THE FAMILY BUILDING SOCIETY

I have savings that need to work harder

And I want a better deal on my mortgage

OFFSET MORTGAGE

PUT THE MONEY YOU SAVE TO BETTER USE

GLOSSARY OF TERMS

This aim of this glossary is to provide you with a clearer understanding of the language used within our mortgage literature.

For more information on terms please refer to our A to Z jargon buster at *familybuildingsociety.co.uk/mortgage-jargon-buster*

Additionally check out our mortgage guides for more information on getting a mortgage at *familybuildingsociety.co.uk/mortgage-guides*

Annual Percentage Rate of Charge (APRC) – Also known as 'Cost for comparison'. This is the annual cost (as a percentage) of a mortgage across its whole term, taking into account any charges that relate to the cost of borrowing, such as interest rates and fees.

Arrears – When a mortgage payment has not been paid by its due date. Missing a mortgage payment can negatively impact your credit rating, and missing several payments could also lead to your mortgage lender repossessing your property. If you are experiencing payment difficulties, please contact us as soon as possible.

Application Fee – This is the upfront fee that is paid to process the mortgage application. This is paid when you apply for the mortgage and is non-refundable.

Buy to Let – Buying a property to rent out as an investment, these mortgages can be offered in your personal name and also as a Limited Company.

Cashback – An incentive offered to mortgage applicants for certain products, where they can receive some money back.

Deposit – The amount of money you put towards the price of the property you are buying, usually referred to as a percentage of the total purchase price. Each bank or building society will offer different mortgage products dependent on the percentage of deposit you have.

Discounted rate mortgage – A mortgage product where the interest rate payable is at a percentage discount from the mortgage lender's base lending rate. You will normally pay the discounted rate for a set period, often between two and five years. Discounted rate mortgages are variable, so your payments may go up as well as down. See 'Fixed rate mortgage' for comparison.

Early Repayment Charge (ERC) – A fee you may be charged if you repay some or all of your mortgage balance before the end of an agreed term. Early Repayment Charges usually only apply during a specified period.

Fixed rate mortgage – A mortgage where the interest rate charged is fixed for a set period, usually between two and five years. This means that your mortgage payments will stay the same each month throughout the fixed rate period.

Follow on rate – This is our base lending rate for our Owner Occupier mortgages. You'll be moved onto this rate once your existing mortgage product ends, unless you choose to switch to a new mortgage product. Follow on rates are typically more expensive than alternative mortgage products.

Further advance – Also referred to as 'additional borrowing'. An additional loan secured against your property, which may be offered by the mortgage lender for a different purpose other than buying the original house. For example, for home extension or renovation works.

Interest-Only mortgage – A mortgage where you only pay back the amount you are being charged in interest each month. The amount of money you borrowed does not go down over the term of the mortgage and you will need to find another way to repay the original loan at the end of the mortgage term. See 'Repayment vehicle' for more information.

Loan to Value (LTV) – The size of your mortgage loan divided by the value of your property. For example, if you're buying a £100,000 property with a £10,000 (10%) deposit, you'll need a 90% LTV mortgage.

Mortgage term – The length of time that have you have to pay back the mortgage. Most mortgage terms are between 5 and 35 years. A mortgage term is different to a mortgage product period, which is usually 2 to 5 years.

Mortgage Valuation fee – A fee paid to a chartered surveyor to estimate how much a property is worth.

Offset mortgage – A mortgage that links your mortgage with your savings. The amount of the mortgage that interest is charged on is reduced by the amount that you deposit in the linked Offset Saver account. No interest is paid on your savings whilst they are connected to, and reducing the interest charged on, your mortgage.

Offset Saver – This is a Family Building Society savings account that is linked to our Offset mortgage and reduces the amount of the linked Offset mortgage on which interest is charged by an amount equal to the amount in the Offset Saver.

Overpayment – When you pay more than the minimum monthly repayment amount set by your lender. Overpayment can help you pay off your mortgage faster and pay less interest overall. However, you may be given an early repayment charge for doing so, depending on your mortgage offer.

Payment reduction – Your offset savings are used to reduce the amount you pay each month. Please refer to the 'How Offsetting works' section within this brochure for more information.

Payment holiday – If you have an Owner Occupier Offset Mortgage and are able to pay more than your agreed mortgage payment amounts each month, we keep track of the amount that has been overpaid. You can draw some or all of this overpayment credit back, to use for a 'payment holiday', which temporarily stops or reduce your monthly mortgage payments to us.

Product Fee (arrangement fee) – The main fee we charge for arranging your mortgage.

Product switch/transfer – At the end of your mortgage product period, you can switch to another mortgage product with the same lender. You may also be able to switch to a new mortgage product before the period finishes (for example after 4 years into 5 year fixed term) if a more attractive mortgage product becomes available. However, this may result in additional charges such as Early Repayment Charges.

Repayment mortgage – A mortgage has two parts, these being the money you borrow (known as the capital), and the interest charged by the lender on the amount you have borrowed. With a repayment mortgage, you'll make monthly payments for an agreed term, until you have paid back both the capital and interest. This means that, as long as you keep up with the repayments, your mortgage will be repaid in full at the end of the mortgage term.

Repayment vehicle – What will be used to repay an Interest-Only mortgage at the end of the term. Examples of these can include downsizing, sale of another property (in England and Wales only), sale of other assets (for example second home) and existing investments or savings.

Representative example – An example of the costs associated with a mortgage, based on the mortgage lenders typical borrowers. This will show the monthly repayments, the total amount to repay, including the amount of interest, and any fees there are to pay. This allows you to make an informed choice when considering which mortgage product is best for you.

Balance reduction – If you are on a repayment mortgage, you can use your offset savings are used to help pay your mortgage off earlier. Please refer to page 5 in the Offset Mortgage brochure to see how this works.

Security – When you take out a mortgage, the lender will take your property as security against the loan. This means that if you're unable to pay your mortgage then your property may be repossessed by the mortgage lender.

Stamp Duty Land Tax – Stamp Duty Land Tax is a tax, paid by the buyer, on land and property transactions in England, Wales and Northern Ireland. For more information, please refer to ***gov.uk/stamp-duty-land-tax***

Offset mortgages are different to traditional mortgage arrangements, but the difference brings distinct advantages to those who hold savings that they would like to put to better use. In particular, offset mortgages may be suitable for those who have to put aside money for specific purposes but do not need to use it right at the present time. Maybe you've been saving for a wedding or special birthday, or are self-employed and need some money set aside to pay tax twice a year.

HOW OFFSETTING WORKS

YOU MAY NOT BE AWARE OF HOW AN OFFSET MORTGAGE WORKS, IN WHICH CASE YOU COULD BE MISSING OUT ON A GREAT OPPORTUNITY TO BENEFIT FROM LOWER MONTHLY PAYMENTS OR REDUCE THE TERM OF YOUR MORTGAGE, SAVING £1,000s IN INTEREST PAYMENTS.

STANDARD MORTGAGE

With a traditional mortgage you take out your mortgage and pay a set amount each month. For a repayment mortgage, that amount is made up of a contribution towards paying back the mortgage and an amount to pay the interest on that mortgage. The amount you pay can vary whenever the interest rate goes up or down.

OFFSET MORTGAGE

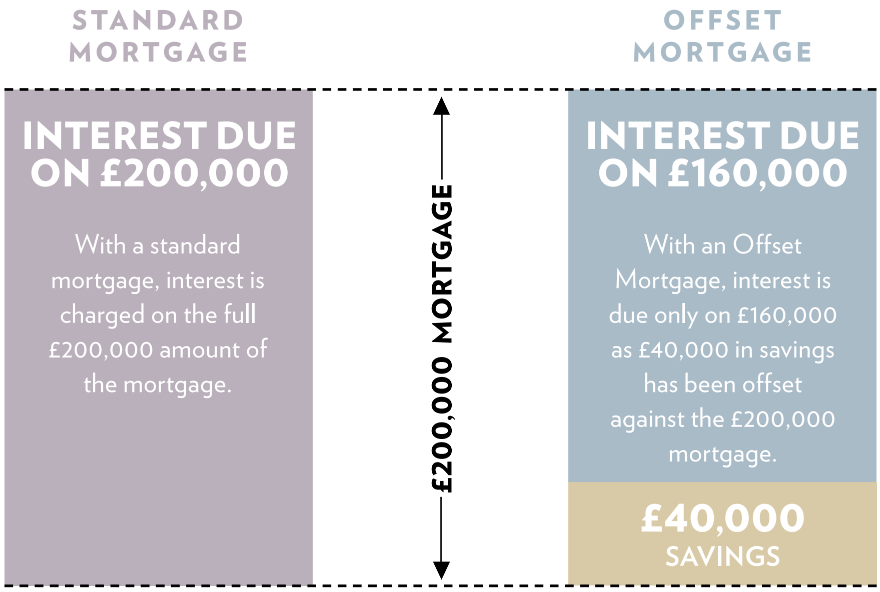
An offset mortgage works in a similar way except for the inclusion of an extra feature, a savings account is attached to the mortgage arrangement. The amount of the mortgage that interest is charged on is reduced by the amount you save.

This means you can enjoy one of two distinct benefits

If you borrowed £200,000 and held £40,000 in our Offset Saver account, you are only charged for the interest which would be due on £160,000. If you choose to keep your payments the same, you are effectively paying back more of your mortgage each month. This can have a dramatic effect on how quickly your mortgage is paid off.

Alternatively, you can decide to benefit from lower monthly payments. This won't pay off your mortgage any quicker, but will make your monthly payments lower.

In addition, you can overpay your mortgage regularly each month or from time to time and that extra credit can be used to reduce your payments at a later date.



Representative example

A mortgage of £167,200.00 payable over 14 years initially on a discounted variable rate for 2 years at 1.95% below our variable Managed Flexi Mortgage Rate and then on our variable Managed Flexi Mortgage Rate, currently 4.89% would require 23 monthly payments of £1,215.27 and 145 monthly payments of £1,354.61 plus one initial interest payment of £418.54.

The total amount payable would be £226,062.20 made up of the loan amount plus interest of £57,588.20, an Application Fee of £175, a Product Fee of £999 and a Mortgage Exit Fee of £100.

The overall cost for comparison is 4.6% APRC representative.

THE MORTGAGE WILL BE SECURED ON YOUR HOME.
YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

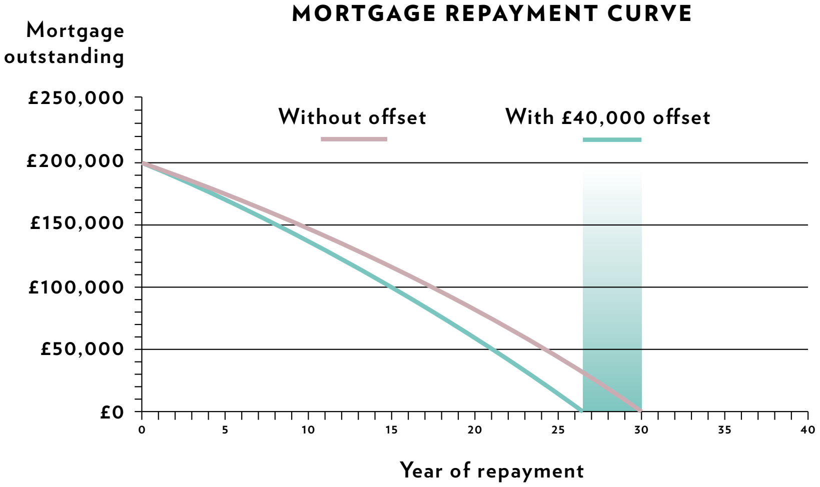
OPTION 1: BALANCE REDUCTION

With this option, your offset savings are used to help pay your mortgage off earlier. They won't affect the amount you pay each month but, because less of your mortgage is subject to interest, your mortgage balance should reduce faster. This can shave years off your mortgage term.

BALANCE REDUCTION EXAMPLE

MORTGAGE AMOUNT	£200,000
OFFSET AMOUNT	£40,000 (20%)
MORTGAGE RATE	6.54%
TERM (YEARS)	30 (MAX 40)
PAYMENT	£1,269.40
REPAID EARLY AFTER 21 YEARS	

MORTGAGE REPAYMENT CURVE



In this example, the mortgage will be repaid **nine** years earlier, saving you **113** payments of **£1,269**. In total that's **£143,442** less to repay. Plus, unlike a regular savings account, you pay no tax on the money held in an offset account. The future tax treatment of offset savings accounts may vary.

OPTION 2: PAYMENT REDUCTION

With this option, your offset savings are used to reduce the amount you pay each month. The proportion of your mortgage subject to interest is reduced, so there is less interest due each month. Your mortgage balance and term won't be any less, but the more you save, the lower your monthly payments can be.

The example to the right illustrates how you can use this option to significantly reduce your mortgage payments.

PAYMENT REDUCTION EXAMPLE

	WITH AN OFFSET SAVER ACCOUNT	**WITHOUT** AN OFFSET SAVER ACCOUNT	MONTHLY SAVING
MORTGAGE AMOUNT	£200,000	£200,000	
OFFSET AMOUNT	£40,000 (20%)	£0	
MORTGAGE RATE	6.54%	6.54%	
TERM (YEARS)	30 (MAX 40)	30 (MAX 40)	
PAYMENT	**£1,090.00**	**£1,269.40**	**£179.40**
REPAID AFTER	30 YEARS	30 YEARS	

The above diagrams use interest rates which are for illustrative purposes only. **Use our online Offset Mortgage Calculator (*familybuildingsociety.co.uk/offset-calculator*) to see how much interest you could save or how many years you could shave off your mortgage term.**

THE BENEFITS OF OFFSETTING

BUILT IN FLEXIBILITY

If you are able to pay more than the agreed amount each month, either occasionally or on a regular basis, the extra money also reduces the mortgage amount on which interest is charged. We keep track of the amount overpaid separate from the money you are offsetting, and later on you can use some or all of this credit either for a payment holiday, to reduce the regular payment for a while, or to draw back in a lump sum.

This flexibility means you can build up a credit position at times when you have spare money and draw this back when you need it later, benefiting from lower interest costs in the meantime. If you decide to draw the money back, we will require the written authority of all borrowers to make a repayment. This money will be repaid to the bank account from which the monthly mortgage payments are made, or to another account as long as we receive an original statement for the nominated account, issued within the last three months and showing the borrowers' full names.

We keep these overpayments separate from the money in your Offset Saver account, which may be for a specific purpose.

You can also repay some of the mortgage at any time. These lump sum repayments can't be repaid to you at a later date but they immediately reduce the balance that interest is charged on.

EFFECTIVE USE OF YOUR SAVINGS

If you hold a reasonable amount in savings accounts, you will have noticed that the returns over the last few years have been less than sparkling. As a general principle, the interest rate you pay for borrowing money will tend to be higher than the rate you receive from saving money. So, if you could move your savings to count against your mortgage, you would effectively be earning interest on that money at the rate you are charged for your mortgage and the interest saved can help to pay off your mortgage earlier.

What's more, as your offset savings are linked to your mortgage they are no longer producing interest, which may be subject to income tax, making the impact on your mortgage even more significant.

EFFECTIVE USE OF YOUR FAMILY'S SAVINGS

Our Offset Mortgage could also help parents lighten the financial burden for children. For example, children who are looking to move out and buy their own home. By putting some of their savings in an Offset Saver account, family members can give first time buyers or other types of borrower(s) a headstart to paying off their mortgage. We allow up to four Offset Saver accounts to be linked with each Offset Mortgage.

By 'family member', we mean the borrower's parents, grandparents, aunts, uncles, brothers and sisters all could help, if they are able to.

If you receive financial help from family members with an Offset Saver, they could withdraw the money without notice if they need to. It's important to remember there is no guarantee how much or for how long they may be able to help offset your mortgage.

EXTRA HELP IF YOU ARE SELF-EMPLOYED

"You'd effectively be earning interest on that money at the rate you're charged for your mortgage"

An increasing number of families now contain at least one member who has chosen to become self-employed. For some, this is to create a better work / life balance, others work in trades or professions where self-employment is already the norm and as technology advances, more flexible working arrangements just make sense.

USE TAX MONEY TO PAY YOUR MORTGAGE

Many self-employed workers have to pay their taxes at set times during the financial year. For most, this is at the end of January and the end of July. That means for the rest of the year you may be putting aside enough money to settle your tax bill when the due date arrives.

If you had an Offset Mortgage, you could accumulate your tax money in the Offset Saver account linked to your mortgage. As a result, for a large proportion of the year your tax money can be working to reduce the amount of your mortgage you pay interest on, to help you to repay your mortgage sooner.

It's as simple as that – making the most of money you would not really have been able to put to any other use could help you pay off your mortgage earlier. And by moving other savings into your Offset Saver account, you could make an even more significant difference.

The money in your Offset Saver account is not locked away and can be accessed without notice or access charge. A daily withdrawal limit applies.

PERSONAL UNDERWRITING

As a self-employed professional, you may also find that getting a mortgage is a lot less straightforward and not all lenders are able to accept the new reality of today's earning patterns. We treat all mortgage applicants as individuals, personally underwriting each case rather than relying on a credit score to determine whether we would be happy to offer a loan. For self-employed customers this means that we could, depending on your individual circumstances, accept just one year's accounts to support an application instead of the standard three years required by most lenders.

WE TREAT ALL MORTGAGE APPLICANTS AS INDIVIDUALS, PERSONALLY UNDERWRITING EACH CASE RATHER THAN RELYING ON A CREDIT SCORE.

"The savings I set aside for tax can help reduce my interest payments"

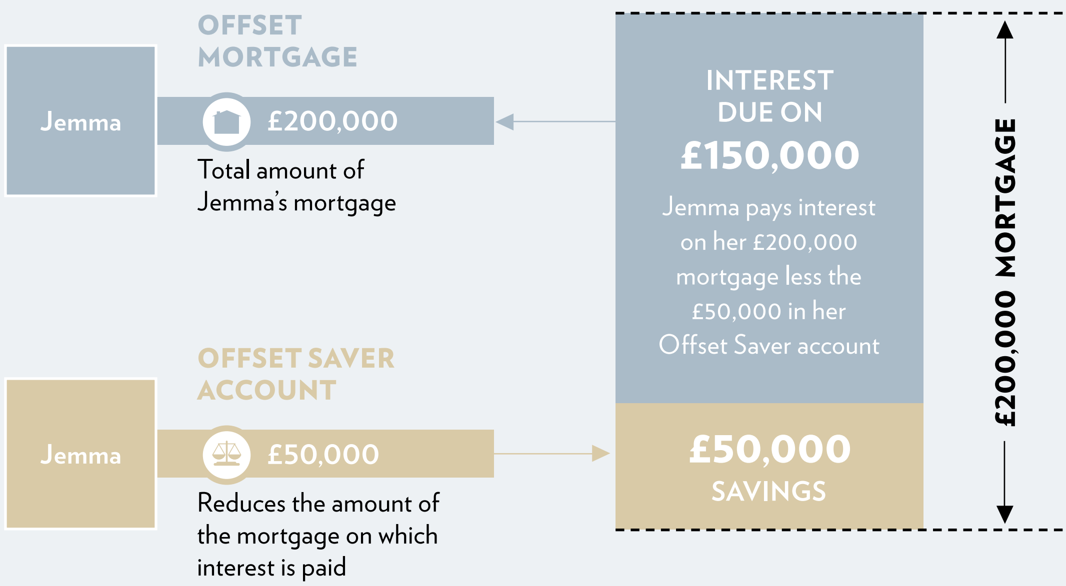
JEMMA'S STORY

JEMMA DAWKINS SET UP HER BUSINESS AS A MARKETING CONSULTANT TWO YEARS AGO. AS AN EXPERIENCED MARKETING PROFESSIONAL SHE HAS ESTABLISHED CONTRACTS WITH FOUR BUSINESSES, PROVIDING HER WITH REGULAR WORK.

Over the last two years she has been able to earn at a higher level than when she was employed. She is now thinking about potentially expanding to take on an assistant to handle some of the smaller projects she has been given.

When it comes to getting a mortgage however, she has found herself penalised by the relatively short time her business has been running and the fact that her income, whilst reliable, comes in on a project by project basis rather than nice and neatly every month. When the money does come in, Jemma knows she will need to put aside roughly £30,000 across the year to meet her tax bill. That money can build up in her Offset Saver account. Including a transfer of savings, on average Jemma is able to offset the interest on £50,000 of her mortgage each month.

HOW IT ADDS UP FOR JEMMA



All photographs posed by models. The case studies used in this brochure are fictitious.

QUESTIONS YOU MAY HAVE ?

ONCE MY MORTGAGE COMPLETES CAN I CHANGE MY OFFSET OPTION?

You can choose to change between balance reduction and payment reduction at any time provided this is no more than once a calendar month. Changes requested up to the 25th of a month take effect the following month; changes requested after this take effect a month later.

DOES MY CHOICE AFFECT MY PAYMENT DATE?

The Offset Mortgage payment reduction option requires a direct debit collection date that falls on or after the 15th of the month.

If your mortgage completes before the 15th of the month then after the first direct debit has been taken, the date for subsequent direct debits will need to be changed to fall on or after the 15th of the month. If you have completed on or after the 15th day then no action needs to be taken.

WHEN AND HOW DO I HAVE TO NOTIFY YOU OF MY CHANGE IN OFFSET OPTION CHOICE?

You can notify us any time you wish, by phone, in writing, or by secure message via our Online Service. For requests received up to the 25th of a month, your direct debit amount will be changed on the 1st of the following month. For example, if you notify us on 20 January, your direct debit amount will change for your February payment. In this example your new direct debit date will be changed to fall on or after 15 February, however you can specify any date from the 15th until the end of the month.

ARE THERE ANY FEES?

Yes, there are fees charged for the Offset Mortgage. You'll find details of the fees on our website *familybuildingsociety.co.uk/mortgage-charges*

WHAT ACCOUNT DO SAVINGS NEED TO BE DEPOSITED IN?

The account that is linked to the borrower's mortgage is an Offset Saver account. Family members who wish to contribute can open and close accounts during the life of the mortgage. However, the borrower(s) must open an Offset Saver account and keep it open for the term of the mortgage, until it is redeemed, or until they switch to a non-offset product, whichever is sooner. For the full terms and conditions of the Offset Saver account please refer to the Offset Saver Product Features leaflet.

WHAT IF I NEED ACCESS TO MY OFFSET SAVINGS?

You can take money out of your offset account at any time, subject to keeping a minimum balance of £100. A daily withdrawal limit applies. Of course the money taken out will no longer offset your outstanding mortgage. Only the money held in the account will count to reduce interest payable for the mortgage.

WHAT ARE THE MAXIMUM AND MINIMUM BALANCES I CAN HAVE IN MY OFFSET SAVER ACCOUNT?

The minimum you can start offsetting with is £100 and you can offset up to 100% of the mortgage amount.

You will be charged no interest at all for the months where 100% of the mortgage is offset by savings. Please remember that no interest will be paid on amounts held in the offset savings accounts linked to your mortgage even if the total exceeds 100% of the mortgage.

ARE MY SAVINGS IN THE OFFSET SAVER ACCOUNT PROTECTED?

Eligible deposits with the Society are protected by the FSCS. This savings product is covered by the FSCS.

COULD OTHER FAMILY MEMBERS HELP ME BY DEPOSITING THEIR SAVINGS IN MY ACCOUNT?

Yes, other family members can open an Offset Saver account linked to your mortgage to help reduce interest due. Including your own account, up to four savings accounts can be linked to an Offset Mortgage. Parents, grandparents, aunts, uncles, brothers and sisters all qualify to open an account. Eligible deposits with the Society are protected by the FSCS. This savings product is covered by the FSCS.

HOW MANY BORROWERS CAN APPLY FOR AN OFFSET MORTGAGE?

Up to four borrowers can be involved in an Offset Mortgage, so long as they meet our lending and affordability criteria and at least one of these must meet eligibility criteria. Our lending criteria is available on request, or you can access it from our website *familybuildingsociety.co.uk/mortgages/our-lending-criteria*

IS THERE A CHARGE IF I PAY OFF MY MORTGAGE EARLY?

When you first take out the mortgage, you will receive a discounted rate for a period of time. If you repay your mortgage in full during this period there will be an Early Repayment Charge. After the period of the discount, your rate will revert to the Family Building Society's variable Managed Flexi Mortgage Rate. Once this comes into effect, there will be no charge for early repayment.

CAN I OVERPAY?

Whether you choose to reduce your term or reduce your monthly payments, you can also make lump sum repayments and/or regular monthly overpayments to reduce the mortgage balance. There is no limit on the amount you can pay off in any one year.

CAN I UNDERPAY IF I NEED TO?

Yes, with our prior agreement you can underpay or take payment holidays equal to the value of overpayments you have built up earlier in the mortgage term.

WHAT IS THE MINIMUM MORTGAGE AMOUNT?

We will lend up to 80% of a property value, subject to a minimum mortgage amount of £45,000 and a minimum property value of £120,000.

CAN I INCREASE THE AMOUNT I BORROW?

Yes, the facility to increase your mortgage is available after six months at the rates which apply at that time – where different interest rates apply to different parts of the mortgage, the highest interest rate will be offset first.

WHAT IF I WANT TO MOVE?

If the new property meets our lending criteria, you will be able to transfer your Offset Mortgage to it. You may also be able to increase your Offset Mortgage to afford a more expensive property as long as you continue to meet our affordability and eligibility criteria.

HOW WILL I KNOW HOW MUCH MONEY HAS BEEN PLACED IN THE OFFSET ACCOUNTS ATTACHED TO MY MORTGAGE?

You are able to view your own Offset Saver, plus all of the accounts attached to your mortgage at any time by logging onto the Online Service. You will only be able to transact on your own Offset Saver(s), however you can view the total balance(s) in all other attached accounts.

THE MORTGAGE WILL BE SECURED ON YOUR HOME.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

FOR MORE INFORMATION CONTACT YOUR MORTGAGE ADVISER.

ALTERNATIVELY, PHONE OUR FRIENDLY AND HELPFUL TEAM WHO CAN GUIDE YOU THROUGH YOUR OPTIONS.

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If you need this document in an alternative format please call us on **03330 140140**.

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