Chelsea BUILDING SOCIETY

A guide to your Offset Options

Important information
about your Offset mortgage

Mortgage

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 you can make Offset work for you and they are all explained in this leaflet. You can also refer to 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 at any time simply by contacting us to let us know.

If you don't specifically choose an option 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 won't pay off your mortgage any sooner. The amount of your monthly mortgage payment is calculated taking into account the savings that you have in your Offset savings account(s). 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, your minimum monthly mortgage payment would be calculated on a net balance of £85,000.

For a repayment mortgage, because your mortgage balance reduces over time, we adjust the **net payment** upwards to allow for the reduced effect that the savings balance has from the point that your savings balance and your mortgage balance become equal.

This is because you get no benefit from any part of your savings that exceed your mortgage balance. This allows us to set a consistent monthly payment throughout your mortgage term (assuming there is no change in the interest rate). It ensures that if you have a repayment mortgage, your full mortgage balance will be repaid at the end of your 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.

If the interest rate on your mortgage changes during the year (either up or down) this will affect the impact your **net payment** has. If the interest rate reduces you will be effectively overpaying, reducing your balance and 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 increase.

We may contact you during the year if there is a significant change in your Offset savings to let you know there's a change to your **net payment**.

Option 2 – REDUCED PAYMENTS IN FUTURE YEARS

This is the default option for all Offset customers, so unless you select Option 1 or Option 3, your mortgage will automatically be put on this option.

Here you use your Offset savings to lower your monthly payments each year going forwards but you won't pay off your mortgage any sooner.

The calculation of your monthly payment (your **gross payment**) is based on your full mortgage balance just like a traditional non-offset mortgage. However, 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). However, your monthly payments won't be as low as they would be under Option 1 as they don't take your Offset savings into account.

Option 2 – CONTINUED

With this option, you'll 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.

If the interest rate charged on your mortgage changes during the year, either up or down, this will affect the impact your **gross payment** has. If the interest rate reduces you will be effectively overpaying more, reducing your balance more and in turn further reducing your payment for the following year at **Account Review**. If the interest rate increases, depending on the amount you have in your Offset savings account(s) you could be effectively underpaying, so at the next **Account Review** your payment could increase to make up for this.

Option 3 – REDUCED TERM

With this option, you use your Offset savings to pay your mortgage off quicker. However, your monthly mortgage payments won't reduce.

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 contribute to 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 your mortgage off 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**. 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 as much as you'd like. If you register a **static payment** which 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 your mortgage off 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 which means your **static payment** won't be enough to cover the payment required (this will be in your annual mortgage statement).
- A **recalculation event** occurs which means your **static payment** won't be enough to cover the payment required. If this happens, please contact us to discuss your arrangements.

With Option 3, 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 not enough 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 that point your estimated required monthly payment would be higher than the current **static payment**, so the **static payment** won't be enough to pay off your mortgage early.

If you choose this option, you should be aware that if the interest rate on your mortgage changes, or the balance in your Offset savings account(s) changes during the year (either up or down) it will affect the amount by which a **static payment** reduces the term of your mortgage. You will need to contact us at the time to make sure your **static payment** is still enough to pay off your mortgage early (rather than waiting for your next **Account Review**).

If you'd like to discuss your Offset mortgage or switch to a different option, just call us on **0845 166 9300.**

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

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 this up.

GROSS PAYMENT - This is the mortgage payment that you would need to make not taking into account 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 amount that you pay each month and must be more than the net payment. You will need to contact us to set this up.

RECALCULATION EVENTS - These are any circumstances, other than Account Review, in which your mortgage payment may be recalculated and may include: a product transfer, changes in your savings balance, changing repayment method (i.e. from an interest only to a repayment mortgage), payment holidays and additional borrowing. If you would like a complete list of recalculation events, just contact us.

ACCOUNT REVIEW – Your monthly payment will normally only be recalculated once a year. This means that even if the interest rate 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 allow for 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).

EXAMPLE – HOW IT WORKS IN PRACTICE

The table below shows what your monthly payments would be for each of the three Offset Options for a 25 year repayment mortgage with an interest rate of 4% and a 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	£478.83	£527.34	£580 (Choose to pay £52.66 more than required Gross Monthly Payment)
Monthly payment required in 1 year's time	£478.83	£524.03*	£580 (Choose to continue to pay £580)
Estimated term	25 years	25 years	18 Years 11 Months

*The monthly payment is recalculated at each Account Review assuming you have Offset savings of £15,000.

These examples assume that the interest rate stays the same, and that the amount of Offset savings you have doesn't change. It also assumes that the length of your mortgage and the way you've chosen to repay it (i.e. repayment or interest only) stays the same.

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