

# A-Z OF MORTGAGES

## A

### **Administration Fee**

Sometimes also known as an arrangement fee or booking fee. Some mortgage lenders charge this fee to cover their initial costs and is **not** refundable if the mortgage application does not proceed. Often the administration fee will form part of the valuation fee and the valuation fee will also **not** be refunded if the valuation does not proceed.

### **Advance**

Once a mortgage lender has agreed in principle to give you a mortgage on a property, the next step is to actually get hold of the funds. The loan itself is the "advance".

### **Apportionment**

When you buy a property you'll want to make sure you only pay electricity, gas, council tax etc for the period in which *you* own the property. So these expenses need to be apportioned or shared between the buyer and seller of a property. In that way each party will bear his or her fair share at the date on which the property sale is completed.

### **Arrears**

This is when mortgage payments have not been paid on time and/or are not made at the correct level. Borrowers with a history of mortgage arrears will find it harder to commence a further mortgage with their current lender or a new lender in the future. However, there are a number of lenders who will now consider lending to credit impaired individuals although the initial costs and lending rates may be higher although should remain fairly competitive.

## B

### **Base Rate**

The base rate is the minimum rate at which a lender is prepared to lend money - it acts as the benchmark for other interest rates, including personal loans and mortgages. The high street banks' base rate changes following the Bank of England's signals through its daily money market operations. The central bank moves base rates by changing the dealing rates at which it buys bills from the discount houses.

## C

### **Capped Rate Mortgage**

This is a mixture of a variable and fixed rate mortgage. An interest rate is charged in line with current prevailing rates, but the borrower is given a guarantee that the rate will not exceed a certain amount over a limited period of perhaps one, three or five years. The advantage to the borrower is that the mortgage rate can fall but there is a limit to how high it can rise in the event of mortgage rates moving upwards.

### **Capital and Interest Mortgage**

See Repayment Mortgage

## ***Cash Back***

With these schemes once a mortgage is completed a lender will pay a percentage of the mortgage as a lump sum to the borrower. Often, the higher the percentage of cash paid the greater the amount of strings attached. These may be reflected in higher redemption penalties if the mortgage is redeemed in the early years and/or reflected in a less favourable rate of interest on the mortgage. It should be noted that this cash back could result in a capital gains tax liability for the borrower.

## ***Charge***

In property law this is the right of a creditor, usually the mortgage lender, to receive cash payment to cover the debt if the property is sold. In some cases you may have borrowed further money against the value of your home, or guaranteed a bank overdraft with your home. The financial institution is described in this instance as having a second charge on your property, putting them in line to benefit from the sale after the outstanding mortgage has been settled.

## ***Completion***

This is the final legal transfer of ownership of the property and when it actually becomes yours. This is the point where the contract of sale is completed and the vendor (seller) having conveyed (handed over) the property and the purchaser (buyer).

## ***Conditional Insurance's***

This is where a lender insists that certain insurance products be taken out before a mortgage is granted. The lender will insist that buildings and contents insurance is in place and also suggest other protections such as accident, sickness, unemployment and life cover are put in place before mortgage monies are released. You are strongly advised not to automatically accept the lenders products and speak to independent brokers such as us as often the costs can be substantially reduced. This does not complicate the mortgage application, as the broker will put all plans in place for when the mortgage completes.

## ***Conveyance***

Conveyance is the term describing the legal transfer of ownership and as it is a complicated process can take anything from a few days to a few months depending on the issues involved and any complications that may arise. Your Solicitor undertakes this.

## ***D***

### ***Deed***

This is a legal document that has been signed and witnessed, with a seal, and formally handed over. A deed has special significance in law unlike a conveyance for example, which has no force in law unless it is in the form of a deed. Title to both freehold and leasehold property may only be transferred by deed.

### ***Deferred Interest Mortgage***

This is a mortgage where not all of the interest due is paid in the early years. The interest not paid is added to the mortgage. As a result a borrower will end up owing more than the initial mortgage amount and the interest payments will be higher over the rest of the mortgage term. This type of mortgage is usually marketed to professionals whose salaries are expected to increase rapidly in order that they can meet the later interest payments over the rest of the mortgage term. They are not normally recommended as the risks of building up high interest charges can be an added risk.

### ***Discount Mortgage***

This is a reduction in the prevailing variable rate of interest for a set period of time. In other words, the interest rate on offer is set at a specific margin below the standard variable rate. These offers along with other special

terms invariably involve the borrower agreeing to stay with the lender for a period of time or face 'withdrawal penalties'. These penalties may apply even after the discount or other offers have ended.

## **E**

### ***Early Redemption Fee***

This phrase will usually be found in conjunction with fixed rate, capped and discounted mortgages. As the lender has given the borrower an attractive mortgage package they will impose a penalty over and above the normal redemption fees if the mortgage is paid off within the period of the special terms and sometimes beyond.

### ***Exchange of Contracts***

When you're buying or selling a home, the 'exchange of contracts' is when the transfer of ownership 'Title' happens. It is too late to back out of the deal once contracts have been exchanged. The exchange of contracts is then followed 'completion' sometime after although in some cases this can happen at the same time. In the exchange of contracts, the buyer signs the contract for sale and sends it to the seller who also signs it - both parties are then legally bound to complete the transfer. At this point the buyer should insure the property.

## **F**

### ***Financial Services Authority***

This is the independent watchdog that regulates financial services including the vast majority of mortgages. Various information can be obtained from the regulator at [www.fsa.gov.uk/consumer](http://www.fsa.gov.uk/consumer) or by calling 0845 456 1555.

### ***First Time Buyers***

The lending market is **very** competitive for first time buyers. Mortgage lenders want to be the first to lend to such borrowers in order to keep them as customers for subsequent mortgages. Generally this phrase is used for those borrowers who are buying a property for the first time. Some lenders will also consider someone who has owned a property before but maybe currently renting. First time buyers may be able to access particularly attractive mortgage packages such as fixed rates and discounted rates.

### ***Fixed Rate Mortgage***

These offer borrowers a guarantee of what their mortgage payments will be for a set period of time. An interest rate that does not vary is convenient for budgeting. You run the risk that mortgage rates generally will fall below the level at which you've agreed on your fixed rate deal but equally, you'll be insulated from any significant upward swing in mortgage rates. Fixed rate deals often involve the borrower agreeing to a penalty charge, often up to six months interest, if they decide to cash in the mortgage early.

### ***Flexible Mortgage***

In recent years lenders have introduced flexible mortgages that allow you to vary your monthly repayments. Generally speaking you have the option of overpaying, underpaying, or even taking a payment holiday. The obvious advantage of overpaying, for example, is your outstanding loan will reduce more quickly. This will cut your monthly payments in the long run and save on interest charges. Conversely your financial circumstances may temporarily change and you might have the need to pay less. The advantage of a flexible mortgage is you won't be penalised in these circumstances.

### ***Flying Freehold***

This is a term used to describe that part of a freehold property that is built above land or property that is not part of the property freehold, e.g. a room over a common passageway. Flying freeholds can cause difficulties when trying to get a mortgage.

## ***Freehold***

This is the legal right to hold land or property as an outright owner. As a freeholder, you can then offer to rent your land/property to parties with whom you'll have a legal agreement. Although if you have borrowings secured on the property you may need to either inform or obtain the agreement of the lender before doing so.

## ***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***

### ***Guarantor***

In some circumstances, if a lender thinks you might not be able to pay back a loan for which you are applying, they can ask for, or you can offer a guarantor. This is a third party who'll pay your debts if you can't (or won't). A guarantor is a third party who stands liable to cover any shortfall or default on the borrower's debt. This can sometimes be a way in which young first time buyers can get a foot on the housing ladder.

## ***H***

### ***Home Information Packs (HIPs)***

Home Information Packs (HIPs), or sellers' packs as they are more widely known, will become mandatory for all house sellers from 1 June 2007. The pack will contain a house valuation as well legal advice and the results of searches. The cost is expected to be up to £1,000.

The content of a HIP will include searches, an energy audit and other information currently paid for by the house buyer. Its most important item, though, will be the Home Condition Report (HCR), an objective assessment of the property's condition that buyers, sellers and lenders will have a legal right to rely on. This will account for some £300 (average home) of the overall HIP cost. Only inspectors qualifying under a certification scheme approved by the Secretary of State will be able to prepare HCRs. The major cost benefit of a HIP is that it obviates the search /surveying fees etc being paid several times over by as many buyers pursuing the same home.

### ***Home Buyers Report***

This is a property survey report that 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. A detailed structural survey report may be more suitable for some types of property, e.g. older. It is essential that professional advice is sought in this area.

## ***I***

### ***Interest only***

With this type of home loan, the lender is advancing you money and asking you to do no more than pay off interest each month. In other words you are merely servicing the debt, and the amount outstanding on your mortgage will remain constant. With interest only mortgages, most borrowers take out some kind of savings plan such as an ISA, Pension or Endowment to ensure that at some time in the future they will have enough money to pay off their mortgage. These areas require detailed analysis and professional independent advice should be sought in all cases, as the risks are higher than a repayment mortgage.

## **K**

### ***Keyfacts documents***

The Financial Services Authority requires that your mortgage adviser provide you with this document. It allows you to compare in a similar format products from any number of lenders and will provide information such as initial rates, monthly costs, total cost of borrowing, what fees are payable and when, any conditional purchases such as buildings and contents insurance as well as the commissions payable to your adviser and any additional fees your adviser may ask you to pay for advice. These documents are not an offer of mortgage from the lender.

## **L**

### ***Land registry***

This is the government department responsible for maintaining and updating the register of all properties in England and Wales with registered titles. A Land Registry certificate provides details of the property including a plan and if the property is leasehold, a copy of the lease. A Land Registry fee is payable to the Land Registry to register ownership of a property.

### ***Leasehold***

A 'leasehold' gives you the right of possession, but not ownership, of a property for an agreed period of time. Ultimately, ownership remains with the freeholder. The duration of the right of ownership is usually a fixed term granted by the lease. The lease will set out details of rents and obligations such as repairs etc. Ground rent is a sum of money paid to the landlord by a leaseholder in respect of a leasehold property

### ***Life assurance***

Life assurance is a means by which you can insure your lives, so that our dependants and other loved ones can be compensated financially when we die. If you are taking out a mortgage, as with buildings insurance, this should be considered as a necessary additional expense to ensure that the remaining family are not burdened with debt on the death of one of the mortgages. This can be provided at very little cost through an independent financial advisor.

## **M**

### ***Mortgage***

Most people don't buy their homes outright for cash, instead they borrow money to do so. There are no shortages of choices when it comes to deciding what 'flavour' of mortgage will suit you. The main types are repayment and interest only. You can also choose from fixed, capped, discounts and cash backs. The lender advances money and receives certain rights, including the authority to sell the property if repayments are not maintained. Your mortgage offer document sets out the details of the home loan.

### ***Mortgage Protection Policy***

A mortgage protection policy is a pure life assurance policy with a decreasing sum assured designed to protect the remaining outstanding capital of a repayment mortgage. If your were to die, the lender would like to know that you have an insurance policy in place which will be used to immediately pay off your mortgage debt. That's very handy for them and sensible for you if you're leaving a partner and/or family behind who want to continue living in the property but perhaps won't be in a position to afford the mortgage repayments without you. And also consider what if you lose your job? You might want to consider additional cover to ensure your mortgage payments are met. This is called payment protection.

### ***Mortgage indemnity Premium***

This is an insurance policy designed to protect the lender against loss in the event of you defaulting and ceasing to repay your mortgage. The lender at the start of the loan normally insists on the policy, but it's usually the

borrower who pays the premium. Due to the competitive market place, in many cases this charge can be avoided by shopping around but as always, it is a matter of balancing the whole mortgage and not just one single charge.

## **N**

### ***Negative Equity***

When the value of an asset falls below the amount of the loan taken out to purchase it, you are said to be in a position of negative equity. In other words, were you to sell your asset you would not receive enough money to enable you to pay off your loan (your mortgage).

### ***NHBC Buildmark Warranty***

When buying a newly constructed home you should also get a guarantee for the first 10 years. Look for the NHBC guarantee. The National House Building Council (NHBC) is a non-profit making body with a register of around 25,000 builders and developers. NHBC inspectors examine new properties and, providing the builder is registered and the property meets standards drawn up by the NHBC, they will issue a Buildmark Warranty. The warranty is a certificate of sound construction and offers substantial insurance protection against any building faults or structural defects for a period of 10 years up to a maximum liability of the original purchase price adjusted to take account of inflation.

### ***Non-Status Mortgage***

Mortgage offered by lenders without any proof of previous mortgage history or proof of income. The usual maximum loan to value is around 80-85% and a credit check is still carried out.

## **O**

### ***Offer***

The document issued by a mortgage lender to a prospective borrower following approval of the mortgage application. Your mortgage offer will set out in detail the conditions on which the mortgage is being made available to you and the mortgage term. You should study the mortgage offer carefully. These documents are normally valid for a limited period of 3-6 months but they are not irrevocable. This means the lender can still withdraw the funds if there are any material changes in your circumstances (such as redundancy) before the loan is completed. If the loan does go through, both you as borrower and the mortgage lender are bound by the conditions and terms outlined in the mortgage offer.

## **P**

### ***Pension Mortgage***

The self employed or those with a pension can link their mortgage to a pension plan. At the end of the mortgage term, part of the tax-free proceeds (the tax free lump sum) of the pension fund is used to repay the capital outstanding. The main drawback of a pension mortgage is that it will, of course, reduce the amount available to provide a pension in retirement. However, on the plus side, tax relief is available on pension plan contributions.

### ***ISA Mortgage***

Individual Savings Accounts (ISAs) are a means of investing in the stock market in a tax efficient way. Using an ISA plan to pay off your mortgage could make a lot of sense but anything to do with the stock market involves risk. At the very least you should understand the risks and the benefits of choosing an ISA to repay your home loan. ISAs do not offer a guaranteed return and you would probably need to arrange term assurance (life cover) for the mortgage sum as well to satisfy your lender. However, one of the benefits of an ISA is any profits you make are free of capital gains and income tax and could work out much cheaper than an endowment mortgage.

## ***Portable Mortgages***

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. This would be important if a capped, cash back, discounted or fixed product has been used by a borrower and early redemption fees would be incurred if the mortgage was not portable.

## ***R***

### ***Redemption***

This has a strict legal definition and is the right to recover mortgaged property on repayment of the loan and any interest due. What this means is that once you as the borrower have finished repaying the loan taken out, the property is yours and the lender has no further claim on it. If you want to pay the mortgage off ahead of schedule, for example, to save yourself future interest payments you may face a penalty charge, known as a redemption fee. The lender may make this if the mortgage is paid off early to compensate them for the loss of interest they would otherwise have earned.

### ***Remortgage***

This is when an existing mortgage is moved to another product, usually with a different lender. The reasons can be numerous including obtaining a better rate, reducing the monthly repayments, borrowing additional sums to clear existing debts or pay for home improvements or to increase flexibility to name a few. Many lenders are very keen to attract this type of business and will often pay for the applicant's valuation and legal fees. Note that there can be some catches as lenders can offer very low rates with extended tie-ins and also high penalty clauses should you wish to move the loan earlier than expected. However, this can be a very useful exercise for many borrowers who would otherwise sit tight with their existing borrow and pay normal variable rates for much of the mortgage term.

### ***Repayment Mortgage***

This is a mortgage where the capital is repaid gradually over the term of the mortgage. Each monthly payment is made up of interest due on the outstanding debt and an additional sum applied to reducing the capital balance. In the early years most of each month's payment is comprised of interest. In later years, more capital is repaid with the result that the balance outstanding reduces.

### ***Restrictive covenant***

A restrictive covenant is an obligation that may be imposed on the owner of a freehold property in the deeds to that property. Restrictive covenants are also likely to be included if your property is leasehold. Such clauses will prevent certain actions such as running a business, building an extension, keeping farm animals or perhaps allowing access through your property.

## ***S***

### ***Shared Ownership***

A housing association tenant may have the opportunity to purchase a property. 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

### ***Stamp Duty***

Stamp Duty is a government tax levied on certain legal transactions including the purchase of property. In other words, if you buy a home for more than £120,000, stamp duty is payable. Stamp duty is not payable on remortgages. The tax is levied when the documentation validating the transaction has to be 'stamped'. The following scales apply at the time of writing and are calculated on the whole purchase price and not the mortgage amount.

Property Valued up to £120,000	0%
Property Valued at £120,000-£249,999	1%
Property Valued at £250,000-£499,999	3%
Property Valued at £500,000+	4%

## **V**

### ***Valuation Report***

This is a report requested by the lender. This is a fairly basic report for the lenders purpose in order that they can assess whether the property is sufficiently valuable to provide security for the requested mortgage. It may highlight both minor and severe problems with the property and if urgent attention is required the lender may withhold some of the mortgage by a 'retention' until the work has been carried out. In these circumstances the lenders will often request for a revaluation at the buyers expense before the full mortgage is provided. The lenders will not be liable if on purchasing a property you find severe problems that were not recognised by the valuation and if you have any doubts you should arrange a full structural survey.

### ***Variable***

Most mortgages are taken out at a variable rates of interest. That means your lender sets an interest rate and from time to time this will be moved up and down in relation to general movements in interest rates in the wider economy. Variable rate mortgages are the 'plain vanilla' variety in the home lending market.

### ***Important Information***

Information is based on Braunton IFA Ltd's interpretation and cannot be held liable for any errors or omissions. Any information is by no means implied as specific recommendations and you are strongly advised to take independent advice before proceeding with an investment or other policy and legal advice before commencing any form of trust. Past performance is no guarantee of future returns. The returns from stock market investments can rise as well as fall particularly in the short term and if you surrender early you may not get back your original investment. Your home may be repossessed if you do not keep up repayments on your mortgage.

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