With an Offset mortgage, you offset the money saved in your Offset savings account(s) against your loan, which means that instead of earning interest on your Offset savings, you pay less interest on your mortgage.

There are three ways in which you can choose to make the benefits of Offset work for you. These options are shown below. Please also see the Glossary and Examples shown overleaf. All three options give you the benefit of offsetting savings, but whereas the first two affect your monthly payments, the third affects the length ('term') of your mortgage.

You can choose any of these options when you first take out your Offset mortgage, and you can change your option at any time during the life of your mortgage simply by contacting us to let us know you wish to change.

If you do not specifically choose an option when you take out your Offset mortgage then you will automatically be put onto Option 2, until you tell us that you would like to change.

Option 1 – REDUCED CURRENT PAYMENTS

With this option, you will be using your Offset savings to lower your monthly mortgage payments now, but you will not pay off your mortgage any sooner than the remaining contractual mortgage term. The amount of your monthly mortgage payment is calculated taking into account the savings that you have in your Offset savings account(s). Under this option, the more savings you offset, the lower your monthly payment will be.

To choose this option and to benefit from lower monthly payments, you need to register a **net payment**. For an interest-only mortgage, the calculation of your net payment is based on the difference between your Offset mortgage balance and your Offset savings balance. For example, if you had a mortgage of £100,000 and savings of £15,000 then your minimum monthly mortgage payment would be calculated on a net balance of £85,000.

For a repayment mortgage, because the mortgage balance reduces over time, we will adjust the **net payment** upwards to allow for the reduced effect that the savings balance has from the point that the savings balance and the mortgage balance become equal. This is because you get no benefit from any part of savings that exceed the mortgage balance. This allows us to set a consistent monthly payment throughout the mortgage term, assuming no change in the interest rate being charged. It ensures that for a repayment mortgage, the full mortgage balance will be repaid at the end of the term.

As you are using your savings to benefit from lower monthly payments immediately, your mortgage balance and remaining mortgage term will not reduce any quicker than if you were on a traditional non-offset mortgage.

You should be aware that if the interest rate charged on your mortgage changes during the year, either up or down, this will affect the benefit of a **net payment**. If the interest rate reduces you will be effectively overpaying, therefore reducing your balance and in turn reducing your payment for the following year at **Account Review**. If the interest rate increases, you will be effectively underpaying and so at the next **Account Review** your payment will be increased.

We may contact you during the year if there is a significant change in your Offset savings balance to tell you of a change to your **net payment**.

Option 2 – REDUCED PAYMENTS IN FUTURE YEARS

This is the default option for all Offset customers, unless they tell us they would like to choose one of the other Options. Therefore, unless you select Option 1 or Option 3, your mortgage will automatically be put onto this option.

With this option, you will be using your Offset savings to enable you to lower your monthly payments each year going forwards but you will not pay off your mortgage any sooner than the remaining contractual mortgage term.

The calculation of your monthly payment **(gross payment)** is based on your full mortgage balance just like a traditional non-offset mortgage. You still benefit from your savings, as they reduce the interest charged on your mortgage. This means that you are effectively overpaying every month until each **Account Review** or a **recalculation event** takes place.

Every year at **Account Review** or when a **recalculation event** occurs, your **gross payment** is recalculated, based on your reduced mortgage balance and the remaining contractual mortgage term. This means that, whilst your mortgage term will remain the same, you should benefit from reduced payments at each **Account Review** until you pay off your mortgage (assuming that your interest rate and all other aspects of your mortgage remain the same). Your monthly payments though will not be as low as under Option 1.

With this option, you will also pay less interest overall than with a traditional non-offset mortgage, as your gross payment is based on a lower mortgage balance each time it is recalculated.

You should be aware that if the interest rate charged on your mortgage changes during the year, either up or down, this will affect the benefit of a **gross payment**. If the interest rate reduces you will be effectively overpaying more, therefore reducing your balance more and in turn further reducing your payment for the following year, at **Account Review**. If the interest rate increases, depending upon the amount you have in your Offset savings accounts(s) you may be effectively underpaying and so at the next **Account Review** your payment may increase.

Option 3 – REDUCED TERM

With this option, you will be using your Offset savings to pay your mortgage off quicker, and so reduce the term of your mortgage. However, your monthly mortgage payments will not reduce.

In this instance, you arrange to pay a fixed amount each month by direct debit **(a static payment)**. As a result, the interest you save by offsetting your savings does not go towards reducing your monthly mortgage payments, so you are effectively overpaying each month. The difference with this option compared to Option 2 is that at each **Account Review** or when a **recalculation event** occurs, your monthly direct debit collection amount isn't adjusted, so your mortgage balance should reduce faster, and you may be able to pay off your mortgage early.

To achieve a reduced mortgage term you need to register a **static payment** that must be more than the net payment, and can be less or more than the gross payment. You need to be aware that if interest rates increase, or a **recalculation event** occurs, you may need to increase your **static payment** in order to ensure it still reduces the term of your mortgage to the extent that you wish. If you register a **static payment** that is more than your gross payment, you will be effectively overpaying on top of the effect of offsetting your savings, meaning that you would pay off your mortgage even faster.

Once you've set up the **static payment**, it will continue to be collected until either:

- You contact us to change to another Offset option, or
- An **Account Review** occurs and results in your **static payment** not being sufficient to cover the payment required. This will be detailed within your annual mortgage statement.
- A **recalculation event** occurs and results in your **static payment** not being sufficient to cover the payment required. In these events, please contact us to discuss your arrangements.

If you choose the reduced term option, you'll find details of your estimated mortgage end date (compared to your original term) in each annual mortgage statement we send you. This will enable you to clearly see how much benefit you are getting from this option. In certain cases, your estimated mortgage end date may be the same as your original term if:

- You are on an interest-only mortgage and your **static payment** arrangement reduces your mortgage balance but is insufficient to pay off your full mortgage balance early, or
- Your account is currently on a special product, which will end at some point in the future, and at this point the estimated required monthly payment is higher than the current **static payment** arrangement and so the **static payment** is insufficient to achieve the desired term reduction.

If you choose Option 3, you should be aware that if the interest rate charged on your mortgage changes or the balance in your Offset savings account(s) changes during the year, either up or down, this will affect the amount by which a static payment reduces the term of your mortgage. To ensure you continue to achieve the term reduction desired, you will need to contact us after any rate change or change to your savings account(s) balance to ensure the static payment is sufficient.

Should you wish to discuss your Offset mortgage or switch to an alternative option, please call us on **0845 1200 872.**

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

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IMPORTANT INFORMATION
ABOUT YOUR OFFSET MORTGAGE

A guide to your Offset Options

Glossary & Examples

NET PAYMENT – This payment is calculated taking into consideration the amount of your Offset savings balance. You will need to contact us to set up this payment.

GROSS PAYMENT – This is the mortgage payment that you would be required to make ignoring any savings in your offset account(s). This payment is equivalent to a traditional non-offset mortgage payment and is the default payment described in Option 2.

STATIC PAYMENT – This is a fixed payment amount that you specify and must be more than the net payment. You will need to contact us to set up this payment.

ACCOUNT REVIEW – Your monthly payment will normally only be recalculated once a year. This means that even if the interest rate charged on your mortgage changes during the year you can still budget for a set level of payments each month because your monthly payment will not usually change more than once every 12 months. In addition to reflecting the daily effect of any interest rate changes that have taken place during the year, the recalculated payment will also take account of any other changes in your account balance that may have been caused by:

- Unpaid fees added to your account;
- Unpaid interest caused by late payments or interest rate increases part-way through a review period;
- Changes to insurance premiums;
- The impact of any deposits or withdrawals from your Offset savings account(s).

RECALCULATION EVENTS - These are any circumstances, other than Account Review outlined above, in which the mortgage payment may be recalculated and include, for example: a product transfer, changes in your savings balance, changes in the apportionment of your savings (for mortgages with more than one part), changing repayment method (i.e. from an interest-only to a repayment mortgage), and to take account of any payment holidays or additional borrowing. If you would like a complete list of recalculation events please contact us.

PART AND PART MORTGAGES – If you have a part interest-only and part repayment mortgage, or mortgage parts on different products, please refer to your Offset Terms for details of how the Offset savings are apportioned.

OFFSET OPTIONS PAYMENT EXAMPLES

Note: All Offset customers are placed on Option 2, unless they advise us otherwise.

The following example is based on a 25-year repayment mortgage at an interest rate of 4.29% and loan of £100,000.

	OPTION 1 - REDUCED CURRENT PAYMENTS	OPTION 2 - REDUCED PAYMENTS IN FUTURE YEARS	OPTION 3 - REDUCED MORTGAGE TERM
Type of payment required	**Net Payment**	**Gross Payment**	**Static Payment**
Mortgage balance		£100,000	
Opening Offset savings balance		£15,000	
Initial monthly mortgage payment required	£491.31	£543.46	£675 (Choose to pay £50.26 more than the required gross monthly payment)
Monthly payment required in 1 year's time	£491.31	£539.79*	£675 (Choose to continue paying £675)
Estimated term	25 Years	25 years	15 Years 10 Months

* Monthly payment is recalculated at Account Review to take account of Offset savings balance of £15,000.

These examples are based on the following assumptions:

- That the interest rate remains constant throughout the mortgage term;
- That any information you have given us about the Offset savings balance, mortgage term and repayment type will remain the same throughout the life of your mortgage.

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