

Ulster Bank Provides Clarity for Offset Mortgage Customers

Bank to Make Goodwill Payments to Customers as Offsetting Feature to be Removed

[Monday, 27 November 2023] Today, Ulster Bank is writing to customers with Offset Mortgage products to advise them of changes necessitated by the Bank's phased withdrawal from the Republic of Ireland. An Offset Mortgage is one which is linked to a customer's current or deposit account and enables customers reduce their mortgage interest in two distinct ways.

Ulster Bank is confirming to customers that they will no longer be able to avail of their offset facility, which is one of the ways to reduce their mortgage interest. However, customers will retain their tracker rate and the ability to reduce mortgage interest payments through the 'Pay and Redraw' Available Facility feature, the second option available to them to reduce mortgage interest.

In recognition of this change, Ulster Bank will calculate what offsetting would have been worth to each mortgage account had the customer retained and continued to use the feature out to the end of their term, based on past usage. This calculated amount will then be doubled and made as an ex-gratia goodwill payment to customers with the following additional considerations:

- All customers will receive at least a minimum ex-gratia goodwill payment of €5,000. For those customers whose ex-gratia goodwill payment is calculated at less than €5,000, Ulster Bank will top up their payment to €5,000;
- The maximum ex-gratia goodwill payment to be made to customers will equate to the total future mortgage interest payments a customer would have to pay out to the end of their term; and
- Customers will also receive €250 for independent financial advice, should they wish to seek advice in relation to their mortgage

This means customers will retain key features of their mortgage and will also be paid an amount that is representative of the future value of offsetting to them (subject to the maximum payment). The reason that Ulster Bank has chosen to make an ex-gratia goodwill payment to customers, that is reflective of the future value of the product, is because this product (i.e. offset feature) is no longer available anywhere in the market.

Customers are being given six months' notice to close the savings and current accounts that have been linked to their offset mortgage by 23 May 2024. These account closures are necessary given the Bank's withdrawal from the market. Customers can continue to offset their credit balances in their linked account(s) against their mortgage until the Offset Arrangement is removed on or after 23 May 2024.

With this announcement today we now have a solution for the vast majority of our mortgage customers, including a very small number of customers with a variation of the offset product.

Ulster Bank has also informed offset customers that their mortgages will remain with Ulster Bank for now but are likely to be included in a future loan sale (customers will still retain their tracker rate and the 'Pay and Redraw' facility in the event of the sale). We will write to customers separately with an update on this as soon as it is appropriate to do so.

Ulster Bank Chief Executive Jane Howard said:

"I would like to thank all our customers who have an offset mortgage for their patience as we worked for a long-term solution as part of our phased withdrawal from the Republic of Ireland. The

arrangement we have now put in place brings certainty for these customers, it retains as much of the product as possible, in particular the Pay and Redraw feature which reduces interest paid on the mortgage, while recognising the removal of the offsetting feature. The solution also takes into account the future value of the product because this product is no longer available in the market.

“Throughout this process of our phased withdrawal from the Republic of Ireland, Ulster Bank reminds its customers that it will never ask them for passcodes or online banking details in a phone call, email, or text – so be alert, as scammers and fraudsters may try to take advantage of the situation.”

What is an offset mortgage?

The offset product is a mortgage product with linked current and/or deposit accounts for offsetting purposes. It is effectively a tracker mortgage with additional features. The interest rate attaching “tracks” the ECB rate (ECB+1.15%). The offsetting product features allow a customer to reduce their mortgage interest in 2 ways.

Customers can 1) Offset and 2) ‘Pay and Redraw’ up to the available facility.

- 1.) All offset mortgage customers have the ability to offset their mortgage interest. This means that any funds held in either the linked current or deposit accounts are used to reduce the amount of mortgage interest paid.

For demonstration purposes – If a customer has a mortgage of €100,000 and deposits of €25,000 the mortgage interest is calculated on €75,000 rather than €100,000 as the €25,000 on deposit is ‘offset’ against the outstanding mortgage balance

- 2.) The second feature is Pay and Redraw of the Available Facility. This means that customers with funds on deposit can move those funds into their mortgage account thereby reducing the mortgage balance amount owed and reducing the amount of mortgage interest to be paid. Customers also have the option to reduce their monthly repayment amount under this feature. However, the customer can pull back/ withdraw those funds (up to the limit of the facility) should they require the funds subject to the terms and conditions. The facility limit resets on an annual basis.

For demonstration purposes – If a customer has a mortgage of €100,000 and deposits of €25,000, they can move the €25,000 into their mortgage account thereby reducing the balance to €75,000 thereby reducing their future mortgage interest payments. If the customer needs it, they can redraw the €25,000 on a reducing balance basis as once the annual facility limit review happens this will reduce in line with mortgage amortisation. To avail of this feature, the customer must not be in arrears.

Both features, while operating differently, have the same overall effect of allowing customers to reduce their mortgage interest payments. While the offset feature will cease to exist from 23 May 2024 customers will continue to be able to avail of the ‘Pay and Redraw’ feature.

How is the ex-gratia goodwill payment calculated?

In recognition of the changes to the customer’s product, Ulster Bank will make an ex-gratia goodwill payment to each customer (one payment per mortgage). A customer’s payment is calculated by considering:

- 1). Past usage of offset arrangement.

Here we consider the customer’s average offsetting balance over the past six years, as well as the customer’s average offsetting balance over the last 24 months in calculating the customer’s recent

offset usage and we use whichever figure is the higher of these two (as of 31 August 2023). We are including the previous 24 months in this calculation to recognise that many customers may have had higher savings during the COVID period and to give the customers the benefit of this in the averaging.

2.) What the customer may have saved in future interest if they were to retain the same offsetting balance until the end of their mortgage term.

In calculating the potential future mortgage interest, we use the higher of the customer's facility limit or mortgage balance as of 31 August 2023. We also use a forecast of the future interest rate that could apply to the customer's loan. To do this, we have used a market standard yield curve over the term of the mortgage to maturity.

Ulster Bank acknowledges that each customer's future offsetting balance could increase on an ad hoc basis (e.g. receiving inheritance), and that interest rate changes, are by their nature, unpredictable. To take account of these factors, we will double the payment to customers subject to their goodwill payment not exceeding the full amount of future mortgage interest they may have paid.

For customers whose goodwill payment (even when doubled) is less than €5,000 Ulster Bank will top up their payment to €5,000.

We have also included €250 towards the cost of independent financial advice in each customer's total ex-gratia goodwill payment as they may wish to consider an alternative mortgage product with another provider (customers are not obliged to do this but Ulster Bank has encouraged customers to take independent financial advice on their mortgage).

This means that, even for customers who have not availed of their offset arrangement to reduce their mortgage interest payments or have used it in a limited way, the minimum ex-gratia goodwill payment will be €5,250.

What about customers in arrears?

In cases where the customer is in arrears on their mortgage, the ex-gratia goodwill payment will be used to reduce these arrears. Should there be any surplus after this, the remainder will be paid to the customer. The €250 towards independent financial advice will be paid directly to the customer and will not be used to clear any arrears. In circumstances where the customer's arrears balance is €1,000 or less, the full payment will be paid to the customer and will not be applied against the arrears balance.

Of customers with arrears balances greater than €1,000, c.40% will have their arrears cleared following the issuance of the ex-gratia goodwill payment.

What happens next for Customers?

All offset mortgage accounts will have the offsetting feature removed from 23 May 2024, meaning customers will no longer be able to offset credit balances in their current or deposit account(s) against their mortgage balance after this date. Customers can continue to offset their credit balances in their accounts against their mortgage until this date.

As the customer will not be able to avail of the offset arrangement, they are being asked to close their linked current and or deposit accounts by May 2024 and are being given the same amount of time to close their accounts as per previous Ulster Bank personal account closure timelines. Customers with current and deposits accounts that can be linked will become non-operational on or

after 23 May 2024 and the account will, in effect, be closed. A cheque for the remaining balance in the account will then be sent to the customer.

In recognition of these changes, and the inconvenience caused by removing the offset arrangement, Ulster Bank will therefore make an ex-gratia goodwill payment to each offset mortgage customer. The ex-gratia goodwill payment will be paid into the customer's account on or shortly after 10 January 2024.

The product, which will effectively become a tracker mortgage, will still track the current ECB interest rate and will not be impacted by the closure of the linked accounts.

Customers will still retain the ability to "Pay and Redraw" their Available Facility. This means customers can still reduce their mortgage balance without reducing their Agreed Facility limit through their normal repayments and/or any additional amounts above them. Customers can draw the additional amounts back out again, subject to their overall Agreed Facility.

If customers have any queries in relation to these changes, they can contact Ulster Bank on 0818 210 260 (00353 1804 7475 if calling from abroad) or they can visit the [Ulster Bank Customer Support Hub](#). For customers who need additional support or may be in a vulnerable situation there is a dedicated phone line on 1800 656 001 (lines open 8am-8pm, 7 days a week).

ENDS

Notes to Editors:

Facts and Figures on the Ulster Bank offset product

- Ulster Bank currently has c.4,500 offset mortgages;
- Less than 10% of these are non-performing;
- The average term remaining on these mortgages is c.11 years;
- The average balance remaining on these mortgages is c.€106,000;
- The average ex-gratia goodwill payment to customers will be €12,650;
- Minimum ex-gratia goodwill payment will be €5,000 (not including the €250 financial advice payment). This will be paid to c.68% of offset customers (made up of customers who didn't use or minimally used their offset benefit);
- c.24% of customers who will receive an ex-gratia goodwill payment have never used their offset benefit before

Key Dates for Offset Customers:

- **January 2024** – Ulster Bank to make ex-gratia goodwill payment to each offset customer account
- **May 2024** - All offset mortgage accounts will have the offsetting feature removed from all current and deposits accounts that can be linked to the offset product will become non-operational on or after 23 May 2024.
- **June 2024** – Closure of de-linked current and deposit accounts

Ex-gratia Goodwill Payment Customer Examples

Example 1: No Offset

Tara and Ben are 59 and have an offset mortgage which they drew down in August 2003. As of August 2023, Tara and Ben have €100,000 left on the balance of their mortgage. It is due to mature in August 2033. Tara and Ben have never used the Offset facility available to them and do not have any linked current and deposit accounts.

However, recognizing that Tara and Ben could have decided to use the offset features in the future if they were still available, Ulster Bank will make the minimum ex-gratia payment of €5,000. Tara and Ben will also receive an additional €250 to cover any financial advice costs they may wish to take advantage of.

The total ex-gratia goodwill payment Tara and Ben will receive is €5,250 in recognition of the impact of this change and the inconvenience that it may cause.

Example 2: Minimal Offset

Sean is 45 and has an offset mortgage which he drew down in August 2003. As of August 2023, Sean has €100,000 left on the balance of his mortgage. The mortgage has 10 years remaining and is due to mature in August 2033. Sean has a linked current account but does not have any linked deposit accounts. Sean has had an average balance of €1,000 in his linked current account over the past 6 years.

The future interest on his mortgage to maturity is estimated to be €21,387. Considering Sean's usage of the product, had he continued to use it in the same way, it is estimated that he could offset €445 of his future mortgage interest charge if the product were available for the remainder of the term of his mortgage. A base ex-gratia goodwill payment of €445 is calculated based on Sean's deposit of €1,000 and in recognition of the mortgage interest offset in the future.

Ulster Bank will also double the amount payable to each customer up to a maximum of the total interest charge i.e., €21,387. This doubling uplift is to recognize that we cannot predict changes in customer circumstances or changes in mortgage interest rates in the future. In Sean's case this increases his goodwill payment from €445 to €890.

As the amount of the ex-gratia payment doubled is less than €5,000, Ulster Bank will increase the payment to a minimum of €5,000. Sean will also receive an additional €250 to cover any financial advice costs he may wish to take advantage of.

The total ex-gratia goodwill payment Sean will receive is €5,250 in recognition of the impact of this change and the inconvenience that it may cause.

Example 3: Strategic User

Eugene and Ellen are 47 and have an offset mortgage which they drew down in August 2003. As of August 2023, Eugene and Ellen have €100,000 left on the balance of their mortgage. The mortgage has 10 years remaining and is due to mature in August 2033. Eugene and Ellen have kept an average of €40,000 on deposit over the past 6 years and have held this in their linked current and deposit accounts. As a result of having this deposit balance, they have managed to offset a portion of their mortgage interest in the past.

The future interest on their mortgage to maturity is estimated to be €21,387. Considering Eugene and Ellen's usage of the product, had they continued to use it in the same way, it is estimated that

they could offset €14,194 future mortgage interest if the product were available for the remainder of the term of their mortgage.

A base ex-gratia goodwill calculation of €14,194 will be made to Eugene & Ellen in recognition of the interest savings they would have made based on his deposit of €40,000. Ulster Bank will also double the amount payable to each customer up to a maximum of the total interest charge i.e., €21,387.

This uplift is to recognize that we cannot predict changes in customer circumstances or changes in mortgage interest rates in the future. In Eugene and Ellen's case this increases the goodwill payment from €14,194 to €21,387. Eugene and Ellen will also receive an additional €250 to cover any financial advice costs they may wish to take advantage of.

The total ex-gratia goodwill payment Eugene and Ellen will receive is €21,637 in recognition of the impact of this change and the inconvenience that it may cause.

Example 4: Strategic User – Large balance (€100,000)

Sarah is 56 and she has an offset mortgage which she drew down in August 2003. As of August 2023, Sarah has €100,000 left on the balance of her mortgage. The mortgage has 10 years remaining and is due to mature in August 2033. Sarah has used the Offset facility available to her to its maximum and has held €100,000 on average in her linked current and deposit accounts over the past 6 years.

The future interest on Sarah's mortgage to maturity is estimated to be €21,387. Considering Sarah's usage of the product, had she continued to use it in the same way, and maintain the €100,000 in her current and deposit accounts, it is estimated that she could offset the entire future interest of €21,387 if the product were available for the remainder of the term of her mortgage. As Sarah is fully offsetting the interest charge, she will receive an ex-gratia payment of 100% of her future mortgage interest (€21,387). Sarah will also receive an additional €250 to cover any financial advice costs she may wish to take advantage of.

The total ex-gratia goodwill payment Sarah will receive is €21,637 in recognition of the impact of this change and the inconvenience that it may cause.

Example 5: Offset strategic user with arrears of €8,000

Mary is 48 and she has an offset mortgage which she drew down in August 2003. As of August 2023*, Mary has €100,000 left on the balance of her mortgage. The mortgage has 10 years remaining and is due to mature in August 2033. Mary has kept an average of €20,000 on deposit over the past 6 years and has held this in her linked current and deposit accounts. Mary currently has arrears of €8,000 on her Offset Mortgage.

The future interest on her mortgage to maturity is estimated to be €21,387. Considering Mary's usage of the product, had she continued to use it in the same way, it is estimated that she could offset €8,074 of future interest if the product were available for the remainder of the term of her mortgage. An ex-gratia goodwill payment of €8,074 will be made to Mary in recognition of the interest offset in the future based on her deposit of €20,000. Ulster Bank will also double the amount payable to each customer up to a maximum of the total interest charge i.e., €21,387.

This uplift is to recognize that we cannot predict changes in customer circumstances or changes in mortgage interest rates in the future. In Mary's case this increases her goodwill payment from

€8,074 to €16,148, Mary will also receive an additional €250 to cover any financial advice costs she may wish to take advantage of.

The total ex-gratia goodwill payment of €16,398 is due to Mary in recognition of the impact of this change and the inconvenience that it may cause. The payment will be first offset against Mary's outstanding arrears balance (i.e., €8,000) and the residual balance of €8,398 will be paid directly to Mary.

Example 6: Offset minimal user with arrears of €500

Peter is 48 and has an offset mortgage which he drew down in August 2003. As of August 2023, Peter has €100,000 left on the balance of his mortgage. The mortgage has 10 years remaining and is due to mature in August 2033. Peter has kept an average of €1,000 on deposit over the past 6 years and has held this in his linked current and deposit accounts. Peter currently has arrears of €500 on his Offset Mortgage.

The future interest on his mortgage to maturity is estimated to be €21,387. Considering Peter's usage of the product, had he continued to use it in the same way, it is estimated that he could offset €445 of his future interest charge if the product were available for the remainder of the term of his mortgage. A base ex-gratia goodwill payment of €445 is calculated based on Peter's deposit of €1,000 and in recognition of the mortgage interest offset in the future.

Ulster Bank will also double the amount payable to each customer up to a maximum of the total interest charge i.e., €21,387. This uplift is to recognize that we cannot predict changes in customer circumstances or changes in mortgage interest rates in the future. In Peter's case this increases his goodwill payment from €445 to €890. Where the amount of the ex-gratia payment doubled is less than €5,000, Ulster Bank will increase the payment to a minimum of €5,000. Peter will also receive an additional €250 to cover any financial advice costs she may wish to take advantage of.

The total ex-gratia goodwill payment of €5,250 is due to Peter in recognition of the impact of this change and the inconvenience that it may cause. The payment will not be offset against Peter's outstanding arrears balance (i.e., €500) as Ulster Bank will not offset the payment against arrears where the arrears balance is less than €1,000. The total ex-gratia payment of €5,250 will be paid directly to Peter.