

Jargon Buster

This fact sheet explains some of the common terminology you may come across during your mortgage application.

TYPES OF MORTGAGES

Capital repayment - Pays off both the capital and interest elements of the mortgage with each monthly instalment, therefore reducing the balance over the length of the loan term.

Discount rate - Offers you reduced repayments for a given term. This interest rate is discounted from the published lender's standard variable rate. This rate can go up and down, but the discount amount remains fixed during the agreed period.

Interest only - For a set term the borrower will pay only the interest on the principal balance, whilst the balance remains unchanged. You are responsible for ensuring sufficient funds are available to repay your mortgage at the end of the term.

Tracker mortgage - The interest rate is linked directly to the Bank of England base rate, when the Base Rate changes the rate on your tracker mortgage changes by the same amount.

Capped rate - This mortgage has a maximum interest rate for a given period, the interest rate you pay will not go higher than the agreed capped rate during the period, but may rise or fall beneath the capped rate.

Fixed rate - An interest rate agreed at the start of the mortgage that will not change during the term of the fixed rate.

HOME BUYERS COSTS

APRC - The annual percentage rate of charge is designed to help consumers compare mortgage deals equally, taking into account the initial rate, fees and charges and the follow-on rate. It then calculates a percentage that tells you the annual mortgage costs if you were to stick with the same product until your mortgage is fully repaid.

Bank of England base rate - This determines how much other banks and building societies pay for the loans that they take out from the Bank of England. The rate is reviewed monthly and therefore could affect the interest rate paid on your loan.

Conveyancing - A legal process when buying or selling property. Completed by either a solicitor or licensed conveyancer.

Equity - The difference between the value of your property and the amount of any outstanding loans secured against it.

Exchange of contracts - When both the buyer and seller have legally committed to the sale and purchase of a property.

Freehold - This means you solely own the property and the land it is situated on.

Leasehold - This means you own the property for a set period before handing back ownership to the freeholder.

Offer of loan - A formal document approving the mortgage you have requested. This document will include the terms and conditions that will apply during the whole term of your mortgage.

Remortgage - This is the term used when moving your mortgage without actually moving house. This may be done by switching your product with your existing lender or switching your mortgage to a competitor.

Searches - These are the enquiries made, usually by your solicitor, at the Land Registry, the Land Charges Register and Local Authorities to ensure there is nothing to cause concern about title to the land and property you intend to buy.

SVR - After your deal finishes your mortgage rate will revert to the lender's standard variable rate. This interest rate can be raised or lowered by the lender at any time.

Variable rate - Usually based on the Bank of England Base Rate, it can go up and down during the term of your mortgage.