PRUDENTIAL SOURCEBOOK FOR BANKS, BUILDING SOCIETIES AND INVESTMENT FIRMS (LIFETIME MORTGAGES) INSTRUMENT 2008

Powers exercised

A. The Financial Services Authority makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 ("the Act"):

(1) section 138 (General rule-making power);
(2) section 150(2) (Actions for damages);
(3) section 156 (General supplementary powers); and
(4) section 157(1) (Guidance).

B. The rule-making powers listed above are specified for the purpose of section 153(2) (Rule-making instruments) of the Act.

Commencement

C. This instrument comes into force on 6 March 2008.

Amendments to the Handbook

D. The Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU) is amended in accordance with the Annex to this instrument.

Citation

E. This instrument may be cited as the Prudential Sourcebook for Banks, Building Societies and Investment Firms (Lifetime Mortgages) Instrument 2008.

By order of the Board
28 February 2008

Annex

Amendments to the Prudential sourcebook for Banks, Building Societies and Investment Firms (BIPRU)

In this Annex, underlining indicates new text.

Exposures secured by mortgages on residential property

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3.4.56A R (1) A *firm* must not treat a *lifetime mortgage* as an *exposure* fully and completely secured on residential property for the purposes of *BIPRU* 3.4.56R unless the amount of the *exposure* is calculated according to the following formula:

$$\textit{exposure}\text{ amount} = \frac{P(1+i)^T}{(1+d)^T}$$

where:

(a) *P* is the current outstanding balance on the *lifetime mortgage*;

(b) *i* is the interest rate charged on the *lifetime mortgage*, which for the purposes of this calculation must not be lower than the discount rate referred to in (c);

(c) *d* is the discount rate which is the risk-free rate as represented by the yield on 10-year *UK* government bonds; and

(d) *T* is the projected number of years to maturity of the *exposure*.

(2) Notwithstanding (1)(c), a *firm* may calculate an annual average discount rate provided there is no obvious bias in its calculation and it is consistent in its approach.

3.4.56B G (1) This paragraph provides *guidance* on *BIPRU* 3.4.56AR.

(2) For the purposes of *BIPRU* 3.4.56AR(2), a *firm* may use the FTSE *UK* gilt 10-year yield index which the Council of Mortgage Lenders makes available to its members.

(3) If a *firm* offers a variable interest rate on a *lifetime mortgage*, it should calculate an average interest rate in a way which is consistent with the calculation of the discount rate.

(4) To determine the projected number of years to maturity of the *exposure*, a *firm* may use the standard mortality tables published by the Institute of Actuaries or the Faculty of Actuaries. For internal

risk management purposes, the *firm* should use factual data or seek actuarial advice to determine how the information in these tables may be adjusted to take account of regional and other relevant variations.

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