

Offset mortgages

Factsheet for intermediaries



What's an Offset mortgage?

With an Offset mortgage, your client's savings and mortgage account are linked, this will offset the interest they pay on that mortgage.

The amount they save in interest is called the **Offset benefit**. They can use that benefit to reduce the term of the mortgage, the outstanding balance or their monthly mortgage payment depending on whether they choose a repayment Offset or an Interest-only Offset.

Our Offset mortgages are for residential properties, not Buy to Let. Repayment Offset and Interest-only Offset are available in a range of Fixed rate products.

Your client can choose how to use the Offset benefit:

With a repayment Offset, your client can use the Offset benefit to help reduce the **mortgage term** or their **monthly mortgage payment**, whichever suits them best.

With an Interest-only Offset, your client can use the Offset benefit to help reduce the **outstanding balance** of the mortgage or their **monthly mortgage payment**, whichever suits them best.

Whether they choose a repayment or an Interest-only Offset, they can choose how to use the Offset benefit – and switch it whenever they like. There's no minimum amount they have to save, and even small regular savings can make a big difference.

Our Offset is simple:

- We only have one savings account linked to the mortgage
- Your client has easy access to their savings, via Online Services, telephone banking and ATMs
- They can set up Direct Debits and standing orders on the savings account
- Further borrowing is available at the same rate (up to the maximum LTV and subject to lending criteria at the time – see our website for full details).

Here's how a Repayment Offset works:

- Your client always makes the full contractual monthly mortgage payment of the **interest + capital repayment**.
- They're only charged interest on the difference between their Offset savings balance and the amount of their mortgage.



To reduce the term of their mortgage:

Any Offset benefit reduces the outstanding capital balance which in turn reduces the amount of mortgage interest they pay overall. This shortens the time it takes to pay off the mortgage.

With this option the monthly mortgage payments are only recalculated following a significant change to the mortgage, for example, a rate change or a lump sum capital repayment.

To reduce their monthly mortgage payment:

Any Offset benefit automatically reduces the amount collected by Direct Debit (your client must pay by Direct Debit) by the same amount for the next monthly mortgage payment, or the month after that depending on when the payment is due.

Mortgage payments made before the 7th of the month may result in the Offset benefit reducing the monthly payment a month later.

They'll still pay their mortgage for the full term, but depending on how much money your client has in their Offset savings account, they pay less mortgage interest each month.

Here's how an Interest-only Offset works:

- Your client always makes their contractual monthly mortgage payment.
- It's less than it would be on an equivalent repayment mortgage because it covers the **mortgage interest only**.
- They're only charged interest on the difference between their Offset savings balance and the amount of their mortgage.

Unlike a repayment Offset, they can't reduce the term of the mortgage but they can reduce the outstanding capital balance or their monthly mortgage payment – and switch between the two.



To reduce the outstanding balance:

Any Offset benefit reduces the outstanding capital balance. At the end of the term, your client will owe less than the original loan amount.

To reduce their monthly mortgage payment:

Any Offset benefit automatically reduces the amount collected by Direct Debit (your client must pay by Direct Debit) by the same amount for the next monthly mortgage payment, or the month after that depending on when the payment is due.

Mortgage payments made before the 7th of the month may result in the Offset benefit reducing the monthly payment a month later.

The original loan amount will need to be repaid at the end of the mortgage term.

More information about our Interest-only products

For all our Interest-only products, our full lending policy and case studies showing how Interest-only works, go to coventrybuildingsociety.co.uk/intermediaries/products/offset-information

Try our Offset calculator

Our Offset calculator shows how much your clients can save with an Offset product. You can find it at: coventrybuildingsociety.co.uk/mortgages/calculators/intermediaries/OffsetCalculator/default.htm

Overpayments

Overpayments are allowed (subject to the product's specific terms and conditions), and can be made in a number of ways – small ad hoc overpayments, larger lump sum overpayments (capital repayments) and regular overpayments.

However, an overpayment can't be withdrawn after it's been paid into the mortgage account so if your client wants access to their money, they may be better off paying into their Offset savings account instead. That way, they'll receive a greater Offset benefit and have access to the money whenever they need it.

Opening and operating the savings account

We'll open the Offset savings account as soon as the mortgage has completed, but we can't automatically transfer Direct Debits, standing orders or funds from other accounts if these are needed. Your client will need to do this themselves.

Here's how the savings account works:

Your clients can take money out of their savings account whenever they like. They can also pay into their savings as often as they like and there's no minimum amount they need to save. But the more they have in the Offset savings account, the less mortgage interest is charged.

The money in the Offset savings account won't earn interest because it's offsetting the interest payable on the mortgage. But it also means there's no income tax liability on those savings and it doesn't count towards their Personal Savings Allowance.

If the Offset savings balance is greater than the Offset mortgage

Your client won't receive any benefit or interest on the excess amount. If this is the case, you might want to review their situation because they may wish to move the excess amount from the Offset savings account into an account that pays interest on savings.

If your client has the same amount in their Offset savings account as the amount they owe on their mortgage

They'll still need to make the full contractual monthly mortgage payment.

Any benefit received is based on the number of days in the month and paid to the mortgage account on the 1st of the following month, so there may still be a small payment due even in months where they have the same amount of savings as the mortgage balance.

This amount will be more significant in the first month, as interest will be charged from the day that funds are released, meaning your client will pay a full months mortgage payment and any interest accrued from the date of completion. We will write to your client to inform them of their first mortgage payment amount prior to it being collected.

If there's no money in the Offset savings account

Your client won't receive any Offset benefit. If this is the case, you might want to review their situation because an Offset mortgage may not be the best option for them.

Porting an Offset mortgage (please see the porting exceptions on our website)

If your client transfers their Offset mortgage to another property, we'll set up a new Offset savings account on completion. Your client will need to confirm if existing Direct Debits and standing orders are to be cancelled or moved to the new account, as we can't do this without their permission.

They'll also need to arrange to transfer funds to the new savings account because we can't do this automatically. If the mortgage is repaid, transferred to another property, or transferred to a non-Offset product, the original Offset savings account will change to an instant access account.

Financial Services Compensation Scheme (FSCS)

The Financial Services Compensation Scheme, the UK's deposit guarantee scheme, protects your client's eligible deposits with Coventry Building Society up to a total of £85,000. Any deposits they hold above the limit are unlikely to be covered.

Call the Intermediary Support team on **0800 121 7788** for more information, or visit **fscs.org.uk**.

 **0800 121 7788** Monday to Friday 9am - 5pm



coventryforintermediaries.co.uk

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Your client's home may be repossessed if they do not keep up repayments on their mortgage.

Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (firm reference number 150892 www.fca.org.uk).

Mortgages are subject to acceptance in accordance with our lending criteria. The information in this leaflet is provided for your information only and should not be taken as advice. Legally binding terms and conditions can be found in the mortgage application declaration, the terms and conditions of your mortgage offer and in our mortgage terms and conditions. For more information contact Coventry Building Society.

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