

Guidance on Mortgage Advice

In short – In this guideline, the AFM describes elements of good advisory practice. It is an example of how an adviser can meet the statutory requirements to provide appropriate advice.

*This report has been translated into English for convenience purposes only.
In the event of any discrepancies, the Dutch version of this guideline shall prevail.*

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Contents

1.	Introduction	3
2.	The role of the adviser	4
3.	The advisory process	6
	Introductions	6
	Assessment	7
	Analysis	8
	Advice	8
	The mortgage product	9
	Aftercare	10
4.	Appropriate housing costs	11
	Assessment and analysis	11
	Advice	11
5.	Life events	13
	Assessment and analysis	13
	Advice	14
	Divorce or separation	15
6.	Refinancing	16
	Assessment and analysis	16
	Advice	16
7.	Additional themes	17
	Interest rate risks	17
	Climate change	18
	Taxation	18

1. Introduction

Taking out a mortgage loan is a major decision for consumers. After all, the loan costs and repayments will have a significant long-term impact on disposable income. Good advice on mortgage loans is therefore important. With this in mind, the legislator has set requirements for the quality of this advice. These requirements are set out in Section 5:7 of the Financial Markets BES Act (WfmBES). The AFM wants to help mortgage advisers to ensure that these statutory requirements are taken properly into account in the advisory process. The AFM therefore describes elements of good advisory practice in this guideline. It is an example of how an adviser can meet the statutory requirements. This guideline does not have the status of law or regulation.

Nor is it a professional manual on 'how to give advice', but it does address a number of elements that are important from the perspective of the statutory rules on advice. It is not, therefore, intended to be exhaustive. And nor could it be, if only because advice on mortgage lending is never standard. Every customer situation is unique and determines what and how thoroughly an adviser must assess the position in order to provide appropriate advice for the individual customer. In each case, the guideline indicates in general terms how an adviser can comply with the statutory standards regarding the quality of advice. Examples then provide further details for specific situations. These are provided solely for illustrative purposes and should not be considered definitive guidelines, even if specific figures or other concrete details are mentioned.

In certain areas, good practices are highlighted. These expectations do not derive from the statutory advisory standard; rather, they illustrate practices that exceed the minimum legal requirements.

2. The role of the adviser

This guideline focuses on questions such as: What should an adviser consider when giving advice on appropriate housing costs. How can the adviser help the customer to mitigate risks associated with life events? However, the quality of the advice is not determined solely by these kinds of specific issues. Prerequisites such as integrity, diligence and professional skills also determine the quality of the advice. Below we list some important elements about the role of the adviser. Although these elements are not statutory obligations (with a few exceptions), they form part of the basis on which advisers provide appropriate advice.

The adviser has an independent role in the advice. This means the adviser is not guided solely by the customer's wishes or the provider's lending options but acts as a professional engaged by the consumer to advise on what is appropriate for the customer's situation. After all, providing mortgage advice involves more than just arranging a financing solution. It involves guiding and advising customers on mortgage choices that have a long-term impact on their day-to-day lives. In short, the adviser helps the customer to properly understand and weigh complex financial choices.

It is recommended that the adviser clearly states this independent role at an early stage. After all, there may be instances where a customer has a wish that, after review by the adviser, is not deemed financially feasible given the customer's circumstances. If the adviser does not consider that choice to be prudent, the customer must be explicitly informed of the consequences of that choice so that they are aware of the financial implications. If the customer nevertheless wishes to deviate from the adviser's advice, the adviser must record in the file and in the advisory report that the customer has deviated from that part of the advice provided. Should a dispute subsequently arise, the adviser can then account for their actions in relation to the choice based on the explanation provided. If an adviser genuinely cannot agree with the customer's choice because it is not in the customer's interest, the adviser must consider the extent to which they can facilitate that wish.

The adviser adopts an inquisitive approach and asks follow-up questions when there are inconsistencies in the customer's answers. The adviser gathers information on the customer's financial position, objectives, risk appetite, knowledge and experience concerning the financing of the home. If the adviser finds that answers are contradictory or any matters are unclear, they will discuss them to obtain clarification and request an explanation or evidence, so that the information provided is well substantiated and reliable. An example is where the customer says it is important to maintain a stable income in the event of occupational disability but does not wish to cover the risk of occupational disability, or where one life partner says they do not want to take any risks and the other does. The adviser works with the customer to assess and prioritise/reprioritise the customer's wishes, so that the customer can adjust them as necessary and the adviser can take them into account in their advice. The adviser can record in the advisory report any inconsistencies that arose and how they were handled, particularly if this helps the customer to fully understand the advice.

The adviser actively invests in their professional development to provide the best possible service for customers. The adviser stays up to date with technical developments, such as changes in relevant tax regulations, and monitors societal trends relevant to their profession, such as climate change. An example of good practice is where an adviser learns and improves by having their advice periodically reviewed by colleagues or auditors.

As well as developing their knowledge, the adviser actively works on their conversation skills and reflects on their own work with a critical attitude. The adviser is aware of the limits of their own knowledge and

experience and in complex cases calls in other experts in a timely manner. For example, it may be valuable to consult a fellow adviser to discuss complex cases.

Where necessary, the adviser also uses specialist software to carry out complex calculations. The adviser must ensure that they remain digitally proficient and well informed about the operation of the advice software used. The adviser endeavours to obtain as much certainty as possible regarding the accuracy of the rules and calculations applied in the software. After all, the adviser is responsible for the advice.

3. The advisory process

Below is a description of the main steps in the advisory process that the adviser goes through with their customer. Although the various steps are described in sequence, in practice the advisory process is often a dynamic one in which the elements of *assessment* and *analysis* are closely linked and may alternate with one another throughout the process. As the adviser informs the consumer about the consequences of the various choices, the customer can adjust their preferences accordingly. The adviser can then adjust the analysis on the basis of that new information.

Introductions

The advisory process starts with introductions between the adviser and the customer. For both the adviser and the customer, it is important to determine during this phase whether the adviser can help the customer. To this end, the adviser informs the customer about the scope of their services, including the cost, and gives the customer the precontractual service information. In this phase, the adviser can also explain their independent role and state that it includes giving a warning if certain wishes are not financially feasible.

It is important to enter into clear agreements regarding the scope of the services in that first phase. The adviser must make clear what they do and do not advise on.

In this first phase, many customers want to know the maximum amount they can borrow before actively looking for a home, or want to gauge whether the home they have in mind is financially feasible. The maximum borrowing capacity then serves as a reference point when determining the budget and choice of home. In practice, the assessment therefore begins during the first, exploratory meeting, or even before that if customers provide information earlier, for example online.

Example 1 (maximum mortgage and orientation phase)

During the first meeting, a customer asks what maximum amount they could borrow for a mortgage. The adviser explains that the maximum loan amount is calculated on the basis of standard borrowing limits, taking into account the specific family situation. In this case, the customer has three children. The adviser points out that having children affects monthly expenditure and that it is important to bear in mind reduced financial flexibility and greater vulnerability to setbacks, such as loss of income or unexpected costs, if the customer borrows the maximum amount. The adviser also asks about the customer's housing history, partly because it casts light on the customer's knowledge and experience and may give an indication of the affordability of a new mortgage. The customer replies that they are currently renting and have never owned a home.

Together they look at this customer's current housing costs. The customer says they are now living comfortably but are willing to bear an increase in housing costs if that is necessary for the next step. The adviser asks follow-up questions: what amount of additional monthly costs could the customer afford and be willing to pay without impacting other important expenses such as childcare, holidays or savings?

Based on this discussion, they arrive at a target amount that feels acceptable to the customer as a maximum monthly cost. The adviser then calculates the corresponding maximum mortgage. This amount gives the customer a realistic framework to make a targeted search for a home that suits their financial situation and future plans.

Assessment

In the assessment phase, the adviser continues the assessment, but at a much more detailed level than during the initial meeting. The adviser gathers information from the customer regarding their knowledge and experience in the field of mortgage lending. The adviser also assesses the customer's financial position, objectives and risk appetite, using the customer's situation as the starting point to determine which relevant information needs to be gathered to prepare appropriate mortgage advice. It is important that the adviser endeavours to obtain a full and accurate picture of the customer's situation. Where necessary, the adviser will verify information that the customer provides orally. They can do so, for example, by asking follow-up questions or requesting a copy of certain documents. The adviser can also help the customer make informed choices by using specific examples matching the customer's circumstances.

During this phase it is also important that the adviser assesses what existing financial provisions the customer has in place and which benefits the customer is or will be eligible for in the future. This should also include statutory provisions. It is therefore very important that the adviser has access to all relevant information concerning the customer's current financial situation. Furthermore, if this has not already been done, in this phase the adviser must inform the customer in general terms about the mortgage structures and conditions that may be relevant to the latter, such as mandatory or optional risk insurance.

Example 2 (assessment)

A couple consult a mortgage adviser to finance a home they want to purchase. To assess whether the requested mortgage is appropriate and affordable, the adviser starts with a detailed assessment of their personal and financial situation.

The adviser begins the discussion by assessing the couple's personal circumstances. The adviser discusses, among other things, their family situation, the age of the family members and their employment situation. One partner has a permanent employment contract, while the other works part-time and is considering taking on more work in the future. The adviser also asks about any developments that could affect the customer's financial position, such as an addition to the family or a potential career move.

Next, the adviser examines the couple's financial situation. The adviser gathers information on their income, including fixed salary and any variable income components. The adviser also takes stock of existing financial liabilities. Available savings and other assets are also considered. Based on this information, the adviser assesses whether the customers have sufficient financial capacity to bear the mortgage costs in both the short and longer term.

To determine whether the desired financing is appropriate for the customers' circumstances, the adviser discusses the purpose of the loan application. This case involves the purchase of an existing home. The adviser gathers relevant information about the property, including the purchase price, the state of maintenance and any renovation plans that may also need to be financed.

In addition, the adviser discusses the customers' wishes and objectives. The couple indicate that they attach importance to stable monthly expenses, as they want to be certain about their future housing costs. They also discuss their future plans, including the desire to work less within a few years. The adviser takes this information into account when determining which mortgage types and mortgage term would be suitable.

Finally, the adviser discusses the risks associated with the loan. They explain the impact that interest rate changes, occupational disability, unemployment or a drop in income could have on the affordability of the mortgage. During this discussion, the adviser notes, for example, that on the one hand the customers want maximum certainty but on the other hand do not want to cover the risk of occupational disability. The adviser starts to discuss this contradiction, so that the customers can make an informed choice.

The adviser records all the collected information and the results of the assessment in the customer file. This shows which data was used to assess the loan application and how it contributed to the final mortgage advice.

Analysis

In the analysis phase, the adviser translates the relevant information about the customer into mortgage options. A good adviser quantifies the options that match the customer profile by carrying out customer-specific calculations. The adviser considers not only the current situation but also future situations or events that could affect the customer's financial position, such as retirement, a desire to take early retirement and risks such as occupational disability and death. Together with the customer, the adviser determines which events are relevant to the customer and calculates their financial impact. The adviser uses these scenario analyses to show the customer how these events could affect the affordability of the mortgage. For example, the adviser assesses the affordability of housing costs if the mortgage continues after retirement or if the customer wants to retire early. After all, the adviser is concerned not only with whether the loan the customer wishes to take out meets the lending criteria (as assessed by the provider), but also – and more importantly – with whether the customer will be able to afford the housing costs after retirement or if they retire early. The closer the customer comes to retirement and/or the larger any shortfall may be – for example if the customer wants to retire early – the more important this analysis and the related discussion with the customer will be. The adviser records in the advisory report what these scenarios mean for the customer and documents the calculations in the customer file where necessary.

Advice

During the advice phase, the adviser uses all the gathered information to determine which mortgage structure best aligns with the results of the analyses and suits the customer's situation and preferences. The adviser also takes into account all relevant tax aspects insofar as they apply or can reasonably be foreseen in the customer's situation. The adviser formulates the advice in such a way that the customer understands how it matches their objectives, financial position, risk appetite, knowledge and experience. The adviser then explains the advice.

The adviser must be able to demonstrate that its advice was arrived at in a proper manner. To this end, the adviser must retain the relevant information about the customer in their file. The file must also contain details of the product that is recommended and/or ultimately arranged.

It is important that the adviser provides an understandable and substantiated advisory report clearly showing how the adviser arrived at their advice. The advisory report contains the information on which the adviser bases the advice and a clear explanation of the factors considered. This will allow the customer to verify what information was used as the basis for recommending a mortgage or insurance solution, or for advising against purchasing insurance, and which elements of the customer profile played a role in the advice concerning specific products and contract terms from a lender, as well as any wishes, for example, that cannot be met. On the basis of the substantiated advice, the customer can make choices and decide whether or not to follow the advice. In practice, the adviser will therefore share the advice and supporting documentation with the customer in good time, so that the customer can make informed choices before the financing process begins and the contract with the lender is entered into.

The mortgage product

It is important for customers to understand the credit provider's product. The adviser can demonstrate the added value of their expertise by guiding the customer properly through relevant product features.

The adviser helps the customer to understand the various product features, looking not only at the interest rate but also at product conditions relevant to the customer's personal situation. By explaining this sometimes complex information in a clear and understandable way and providing careful advice, the adviser ensures that the customer fully understands the practical consequences of specific choices.

Partly on the basis of the customer's knowledge and experience, the adviser will explain the options available to the customer with regard to various product features and conditions. In doing so, the adviser will need to find out what aspects are important to the customer. For example, the adviser will discuss the conditions that may be relevant to the customer during the term of the mortgage, such as any penalty interest payable if the customer wishes to repay the loan early. The adviser will also ensure that the customer is informed of any insurance policies that are mandatory when entering into a mortgage agreement.

Based on the assessment and the analysis of conditions relevant to the customer, the adviser will finally provide appropriate advice on the mortgage product with the (recommended) lender. Since this advice is, so to speak, the final piece of the jigsaw, the adviser checks that there are no inconsistencies with earlier topics and that the advice as a whole is appropriate for the customer's financial position, objectives and risk appetite. The adviser also explains to the customer why the advice is appropriate. The adviser indicates which considerations and conditions are decisive in this regard and how the product terms align with the customer's discussed wishes and objectives. The adviser also points out any features of the mortgage product that do not meet certain wishes on the part of the customer. The adviser then records the substantiated advice in the advisory report.

The adviser will check whether the customer understands the advice and whether it matches their preferences. If necessary, the adviser will discuss alternatives and explain why they are less suitable for the customer's situation. The advice is not the same as the customer's wishes, but rather the adviser's own professional judgement as to what is appropriate in the customer's circumstances.

Example 3 (mortgage product condition)

Two customers are buying a home together and financing only a limited portion with a mortgage. The loan-to-value (LTV) ratio is around 30% because the customers are paying a significant portion of the purchase price with their own funds.

The bank stipulates as a condition for granting the mortgage that a term life insurance policy be taken out for the amount of the loan. The adviser discusses this requirement with the customers and explains that it is due to the lender's policy of covering risks in the event of death.

The adviser concludes that, based on the scenario analyses, the financial risk in the event of death is limited. Even without term life insurance, the adviser determines that the surviving partner could continue to bear the mortgage costs. The adviser therefore explicitly considers the proportionality of the mandatory insurance in relation to the actual risk. They also discuss the financial consequences of death with the customers, both with and without insurance.

The adviser explains in plain language that in this case the term life insurance would primarily offer additional security but is not necessary given their strong financial position. The adviser states the cost of the term life insurance in relation to the limited risk being covered. This gives the customers a clearer picture of the relationship between the premium and the benefit of the insurance.

The customers state that, in view of the bank's requirement, they are willing to take out the term life insurance in order to obtain the loan. At the same time, they are aware that this insurance is not necessary in their specific case.

The adviser records the following in the file:

- the term life insurance is a mandatory requirement set by the lender
- the LTV is low and the financial risk from death is limited
- the customers are informed about this and make a conscious decision to comply with the lender's condition
- the trade-off between cost and risk has been explicitly discussed

This demonstrates that the customers understand the requirement and that, despite the limited need due to their personal circumstances, they have given conscious and informed consent to the insurance.

Aftercare

At the start of the advisory process, the adviser enters into clear agreements with the customer regarding the scope of the service for the period after the mortgage is taken out. Based on these agreements, the adviser will provide appropriate aftercare during the term of the mortgage. Active customer management helps ensure that the customer retains a realistic prospect of achieving their financial goals, even in the event of changes in their objectives, risk appetite or financial situation. Providing such aftercare is therefore good practice.

4. Appropriate housing costs

When an adviser assists a customer in taking out a mortgage loan, the adviser not only helps the customer to find an appropriate mortgage but also ensure that it is affordable, now and in the future. This requires a careful analysis of the customer's personal and financial situation, with the adviser using their own professional judgement to advise on what constitutes appropriate housing costs. This includes not only the mortgage interest and repayments (mortgage costs) but also costs such as fixed expenses, taxes, maintenance and home insurance. The customer can then be confident that the housing costs will be manageable under normal circumstances.

Although no one can predict the future with complete certainty, it is the adviser's responsibility to discuss with the customer the impact that life events such as occupational disability, death and unemployment could have on the affordability of the mortgage. By carefully taking this into account during the advisory process, the adviser makes a valuable contribution to the customer's financial well-being.

Assessment and analysis

The adviser assesses the customer's financial situation. In the first place, the adviser requests basic information from the customer to determine how much the customer can borrow. The adviser asks about the customer's income and assesses whether it is stable, as far as can be determined at this stage. They also check whether the customer has any financial liabilities. These may be consumer credit liabilities, but also other liabilities such as a student loan or maintenance payments. It is also important to obtain information on existing financial provisions, such as employer-funded pensions and occupational disability cover. This is particularly relevant if the mortgage continues after retirement or the customer wishes to retire early. The adviser will devote more or less attention to this depending on the circumstances of the case.

In addition to basic information, in certain cases it may be important for the adviser to consider the customer's spending pattern and saving behaviour. This information is important in order to determine whether the amount the customer is able and willing to borrow is also appropriate for them. The extent to which the adviser should seek this information depends on the customer's specific circumstances and becomes more important the closer the customer gets to the maximum mortgage amount relative to the lending standard. For example, the discussion may reveal that the customer's spending habits or saving behaviour give cause to discuss whether the customer is able and willing to make adjustments to their spending pattern to meet the housing costs.

The adviser discusses with the customer which life changes could impact the affordability of housing costs. These could include, for example, an addition to the family, a desire to be self-employed, wanting to work less, taking a sabbatical or retiring early. It is therefore important to discuss the customer's wishes and objectives and to include them in the analysis of the affordability of housing costs.

Advice

The adviser assesses all the relevant information to determine whether the housing costs the customer will face in future are appropriate for their financial situation. Based on income, liabilities and other relevant information gathered, the adviser assesses whether the housing costs are appropriate.

The fact that a loan falls within the lending standard and is deemed acceptable by the lender is not in itself sufficient for the adviser to recommend it as suitable for the customer. There may be circumstances

in which a particular loan would result in inappropriate housing costs. This may be the case, for example, when someone has a high standard of living or has to pay maintenance. It is the adviser who is expected to be alert to particular circumstances and take these into account in their advice.

The adviser discusses the advice with the customer. If necessary, the adviser also considers potential risks, for example if the customer is unable to adjust their spending pattern. In that case, the adviser will explicitly point out the mortgage risks and the implications for affordability. The adviser includes a passage on this in the advisory report.

There may also be circumstances that justify recommending a mortgage that exceeds the maximum borrowing limit based on the lending standard. In such cases, a simple explanation such as 'Customer has good future prospects' or 'Customer has reasonable amount of equity' is not sufficient. After all, it does not show whether the future prospects are sufficient or whether the equity justifies exceeding the standard amounts. The adviser must detail the specific circumstances – for example by carrying out the necessary calculations – in order to make a substantiated assessment as to whether, in the specific case, those circumstances result in appropriate mortgage costs.

5. Life events

During the term of the mortgage, situations may arise that affect the affordability of the mortgage. These are often events that are unforeseeable or less foreseeable, such as death, occupational incapacity or unemployment. Such life events can fundamentally change the customer's financial situation. It is therefore very important that the adviser actively discusses these with the customer.

To provide sound advice in this regard, the adviser must assess the consequences for the affordability of the mortgage if such a situation were to arise. The adviser will help the customer to understand these risks and, where necessary, to mitigate their consequences. It is important that the adviser establishes that the customer is aware of the risks to the affordability of a mortgage loan, including in the event of adverse events such as death, unemployment or occupational disability, and that the adviser recommends appropriate solutions where necessary.

Assessment and analysis

To arrive at appropriate advice regarding risks, the adviser must understand not only the risk the customer is willing to take but also the financial risk the customer can bear. To this end, the adviser will have previously gathered information on the customer's actual financial position, personal circumstances and future wishes.

It is important that the adviser also obtains information on existing financial provisions that will provide benefits in the event of death, occupational disability and unemployment, if this was not done previously. These include social benefits provided by the government, employer schemes and other financial provisions the customer has arranged themselves (such as insurance). The adviser must ascertain the details of such provisions: how long will they remain in force, what amounts will they pay out, when and for how long?

To understand the financial risk the customer is *willing* to take, the adviser also checks whether the customer understands the risks and their consequences. Where relevant, the adviser explains what the consequences of such events might be and what provisions the customer has in place to cover them. The adviser assesses the customer's attitude towards financial risks from death, occupational disability and unemployment. Is the customer willing to cover these risks and pay the associated premium?

When the customer indicates a willingness to incur a certain risk, the adviser has an independent duty to assess whether the customer is also actually *able* to bear that risk. The adviser does this by calculating the income that would be received in various scenarios if the adverse event were to occur and by including existing provisions in the analysis, such as social benefits, the BES islands old-age pension insurance and BES islands general widows and orphans' insurance. The adviser also takes into account the insured sums of any risk insurance policies in place. It is important that the adviser reviews the provisions on a customer-specific basis rather than adopting a general approach. Based on the calculations, the adviser discusses the impact of the various adverse events with the customer. In doing so, the adviser shows whether the customer is capable of absorbing the potential risk themselves or whether the shortfall could only be met by taking out risk insurance. Does the customer have the financial means to bridge a temporary drop in income? Could the customer potentially work more or less in case of an adverse event affecting the partner? What will be the impact if a customer becomes occupationally disabled, is self-employed and has no financial provisions in place? Does the customer have sufficient financial capacity to bridge any potential waiting period (the period until the insurance actually pays out)? In their analysis,

the adviser considers not only what is appropriate but also what the customer considers desirable in such a situation.

Example 4 (is it realistic to adjust your lifestyle?)

During the general information gathering, it emerges that a customer who lives alone is prepared to accept financial uncertainty. The customer says they could easily adjust their lifestyle if the situation required it, and they express a clear preference not to take out additional insurance covering risks such as occupational disability.

However, the in-depth discussions reveal that the customer has limited knowledge of the actual financial consequences of occupational disability. This prompts the adviser to discuss this risk in greater detail. They not only discuss the possible consequences of occupational disability but also examine, jointly with the customer, how realistic it would be for the latter to actually adjust their lifestyle under such circumstances.

To provide a clearer picture, the adviser shows exactly what the loss of income would mean in terms of monthly housing costs. The discussion focuses on what the customer would likely need in order to make ends meet in a situation of long-term occupational disability. The adviser enquires further about the customer's wishes and expectations in this scenario and determines the customer's risk appetite with regard to this specific risk.

This approach results in a carefully substantiated assessment, in which the final advice is based not only on the financial risk incurred by the customer but also on their personal preferences, objectives and risk appetite.

Advice

In order to provide appropriate advice, the adviser uses all the gathered information: the customer's risk appetite, objectives, financial situation, the level of existing financial provisions and what the financial shortfall would be if any of the risks were to materialise. The adviser also takes account of the extent to which the customer is willing to make adjustments, for example to their spending pattern, in order to pay the housing costs.

The adviser will explain the best solution for the customer to meet any shortfall. This may mean that the adviser recommends covering the risk and taking out risk insurance.

The adviser clearly explains the rationale behind the recommended risk insurance and the sum insured, as well as how these align with the customer's financial position, objectives and risk appetite. They record this in the advisory report.

If it has been agreed with the customer that the advisory process also includes arranging risk insurance, the adviser will also offer advice on a suitable insurance product. Even where it has been agreed that the adviser will not act as an insurance intermediary, it is important that the adviser takes responsibility if the calculations show that the customer would be unable to cope with the income risks (loss of income). In that case, the adviser should clearly explain the consequences and actively refer the customer to an insurance provider so that, with the aid of the advisory report, they can take out risk insurance independently.

If, contrary to the adviser's recommendation, the customer does not wish to take out risk insurance, the adviser should ask the customer to explain why. The adviser will then ensure that the file shows that the customer consciously opted not to follow this advice. The entry in the file must include, at the very least, the deviation from the advice and the fact that the customer decided to deviate from it. The adviser

should also make clear to the customer that their advice differs and draw attention to possible consequences. This should also be included in the advisory report, together with the customer's reason for deviating from the advice, so that evidence can be provided.

Example 5 (customer does not accept advice on mortality risk)

The adviser's analysis shows that if either partner were to die, the existing financial provisions would be insufficient. They calculate the shortfall and show that the current financial provisions would be insufficient to cover the desired net monthly payments. The adviser explains that in that case the surviving partner would no longer be able to afford the housing costs. They jointly conclude that even if the other partner were to take on more work, it is unlikely that the shortfall could be made up. As a result, the surviving partner would likely have to sell the home. The adviser therefore recommends taking out term life insurance. The customers say they are prepared to take that risk; the surviving partner would not mind moving to a smaller home in such circumstances.

The adviser asks the customers to consider whether this is a realistic solution given the tight housing market and uses some calculations to show that it would not be realistic for the surviving partner to bear the costs of a suitable new home. The adviser nevertheless recommends taking out insurance given the financial situation and points out the amount of the monthly insurance premium. However, the customers maintain their preference not to cover the risk. The adviser records this deviation from their advice in the file, together with the customers' reasons. The adviser nevertheless asks the customers to reconsider this carefully and agrees to contact them in one month to discuss the matter again. The adviser also recommends that they reread the advisory report on this point. When contacting them again, the adviser will discuss whether they still wish to take the risk or whether taking time to think it over has led to a change of mind.

Divorce or separation

Divorce or separation can be a major cause of financial concerns for those with outstanding mortgages. Although partners understandably do not think about the end of a relationship when buying a home, it is still important that the adviser anticipates and discusses the possible consequences.

The adviser should discuss and document these financial risks so that customers are aware of them. It is good practice for the adviser to encourage both partners to have financial arrangements in place, such as cohabitation agreements and wills, drawn up by a notary, if they have not already done so. They can also be encouraged to make sure their pension is in order by registering their partner's details with the pension fund.

6. Refinancing

In this chapter, refinancing is understood to mean repaying the old mortgage early and in full and simultaneously taking out a new one.

Refinancing a mortgage can have a major impact. The adviser is therefore ideally placed to examine whether refinancing is actually in the customer's best interest. This is therefore a new advice in which the advisory process is repeated and the adviser also assesses the affordability of the mortgage, where necessary, should certain events occur, such as occupational disability.

Assessment and analysis

The adviser assesses the customer's objective, as there can be various reasons for refinancing a mortgage. For example, the customer may be able to secure a better interest rate with a new lender than with their current lender. In addition to the objective, the adviser gathers further customer information, such as financial position and risk appetite. It is important that the adviser obtains all relevant information from the customer. In addition to information on the financial position and risk appetite, the adviser will review the relevant details of the existing mortgage and any existing risk insurance policies. They will also assess the cost of refinancing the mortgage.

Based on the gathered information, the adviser will analyse whether refinancing is in the customer's interest and in line with the customer's objectives and risk appetite. It is important that the adviser includes the refinancing cost in their analysis. For example, they must include the cost of switching to another lender (such as notary fees and any penalty the customer has to pay) and will examine whether the costs borne by the customer could be recouped through a lower interest rate. To properly weigh the financial and other benefits of refinancing against the associated costs, the adviser calculates the payback period. They ensure that the outcomes of the analysis and the grounds for the advice are clearly stated in the advisory report.

The adviser clearly explains to the customer all the pros and cons of refinancing. The implications for related products and any changes to the repayment method must also be clearly explained so that the customer knows exactly what they will mean for their future outgoings. For example, if the customer is required to take out additional risk insurance, this must be clear.

Advice

Based on a detailed assessment and analysis, the adviser has assessed whether refinancing the existing mortgage is appropriate for the customer's situation. This involved examining the current mortgage structure, the remaining term, the current interest rate, the repayment method and the current lender's terms and conditions. The customer's financial position, risk appetite and future plans were also taken into account in the assessment.

The adviser will explain the advice to the customer with supporting evidence, focusing not only on the financial comparison but also on the broader context. They will explain why the advice is appropriate for the customer's situation, for example because it means the mortgage will remain affordable in the future.

The adviser discusses the advice with the customer. They also record how the advice was arrived at.

7. Additional themes

During the advisory process, the adviser will cover various aspects that are also important to discuss with the customer. These aspects are not always top of mind for customers, but it is important that the adviser brings them to the customer's attention. These themes are included in this chapter.

Interest rate risks

A customer taking out a mortgage is generally offered a short fixed-interest period or a variable interest rate. The adviser knows that this entails risks due to a combination of factors such as the risk of future interest rate increases or decreases, the customer's personal and financial situation and their risk appetite. It is essential that the adviser helps the customer to understand the risks. A good understanding of the risks during the fixed-interest period contributes directly to financial peace of mind and prevents future surprises.

To help the customer understand the risks, the adviser explains the relationship between the term of the interest rate and the monthly payment. They also discuss the risk of interest rate increases and their impact on the level of monthly payments. The adviser illustrates this in concrete terms by calculating the impact of various interest rate scenarios. These show, for example, the amount by which the monthly payment would increase as a result of an interest rate rise of one or two percentage points. Depending on the impact on the mortgage costs, the adviser discusses the consequences with the customer. They also record the discussion in the advisory report so that the customer can review later what was discussed regarding interest rate risks.

This means the adviser has carefully examined the extent to which the customer is able to bear the financial and other risks, particularly with regard to possible fluctuations in monthly payments due to interest rate changes. Explicit attention has also been paid to the risk of interest rate increases, which could lead to higher monthly payments.

Example 6X (understanding interest rate risk)

Two customers are buying their first home together and expecting their first child soon. They are using their maximum borrowing capacity (LTI ratio of 100%) to make the purchase. During the consultation it becomes clear that the customers have limited knowledge of financial products and the associated risks. They are still not sufficiently clear about concepts such as interest rate risk and the consequences of interest rate changes.

This prompts the adviser to spend extra time explaining the financial risks associated with the mortgage. Attention is also devoted to the interest rate risk after the expiry of the three-year fixed-interest period. The customers do not sufficiently realise that the monthly payments may increase after the end of this period.

The adviser explains in plain language that the interest rate may change after the fixed-interest period and may also turn out to be higher. This can have a direct impact on the amount of the monthly payments. Because the customers need to borrow the maximum amount and also expect a change in their personal situation (addition to the family), the adviser considers this risk particularly relevant.

To illustrate the impact of interest rate risk, the adviser carries out a scenario analysis. This shows what happens to the monthly payments if interest rates rise by two percentage points. The adviser discusses

the results in detail with the customers and applies them to their personal situation, including the expected higher costs after the birth of their child.

The customers say that they expect their income to rise further in the future. Given the sector in which the customer works, the adviser considers such a pay increase to be realistic. The adviser incorporates this expectation in the advice and also considers the customers' expenses in order to present a realistic picture of their financial capacity. The customers are then better able to understand the consequences of an interest rate rise for their day-to-day financial capacity.

This explanation and the associated calculations give the customers more insight into the risks and potential consequences for their financial situation. The adviser thus determines the extent to which the customers understand the interest rate risk and whether they are capable of making an informed decision.

The adviser carefully records the discussion concerning limited knowledge, the explanation provided and the scenario analysis in the file and in the advisory report. This demonstrates that the adviser adequately explained the interest rate risk and that, despite their limited prior knowledge, the customers were able to make an informed decision.

Climate change

Climate change can have consequences for homes and consequently for the customer's financial position. Various climate-related risks, such as tropical storms, extreme rainfall, heat, drought, sea level rise and coastal erosion, affect the quality, value and insurability of a home. Furthermore, these risks can lead to higher maintenance and repair costs and affect the future saleability of the collateral.

The adviser helps the customer to obtain a comprehensive picture of the factors relevant to their financing decision. This helps ensure that the customer understands not only the financial cost of the mortgage but also the risks that could affect the affordability and value of the home in the longer term. The adviser thus enables the customer to take these risks into account in the purchase and financing decision. By also including the discussion points in the advisory report, the adviser enables the customer to review them later.

Taxation

It is important that consumers who want to buy a home are also aware of the relevant tax aspects. During the advisory process, it is helpful to discuss the tax benefits or obligations associated with owning a home and having a mortgage, particularly if the customers are not aware of these aspects. It is therefore important that the adviser draws the customer's attention to relevant tax aspects that must be taken into account. Where necessary, the adviser refers the customer to a tax specialist for further advice. By also including the discussion points in the advisory report, the adviser enables the customer to review them later.