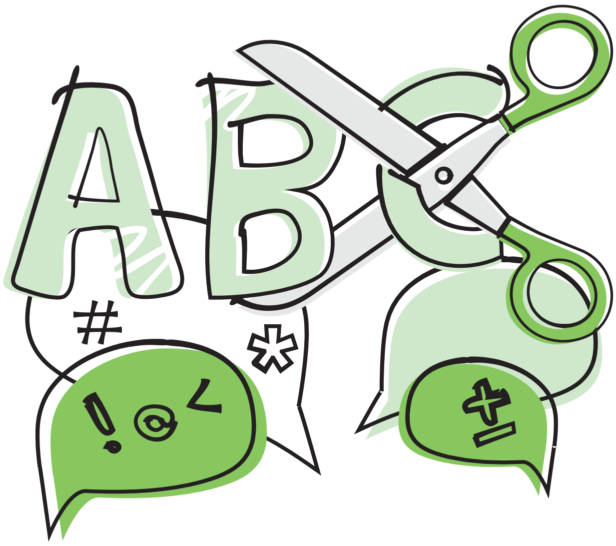
Jargon Buster- Mortgages



Get to grips with mortgage jargon using our glossary. We explain the most common mortgage terms and language used by the industry.

A

APR: The Annual Percentage Rate is the interest rate on the loan. It includes the interest rate and the fees charged to take out a mortgage, and gives you the overall cost of a mortgage.

Arrangement fee: The charge by lenders for arranging your mortgage. It can be called several other names such as product fee or completion fee.

B

Base Rate: This is the interest rate set by the Bank of England which is used by lenders when deciding on the interest rate to charge. Some types of mortgages such as tracker mortgages follow the base rate closely.

C

Capital: The amount of money you borrow to buy a house.

Capital repayments: Payments you make to repay the money you borrowed.

Capped-rate mortgage: A type of mortgage where the interest rate cannot rise above a certain level.

Credit rating or credit score: Your credit rating is used by lenders to see how reliable you have been in the past when repaying debts – resulting in a credit score. They use the score to decide whether you are a good enough risk to be offered a mortgage.

Credit reference agencies: These are firms that keep a record of your financial details, such as your history of repayment on credit and personal details such as addresses and electoral roll registration. Lenders use them to check your credit rating. There are three main agencies: Equifax, Experian and CallCredit.

D

Discount mortgage: A type of variable rate mortgage where the interest rate you pay is lower than the lender's basic rate (their standard variable rate).

E

Early repayment charge: The fee charged by a lender if your mortgage is paid off early or you move to a different mortgage before the end of a short-term deal. See also: **Overhanging redemption penalties.**

Equity: This is how much of the property you own. It's the difference between the value of your home and the mortgage you still owe. See also: **Negative equity.**

Exit fee: A fee that might be charged by the lender when you pay off a mortgage. Also known as deed release fee, sealing fee, final administration fee or discharge fee.

F

FCA: The Financial Conduct Authority (FCA) is the regulator concerned with consumer protection in the financial market, including mortgages.

Financial Ombudsman Service (FOS): The independent body you can complain to if you are mis-sold a mortgage or misled about the product.

Fixed-rate mortgage: A type of mortgage where the interest rate remains the same for a set period, often two to five years.

Flexible mortgage: A mortgage that allows you to overpay or underpay without charging a penalty. You may be allowed to take a payment holiday, though you will still be charged interest.

H

Higher lending charge (HLC): A fee to cover the cost of insurance that the lender takes out in case your home falls in value and goes into negative equity.

I

Interest-only mortgage: A mortgage where you only pay the interest on the loan. The amount borrowed (the capital) will be repaid at the end of the term. You will need to have a credible repayment plan at the same time to cover the capital repayment.

Interest rate: The amount of interest you are charged for the loan.

L

Loan to value (LTV): The amount you are borrowing in relation to the value of the property, expressed as a percentage. For example, if you have a 10% deposit you are borrowing 90% of the property's value, so your LTV will be 90%.

M

Mortgage: A loan secured against a property. This means that you own the deeds to the property, but if you default on your mortgage payment, the lender can repossess the property.

Mortgage deed: This is a legal agreement which transfers legal title to your property to the mortgage lender. It remains dormant unless you don't repay the mortgage. If this happens, the lender can repossess your home.

Mortgage lender: A bank, building society or financial organisation that offers mortgages.

Mortgage fees: These include a number of fees charged by the lender when you take out a mortgage, including arrangement and administration fees.

Mortgage in principle: This is an indication by the lender of the size of mortgage it will give you based on your income and outgoings.

Mortgage term: The length of the mortgage loan. Typically, this is 25 years but it may be longer or shorter.

N

Negative equity: This occurs when you owe more to the lender than the value of the property.

O

Overhanging redemption penalties: The fee charged by a lender if you pay off your mortgage after a fixed or discounted period has ended. Usually the penalty applies for only a year or so after the deal has ended.

Overpayments: This is when you pay more than the mortgage repayment each month or pay a lump sum off your mortgage to repay the mortgage early.

P

Payment holiday: This is a break from making mortgage payments for a few months, provided your lender allows it. Interest will continue to be added to the loan and it may be marked on your credit report.

R

Remortgage: A mortgage that allows you to switch to another lender without moving house, usually because you've found a better deal. You use the new mortgage to pay off the old one and then you make repayments on the new one.

Repayment mortgage: A mortgage where part of the loan (the capital) and the interest is paid each month.

Repayment period: The number of years over which you agree to pay back the mortgage. Also called the mortgage term.

S

Stamp Duty: This is a tax levied by the government on every home costing more than £125,000 starting at 1% and rising to 7% for homes above £2 million. Its full name is Stamp Duty Land Tax (SDLT).

Standard variable rate (SVR): The lender's basic mortgage rate without any special deals or tie-ins. It can move up or down and lasts until the mortgage is paid off or you move onto another deal.

T

Tracker mortgage: A mortgage which moves in line with another index. Usually it tracks the Bank of England base rate plus a few percentage points.

V

Valuation fee: A fee paid to the lender to cover the cost of the valuation of a property by a surveyor before the mortgage is granted.

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