Mortgage Glossary of terms

A

Annual Percentage Rate (APR) -
A figure that states the total yearly cost of a mortgage as expressed by the actual rate of interest paid.

Application Fee -
The fee charged by the lender to the borrower for applying for a loan.

Arrangement Fee -
This fee is charged to cover administration and primarily the reserving of funds for fixed rate and/or discounted rate mortgages.

Arrears -
When mortgage payments have not been paid on time and/or are not made at the correct amount, borrowers are said to be in arrears.

B

Base Rate -
The base rate, sometimes referred to as the repo rate is the minimum rate at which banks are prepared to lend money - it acts as the benchmark for other interest rates, including personal loans and mortgages.

Broker -
An individual in the business of assisting in arranging funding or negotiating contracts for a client but who does not loan the money himself.

Bridging Loan -
Bridging loans are short-term loans. Bridging loans are often used by purchasers of a property who need funds for a limited period of time. e.g. until they sell their existing home.

Buildings Insurance - rebuilding cost
It is common sense to take out "building insurance" when you purchase a property. In any event, if you're taking out a mortgage, your lender will insist on it. You will need to know the rebuilding cost of your property so that you may insure for the correct amount.

C

Repayment mortgages -
The monthly repayment made by the borrower includes a repayment of capital borrowed and an amount for the interest charged. At the beginning of the mortgage most of the payment is used to cover the interest and only a small amount is paid towards reducing the mortgage. Over the term of the mortgage more and more of the monthly payment is comprised of paying back the capital borrowed. As long as the monthly payments of repayments are always made on time the mortgage is guaranteed to be paid off at the end of the term

Capped rate mortgage –
This refers to a capped rate mortgage which is a cross between a fixed rate and a variable rate mortgage. The interest rate will never rise above a certain rate within what is known as the capped rate period. If the usual variable mortgage rate is less than the capped rate then the borrower is charged that variable rate.

Capped and Collared -
Along with the term-capped rate, the phrase cap and collar mortgages are often encountered. The 'collar' is the minimum interest rate, whilst the maximum interest rate payable is known as the 'cap'. As these mortgages involve the lender having to source funds it is usual for early redemption penalties to be imposed if the mortgage is redeemed within a capped rate period.

Cashback Mortgages -
On completion of the mortgage, your lender will pay a percentage of the amount borrowed 'back' to you as a lump sum. The higher the cash back sum paid, the greater and more complex the number of strings likely to be attached to the mortgage. You may be faced with high redemption penalties over several years should you wish to consider redeeming the mortgage early. You may also be offered a less competitive interest rate than is available elsewhere.

Completion -
This is the last stage in the purchase of a property. The legal documentation is finalised and the lender has sent the mortgage funds to the purchaser's solicitor. Once the purchaser's solicitor forwards the funds to the seller's solicitor the property is now owned by the Purchaser.

Credit Rating –
Borrowers are rated by lenders according to the borrower's credit-worthiness or risk profile. Credit ratings are expressed as letter grades such as A-, B, or C+. These ratings are based on various factors such as a borrower's payment history, foreclosures, bankruptcies and charge-offs.

D

Deed -
A legal document which affects the transfer of ownership of real estate from the seller to the buyer.

Default -
The failure to make payments on a loan, or credit agreement.

Deposit -
A lump sum given in advance as security.

Discount -
Difference between the face amount of a note or mortgage and the price at which the instrument is sold in the secondary market.

Draw Down Facility
This tends to be an option made available with so-called flexible mortgages. The lender will allow you to "draw" funds out of your mortgage account at any time during the mortgage term providing you do not increase the size of your borrowing over the previous mortgage advance.

E

Early Repayment Charge -
This is a charge made by your mortgage lender which is payable on certain types of loan - usually discounted or fixed interest rate loans. The charge is only applied if the loan is redeemed or part redeemed within the specified early repayment charge period.

Equity -
The difference between the current market value of a property and the outstanding balance of all outstanding loans, secured against the property.

Exchange of Contracts (England & Wales only) -
At this stage of property purchase legally binding contracts are exchanged between the buyer and the seller. After contracts have been exchanged the vendor must sell and the purchaser must buy on the terms agreed.

F

Fixed-Rate Mortgage -
A fixed interest rate mortgage offers the borrower certain knowledge of just how much their mortgage payments will be each month for a set period of time.

Flexible Mortgage -
Generally speaking you have the option of overpaying, underpaying, or even taking a payment holiday.

Freehold -
The legal right to hold land/property as the absolute outright owner, free of payment or any other duty owed to another party

Further Advance -
This is an additional loan by a lender to the borrower. A further advance to release more money on your home, is sometimes referred to as a second mortgage. It will usually be secured by the existing mortgage deed.

G

Ground rent -
This is a sum of money paid to the landlord by a leaseholder in respect of a leasehold property. The ground rent is set when the lease is first granted. The lease usually provides for increases in the amount payable as the years tick by.

Guarantor -
A guarantor is a third party who stands liable to cover any shortfall or default on the borrower"s debt.

H

Higher Lending Charge -
The higher lending charge, formerly known as a mortgage indemnity guarantee (MIG), is a fee charged by a mortgage lender where the amount borrowed exceeds a given percentage of the value of the property. This fee may be used by the lender to purchase an insurance policy designed to protect it (the mortgagee) against loss in the event of you defaulting and ceasing to repay your mortgage.

Home Buyers Report -
This is a property survey report which has more information than a mortgage valuation but is not as detailed as a full structural survey report. This report is used by the lender in place of the mortgage valuation report and gives more information that will enable a borrower to reach a decision on whether or not to purchase.

I

ISA Mortgages -
ISAs are investments in the stock market in a tax efficient way. In effect, you are taking out an interest-only mortgage and saving into an ISA to build up funds to repay the capital sum you have borrowed. The traditional alternatives to an ISA mortgage are repayment and endowment.

Interest Only -
An interest only mortgage is a loan in which you pay no more than the interest charged. In effect, you are merely servicing the debt, not reducing it. The amount you owe remains constant. If you have an interest only mortgage, the onus is on you to arrange how to repay the capital at the end of the mortgage term.

Interest Rate -
The percentage of an amount of money that's paid for its use over a specified time period.

J

Joint Tenants -
This is the owning of land or property by two or more people who are co-owners or "joint tenants".
Each has rights in the whole of the property and is entitled to a share of any money raised from selling it.

L

Leasehold Estate -
An estate for a fixed length of time, established when a landlord gives up possession of real estate to a tenant, giving the tenant an equitable interest in the property, as defined by lease terms.

Lender -
The bank, building society or mortgage company, offering the loan.

LIBOR -
The London Interbank Offered Rate Index (LIBOR) is an average of the interest rates that major international banks charge each other to borrow U.S. dollars in the London money market.

Loan Amount -
The amount of money that you intend on borrowing from a financial institution for the purchase of your home.

Loan-To-Value Ratio -
The relationship between the amount of the mortgage loan and the appraised value of the property expressed as a percentage.

M

Mortgage Offer -
This is the document issued by a mortgage ender to a prospective borrower following approval of the mortgage application.

Mortgage Term -
The "term" of a mortgage is simply the length of time over which the lender is willing to advance you the money before it must be repaid.

N

Negative Equity -
When the value of an asset (e.g. your home) falls below the amount of the loan taken out to purchase it, you are said to be in a position of negative equity.

O

Overpayment -
You make an overpayment when you pay more each month to your mortgage lender than the stipulated required monthly repayment.

P

Pension Mortgage -
The self-employed or those with a personal pension can link their mortgage loan to a pension plan. At the end of the mortgage term, the tax-free proceeds (the tax free lump sum) of the pension fund is used to repay the capital outstanding.

Portable Mortgage -
This is an important area for borrowers to be aware of. It describes the facility to move a particular type of mortgage from one property to another if a property move is required.

Procuration Fee -
This is commission paid by Lenders to intermediaries for introducing business to them.

R

Re-mortgage -
This is simply the replacement of an existing mortgage with a new one.

Right to Buy -
This is when a tenant living in a council-owned property purchases it at a discount, the size of which depends on the length of their tenancy.

S

Self-Certification Mortgage -
This is a mortgage where a borrower states their income and signs a confirmation of their ability to repay a loan, without having to provide evidence such as accounts, payslips or bank statements. This type of mortgage is typically used by self-employed people.

Shared Ownership -
The scheme works by allowing the borrower to purchase part of the property and rent the other part from the housing association. This subsidises home ownership for people who would otherwise not be able to become homeowners

Split-Loan -
This is a mortgage that is taken partly on a Capital and Interest bases and partly on an Interest Only basis (see definitions above).

Stamp Duty -
This is a government tax charged on properties with a purchase price in excess of £120,000.

Standard Variable Rate (SVR) -
This is a variable rate determined entirely at each Lender's discretion. Unless linked to Libor or the Bank of England base rate, the SVR is the reverting rate at the end of any special offer period, such as a Capped, Discounted or Fixed rate.

T

Term Assurance -
This insurance repays the mortgage in the event of the insured person's death.

Tracker Mortgage -
This is a variable mortgage that is either above or below the Bank of England's Base Rate by a set percentage within a set period.

V

Valuation -
This is a quick survey of a property by a surveyor - the purpose is to assess the value of the property for the benefit of the lender.