

The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS) is the compensation fund of last resort for customers of authorised financial services firms in the UK. It is there to protect consumers if a firm becomes insolvent or ceases trading, the scheme may be able to provide compensation. The FSCS covers deposits, insurance, investments and home finance brokers (mortgage advisers and arrangers).

The following information summarises the main provisions of the FSCS which are relevant to shares and deposits in a building society. Building societies and other participants in the FSCS are under a legal obligation to provide information about the FSCS. This leaflet includes information on the following;

- Summary Information about the FSCS
- Depositor Protector Information
- Making a claim under the FSCS
- FSCS and mortgages and what happens if you owe us money.

Summary Information

What is the Financial Services Compensation Scheme (FSCS)?

The FSCS is the independent body, set up by statute, which may be able to provide you with compensation if we go bust. The FSCS is set up by government, and funded by financial services firms. The FSCS covers a range of products for both individuals and small businesses*. Limits apply depending on the product you have bought. The FSCS cannot help you if the firm you have done business with is still trading.

*Trustees of large firm pension schemes and large companies for compulsory insurance may be covered by the FSCS. Please contact the FSCS for further information on the eligibility criteria.

What are the FSCS s compensation limits?

The FSCS covers business conducted by firms authorised by the Financial Services Authority (FSA). The compensation limits are:

- **Deposits:** The compensation limit increased to £85,000 per person per authorised firm on 31 December 2010, in line with European directive requirements
- **Investments:** 100% of the first £50,000 per person per firm (for claims against firms declared in default from 1 January 2010)
- **Home Finance (e.g. mortgage advice and arranging):** £50,000 per person per firm (for claims against firms declared in default from 1 January 2010)
- **Insurance Business:** unlimited 90% of the agreed claim with no upper limit. Compulsory insurance is protected in full
- **General insurance advice and arranging:** unlimited (for business conducted on or after 14 January 2005). 90% of the agreed claim with no upper limit. Compulsory insurance is protected in full.

Is Yorkshire Building Society covered?

Yorkshire Building Society (YBS) is covered by the FSCS. YBS also operates under the trading names of Barnsley Building Society (BBS), Chelsea Building Society (CBS), Norwich & Peterborough Building Society (N&P) and Egg. YBS is the participant of the FSCS. Therefore, depositors with any of YBS, BBS, CBS, N&P and Egg have an overall limit of £85,000 under the FSCS.

Accord Mortgages Limited is a wholly owned subsidiary of YBS. Accord has offset mortgage products where the investor's deposits are held on behalf of Accord by YBS. Accord offset depositors are therefore covered, along with BBS, CBS, N&P and Egg depositors, by YBS being a participant in the FSCS. There is no additional protection for depositors with Accord Mortgages Limited as Accord Mortgages Limited is not itself covered by the FSCS.

Where can I find out more information about the FSCS?

For further information about the FSCS (including the amounts covered and eligibility to claim) please ask at your local branch, refer to the FSCS website www.FSCS.org.uk or call **0800 678 1100**.

For further information about our participation in the scheme or specific queries on your account please call:

- 0845 1200 100** (YBS account holders)
- 0845 744 6622** (CBS account holders)
- 0845 1200 898** (BBS account holders)

Depositor Protection Information

How much of my money is covered?

The FSCS has limits - these are applied per person per authorised firm. YBS products come under the Depositor classification. The compensation limits for deposits is £85,000 per person per authorised firm. This is in line with European Directive requirements that set the compensation limits at €100,000 and which the FSA have in turn set the sterling equivalent at £85,000.

Will the FSCS limit be reviewed if the exchange rate changes?

The FSCS limit was set by a European Directive to harmonise the maximum compensation limit across member states. All member states are to set their deposit compensation limit at €100,000, with effect from 31 December 2010. The Directive allows member states to set the limit in their national currencies, as long as the limit delivers an equivalent level of protection. The equivalent sterling rate has been set at £85,000 calculated using the Bank of England exchange rate on 1 October 2010. The limit will remain at £85,000 unless the sterling euro exchange rate moves materially to the consumer's disadvantage.

Which investors are protected?

Most investors are protected including individuals and small firms, but there are some exceptions, such as larger companies, government bodies, large partnerships, and local authorities. Further details of exclusions can be found on the Financial Services Authority website at <http://fsahandbook.info/FSA/html/handbook/COMP/4/2>.

Are all shares and deposits with YBS protected under the FSCS?

All building society shares and deposits are protected by the FSCS except:

- (i) a bond issued by a building society which is part of its capital (for example subordinated debt);
- (ii) a secured deposit;
- (iii) a deferred share issued by a building society (usually permanent interest bearing shares); or
- (iv) a non-nominative deposit (that is, a deposit made without disclosing the depositor's identity).

My money is in a joint account, how would the FSCS pay compensation if you failed?

The FSCS limit for deposits is £85,000 per person per authorised firm, in line with European Directives. Each depositor is covered up to the FSCS limit, regardless of how many accounts they hold or whether they are a single or joint account holder. In the case of a joint account, the FSCS will assume that the money in that account is split equally between the account holders, unless evidence shows otherwise.

This means that each account holder in a joint account would be eligible for compensation up to the maximum individual limit. For example, if a joint account has £170,000 invested in it, each account holder would receive £85,000 (assuming neither account holder had any other deposits with the same institution).

What if I am a Trustee on an account?

If a claimant's claim also includes a claim as a trustee, his or her claim as trustee will be treated as being separate from the claim in his or her own right. If the same person claims as trustee for different trusts, these will be treated as separate claims. If the claimant has a claim as a bare trustee for one or more beneficiaries, each beneficiary or beneficiaries will be treated as having their own claim. There are additional rules relating to trustees depending on the nature of the trust.

What if I am a Personal Representative/Executor on an account?

Where a person claims as a personal representative of someone who has died, the claimant will be treated in respect of that claim as if he or she were standing in the shoes of the deceased. Such a claim would not count towards any claim the personal representative has in their personal capacity.

What about charity accounts?

Whether a charity is covered will depend on how it is constituted. There is no requirement for charities to be established by way of a particular structure or form; a "charity" is simply an institution established for charitable purposes only, which is subject to the control of the High Court. As charities are not specifically provided for in the FSCS's eligibility rules, their eligibility will be determined by their structure and legal personality, of which there are many permutations.

For example, a charity can be constituted as a limited company, or an unincorporated association. In those circumstances, the eligibility test would be the same as for a company:

A limited company would be treated as having a claim, and hence protection in its own right up to the limit, if it fell within the definition of a "small company". A company qualifies as a "small company" under the provisions of section 382 of the Companies Act 2006 if it fulfils two of the following three criteria:

- it has a turnover of not more than £6.5 million;
- it has a balance sheet total of not more than £3.26 million; and
- it has not more than 50 employees.

If the charity is an unincorporated association, it will be entitled to claim up to the limit, unless it falls into the category of a "large mutual association" (see COMP 4.2.2(13)) - the test which applies is that it must have less than £1.4 million in net assets.

What about Partnerships?

If two or more persons have a joint beneficial claim, the claim is to be treated as the claim of the partnership if they are carrying on business together in partnership. Otherwise the 'Joint Accounts' rules (above) apply.

Making a claim under the FSCS

How does the FSCS decide whether it can help me with a deposit claim?

To qualify for compensation you must be eligible under the FSCS rules which are made by the FSA, the independent watchdog set up by government under the Financial Services & Markets Act 2000 (FSMA) to regulate financial services in the UK and to protect the rights of consumers. The rules tell the FSCS which types of claim are eligible for compensation, and limit how much compensation they are allowed to pay.

How does the FSCS fund compensation payments?

The FSCS is funded by the financial services industry which has to pay levies to the Scheme. FSA authorised firms are levied each year. The amount firms have to pay depends on the claims volumes and compensation the FSCS is likely to have to deal with that coming year. The FSCS can issue an additional levy during the course of a financial year (up to a current total annual limit of £4.03 billion) and it is able to borrow additional funds if necessary.

Are offshore deposits covered?

The FSCS does not cover deposits outside the European Economic Area (EEA), or in the Channel Islands or Isle of Man. Deposits made with Yorkshire Guernsey Limited are not covered by the FSCS but may be eligible under the Guernsey Deposit Protection Scheme.

Will the FSCS compensate for any interest earned on my account?

Yes, interest will be calculated according to the type of account you hold (within the limit of the maximum payment). For further details please refer the customer to the FSCS website, www.fscs.org.uk.

Do I have to pay anything to have a claim considered by the FSCS?

No. The FSCS is a non-profit, independent organisation. It does not charge individual consumers for using its service. It is funded by financial services firms.

How long would it take to process a claim?

The length of time a claim takes to process will depend upon a number of factors, like the type and complexity of a claim, and the level of information the FSCS needs to gather from other sources. Some of these factors may be entirely outside the FSCS control, but here are the general guidelines for each claim type:

- From January 2011 standard deposit claims will be processed within twenty days of a firm defaulting and within a target of seven days
- The FSCS tries to resolve all claims against investment firms, insurance brokers, and mortgage brokers within six months of receipt of your correctly completed Claim Application Form, or within six months of the company being declared in default (whichever is later). Many claims are dealt with within this timeframe, but some do take longer, especially if information from other parties is required.

What happens if I owe money on my mortgage with you and you fail?

From 31 December 2010 compensation under the FSCS will be paid to customers based on amounts held in their deposit accounts (subject to the £85,000 limit) regardless of any amounts owed to us (for example, under a mortgage). Any such payment would therefore be paid gross.

For example, a customer who has a £200,000 mortgage and £200,000 savings balance will be paid out for £85,000 of the savings, and the mortgage balance would remain outstanding. This would mean that the customer would still have to repay their mortgage loan. It would then be for the Liquidator to decide whether any surplus savings balance would be set-off against the remaining mortgage loan.

Are there any circumstances when YBS can use my savings to set-off money I owe to YBS?

YBS cannot do this under the FSCS scheme but, under the terms of its savings accounts, YBS has what is known as a contractual 'right of set-off', which means YBS can use money in a savings account to pay any monies which a customer owes to us, for example under a mortgage. YBS can exercise this right at any time; it is nothing to do with what happens upon the insolvency of YBS and it is a right which can be exercised only by YBS, not the customer. However, YBS would normally only ever do this if the customer was in default of his mortgage or other payment and would tell the customer before doing so.

I have an offset mortgage account is this any different to having my mortgage and savings with YBS?

No, a YBS offset mortgage customer would be in the same position as any other customer who had both a mortgage and a savings account with YBS. The main reason to have an offset mortgage is so that interest is applied on a lower mortgage balance (or the mortgage is repaid quicker), as any balance in the savings account is taken into account when working out interest due on the mortgage. Should YBS fail and there is a claim on the FSCS, compensation will be paid to customers based on amounts in the savings account regardless of amounts owed under the offset mortgage.

If YBS failed would I still have to pay my mortgage?

The FSCS does not cover mortgage loans and if YBS was subject to insolvency proceedings or in liquidation, a borrower will still have to make monthly payments and comply with all the terms of the mortgage, as the mortgage is an asset of YBS. Any outstanding amounts owed would be collected by the Liquidator. It would be for the Liquidator to decide whether any surplus savings balances would be set-off against any remaining mortgage loan.

What if I have an Accord mortgage account?

The FSCS does not cover mortgage loans. If you have an Accord mortgage and a savings account with any of YBS, BBS, CBS, N&P and Egg, your savings accounts will be covered up to the maximum limit of £85,000 per person per authorised firm and regardless of amounts owed under the Accord mortgage, which would remain outstanding. It would be for the Liquidator to decide whether any surplus savings balances would be set-off against any remaining mortgage loan.

I have an Accord offset mortgage account does this make a difference?

No, an Accord offset customer would be in the same position as any other Accord borrower who also had a savings account with any of YBS, BBS, CBS, N&P and Egg or any YBS mortgage and savings customer. In respect of Accord offset, the offset savings account is opened with YBS by Accord as Trustee for the Accord customer and does not carry membership rights.

The main reason to have an offset mortgage is so that interest is applied on a lower mortgage balance (or the mortgage is repaid quicker), as any balance in the savings account is taken into account when working out interest due on the mortgage. Should YBS fail and there is a claim on the FSCS, compensation will be paid to customers up to the maximum limit based on amounts in the savings account regardless of amounts owed under the Accord offset mortgage which would remain outstanding. It would be for the Liquidator to decide whether any surplus savings balances would be set-off against any remaining mortgage loan.

All communications with us may be monitored/recorded to improve the quality of our service and for your protection and security. Charges to 0845 numbers may vary. Prices can be checked with your phone provider. Mobile calls usually cost more.

Yorkshire Building Society is a member of the Building Societies Association and is authorised and regulated by the Financial Services Authority. Principal office: Yorkshire House, Yorkshire Drive, Bradford BD5 8LJ. It is entered in the FSA register and our FSA registration number is 106085.

Barnsley Building Society and the Barnsley are trading names of Yorkshire Building Society.

Chelsea Building Society and the Chelsea are trading names of Yorkshire Building Society.

Norwich & Peterborough Building Society and N&P are trading names of Yorkshire Building Society.

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Accord Mortgages Limited is registered in England No: 2139881. Registered office: 1 Filey Street, Bradford, BD1 5AT and is authorised and regulated by the Financial Services Authority. It is entered in the FSA register and its FSA registration number is 305936.