Glossary of Mortgage Terms

Italics denote a cross-referenced entry

Accident, Sickness and Unemployment Insurance (ASU): In the event of an accident, sickness or involuntary unemployment befalling a borrower, this insurance will cover their mortgage repayments. Some Lenders attach mandatory insurance cover to their most attractive rates, although this is increasingly uncommon.

Also known as: *Mortgage Payment Protection Insurance (MPPI)*.

Additional Security Fee: See *Higher Lending Charge*.

Adverse Credit: This is an umbrella term used of applicants with poor credit history. This may include mortgage arrears, defaults, County Court Judgements (CCJs), bankruptcy, Individual Voluntary Agreements (IVAs) and house repossession. Borrowers with elements of adverse credit are offered higher rates than standard *Full Status* applicants are, usually with terms and conditions relating to the extent of their adverse credit history. Often, adverse credit mortgages are *Libor-linked* rates.

Annual Percentage Rate (APR): The APR is a rate calculated using a generic formula applicable to all Lenders, which includes all the costs associated with a mortgage. This allows for easy comparisons to be made between the different mortgage products offered by each Lender.

Arrangement fee: This fee may be charged on specific products and is either payable in advance, added to the loan or deducted from the advance on *completion*. It covers the administrative expenses incurred whilst processing an application.

Base Rate: Every month the Monetary Policy Committee sets the Bank of England Base Rate, to which all mortgage rates are linked either directly, as *Tracker mortgages*, or indirectly, in all other cases.

Booking fee: This fee may be charged on specific products and is either payable in advance, added to the loan or deducted from the advance on *completion*. It is normally payable in order to reserve funds when a product is likely to sell out quickly.

Buildings and Contents Insurance: This insurance covers damage to the mortgaged property and/or its contents in a variety of specified scenarios. It is compulsory for all Lenders, and if the Lender's own insurance is not taken they will often charge an administration fee. Some Lenders attach mandatory insurance cover to their most attractive rates, although this is increasingly uncommon.

Buy-to-Let mortgage (BTL): This is a mortgage for property that will be let by the borrower to other tenants. When Lenders calculate how large a loan the borrower can afford to repay on BTL they do so primarily on the basis of projected rental income, rather than salary *income multiples*.

Capital and Interest mortgages: With this method the monthly mortgage repayments pay off both the initial loan amount and the interest that is charged upon it. At the end of the loan term the entire debt will be repaid.

<u>Also known as:</u> *Repayment mortgage*.

Capital Rest Period: This is the regularity with which a Lender calculates the outstanding balance on mortgages, and hence the size of monthly repayments. It is usually annually, monthly or daily. With *Capital and Interest mortgages* this can be important; an annual interest calculation means that the borrower will pay interest on capital repayments that have been made in the course of that year. In contrast a daily or monthly interest calculation means that the balance, and consequently the interest charged, will reduce with every capital repayment made.

Capped rate mortgage: This is a mortgage that is guaranteed not to rise above a specific rate (the 'cap') within a set period. Unless this is combined with another rate, such as a *Discount* or *Tracker*, the Lender's *SVR* will be charged if it is lower than the capped rate; if it rises above this ceiling the rate charged will remain at the capped level. There are often *early repayment charges* applicable if the loan is repaid within the capped period.

Cashback mortgage: This is a mortgage in which the Lender refunds a sum of money, either as a percentage of the loan or a flat figure, to the borrower upon *completion*. With this type of offer the borrower will typically be tied to the Lender's *SVR* by *early repayment charges* necessitating repayment of the cashback if the loan is repaid within a set period.

Completion: This is the moment when a transfer of property has legally taken place, after all legal documentation has been completed and funds have been transferred from the buyer's solicitor to the seller's solicitor.

Contents Insurance: See *Buildings and Contents Insurance*.

Conveyancing: This is the legal process whereby ownership of a property is transferred.

Current Account mortgage: This is a fully *Flexible mortgage* combined with a current account. Money in the current account is automatically set against the mortgage balance and interest is only charged on the outstanding amount, meaning interest payments are reduced.

Discounted rate mortgage: This is a variable mortgage that is discounted from a Lender's *SVR* by a set percentage within a set period. There are often *early repayment charges* applicable if the loan is repaid within the discounted period.

Discounted Tracker rate mortgage: This is a variable mortgage that is discounted from the Bank of England's *Base Rate* by a set percentage within a set period. There are often *early repayment charges* applicable if the loan is repaid within the discounted period.

Early Repayment Charge (ERC): This is a penalty charged on traditional (i.e. non-*Flexible*) mortgages when the loan is repaid in full within a set period. Usually it applies on a *pro rata* basis when capital repayments are made outside of the agreed monthly payments. Many Early Repayment Charge periods are linked to those of offers, such as *Capped*, *Discounted* or *Fixed* rate periods. However, some mortgage rate have extended Early Repayment Charges which tie-in borrowers even while they are paying the Lender's *SVR*.

<u>Also known as:</u> *Early Redemption Penalty (ERP)*; *Redemption Penalty*.

Early Redemption Penalty (ERP): See *Early Repayment Charge (ERC)*.

Endowment: A repayment vehicle associated with *Interest Only mortgages*.

Exchange of Contracts: This is the stage in England, Wales and Northern Ireland that the deposit money is paid and both parties are legally bound to fulfil the agreed conditions of sale and purchase.

Exclusive mortgage: This is a mortgage only available to intermediaries through a specific packager, in conjunction with a Lender who provides the funding.

Fixed rate mortgage: This is a mortgage that is charged at a fixed rate within a set period. There are often *early repayment charges* applicable if the loan is repaid within the fixed period.

Flexible mortgage: As its name suggests, this is a type of mortgage that offers considerably more flexibility than traditional mortgages. Although specific details vary between Lenders, the core features of Flexible mortgages are:

- daily or monthly *capital rest*
- ability to make *overpayments* at any point of the loan term without an *early repayment charge*

In addition, many Flexible mortgages allow borrowers to:

- defer payment by taking payment holidays
- drawback overpayments
- drawdown further advances
- underpay without penalty (often only to the amount of any previous *overpayments*)

Freehold: The buyer of a Freehold property owns both the property and the land it stands on indefinitely. See also *Leasehold*.

Full Status: This term describes borrowers with a good credit history who are not *self-certifying* their income.

Gazumping: This is when a prospective purchaser has an offer for a property accepted, before another potential buyer puts in a higher offer for the same property.

Higher Lending Charge: This is a premium charged by Lenders in order to indemnify themselves, and NOT the borrower, against any financial shortfall they may incur in the event of repossessing a property which must then be sold at a loss. It is applicable if the amount required is higher than a certain percentage of the property value, usually 75% *LTV*; often the Lender will pay the cost of this insurance themselves between 75% and 90% *LTV*. The charge may either be added to the loan or deducted from the advance on *completion*.

<u>Also known as:</u> *Additional Security Fee*; *Indemnity*; *Mortgage Indemnity Guarantee (MIG)*.

Homebuyers' Report: See *Valuation Fee*.

Income Multiples: These are the multiples that Lenders apply to borrowers' income in order to determine the maximum loan they will offer them.

Indemnity: See *Higher Lending Charge*.

Individual Savings Account (ISA): A repayment vehicle associated with *Interest Only mortgages*.

Introducer fee: See *Procuration Fees*.

Leasehold: The buyer of a Leasehold property owns the property for a set number of years, but doesn't own the land on which it stands. See also *Freehold*.

Let to Buy mortgage (LTB): This is a mortgage where the borrower's current property is let to other tenants and the rental income is used to cover the mortgage repayments on a new property, bought as the borrower's main residence. When Lenders calculate how large a loan the borrower can afford to repay on LTB they do so primarily on the basis of projected rental income, rather than salary *income multiples*, whilst lenders can take other factors into account as well in calculating the amount they will lend.

Libor-Linked mortgage: This is a variable mortgage that is either above or below the London Inter-Bank Offered Rate by a set percentage within a set period. The Libor rate is set independently every 3 months. It is often associated with Lenders that offer loans to borrowers with elements of *adverse credit*.

Life Policy: See *Term Assurance*.

Loan to Value (LTV): This is a percentage figure of the loan amount in relation to the property value. For instance a £100,000 property bought with a mortgage of £70,000 has an LTV of 70%. The higher the LTV, the higher the interest rate charged will be; above certain LTVs a *Higher Lending Charge* comes into effect.

Mortgage Indemnity Guarantee (MIG): See *Higher Lending Charge*.

Mortgage Payment Protection Insurance (MPPI): See *Accident, Sickness and Unemployment Insurance (ASU)*.

Non-Conforming: See *Adverse Credit*.

Offset mortgage: This is a fully *Flexible mortgage* which allows a borrower to keep balances (such as mortgage debt, savings account and current account) in separate accounts, but, for the purposes of interest calculation, all balances are aggregated. Money in savings or current accounts is set against the mortgage balance and interest is only charged on the outstanding amount, meaning interest payments are reduced.

Overpayment: This is when an unscheduled capital repayment is made or when monthly payments are increased, in order that the mortgage is repaid before the end of the mortgage term, saving considerable sums in interest. Many traditional (i.e. non-*Flexible*) mortgages include *early repayment charges* if overpayments are made within a set period. In contrast, *Flexible mortgages* allow unlimited overpayments without penalty and, increasingly, mortgages are semi-*Flexible*, allowing borrowers to overpay a certain percentage of their loan each year without incurring *early repayment charges*.

Pension: A repayment vehicle associated with *Interest Only mortgages*.

Personal Equity Plan (PEP): A repayment vehicle associated with *Interest Only mortgages*.

Portability: A portable mortgage is one that can be transferred to another property without penalty if the borrower moves house within an *early repayment charge* period. The new interest rate that the Lender will be prepared to offer depends on whether the loan amount increases or decreases. If the latter, *early repayment charges* may apply.

Procuration Fee: This is commission paid by Lenders to intermediaries for introducing business to them. If the intermediary receives more than £250 they are obliged under the Mortgage Code to disclose to the borrower the exact amount they received.

<u>Also known as:</u> *Introducer Fee*.

Redemption Penalty: See *Early Repayment Charge (ERC)*.

Repayment mortgage: See *Capital and Interest mortgages*.

Right to Buy (RTB): 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.

Self Build: This is a mortgage for property under construction. The loan is paid out in stages as the property is completed, in order to ensure the *LTV* does not rise too high at any point.

Self Certification mortgage (S/C): 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. Consequently, S/C rates are often higher than standard *Full Status* mortgages.

Shared Ownership: This is a scheme operated by a Housing Association where the borrower owns part of a property, and pays the mortgage on this, while a Housing Association owns the rest of the property, and the borrower pays rent on this.

Split Loan: This is a mortgage that is taken partly on a *Capital and Interest* basis and partly on an *Interest Only* basis.

Stamp Duty: This is a government tax charged on the sale of properties. The tax is calculated as a percentage based on the value of the property above a threshold set in the Chancellor's annual budget. The tax rate is divided into bands with the percentage increasing with the value of the property. It is not payable on remortgages.

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.

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

<u>Also known as:</u> *Life Policy*.

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

Valuation Fee: Whether purchasing or remortgaging the Lender undertakes a valuation of the property to ensure it provides adequate security. The charge is borne by the borrower and increases exponentially with the valuation/purchase price. There are 3 levels of valuation: in order of increasing detail these are Basic, *Homebuyers' Report*, and Structural survey. The more stringent the valuation, the higher the fee.