THE FAMILY BUILDING SOCIETY

FAMILY MORTGAGE FAQ

THE FAMILY MORTGAGE OFFERS A MEANS OF FAMILY MEMBERS COMBINING THEIR FINANCIAL STRENGTH TO HELP YOU, OR A LOVED ONE, GET ONTO THE PROPERTY LADDER.

Taking out your first mortgage is a big commitment. If you are a first time buyer with a 5% deposit, up to 12 family members can pool their resources to bring your security up to 25%. This means you can access lower mortgage rates than you may otherwise be able to with just a 5% deposit. Family members help you do this either through depositing savings into a Family Building Society account or having a charge secured on their property.

We understand you may have some questions about the Family Mortgage, so we've created this FAQ to answer some of the most common queries. If, after reading this, you have any other questions or would like to find out more, you can contact us on 03330 140140.

1. WHO OWNS THE PROPERTY?

Like any other mortgage the property is owned by the borrower. Whilst family members may provide financial support, they have no rights to the property.

2. WHAT IS THE MINIMUM PROPERTY VALUE?

The minimum property value is £120,000. Full details of properties we will and won't accept, along with other criteria we consider, is available in our lending criteria.

3. WHAT HAPPENS IF MORE THAN ONE SET OF PARENTS WANTS TO CONTRIBUTE?

Up to 12 family members can contribute. This is a big help for the borrower. Any money used as security for the mortgage will always remain in separate accounts, not combined into one account.

4. WILL FAMILY MEMBERS GET REGULAR STATEMENTS TOO?

The borrower will receive annual mortgage statements. Family members with Family Security or Family Offset Accounts also receive regular statements.

5. WHAT HAPPENS WHEN THE BORROWER WANTS TO MOVE TO A BIGGER HOUSE?

The existing property is sold and the mortgage repaid. Providing the sale price is sufficient, charges on property are released and security in the form of savings returned to the family members providing them. The borrower and family can then decide if they wish to apply for a new Family Mortgage on the new, larger property.

6. WHAT ARE FAMILY MEMBERS LIABLE FOR?

If you have provided money as security, or have given a charge over a property you own, you need to be fully aware that money to this value may be called upon to make up any shortfall in the first 10 years. This may happen if sale proceeds are less than the mortgage balance and costs. If you have provided property as security and are unable to meet this liability, your property may be repossessed by us to recover this debt.

If security is provided by two or more sets of family members, your liability to make up any shortfall will be divided proportionately by reference to the value the respective securities bear to the total value of all additional security linked to the Family Mortgage.

Provided the mortgage payments are up to date, after 10 years the charge is released and the money or property is no longer at risk from a shortfall on sale.

All family members will be required to take independent legal advice before the borrower is committed to the purchase.

7. WHAT IF THE VALUE OF THE PROPERTY FALLS?

House prices do rise and fall even if the general trend in the UK has been upward. Other circumstances including the borrower's earnings will also change. Across 10 years it's likely that the borrower will experience both significant peaks and dips in prices. At the end of that period and as long as mortgage payments have been kept up to date, the charge over savings and/or property provided by family members will be released.

Where the Family Offset Account option was chosen when the mortgage was taken out, the offset support is removed after 10 years (in some cases it may be longer – please see questions 10 and 11). Payments are likely to rise at this point as the borrower takes responsibility for repaying the whole mortgage. If, due to unforeseen changes in circumstances, the borrower is unable to meet the mortgage payments then it may be necessary for the borrower to sell the property to repay the mortgage. Alternatively it may be possible to remortgage to another lender.

8. WHAT HAPPENS IF A FAMILY MEMBER PROVIDING SUPPORT DIES?

The death of a security provider doesn't change the Family Mortgage arrangements. The estate of the deceased person remains bound by the terms of the Family Mortgage and the charge given over savings and/or property remains in place. This can have implications for the distribution of the estate. Family members providing security may wish to review their Will to take account of the support being provided through the Family Mortgage and simplify administration of their estate. Alternatively, it may be possible to arrange appropriate life assurance to cover this eventuality – please speak to your adviser or contact us to be put in touch with one.

9. DOES MONEY PROVIDED AS SECURITY HAVE TO STOP WORKING WHILE IT'S HELPING THE BORROWER?

There are two ways that savings can be used to help the borrower:

A In a Family Security Account, savings can act as security for the mortgage which will typically bring the interest rate down for the borrower. This rate is likely to be favourable when compared to the interest rate for borrowing 95% of the property value without the additional security. We'll continue to pay interest on your savings if you have chosen this option.

B Alternatively, you can choose to reduce the amount on which interest is charged within the mortgage by placing savings in a Family Offset Account. You won't receive interest but your money is still working hard for the borrower. The interest that would be paid on your savings cancels out the interest that would be charged on the equivalent part of the mortgage. With mortgage interest likely to be higher than the interest a savings account would have received, you could be passing on a significant benefit.

10. CAN MONEY BE RELEASED BEFORE THE 10 YEARS ARE UP?

The Family Mortgage is designed to last for up to 10 years. The mortgage will be reviewed at the end of each fixed rate period, usually three or five years, chosen by the borrower. Depending on which specific combination of fixed rate terms are selected, for example using one five year term followed by two three year terms, the mortgage may extend beyond its expected 10 year period.

It may be possible to release money provided purely as security at one of these points if the balance of the mortgage is 75% or less of the value of the borrower's property.

Where money has been placed in a Family Offset Account it provides security and reduces the amount of the mortgage on which interest is paid. Again money could be released after a review if the mortgage balance is less than 75% of the value of the borrower's property.

It may be that both a Family Offset Account and a Family Security Account are being used and in these cases some money could be released depending on the outcome of the loan to value assessment.

11. CAN MONEY BE TIED UP FOR MORE THAN 10 YEARS?

Money deposited in the Family Security Account is released after 10 years provided the mortgage payments are up to date. Where the Family Offset Account option was chosen, whilst the money will no longer be at risk once the charge over it is released, the return of the money will be deferred until the end of the fixed rate product term applying at the 10 year point.

The precise return date depends on the combination of fixed rate periods that is chosen by the borrower. For example, if a five year fixed rate is followed by a three year fixed rate and then another five year fixed rate then the money in the Family Offset Account will be available after 13 years.

12. WHAT HAPPENS IF THE BORROWER LOSES THEIR JOB?

We know from talking to young buyers that they are reticent about taking out a mortgage using a charge over some of the value in their parents' home, or using their parents' savings. It's good to know that as part of the Family Mortgage, subject to meeting certain conditions, we'll meet mortgage payments for up to six months on a one off basis while the borrower gets back on their feet if they became unemployed through no fault of their own. This is built into the Family Mortgage at no extra cost. Please ask about the limitations and exclusions for this cover if you have any questions.

13. WILL THE FAMILY MEMBER PROVIDING SECURITY BE PROPERLY PROTECTED?

The security being provided by family members is at risk if the borrower's property is sold for a price which does not cover the amount due under the terms of the mortgage. This could happen if there has been a fall in property values or if the mortgage has increased because the borrower can no longer meet their mortgage payments.

14. WHAT HAPPENS IF THE BORROWER'S EARNINGS DON'T INCREASE AS EXPECTED?

The borrower is responsible for making the payments due under the mortgage even if their circumstances change in future. Where the Family Offset Account option was chosen when the mortgage was taken out, the offset support is removed after 10 years (in some cases it may be longer – please see question 11). Payments are likely to rise at this point as the borrower takes responsibility for repaying the whole mortgage. If, due to unforeseen changes in circumstances, the borrower is unable to meet the mortgage payments then it may be necessary for the borrower to sell the property to repay the mortgage. Alternatively it may be possible to remortgage to another lender.

15. ARE THERE ANY RESTRICTIONS ON THE TYPE OF PROPERTY I CAN BUY?

Your mortgage adviser will be able to confirm this with you, as we do have some restrictions, but as a general rule we accept properties of a standard construction in England and Wales that are over £120,000. If you have any questions, or aren't sure if the type of home you want to buy will be accepted, please give us a call or read our lending criteria.

16. WHO IS THE FAMILY BUILDING SOCIETY? HOW SAFE ARE THEY?

The Family Building Society was launched in 2014, as part of National Counties Building Society. National Counties Building Society was set up in 1896 and has a long history of securely looking after people's money. The Family Building Society was launched with an aim of offering innovative solutions, such as getting on the property ladder with as little as a 5% deposit, without having to borrow more money from family or another scheme. By 'thinking outside the box' the Family Building Society looks at the issues facing people today, and provides a different way of doing things.

Family Building Society is a trading name of National Counties Building Society which is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. This means the building societies have strict rules and regulations to follow.

17. WHAT'S DIFFERENT ABOUT THIS COMPARED WITH THE GOVERNMENT'S HELP TO BUY SCHEME?

The Government currently offers one type of 'Help to Buy' scheme, called the Equity Loan.

Equity Loans are loans from the Government that are only available for new builds, through a registered builder. You need to have a minimum 5% of the purchase price as a deposit, and the Government will lend you up to 20% of the purchase price. After five years you have to start repaying the Government fees, which increase each year up until you've owned the home for 25 years, or you sell your home, whichever is sooner, when you then have to repay the loan to the Government. Loaning you 20% will enable you to access lower mortgage rates, but you will have to factor in repaying the Government a fee each year after five years, and also saving up to repay the loan, or prepare to have it deducted from the house sale when you go on to buy your home. The Government also benefits from any increase in your house price value when you go to repay the loan.

If you live in London the Government has increased the maximum loan amount with the Help to Buy scheme to 40%, if you have a 5% deposit. This means you will need to get a mortgage on the remaining amount up to 55%. The Government loan works in the same way as the 20% loan, and after five years you will be charged a fee for the loan, along with the expectation you will pay back the Government loan percentage when you sell your home, or after 25 years, whichever is sooner.

In comparison, with the Family Mortgage you don't have to pay any additional fees after five years, and you don't have to repay any additional money when you want to sell your home, or if you stay there for 25 years. This means that you benefit 100% from any increases in property prices, and you won't need to factor in having less money for your next house purchase, or saving up to repay after 25 years. You also aren't restricted to buying a new build through a registered builder; in fact, you can buy the home that suits you best.

18. WHAT HAPPENS IF MY CIRCUMSTANCES CHANGE? FOR EXAMPLE, I BORROW WITH MY PARTNER BUT THEN WE SEPARATE?

If your circumstances change we will review your mortgage and look at your current loan to value (LTV). Depending on your loan to value at the time your circumstances change we will also assess if any security from your family can be released. Your loan to value is the amount of money outstanding on your mortgage compared to your total house value.

19. WHAT DO I NEED TO BE ABLE TO APPLY?

When you look at getting a mortgage, there are a few things you need to know and have prepared for us.

You need to think about:

A. **How much have you saved for a deposit?**

B. **How much do you need to borrow?**

C. **How much can you afford to repay each month?**

When you are ready to apply for a mortgage we'll ask for evidence of your income with three months' payslips. If you are self-employed we'll need the last two years' self-assessment calculations with confirmation from HMRC that they have been accepted, or if corrections have been made.

We may also require evidence of some of your regular outgoings if you pay rent and/or a loan payment. There is a full list of all the documents we need to see within our application forms.

20. WHAT ABOUT ANY CREDIT CARDS OR OTHER DEBTS I MIGHT HAVE?

When we look at your application we have to consider the affordability of the mortgage for you. This means looking at how much is going in vs. how much is going out of your account, and how much you can afford to repay each month. If you have commitments to paying any other money back, such as credit cards or student loans, we will consider how these affect the amount you can repay each month if we offer you a mortgage.

21. WILL MY FAMILY HAVE TO PAY ANY CHARGES?

You will be responsible for the majority of the fees when buying a new home. However, your family will need to get independent legal advice which may mean they will be charged a fee.

22. DO I HAVE TO BE A FIRST TIME BUYER?

No, the Family Mortgage isn't only for first time buyers. If you already own a home and need some help to move to a bigger or different property, you can still get a mortgage with us. The home you have with the Family Mortgage needs to be your only residence.

23. HOW DO I APPLY?

You can apply to us directly by speaking with one of our dedicated Mortgage Advisers, or you can apply through an alternative mortgage adviser, if you already have one.

24. WHAT FEES ARE THERE TO PAY?

You can find a list of all our fees on our website. *(familybuildingsociety.co.uk/fees)*

25. COULDN'T SOMEONE IN MY FAMILY BE A GUARANTOR ON A NORMAL MORTGAGE, OR GET A MORTGAGE WITH ME?

Unlike a guarantor mortgage, your family aren't responsible for your monthly repayments if you can't afford to pay. If you end up having to sell your house and there's a shortfall, we would only use the amount your family had provided as a security to cover the shortfall, and not the full amount if it exceeded this.

We also offer a guarantee to cover your mortgage payments if you become unemployed through no fault of your own for the first six months, on a one off basis. This means you can have peace of mind to find another job without having to worry how you're going to pay the mortgage, or that your family are going to lose their money.

Changes in legislation from April 2016 mean that if someone in your family got a mortgage with you and they owned their own home as well, they would have to pay an additional 3% Stamp Duty on the purchase of your home above the current Stamp Duty levels. Factoring in this additional cost could mean you have to save more up to pay for these costs, your deposit size may be affected, or your family is out of pocket more than they planned.

26. CAN I USE MORE THAN ONE DIFFERENT WAY OF BEING HELPED BY MY FAMILY TO GET A MORTGAGE?

Yes, you can use any of our three options on their own, or in combination to help you buy a home.

27. HOW IS THE INTEREST I PAY BACK CHARGED? HOW MUCH DO I HAVE TO PAY BACK?

It depends on the type of Family Mortgage you choose. If your family help by either putting money into a security account or adding a charge onto their property, you pay interest on the full amount you have borrowed through the mortgage up to 95%, but at a lower rate than a traditional 95% mortgage.

If your family have helped you by putting some of their money into an offset account with the Family Building Society, you pay interest on the mortgage less the money in the offset account, up to a total of 75%.

28. WHY DON'T OTHER LENDERS OFFER SOMETHING SIMILAR?

The Family Mortgage is unique because it offers you the opportunity to be helped by your family in a combination of ways. This means you and your family could choose just one of our options to help you with additional security on your home, or they could use a combination of two, or all three ways to help you get onto the property ladder.

29. HOW MUCH DEPOSIT DO I NEED?

At least 5%. The security your family can provide will be included in our calculations of your mortgage amount, which means we are able to offer you a competitive rate. The money remains theirs and after 10 years, or if you sell the property before, the money is returned to them in full, or the charge on their home is lifted.

30. WILL THE AMOUNT I OWE YOU GO UP AFTER THE 10 YEARS?

No. Because you borrow a set amount at outset, and not a percentage, the amount you owe is fixed. Each month your mortgage repayments will decrease the total amount you borrow which is outstanding, and you will also pay off the interest you are charged.

HERE'S A REMINDER OF THE KEY FEATURES OF THE FAMILY MORTGAGE:

- You only need a 5% deposit, if your family can bring your security up to 25%.
- We accept gifted deposits so you don't have to wait to save the deposit. In effect this makes it like a 100% mortgage if your parents do want to gift cash.
- We're flexible – we can use either savings, or a first or second charge over property, or a combination of both to act as the security.
- Family friendly – different family members can all do their bit (e.g. grandparents could put up cash, parents can offer a charge over property, both families can help if it's a joint purchase). We go one step further than just mum and dad.
- Offset available where savings are being used as security – this means you can reduce the amount of mortgage you're charged interest on, saving you money.
- Payment waiver built in – we meet the mortgage payments for up to six months if you lose your job, not your family members.
- Stamp Duty friendly – the loan is in your name(s), so the 3% charge for second properties is not triggered.

THE MORTGAGE WILL BE SECURED ON YOUR HOME.

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

This leaflet can be provided in alternative formats on request.

THE FAMILY BUILDING SOCIETY

EBBISHAM HOUSE
30 CHURCH STREET
EPSOM, SURREY
KT17 4NL
familybuildingsociety.co.uk

M/136/1216/FBS/MKTG