# Our Interest-only mortgages

## What you need to know

COVENTRY Building Society

# What's inside



We can also send you this leaflet in large print, Braille or on audio CD. Call us on **0800 121 8899** and we'll be happy to help.

# Considering an Interest-only mortgage?

If you're not sure whether an Interest-only mortgage is right for you, the information in this leaflet should help you decide.

# Interest-only or repayment – what's the difference?

## With an Interest-only mortgage:

- You pay back just the interest charged on the amount you've borrowed each month, but none of the original amount you borrowed, so the amount you owe doesn't reduce.
- This means that your payments are lower than they would be on a repayment mortgage
- At the end of the mortgage term you'll have to pay back the amount you originally borrowed together with any fees or charges debited to your account.

## With a repayment mortgage:

- You pay back the interest charged each month, as well as part of the original amount you borrowed
- This means that your payments are higher than they would be on an Interest-only mortgage because you are repaying the whole balance over the term of the mortgage
- As long as you make all your payments in full and on time, you're guaranteed to pay off the whole loan at the end of the term.

# Our Interest-only mortgages

Interest-only mortgages are available on some Fixed rate and Offset mortgages. There's no minimum income requirement but you'll need to demonstrate that you can afford an equivalent repayment mortgage.

## Fixed rate

Your payments are fixed for an initial period, usually between two and ten years. This gives you security and peace of mind because you know exactly how much you need to pay each month during the Fixed rate period.

## Interest-only Offset

With an Offset mortgage, your savings offset the interest you pay on your mortgage. It's simple to manage – one Offset savings account is linked to your Interest-only Offset mortgage. We'll set up your Offset savings account as soon as your mortgage has completed.

**Here's how it works:**

The mortgage interest you save is called the 'Offset benefit' and you can use this to reduce the outstanding balance or your monthly mortgage payment, whichever suits you best. Even a small amount in savings can make a big difference.

**Your mortgage =**
**£100,000***

**Your savings balance =**
**£20,000**

**We only charge you interest on**
**£80,000**

The difference between your savings and the mortgage amount.

* On an Interest-only mortgage your monthly payments only cover the interest charged but none of the original amount you borrowed. This means your monthly payments will be lower than a repayment mortgage but you will still have to pay back the amount you borrowed at the end of the mortgage term.

You can change how you use your Offset benefit whenever you like – just call us and we can arrange it for you.

Your Offset savings account is an easy access account, so you can access your savings whenever you need to.

- The money in your Offset savings account won't earn interest because it's offsetting the interest payable on your mortgage
- But there's no income tax liability on your savings either.

# Are you eligible to apply?

There are some specific criteria you'll need to meet before you can apply for an Interest-only mortgage with us.

You **must have** a minimum of £300,000 or more in equity left in your property after the mortgage amount required has been taken into account, and the **maximum** Loan to Value* (LTV) you can apply for is 50%.

So if your property is worth £375,000, you could apply to borrow up to £75,000. This leaves the £300,000 minimum equity, and the LTV is equivalent to 20% of the property value.

**Look at this example:**

**£375,000**
Property value

**£300,000**
Minimum equity required

**£75,000**
Maximum loan amount

**20% LTV**

* The LTV is the amount of the loan requested calculated as a percentage of the property value, eg if your property is worth £375,000 then 50% LTV would be £187,500.

# Do you have an acceptable repayment plan?

Because your monthly payments only cover the interest charged on your mortgage, you'll still have to pay back the original amount you borrowed, together with any fees and charges debited to your account, when the mortgage ends.

You'll need to have an acceptable repayment plan in place and we'll ask for evidence of this.

All repayment plans must be on the basis of current value rather than estimated future value, and include (but aren't limited to):

- **The sale of investments –** 80% of the current value
- **An endowment policy –** 100% of the current statement value
- **A pension lump sum:**
  - 12.5% of the current statement value of a defined contribution pension scheme, or
  - 50% of the guaranteed lump sum due from a defined benefit pension scheme
- **The sale of the mortgage property, or another mortgage-free property you own:**
  - 50% of the current value of the property you're mortgaging, or
  - 60% of the current value of a second property.

**We're unable to give investment advice and would always recommend that you speak to a financial advisor for advice on how to set up an acceptable repayment plan.**

# Case study 1

**An Interest-only mortgage allows David and Ellie to release equity from their home and buy a property for their son, Andrew, while he's at university.**

David (55) is a company director and Ellie (49) is an HR director for an accountancy firm. They want to buy their son Andrew an apartment as an investment whilst he's at university rather than paying to rent a property.

## They want to release some capital from their home

Income
**£185,000**
(joint)

Property value
**£700,000**
(mortgage-free)

Pension
**£400,000**
(combined guaranteed payment)

**David and Ellie have a number of assets and are happy to use their combined guaranteed pension payment to repay the mortgage.**

## Reduced monthly payments

Taking out an Interest-only mortgage to buy an apartment as an investment gives them options for the future once Andrew has finished university.

They're able to borrow £150,000, and they meet our criteria for Interest-only by leaving more than £300,000 equity in the property and not exceeding an LTV of 50%.

# Case study 2

**Switching her repayment mortgage to Interest-only means Sarah reduces her monthly mortgage payments so she can invest in her daughter's education.**

Sarah (35) is a self-employed marketing consultant and works as a contractor through her own limited company. She's currently reviewing secondary schools for her 10-year-old daughter, Sienna, and would love to put her into a good private school locally.

## Sarah wants to free up some income each month

Income

**£120,000 salary + £50,000 share of net profit after corporation tax**

Property value

**£550,000**

Current mortgage

**£200,000**

(repayment)

## An Interest-only mortgage reduces Sarah's outgoings

The monthly payments on an Interest-only mortgage are less than her current repayment mortgage. She'll have extra money each month and this will help her pay for Sienna's school fees.

Sarah has plans to move to Wales and buy a smaller property when Sienna grows up and moves out. She's comfortable about selling her home to repay the mortgage at the end of the term.

# Case study 3

**By changing his repayment mortgage to an Interest-only Offset, Michael has access to his savings when he needs it, and his savings offset the amount of mortgage interest he pays.**

Michael (42) has a successful career as an architect for a major house developer. He has an existing repayment mortgage of £110,000 on his home, and owns four Buy to Let (BTL) properties. He'd like to renovate two of them so he can sell them.

## As a landlord, Michael needs access to his savings to cover his renovation costs

Income
**£75,000**

Property value
**£420,000**

Stocks and shares
**£170,000**
(Current valuation)

Savings
**£40,000**
(Transferred into his Offset savings account')

**Michael has invested much of the profit from his BTL properties into stocks and shares. He's happy to use his investments to repay the mortgage at the end of the term.**

## More flexibility with an Offset

Michael can use his Offset savings to reduce the amount of mortgage interest he pays, but still access money for renovation work and unexpected property repairs if he needs to.

He borrows £110,000 on an Interest-only Offset. This leaves enough equity in the property to meet our criteria and doesn't exceed our maximum 50% LTV requirement.

# Some common questions

### What are the age limits for an Interest-only mortgage?

All applicants must be aged 18 or over, and you must be no more than 75 years old at the end of the mortgage term.

### Can I take out a part repayment part Interest-only mortgage with you?

No, your mortgage must be either repayment or Interest-only.

### Can I take out a mortgage that's likely to be more than 50% of the value of the property, now or in the future?

No, for an Interest-only mortgage, your Loan to Value mustn't exceed 50% when you apply for the mortgage, or at any time in the future.

# Some common questions

### Can I make overpayments?

You can make overpayments to your mortgage of up to 10% of the capital each year. Check your mortgage terms and conditions for details.

### What if I need to borrow more?

You'll be able to apply for additional Interest-only borrowing as long as the Loan to Value doesn't exceed 50% for the whole mortgage. And you'll still need to keep £300,000 worth of equity in your home.

Any additional borrowing is subject to lending criteria and payment of any Early Repayment Charges (ERCs) that may apply - your mortgage offer will contain details of these changes if they apply.

### Can I change to a repayment mortgage?

You can apply for a new repayment mortgage at any time, subject to our lending policy. Early Repayment Charges (ERCs) may apply – your mortgage terms and conditions will tell you all you need to know.

### Will I be able to take my mortgage with me if I move house?

All of our Interest-only mortgages are portable – so you could apply to take it with you if you move to a new house as long as you still have an acceptable repayment plan in place. We'll need to see evidence of that.

## Can I downsize to a smaller property and keep my Interest-only mortgage?

Yes, as long you keep £300,000 equity in the new property and the loan size isn't greater than 50% of the value of the property.

## What if I want to pay off my mortgage early?

Early repayment charges (ERCs) may apply – your mortgage offer will contain details of these charges if they do. However, if there is less than six months of the initial product term remaining, details of which can be found in your mortgage offer, we'll waive any ERCs.

## Are there any product fees associated with my mortgage?

You can find information about any fees we charge in the mortgage offer we send you. Or ask your mortgage broker.

# How to apply

If you meet the criteria, you can apply for an Interest-only mortgage with us.

## The application process:

1. Your advisor will recommend the best mortgage for you and complete the application with you. Depending on which mortgage you apply for, you may need to pay a fee. You can choose to add it to the loan if you want to.

2. We carry out a credit check and affordability assessment to make sure you can afford the mortgage.

3. We need to see evidence of your repayment plan – you'll be asked to fill in a form confirming the details.

4. If we're happy with your application, we'll send you an offer. Check it over, sign it and return it to us.

5. Then, just agree a completion date and collect your keys on the day. Or, if you're releasing equity in your home, we'll let you know when the money is available.

# What's included?

If you're moving your existing mortgage to us, our remortgage transfer service takes care of all the work involved. It includes standard legal work like carrying out Land Registry searches and preparing the mortgage deed.

**We'll even arrange a standard valuation up to £670 so you don't have to pay it.**

## During the term of your mortgage:

- We'll write to you if your interest rate changes
- We may request up-to-date details of your repayment plan from time to time
- We'll remind you now and again to check your repayment plan and contact us if there are any problems
- We'll send you an annual mortgage statement.

## As your initial product term is coming to an end:

- We'll write to you four months before it comes to an end to remind you to get in touch
- If we don't hear from you, we'll write again two months before
- You'll need to contact us to discuss your options, otherwise your interest rate will change at the end of the initial interest rate period as set out in your mortgage offer.

## As your mortgage is coming to an end:

- Two months before it ends, we'll write to you to let you know what the balance is and when you need to repay it
- You'll need to ensure that the balance on your mortgage is repaid in full by your repayment plan at or before the end of the mortgage term. If the full amount is not paid by the agreed date your home may need to be sold to repay the mortgage.
- We'll send you a reminder one month before it ends
- You'll need to contact us to tell us how you intend to repay the original loan.

# If you’re struggling to meet your mortgage payments

If you’re experiencing payment issues, you think you may run into financial difficulties, or you want to discuss any changes to your repayment plan, let us know as soon as possible.

If you don’t keep up with your mortgage payments you may need to pay extra charges, so it’s important that you talk to us as soon as you can.

You can call us on 0800 121 8765, Monday to Friday 9am-5pm, Saturday 9am-12pm. We’ll do our best to help.

To find out what help and support is available, visit:
**coventrybuildingsociety.co.uk/consumer/help/mortgages/payment-difficulties.html**

# Why choose us for your mortgage?

## Who are we?

More than 1.9 million people save with us, or buy a home with our help. We're one of the most successful financial organisations in the UK and we're run for our members, not for shareholders. That means we put your interests first.

## We offer value and flexibility

Everyone's circumstances are different and that's why we offer a range of mortgages to suit a variety of needs. We constantly review and assess our mortgages against the wider marketplace to provide you with great value.

## We treat customers fairly

All of our mortgages are available to our existing members, and they can change to any of our new mortgages at any time (subject to terms and conditions and our lending policy).

## We make it easy to remortgage to us

Our quick and easy remortgage transfer service takes care of the standard legal requirements of your remortgage. And we'll pay for a standard valuation up to £670.

## Don't just take our word for it

We've been awarded the Gold Ribbon for mortgages by Fairer Finance for six years running.

# Key things to remember

To take out one of our Interest Only mortgages you must have

**£300,000**

Equity in your property

**50%**

Maximum Loan to Value

**An acceptable repayment plan**

When you apply and throughout the term of your mortgage

**Income**

Sufficient to support an equivalent repayment mortgage

The decision to make a mortgage offer is determined by our lending criteria which includes a full credit score, an affordability assessment, a review of your current financial commitments and our current lending policy.

All mortgage offers are subject to our mortgage terms and conditions and any other specific terms contained in your mortgage offer.

If your mortgage is Interest-only, your regular monthly mortgage payments only cover the interest charged on the amount you've borrowed. So unless you're making overpayments, the amount you owe isn't reducing and you'll need to repay the outstanding balance at the end of your agreed mortgage term.

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

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## Contact us

### At a branch

For details of our opening hours, visit **thecoventry.co.uk**

### Online

**thecoventry.co.uk**

### By phone

0800 121 8899

Our Customer Service Centre is UK-based and free to call. Our Customer Service Centre is open Monday to Friday 8am-7pm and Saturday 9am-2pm.

### By post

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

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Coventry Building Society is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the 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 further information please speak to an advisor in branch or by telephone.

Our Customer Service Centre is open Monday to Friday 8am-7pm and Saturday 9am-2pm.

Calls to 0800 numbers are free when made from the UK. You may be charged for calls to all other numbers, please contact your service provider for further details. We may monitor, record, store and use telephone calls to help improve our service and as a record of our conversation.

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