

What you need to know about...

Offset Mortgages

Offset mortgages are a particular type of flexible mortgage, which can be a fantastic tool for those who have savings or wish to overpay on their mortgage. This is particularly true at present, given that interest rates on savings are very low.

What are offset mortgages?

Offset mortgages are a type of flexible mortgage, which allow you to link a savings account to them. The main benefit of this is that your savings will offset against the mortgage balance, meaning that you will only pay interest on the remainder.

The best way to think of this is by visualising 2 separate jars; for example:

- Mortgage jar - £100,000
- Savings jar - £20,000
- You therefore pay interest on £80,000

Most offset mortgages are variable rate trackers, but there are some which are fixed rate.

What are the benefits of offset mortgages?

You only pay interest on the balance

As stated above, you will only pay interest on the remaining balance after your savings are taken into account. As interest will be calculated daily, any amount of savings will have a benefit.

Pay off your mortgage sooner

Ultimately, saving interest in this way can mean that you could repay your balance sooner, since the interest saved will be used to pay off the capital sum, unless you choose to instead reduce your monthly payments.

Pay lump sums or monthly overpayments

As there are no restrictions, you will be able to do both.

Access to your money

You can access your savings at any time, meaning you can always get your money back if you need it for something. This has an advantage over the standard method of paying off some of your mortgage balance with a standard mortgage, with which you would not be able to retrieve your savings.

No penalties for overpayments

As the facility is completely flexible, you will never be penalised for overpayments no matter when these occur.

What are the downsides?

Interest charges are higher

Usually, you will pay extra interest rates as a charge for the flexibility of the facility. Thus, if you have low savings or do not use the facility, you will end up paying more interest in the long run than through a more conventional mortgage.

You need to be more disciplined

You need to ensure that you are not tempted to dip into the savings, or this could reduce the benefits of the facility. If you are not a disciplined saver, then perhaps a normal mortgage would be preferable, which allows overpayments without penalty. That

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way, it will be much harder to dip into the money paid off.

Do I receive interest on my savings?

You do not receive interest on your savings, but instead pay no interest on the mortgage balance. Thus, let's say your mortgage rate is 5%pa, your 'savings' receive nominal interest at this rate. This will be grossed up by your income tax rate (as a bank account would usually be taxable), meaning that a basic rate tax payer would have a nominal interest rate on their savings of 6.25%, and a higher rate tax payer 8.33%.

You should consider whether you would be able to guarantee such rates of interest in a separate savings account through other means - for example in a cash ISA. If this is not the case, as at present, you will greatly benefit from having the offset facility, and you will gain the extra flexibility.

Who would benefit from an offset mortgage? If you have existing savings

If you have a lump sum saved, you could put it to good use by working to pay off your mortgage more quickly.

If you regularly overpay on your mortgage

If you can afford to pay extra towards your mortgage each month, this will work in a similar way to build up savings over time, and therefore pay off your mortgage sooner.

Self employed

If you put aside money for tax payments, then this could be put to use to help reduce the value of your mortgage instead of sitting in a low interest business account. This would not be allowable for limited companies.

Higher rate tax payers

As stated above, higher rate income tax payers get a

better deal since their nominal interest is higher, given the fact that their normal savings account would be taxed at 40% or higher. An offset account overcomes this.

If you have used your ISA limits

If your normal savings are greater than allowed in ISAs, you will pay interest on your savings; an offset mortgage could avoid this interest.

How we can help

We can help you to evaluate whether an offset mortgage is right for your needs, and compare these loans with other conventional mortgages.

We have access to every lender on the market, so have the maximum chance of finding the best contract for your circumstances.

Why use us?

1. **Free** initial consultation
2. **Guaranteed** satisfaction with our advice
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Principal: D Woodruff

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The Colchester Centre
Hawkins Road
Colchester, Essex
CO2 8JX

www.woodruff-fp.co.uk