

INFORMATION FOR OUR DISTRIBUTORS

RETIREMENT INTEREST ONLY (RIO) PRODUCTS



Our approach to meeting the Products & Services Outcome and Price & Value Outcome – Information for distributors of our Retirement Interest Only (RIO) products

This summary document is being provided to you to fulfil our responsibilities under PRIN 2A.4.15R and PRIN 2A.3.12 R (2).

It is designed to support you to comply with your responsibilities under PRIN 2A.3.16 R and PRIN 2A.4.16 R. Please note that you are ultimately responsible for meeting your obligations under 'The Consumer Duty'.

This information is intended for intermediary use only and should not be provided to customers.

1. Summary of our Fair Value assessment

As of April 2023, we have conducted our assessment in line with our internal Fair Value Framework. This has concluded that our RIO product provides fair value to customers within the target market, and there is a reasonable relationship between the benefits of the product and the price paid. We also conclude that the distribution strategy remains appropriate; and the products continue to meet the needs, characteristics, and objectives of the intended target market.

When reaching this conclusion, we have considered several relevant factors. More detail is provided in section 5 of this document.

2. Product characteristics & benefits

Our RIO product features and criteria are designed to meet the needs of the target group, being customers wishing to enter an open-ended mortgage term into retirement.

Key product characteristics and benefits are listed below:

- Available up to 50% LTV
- Fixed interest rates
- Interest only products
- No set/defined mortgage term end. Capital to be repaid on the occurrence of specified life events, being a) death of the last surviving borrower, b) last occupying borrower leaves the property to live elsewhere with no prospect of returning, or c) sale of property
- Valuation fee costs are either free (for properties up to £500k) or discounted (for properties above £500k)
- £500 cashback towards legal costs for remortgages

- 10% annual overpayment allowance which can be used to reduce the mortgage capital balance without incurring an Early Repayment Charge
- Product rate can be ported to another property
- All mortgage applications are manually underwritten, providing a more personal approach to lending decisions
- Customers benefit from standard service facilities at no additional cost, such as a) the option to administer accounts online, by telephone (standard geographic call charges) or post; b) annual statements, and c) the ability to switch to a new product at the end of the initial term without incurring another product fee

3. Target market assessment and distribution strategy

This target market assessment matrix segments the target customers for the Product, recognising their different needs to enable you to tailor the services you provide when you distribute the Product.

Customer Circumstances	Distribution Strategy	Customer Needs & Objectives
Customers aged 55+ who are purchasing or remortgaging residential property for owner occupation in England & Wales, seeking an interest-only mortgage that is repaid from sale of the mortgaged property on the occurrence of a specified life event.	Either Direct [^] applications or Intermediary* channels Only available through advised sale.	<ul style="list-style-type: none"> ▪ To finance the purchase of a new property, or to borrow money against the value of a home already owned ▪ To live in the mortgaged property ▪ Access to an open-ended mortgage term ▪ To repay the interest due each month, such that there is no 'roll up' of compounded interest throughout the term
Existing FBS / NCBS owner occupier borrowers wishing to either increase their borrowing or transfer their existing mortgage balance.	Either Direct [^] applications or Intermediary* channels Additional borrowing only through advised sale. Product switches for borrowers with an existing RIO arrangement with us can be conducted on an execution only basis. Product switches from a standard mortgage to our RIO will need to be processed as an advised sale.	<ul style="list-style-type: none"> ▪ Access to further RIO products when existing mortgage products come to maturity (<i>existing customers can switch products prior to maturity date, usually subject to ERCs</i>) ▪ Access to additional borrowing from a RIO range product, up to 50% LTV

^Direct applications via our in-house Mortgage Advice Service, through our team of qualified Mortgage Advisors

*Intermediary distribution through:

- Networks and their Appointed Representatives
- Mortgage Clubs
- Directly Authorised mortgage intermediaries
- Packager firms (must be registered with us)

Our RIO products are not designed for customers who:

- Are aged below 55
- Require a repayment mortgage
- Require a mortgage with a set term end date
- Customers who do not wish to make repayments towards their mortgage (i.e. would prefer an equity release arrangement)
- Are purchasing a property to let
- Are seeking to borrow more than 50% of their property value
- Are seeking a loan amount of less than £45,000
- Require flexibility of repaying the total loan amount without incurring an Early Repayment Charge
- Are wanting to buy a property that is outside of England or Wales and/or do not reside in England or Wales
- Do not meet our standard lending or property criteria
- Are severely credit impaired

In addition to the above, there are a couple of other notable considerations:

- Joint customers will need to pass a pre-decease affordability assessment
- Registered contact must be nominated as part of the mortgage application, and this suitable contact will be required for the life of the mortgage. The registered contact is not responsible for any obligations in respect of the mortgage
- All new RIO accounts must be processed on an advice and recommendation basis, including existing borrowers switching from another (non-RIO) product to a RIO arrangement

4. Customers with characteristics of vulnerability

The target market are customers entering an open-ended term into retirement. Due to age range of customers taking RIO mortgages, the target group potentially has a widely varying degree of capability to understand the nature of the commitment being undertaken. As the RIO is an open-ended commitment, customers are likely to have future changes in circumstances such as increased spending on medical / care costs, which may affect their ability to maintain mortgage repayments. If repayments cannot be maintained with no suitable alternative, customers would be required to sell their home and use the sale proceeds to repay the mortgage. Therefore, they may require additional advice and support to understand they understand the information being presented to them and the implications of the arrangement they are entering into to reduce the risk of harm occurring. It is also almost inevitable that, for joint applications, one party will predecease the other during the term.

We considered the needs, characteristics, and objectives of customers with characteristics of vulnerability at all stages of the design process for our RIO products, to ensure these products meet their needs.

We have in place a framework to achieve good outcomes for vulnerable customers, which includes:

- All customers taking a RIO are required to receive advice on the suitability of a RIO mortgage either from our in-house advice team or their intermediary
- Education and training for our staff to ensure they have the appropriate skills and experience to recognise and respond to the needs of vulnerable customers
- Dedicated team who act as main point of contact for any vulnerable customers
- Monitoring to ensure we continue to meet and respond to the needs of customers with characteristics of vulnerability
- We require a registered contact to be nominated as part of the mortgage application, and this suitable contact will be required for the life of the mortgage. The registered contact is not responsible for any obligations in respect of the mortgage, but will be provided with information relating to the mortgage in the event we cannot contact the borrower, or cannot transact / instruct changes

Intermediaries should continue to comply with their obligations to ensure that they are treating customers with characteristics of vulnerability fairly.

Please contact us if you need any further information about how we support the needs of all our customers in relation to our RIO products.

5. Our assessment of value

Our Fair value assessments are conducted during the design stage of any potential new product line, or when a significant amendment to an existing product line is proposed (such as a material change to the target market, or the benefits and/or limitations applicable to the product). Assessments are then regularly conducted, at least annually throughout the life of the product, to review whether our products continue to deliver fair value for our customers. All assessments are conducted in line with the Society's internal Fair Value Framework, which has been approved by the Executive Committee and presented to the Board of Directors.

Fair value assessments are undertaken within the Product Development team. A summary of the documented assessments is provided to our Assets and Liabilities Committee for noting, with any pertinent details or results also made available to the Society's Product Review Working Group.

Our fair value assessment has considered the following:

Benefits:

- The range of features attributed to our RIO products. Both 'financial' and 'non-financial' benefits have been reviewed.

Price:

- Interest Rates relative to a wide range of market pricing for similar products in a competitive marketplace
- Any price differentiation present within this category
- Contingent fees, with particular focus on the most significant of these, being the Exit/Early Repayment Charges
- Consideration of our distribution methods and the impact this may have on price paid
- Non-financial costs, namely our processing times from application to offer stage, and offer to completion

Limitations:

- Any limitations of the Product (either on the scope and service we provide or the product features themselves)

Whilst the assessment framework allows for regular review of fair value, we recognise that, due to the nature of our product set, some factors may be subject to ongoing change as markets develop. Examples of such factors include, but are not limited to, interest rates within the market, shifts in funding costs (largely linked to retail savings market interest rates, as well as the markets for financial instruments), and non-financial costs such as application times and service standards. Metrics in relation to such factors are regularly monitored and assessed as a part of business-as-usual activities, with any resulting actions being taken by the relevant business area as deemed necessary.

Results of our assessment

Our most recent assessment conducted in April 2023 has concluded that our RIO products continue to deliver fair value for customers within the target market, and there is a reasonable relationship between the benefits and price paid for these products.