£19,453.14

Step 3 – Calculate the daily interest from your latest annual statement

- Anniversary date: **6 December 2020**
- Repayment date: **1 October 2021**

Main loan

- Amount owed: **£32,092.22**
- Interest rate: **3.89%**

Additional borrowing

- Amount owed: **£19,453.14**
- Interest rate: **5.40%**

Main loan

Total amount owed on statement date (step 2)
£32,092.22

X

Interest rate on annual statement (step 2)
3.89%

=

Annual interest amount
£1,248.38

Daily interest amount
 $\frac{£1,248.38}{365}$
= £3.42021

X

Number of days from statement date to repayment date
6 December 2020 to 1 October 2021 = **299 days**

=

Interest from statement date to repayment date
£1,022.64

Additional borrowing

Total amount owed on statement date (step 2)
£19,453.14

X

Interest rate on annual statement (step 2)
5.40%

=

Annual interest amount
£1,050.46

Daily interest amount
 $\frac{£1,050.46}{365}$
= £2.87797

X

Number of days from statement date to repayment date
6 December 2020 to 1 October 2021 = **299 days**

=

Interest from statement date to repayment date
£860.51

Step 4 – Calculate the remaining early repayment charge term

- Completion date: **6 December 2017**
- Early Repayment Charge (ERC) term on the completion letter (step 1): **28 years**
- Repayment date: **1 October 2021**

Main loan

Number of completed years plus (completed days/365) since completion date to repayment date
6 December 2017 to 1 October 2021 = 3 years and 299 days
3 years plus (299 days/365) = 3.82

ERC term (step 1)
28 years

-

Number of completed years and days since completion date to repayment date **3.82**

=

Remaining early repayment charge term
24.18

Additional borrowing

In this example, as there is no early repayment charge on the additional borrowing amount owed the remaining early repayment charge term is not required

Step 5 – Calculate the early repayment charge

Main loan

Total amount owed on statement date (step 2) £32,092.22	+	Accrued interest from statement date to repayment date (step 3) £1,022.64	=	Amount owed at repayment date £33,114.86	X	Remaining early repayment charge term (step 4) 24.18	X	Fall in gilt yield (step 1) 0.30%	=	Early repayment charge £2,402.15
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Remember to compare this early repayment charge amount to 25% of the initial loan amount – which is the maximum early repayment charge

$$£22,500 \times 25\% = £5,625$$

In this example the early repayment charge would be the lower amount of
£2,402.15

The total amount to repay the loan on the repayment date of 1 October 2021 would be the amount owed on each loan (step 2) plus accrued interest (step 3) plus the early repayment charge on the main loan (step 5):
£32,092.22 + £19,453.14 + £1,022.64 + £860.51 + £2,402.15 = £55,830.66

How to find out when your early repayment charge period ends

Your completion letter will tell you when an early repayment charge will no longer apply. You can also find this information as follows:

- Call us on **0800 158 4177** (calls may be recorded or monitored) and we'll be able to tell you.
- Online at **MyAviva** – use the 'Early repayment' tab and click on the heading 'How much will it cost to repay my loan early?' To register for My Aviva go to **direct.aviva.co.uk**
- In your **annual statement**. If you don't have your paper copy to hand, your statement is also available in MyAviva on the 'Documents' tab.

Remember, if you've borrowed more money since your initial loan, the end dates for the early repayment charge periods could be different for your different loans.

Where to find more information

Three ways to find out more information about Equity Release options:

1. Contact our support team on

0800 158 4177 (calls may be recorded or monitored)

Monday to Friday 9am to 5pm

Closed bank holidays


2. [aviva.co.uk](https://www.aviva.co.uk)

3. Contact your financial adviser

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Please get in touch if you'd prefer this guide (**PF011612**) in large font, braille or as audio.

How to contact us

 0800 068 6800

 contactus@aviva.com

 [aviva.co.uk](https://www.aviva.co.uk)

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