

A GUIDE TO YOUR OFFSET INTEREST ONLY MORTGAGE

An interest only mortgage means that the amount you give us each month pays the interest charged to your mortgage account. Although your monthly payments will be less than a repayment only mortgage, at the end of your mortgage term you still owe us some or all of the original sum borrowed, assuming all payments have been made in full and on time throughout the term of your mortgage.

With an Offset interest only mortgage, you have two options for the savings benefit from your linked Offset savings account. You can choose to:

- reduce the outstanding balance of your mortgage (i.e. reduce the original sum borrowed that will need to be repaid at the end of your mortgage term), or:
- reduce the monthly payment you need to make for your mortgage each month.

Your advisor will be able to give you detailed information regarding your specific savings benefit options, and how they would affect your mortgage balance or payments, but a few examples are shown below.

Reducing the monthly payment required

By selecting this option you have to pay by Direct Debit. The monthly savings benefit is paid to your mortgage account and then deducted from your monthly payment required the next month. This means that although you will still pay your mortgage for the whole of the original term, you will pay a reduced amount each month.

This example illustrates an Offset mortgage of £104,500 with an interest rate of 5.95%, also with Offset savings of £104,500 with an interest rate of 5.95%. The mortgage completes on 1st January and charges interest of £17.03 a day. A balance of £104,500 is put into the savings account on the same day, and left untouched. The regular monthly payment for this example is £518.15. In the first month an interest only payment is required from the day the funds are released to the end of that month, and is collected the following month with the regular monthly payments.

	Days in Month	Regular Monthly Payment	Monthly Savings Benefit	Actual Payment Taken
January	31	£0	£0	£0
February	28	£1046.23	£528.08	£518.15
March	31	£518.15	£476.98	£41.17
April	30	£518.15	£528.08	£0 (£9.93 credited to mortgage account)
May	31	£518.15	£511.05	£7.10
June	30	£518.15	£528.08	£0 (£9.93 credited to mortgage account)
July	31	£518.15	£511.05	£7.10
August	31	£518.15	£528.08	£0 (£9.93 credited to mortgage account)
September	30	£518.15	£528.08	£0 (£9.93 credited to mortgage account)
October	31	£518.15	£511.05	£7.10
November	30	£518.15	£528.08	£0 (£9.93 credited to mortgage account)
December	31	£518.15	£511.05	£7.10

*£1,046.23 is based on the regular monthly payment plus the interest accrued in January when no payment is made.

Based on a 5.95% fixed rate for the term of the mortgage, and repayments over a 25 year term. The monthly mortgage payments in this illustration could be considerably different if interest rates change.

Reducing the outstanding balance of your mortgage

By choosing this option, the interest that is paid on your savings is deducted from the overall amount you borrowed. This means the amount you owe is being reduced each month and therefore you will owe less than the original sum borrowed at the end of the term.

A very basic way to show how this works is to imagine you borrow £100,000 over 25 years on an Offset mortgage. If you only pay your requested mortgage payment and have no savings in your account, at the end of the mortgage you would still owe us £100,000. However, by paying your savings interest benefit to your mortgage account each month this will be deducted from your original £100,000 so if you receive £50 per month interest benefit over 25 years you would owe £85,000 at the end of your term. Please remember, your savings interest is calculated daily and therefore you will receive a different amount of interest each month based on the number of days in the month, rather than the same amount as used in this example.

Calculating your interest

As the interest on your savings is paid to your mortgage account overnight on the last day of the month, we advise you to make your monthly mortgage payment after the 7th of the month to ensure that the Offset benefit reduces the following month's payment. Payments before this date will result in the savings benefit reducing your monthly payment two months after the benefit has been paid.

Because the interest charged to your account is based on the number of days in that month, and the interest paid to your account is based on the number of days in the preceding month, it's possible that your monthly payments will vary, and a basic example of this is shown in the table overleaf. If you do not have the same amount of savings as your outstanding mortgage account, then your mortgage and savings interest are calculated in the same way, but you will not receive the same amount of savings interest as you will be charged for mortgage interest. In this instance your mortgage is considered to be 'partially offset' as you do not have an equal amount owed and saved.

IMPORTANT INFORMATION

Please remember that the examples in this information sheet are not real but are designed to show in a simple format how you could benefit from the options available. Your advisor can give you detailed information regarding your specific benefit options and how they would affect your mortgage term or payments. All of the information given is subject to our Lending Terms and the specific terms and conditions of your mortgage product.

This fact sheet should be read in conjunction with 'The Benefits of an Offset Mortgage' factsheet (8057).

Your home may be repossessed if you do not keep up repayments on your mortgage.

Coventry Building Society is authorised and regulated by the Financial Services Authority (reference number 150892).

Our advisors are available Monday to Friday 8am-8pm, Saturday 9am-5pm, Sunday 10am-4pm, telephone self-service available 24 hours a day, 365 days a year. Contact your service provider for details of call charges, as costs may vary. To maintain a quality service, calls made to and from the Society may be monitored or recorded. Information correct at time of production (June 2010).

For further details, call into your local branch, visit us at

www.thecoventry.co.uk

or call our Customer Service Centre on

0845 7665522



Coventry Building Society.

Registered Office: Economic House, PO Box 9, High Street, Coventry CV1 5QN.

THE BENEFITS OF AN OFFSET MORTGAGE

OVERPAYMENTS AND PAYMENT BREAKS

Overpayments will have the effect of repaying the mortgage before the due date, unless the rate on your mortgage changes where the revised payment will be recalculated to your original term. Please remember, when making any overpayments you must ensure you quote the correct account number for either your mortgage or savings account to avoid delays.

Lump sum overpayments

You can pay extra into your Offset mortgage at any time, subject to any restrictions that might apply to the product you have chosen. The interest due on your mortgage will be adjusted to reduce what you owe.

Regular overpayments

There are two ways you can use your monthly Direct Debit to make regular overpayments:

- 1) Overpaying a set amount each month. So if you decide to pay £200 extra each month, then we will collect the total amount of your regular monthly payment plus £200.
- 2) Set a 'payment cap'. We'll collect a fixed amount each month, for example £600 every month. If interest rates reduce, instead of reducing your monthly payment, we'll still collect £600. If interest rates rise and your monthly payment is more than your payment cap, then we will claim your monthly payment instead, so your mortgage doesn't go into arrears. In this example, your monthly payment might rise with interest rates to £650, so we'll collect £650.

If you would like to use either of these facilities just call us on 0845 7665522 and we can set them up for you.

You cannot withdraw overpayments once they have been paid into your mortgage. However, if you think you might need access to the funds in future, you could pay them into your Offset savings account instead and your mortgage will still have some benefit.

Payment breaks

An Offset mortgage is flexible and allows you to take payment breaks of up to three months in each calendar year. All we ask is that your regular payments are up to date and that you have already made at least six months' payments. We need to authorise a payment break in advance, so please contact us before you stop making payments to your mortgage. During a payment break, interest will continue to be added to the account - increasing the amount owed. You will not be allowed to apply for any further borrowing on your mortgage for six months following of a payment break.

OPERATING YOUR SAVINGS ACCOUNT

Although we will open your Offset savings account upon completion of the mortgage, we will not automatically transfer any funds into it from any other savings account you may have with us, so you will need to set up any standing orders or Direct Debits that you require on this account.

You can find all the information you require on security (including online security), making a deposit and making a withdrawal in your booklet 'Terms and conditions – Offset savings account' which will be supplied to you with your mortgage offer documentation.

Transferring your mortgage and savings accounts

If you have transferred ('ported') your Offset mortgage to another property, a new Offset savings account will be set up on completion. You will need to confirm if existing standing orders and Direct Debits are to be cancelled or moved to the new savings account as we are unable to do this without your permission.

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This document should be read with the relevant fact sheet explaining how your Offset benefit is calculated according to the type of mortgage you have (repayment, interest only or part repayment/part interest only).

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