The Ultimate A-Z Mortgage Jargon-Buster

During your mortgage application, you might hear or read some unfamiliar words.
Look up the definitions of all the key terms used in the mortgage world in our jargon-busting guide.

A B C D E F G H I
J K L M N O P Q R
S T U V W X Y Z

A

Additional borrowing

On occasion when re-mortgaging, a person may borrow more money, increasing the size of their mortgage. This is known as additional borrowing and the additional funds can be used for renovations or other household expenses.

Adverse credit

Also known as 'bad credit', adverse credit describes problems with a person's credit score. This can be caused by late payments, CCJ's and bankruptcy.

Agreement in principle (AIP)

Sometimes known as a 'Mortgage Promise' or a 'Decision in Principle', this is one of the first steps when getting a mortgage. An agreement in principle is a conditional offer from a lender confirming that a person can borrow a certain amount. Estate agents, or those selling a property, may want to see this document as proof the buyer is in a financial position to purchase the property.

APRC

The Annual Percentage Rate of Charge' is the total cost of a mortgage, including the interest and any fees that must be paid. All lenders calculate APRC in the same way, so it is a useful way for borrowers to make comparisons. However, if the terms of the mortgage agreement are changed, the APRC will also change and so this should always be considered.

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Affordability assessment

Lenders undertake an affordability assessment to establish if you can afford to repay your monthly mortgage payments over the term of the loan. Lenders will take your incomings and outgoings into consideration to assess whether you can afford to make repayments over the full length of a loan and if the loan is sustainable for you.

Arrangement fee

This is the fee the lender charges for setting up and organising a person's mortgage. Lots of lenders allow this fee to be added on to the loan, but this does mean paying interest on it.

Arrears

This is a legal term used to describe money that is overdue and should have been paid earlier. Mortgage arrears are mortgage payments that are owed as they've not been paid on time or as requested.

B

Bank of England Base Rate (BBR)

This is the Bank of England's official borrowing rate. It is set by the Monetary Policy Committee.

Broker

A 'mortgage broker' is a mortgage expert who can help and advise a person looking to obtain a mortgage, to make sure they find a mortgage that is suitable for their situation. They may also be referred to as a 'mortgage advisor' or 'intermediary'.

Buildings insurance

This is a type of insurance that protects a person from damage to the structure of their home in case of events such as fire, flood etc. It covers damage to the internal and external structures of the property but does not cover contents. Lenders will require borrowers to have buildings insurance in place when they take out a mortgage.

Buy-to-let

A buy-to-let is a property that is bought with the purpose of letting it out (renting it) to tenants. A buy-to-let mortgage is a particular mortgage deal that is offered to landlords purchasing a buy-to-let property.

C

Capital

The capital amount of money someone needs to borrow to buy a property. When repaying a mortgage, the borrower will pay for interest as well as the capital loan. In some instances, mortgages can be repaid on an interest-only basis with the capital repayment made at the end of the term.

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Capital raising

In the mortgage world, capital raising allows you to release funds or equity from your home for other purposes such as making home improvements, further investments, or purchasing another property.

This is usually done by remortgaging the property or swapping mortgage products to benefit from a lower interest rate.

Different lenders will have set reasons for which they will be willing to accept capital raising on a remortgage.

Capped rate

Despite any increases to the 'base rate' set by the Bank of England, if a mortgage deal has a capped rate, the interest rate charged by the lender will never exceed the fixed upper limit. Capped rate mortgages are a type of variable rate mortgage where repayments can change as interest rates go up and down. This offers borrowers the reassurance that their repayment will never exceed a certain amount, whilst still allowing them to benefit from potential falling interest rates.

Cashback mortgage

With a cashback mortgage, the lender gives the borrower a one-off payment on completion.

CCJ

In England, Wales, and Northern Ireland, a County Court Judgement (CCJ) is a type of court order that can be registered against a person who fails to repay the money that they owe. Having a CCJ against their name will impact a person's **credit score** and can make it more difficult not only to secure a mortgage, but also to get a credit card or open a bank account.

Completion

This is the point where everything has been finalised; the buyer has successfully obtained a mortgage agreement and paid the seller (usually via a solicitor), allowing them to obtain the keys and begin moving in. Legally, completion is the transfer of ownership of the property which comes after exchange of contracts.

Conveyancing

This is the legal process involved when buying/selling a property.

Conveyancer

A conveyancer is a specialist lawyer whose job is to manage the legal process of transferring the ownership of a property.

Credit score

A credit score is a numerical figure that provides lenders with an indicator of how well a person manages money. The lower a person's credit score, the higher risk they will be considered by lenders. A credit score is based on several factors including the number of open accounts a person has, their repayment history, and any existing debts.

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Credit check – soft credit check vs hard credit check

Also known as a credit search, a credit check is when a company examines information from your credit report to gain an understanding of a person's financial behaviour. As part of a credit check, companies may look at how much existing credit a person has, whether they have previously paid back credit on time and may also consider any financial associations a person has (e.g., if they share a bank account with another person) and what their credit is. Banks, utility suppliers, credit providers and letting agencies are amongst some of the companies that may carry out a credit check on a person.

There are two types of credit check, a soft credit check and a hard credit check:

- Soft credit check - This is a check on a person's credit report that only considers certain information and does not include a complete examination of their credit history. Any soft credit check carried out on a person is not visible to other lenders and therefore has no impact on their credit score and any other applications they may make in the future. As they do not leave any trace on a person's credit report, soft credit checks can be useful for someone wishing to check their own eligibility for credit without applying.

- Hard credit check - This type of credit check will conduct a complete search of a person's credit report. A hard credit check will also be recorded on the person's credit report and so the application for credit will be visible to any other companies who run a credit check in the future.

D

Debt consolidation

This is the process of merging several debts into one loan to help simplify repayments.

You can use the equity in your property to take out a single loan to pay off other debts (e.g., a car loan). This is known as a debt consolidation mortgage.

Deeds

The legal documents recording the ownership of a property and any accompanying land are known as the title deeds.

Defaults

The failure to make the agreed interest or principal repayments on a loan, whether it is secured (mortgages, car loans) or unsecured (credit card, student loans), is known as defaulting.

Deposit

The deposit is the initial amount of money that the buyer is required to contribute towards the purchase price of the property. The minimum deposit lenders usually ask for is 5% but, often, cheaper deals may be available to people who can pay a higher deposit.

Decision in Principle

Also known as an **Agreement in Principle**.

Dual representation

When the borrower and the lender are represented by the same legal firm, this is known as dual representation. It is deemed beneficial largely for both parties as there are less delays due to ongoing communication between different firms.

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Early repayment charges (ERCs)

This is a fee that must be paid if a person wants to leave their mortgage during a specified period, usually the period of the initial deal.

Equity

The equity is the amount of the property that a person owns outright. This will be the sum of the deposit paid and any capital that has already been paid off. As the borrower continues to make mortgage payments, they build the amount of equity they have.

Equity release

This is the way a person can release equity (money) from a property they own without having to move out.

EPC (Energy Performance Certificate)

An EPC is a document detailing the energy efficiency of a property. The property will be rated from A (most efficient) to G (least efficient) and the estimated energy costs for that property will be shown. It is important to note that the estimated energy costs are only given for lighting, heating, and hot water.

An EPC will also include recommendations on how you can make the property more energy-efficient and therefore reduce those costs. The projected costs for implementing those changes are displayed against the potential savings on energy costs. An EPC is valid for ten years from the date of issue.

ESIS (European Standardised Information Sheet)

The ESIS document, also referred to as a **mortgage illustration**, is presented to you by the lender at the time a mortgage offer is made and contains all the key information on the mortgage product being offered.

Exchange

The exchange of contracts is the point when an agreement to buy/sell a property becomes legally binding. Both the buyer and seller sign contracts agreeing to buy/sell the property, and their solicitors then exchange these contracts.

F

First-time buyer

Generally, this is someone who has never owned property before, and therefore has no property to sell. However, some lenders consider a person who has not owned property in twelve months to be a first-time buyer, so it is important to look specifically at the relevant lender's classifications.

Fixed-rate mortgage

The interest rate on a fixed-rate mortgage is set for the initial period of the deal, usually between one and five years. This means a borrower can be sure of exactly what they will be paying on their mortgage each month, as the interest rate won't fluctuate as the base rate does. It does mean, however, if the base rate falls, they will not benefit from the lower interest rates.

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Flexible mortgage

Flexible mortgage deals have different features, allowing borrowers to make overpayments, reborrow those overpayments, reduce payments and occasionally take payment holidays. Not all flexible mortgages offer all these features. Flexible mortgages may be suited to those whose income can vary from month to month, for example, the self-employed. They can also be suited to those who may want to pay off their mortgage early and save money on interest. However, flexible mortgages tend to be more costly than conventional ones.

Financial Conduct Authority (FCA)

The FCA is an independent public body that regulates the financial services industry in the UK. The FCA's key goals are to protect customers, elevate the integrity of the UK financial system, and promote healthy competition between financial service providers.

Freehold

If you purchase a property freehold, you purchase both the property and the land it is on. This means you will not have to pay **ground rent** to a landlord.

G

Gifted deposit

A gifted deposit is when a homebuyer is given money - often by a family member - to use as a down payment on the property they wish to purchase.

Guarantor

A guarantor is a third party who consents to pay the monthly mortgage repayments should the borrower fail to do so. Guarantors are most associated with first-time buyers and are usually a parent or guardian.

Ground rent

The ground rent is a contractual rental payment, under the terms of a lease, made by the owner of a building to the owner of the land upon which the building is built.

H

Help to Buy

The government has launched a number of different schemes focussed on making home-buying easier for first-time buyers. The schemes include equity loans, mortgage guarantees, and ISAs. There is more information about each specific scheme on the **GOV.UK** website.

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Interest coverage ratio (ICR)

When assessing affordability for a buy-to-let mortgage application, the interest coverage ratio will be considered. It's the minimum ratio between the anticipated rental income of the property and a notional interest rate. For example, a typical buy-to-let mortgage product may stipulate that the property must generate rent worth at least 125% of the notional interest rate. In this instance, the ICR is 125%. Lenders may assess other sources of income to assess affordability if the expected rental income does not sufficiently exceed the notional interest rate.

Interest-only mortgage

With an interest-only mortgage, the borrower will only pay the interest on their mortgage each month, without repaying any of the capital loan itself. The capital loan and any other unpaid fees must then be paid off at the end of the term. The idea is that the borrower will build up enough money to pay off the capital in one sum using an investment vehicle. For example, investing in stocks and shares, the sale of another property, or saving using an ISA.

Intermediary

An intermediary - also sometimes known as a mortgage advisor or mortgage broker - is a professional who will offer a buyer advice and help them find a mortgage deal suited to them.

Illustration

A mortgage illustration, also known as an **ESIS (European Standardised Information Sheet)**, is the document you'll receive from a lender, usually alongside a mortgage offer. The mortgage illustration is tailored to your individual case and lays out everything you need to know regarding your mortgage offer. It will include, amongst other information, details on:

- Monthly repayments
- Fees and upfront charges
- The type of interest (fixed/variable)
- Total cost of the mortgage over the full-term
- Any special features (e.g. ability to make overpayments)

J

Joint mortgage

This is a mortgage taken out by two or more people.

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Land Registry

The Land Registry is the official body responsible for maintaining details of property ownership.

Lender

A lender is a bank or other financial institution that loans money for the purpose of purchasing property.

Lifetime mortgage

This is the most popular type of equity release. Lifetime mortgages are available to homeowners aged 55 and above allowing them to borrow money, secured against their home, whilst retaining ownership. The money can be taken in one lump sum or instalments. The loan amount and any interest that has built up is paid back to the lender by selling the property when the borrower dies or moves into long-term care.

Loan-to-income

Mortgage lenders will make mortgage offers based on what is known as the 'loan to income ratio'. This is the amount you want to borrow divided by your annual income. The maximum sum you can borrow is usually capped at four and a half times your annual salary, though it varies between different lenders.

Loan-to-value (LTV)

The LTV is the amount of money a person borrows as a percentage of the property's value; it reflects the size of the buyer's deposit. For example, if a property is valued at £250,000 and the buyer puts down a 10% deposit of £25,000 and borrows £225,000 from a mortgage lender, then the LTV is 90%.

Leasehold

A leaseholder will own the property but not the land it is on. Ownership of the property is for a set period, after which ownership of the property will transfer to the freeholder.

M

Monthly repayment

This is the amount of money a borrower pays to the mortgage lender each month.

Mortgage payment protection insurance (MPPI)

This is a form of insurance that covers a person's mortgage payments, for a set amount of time, if they are unable to work due to accident, sickness or unemployment.

Mortgage term

This is the amount of time a borrower agrees to repay the mortgage over. The lifespan of a mortgage typically ranges between 10 and 40 years.

Mortgage deed

The mortgage deed is the legal document stating the terms and conditions under which a mortgage has been offered from a lender to a buyer.

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Negative equity

This occurs when the value of a property falls and becomes less than the amount remaining on the mortgage.

New build property

What is defined as a 'new build' property will vary from lender to lender but is often classified as a property that will be occupied/sold on the open market for the first time in its current state. This can include some/all of the following:

- A property that has been newly built (usually within the last 2 years)
- A newly converted property. This could be the conversion of a property that was non-residential, for example a factory, into a block of flats.
- A property that has been substantially renovated. Typically, the renovations are considered substantial when the property needed to be vacated in order to allow for the renovations to take place.
- A newly built or converted property (as above) that was previously occupied by tenants but has now been made available for sale by the developer.

O

Open banking

Open banking describes the process of enabling third-party financial service providers, such as apps and websites, to access your banking information and financial data to benefit from a wide range of services (e.g. spending analysis, tracking financial goals).

There are many reasons why the mortgage sector is benefitting from open banking. By reducing the amount of manual evaluation required, open banking can accelerate the application process dramatically as well as removing a lot of the risk of human error.

Automating and speeding up the verification process permits faster, better-informed affordability decisions to be made, offering potential borrowers certainty earlier on in the application process.

Offer

This is the formal loan offer that a lender will present to a buyer. As well as confirming that the lender is willing to grant a mortgage to the buyer, the offer will outline several details including the amount of money being provided, any interest and fees, and the date the offer expires.

Offset mortgage

An offset mortgage allows a borrower to link their mortgage to their savings which are used to reduce the amount of interest charged on the mortgage. The borrower's savings are 'offset' against the mortgage so that they pay interest on the mortgage value minus the balance of their savings.

Overpayment

An overpayment is made when a person pays more than their minimum monthly mortgage payment. Overpayments will shorten the mortgage term and therefore help a person save money on interest, but many mortgages will charge a penalty for making overpayments.

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Payment holiday

This is a period during which no mortgage payments are made, although interest will still be charged. Payment holidays are sometimes a feature of flexible mortgages and are suited to those with an irregular income.

Payday loans

Payday loans are short-term loans, usually for small amounts of money. They were initially designed to tide the borrower over until their next payday and so are usually repaid in full once the borrower receives their wages. Payday loans typically have high interest rates.

Porting

Most mortgages are 'portable' meaning it is often possible to transfer your existing mortgage to a new property. If your existing mortgage deal is portable and you decide to move property, you would not need to pay any early repayment charges when porting. It also may allow you to continue paying a lower interest rate if interest rates have increased since you took out your existing mortgage deal.

Product transfers

At the end of your fixed term, you may move from your existing mortgage deal to a new one with the same lender. This is known as a product transfer. It is very similar to remortgaging, but refers specifically to changing product whilst remaining with your current lender.

Procurement fee

This is the sum of money paid by the mortgage lender to an intermediary/mortgage advisor for securing an application from a customer who then enters into a contract with a lender.

R

Remortgaging

Remortgaging is the process of changing mortgages without moving house. This is done to save money, to benefit from a different mortgage product or better interest rates, or to release equity from a property.

Repayment mortgage

A repayment mortgage is a type of mortgage where the buyer pays off the mortgage interest and part of the capital loan each month. If no payments are missed, the mortgage is guaranteed to be paid off by the end of the term.

Reversion rate

This is the rate of interest that your mortgage 'reverts' to once your fixed-rate mortgage period expires.

Right to Buy

This is a government scheme established to help enable tenants of council houses to purchase the homes they live in. The scheme is now available for housing association tenants too.

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S

Separate representation

If the solicitor you chose to do your conveyancing does not appear on your mortgage lender's approved solicitor panel, but you choose to proceed with them anyway, then this is known as 'separate representation'.

This means that they cannot act for your mortgage lender and for you at the same time.

Shared ownership

Shared ownership is when a person buys part of a property (usually between 25% and 75%) and then pays rent on the remaining share, which is owned by the local housing association.

Solicitor panel

Also known as a 'lender's panel', or a 'conveyancing panel', this is the list of solicitors your lender is willing to work with and who meet their legal requirements. The firms listed are the firms your lender has assessed and deemed to be trustworthy.

Source of funds

This refers to checking where the money is coming from to buy the property. Common sources of funds can include savings, gifts from relatives and inheritances. Checking the source of funds is a regulatory requirement and helps limit opportunities for criminals to launder money.

Stamp duty

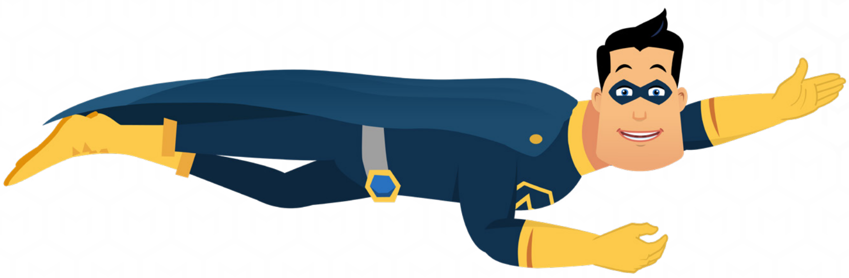
Stamp duty land tax (SDLT) is a tax collected by the government on property purchases. It is payable when a property is purchased for more than £125,000 (or £40,000 if it's a buy-to-let property or second home).

Standard variable rate (SVR)

This is a lender's default interest rate that they will charge a person after their initial mortgage deal period expires. The SVR could be higher or lower than the original rate.

Survey

This is the professional examination of a property with the focus of discovering any structural flaws or necessary renovations that a potential buyer may not have noticed. A survey differs from a **valuation**, as it provides a detailed, in-depth, and comprehensive report of the property to assess its condition.



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Tie-in period

This is the period during which a borrower must stay on specific mortgage terms. Early repayment charges may be issued if a person opts to leave their mortgage during this time.

Tracker mortgage

This is a type of variable rate mortgage where the interest rate 'tracks' (follows) another rate, commonly the base rate set by the Bank of England. Tracker mortgages do not match the rate they track but are often set a margin above that particular rate. For example, the base rate plus 2%.

Transfer deed

This is a legal document transferring the ownership of a property from the seller to the buyer. It must be signed by the seller and include the completion date. This document is then sent to the Land Registry so they can update their records.

U

Underwriting/Underwriter

Before approving a mortgage application, a mortgage lender must determine whether the borrower is going to be able to pay back the loan. The process of assessing this financial risk is known as underwriting and is carried out by an underwriter.

An underwriter will conduct a detailed analysis of the completed mortgage application. This includes looking through all the information and documents obtained by the mortgage advisor, verifying the identity of the applicant, assessing their financial situation, and checking the property to ensure it is not categorised as high-risk by the lender.

V

Valuation survey

This is commissioned by the lender to assess the value of the property to ensure its adequacy as collateral against the loan they are offering. It is also known as a mortgage valuation.

Variable rate mortgage

A variable rate mortgage describes a mortgage where the interest rates are not fixed and so your monthly payments can go up and down accordingly.

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Certainty made simple.