



## Mortgage Jargon Buster

Here's a list of mortgage terms and phrases you might come across and an explanation of what they mean.

### **Agreement in Principle**

An Agreement in Principle (AIP), also known as a mortgage in principle or decision in principle, gives you an understanding of how much you may be able to borrow towards the purchase or remortgage of a property. It's a document that you can use with an estate agent, or those selling a property, to show that you may be in a financial position to purchase it.

### **APRC**

The annual percentage rate of charge (APRC) is the total cost of the loan expressed as an annual percentage. The APRC is provided to help you compare different offers.

### **Arrears**

If you fall behind on your mortgage payments you are "in arrears".

### **Base Rate**

A rate of interest set by the Bank of England, which tracker mortgage rates and lenders' standard variable rates usually follow.

### **Broker/Intermediary**

An independent adviser who can help you with mortgages and other financial matters.

### **Capital and Interest Payment**

Your monthly payment covers the interest and also reduces the total balance outstanding.

### **CHAPS Fee**

A fee to cover the cost of electronically transferring the mortgage funds to the borrower.

### **Conveyancing**

Is the legal process of buying and selling property. This can be done by a solicitor or specialist-licensed conveyancer.

### **Cost of Credit**

The difference between the amount you borrow and the amount you'll end up paying back taking into account interest and other charges.

### **Decision in Principle**

A Decision in Principle is another term used for what we refer to as an 'Agreement in Principle'.

### **Deeds**

Title deeds are the legal documents which record the ownership of a property and any accompanying land.

### **Mortgage Deposit**

The amount you need to pay towards the total purchase price of the property. This varies depending on the product and lender. Some lenders offer an as little as 5% deposit mortgage for first time buyers.

### **Early Repayment Charge (ERC)**

Some mortgages, such as a fixed rate mortgage, charge a fee if you pay back the loan early. This can vary, so check your original letter of approval or terms and conditions for the amount. This is known as an Early Repayment Charge (ERC).

### **Equity**

Is the difference between the current value of your home and the amount outstanding on your mortgage.

### **Exit Fee**

This is an administration fee payable to service providers when you fully repay your mortgage.

### **Fixed Rate mortgage**

A mortgage where the interest rate stays the same for a specific period (e.g two or five years) even if the base rate changes in the meantime.

### **Freehold**

You own both the property and the land it stands on.

### **Gazumping**

Gazumping occurs when a seller accepts an oral offer (a promise to purchase) on the property from one potential buyer, but then accepts a higher offer from someone else. It can also refer to the seller raising the asking price or asking for more money at the last minute, after previously orally agreeing to a lower one. In either case, the original buyer is left in a bad situation, and either has to offer a higher price or lose the purchase.

### **Gifted deposit**

A gifted deposit is when someone else, perhaps a family member, provides the funds for some of, or all, your mortgage deposit.

**Guarantor**

A third party who agrees to meet the monthly mortgage repayment if you are unable to. This is more common with first-time buyers, with the guarantor likely to be their parent or guardian.

**Help to Buy**

Help to Buy is the name given to several UK Government schemes generally designed to help first time buyers attain home ownership.

**Higher lending charge (HLC)**

This is sometimes charged by your mortgage lender if you are borrowing more than 75% of the property's value. It protects the lender against you defaulting on your mortgage.

**Joint Applicants / Joint Mortgages**

This is where you hold property ownership rights equally with another person or persons. If one person dies, ownership reverts entirely to the surviving person or persons. This legal agreement supersedes any Will the deceased may have made.

**Land Registry**

The official body that holds the details of property ownership.

**Leasehold**

You own the property but not the land it is built on for a specific number of years. Flats are usually owned on a leasehold basis. You may find it hard to get a mortgage if there are fewer than 70 years left on the lease of the property you want to buy. Leases are renegotiable, but the shorter remaining terms, the more expensive it will usually be.

**LTV (Loan to Value)**

LTV means Loan to Value. The size of your mortgage as a percentage of the value of your property. For instance, if you have £50,000 mortgage and your home is worth £100,000, your LTV is 50%.

**Maturity Date**

The date the mortgage must be repaid in full, or by which a new agreement needs to be taken out.

**Monthly Repayment**

The amount you pay to your lender for your mortgage each month.

**Mortgage Illustration**

A Mortgage Illustration should be given to you before you make a mortgage application. It describes the key things you need to know about your mortgage such as payments and fees.

**Mortgage in Principle**

A Mortgage in Principle is another term used for what we refer to as an 'Agreement in Principle'.

**Mortgage Offer**

This is your guaranteed offer. Once your mortgage is approved you'll get a formal offer setting out the terms and conditions.

**Mortgage Term**

The amount of time you are repaying your mortgage over (e.g. 25 years).

**Negative Equity**

When the value of your home falls below the amount of your mortgage.

**Overpayment**

This is when you pay extra, over and above your monthly mortgage payment. You could choose to make a one-off lump sum overpayment or overpay a regular amount with your normal mortgage payment. Overpayments save you interest and will shorten your mortgage term.

**Portability**

Where an existing mortgage can be transferred between properties when you move house.

**Payment Holiday**

This is a period during which you make no payments on your mortgage. While you make no payments interest will continue to be charged. This feature is usually only available on a flexible mortgage.

**Product Fee**

This is a set-up fee for your mortgage. Lenders will charge different product fees so do shop around.

**Rebuild costs**

The amount it would cost to rebuild your home if it is destroyed (by fire for instance). This is needed for insurance purposes.

**Remortgage**

When a person transfers their mortgage from another lender.

**Stamp Duty**

This is a tax you pay when you buy a property. You don't have to pay stamp duty on a property purchase of up to £125,000 but any amount over this you will have to pay a percentage of the price. As the price you pay for a new property increases, so do the rates of stamp duty, ranging from 1% to 4% for properties up to £1million.

**Standard Variable Rate**

The default mortgage interest rate your lender will charge you after your initial mortgage deal ends.

### **Service fee**

The fee charged by a lender who, with the customer's written consent, requests details from their existing mortgage lender.

### **Tracker Rate Mortgage**

The mortgage interest rate is set at a fixed percentage above the Bank of England (BoE) base rate. The interest rate payable will rise and fall in line with changes to the BoE base rate.

### **Valuation**

Mortgage lenders require a valuation to prove that the property is worth the amount you want to borrow.

### **Variable rate**

This means the interest rate can go up or down if your mortgage lender decides to change their standard variable rate.

## **What's the difference between freehold and leasehold?**

When purchasing a property in the UK, there are two types of ownership; leasehold and freehold. There are various differences between freehold and leasehold.

### **Freehold**

You own the property and land outright

If you live in the property yourself, you'll be responsible for its upkeep. If you lease it out however, your freeholder responsibilities may include (but not be limited to);

Maintenance for structural aspects of the building

Upkeep of any communal areas

Managing pest control if necessary

Managing utility supplies (power etc) of any communal areas

Depending on the context, you may need provision for insurance of the building

Collecting any fees agreed with leaseholders (ground rent, service charges)

### **Leasehold**

You own the property for a set period, but not the land it's built on

Your responsibilities as a leaseholder will be outlined in your lease agreement. They may include (but not be limited to);

Your responsibilities for upkeep of the property

Any costs you'll need to pay the freeholder, such as ground rent and service charge

Any specific rules, such as no pets or not being allowed to rent out the property

There may be terms that don't allow structural changes, such as extensions  
You'll be responsible for insuring the contents of your property (if you choose to)

### **Leaseholds in Scotland**

Leaseholds are rare in Scotland and flats are usually sold on a similar basis to commonhold properties in the UK. A flat owner owns their own freehold but the communal areas are looked after by a 'factor' – a company to which flat owners pay a fee.

### **What is leasehold?**

A leasehold property means you own the property but not the land that it's built on, the land is owned by the freeholder.

There's a legal agreement with the freeholder called a 'lease'. This states how many years you'll own the property.

If the lease is running low, this can be increased by asking the freeholder, but there will probably be a cost associated with extending it.

Ownership of the property returns to the freeholder when the lease comes to an end.

### **How does a leasehold work?**

With a leasehold property, you're purchasing the lease of the property from the freeholder. This gives the purchaser the right to live in the property for a set number of years.

### **When should I renew my lease?**

It may be sensible to seek a lease renewal when there's around 80 years remaining.

A lease can be hundreds of years, so a relatively low remaining term could be an issue if you are selling or remortgaging a property. Mortgage lenders may be less likely to lend on the basis as a remaining lease becomes shorter.

### **What if I'm buying a leasehold property?**

If you're buying a leasehold, you're effectively purchasing an existing lease agreement, rather than starting a new lease with the freeholder.

If the property has a relatively short lease term remaining, this will likely be reflected in the asking price.

If you're interested in buying a leasehold property, you should always seek a copy of the lease agreement, confirming the remaining lease term. Your conveyancer will help you with this.

## **What happens when a leasehold ends?**

Once a leasehold ends, ownership of the property reverts to the freeholder and the leaseholder no longer has a right to live there, regardless of any money paid (e.g. mortgage payments) to purchase the lease.

## **What does freehold mean?**

Freehold (also known as freehold tenure) means outright ownership of the property and the land indefinitely. In Scotland, 'heritable title' is similar to a freehold and used when referring to outright ownership of a property.

## **What is share of freehold?**

Share of freehold is a shared ownership of the freehold title. There are two types of share of freehold: Up to 4 owners can share the freehold in their personal names. A company is set up and owns the freehold but allows flat owners to own a share in the company. This can also be known as a membership.

## **What is a flying freehold?**

This is where part of the property overhangs or lies beneath another person's property. Some examples include balconies overhanging neighbours, basements that sit underneath a neighbour's property or passageways.

## **Is my house freehold or leasehold?**

You can find out if a property in England or Wales is leasehold or freehold by visiting the Land Registry website. For properties in Scotland, head on over to the Registers of Scotland site at [ros.gov.uk](https://ros.gov.uk).

See the Land Registry site <https://www.gov.uk/government/organisations/land-registry>

## **Need some help or want to talk to one of our experienced independent mortgage brokers?**

Call us on **079155-77777**

Send an email: [enquiries@mortgagematchmakers.co.uk](mailto:enquiries@mortgagematchmakers.co.uk)