TRY | FINANCIAL

MORTGAGE TERMINOLOGY GUIDE A-Z

Agreement in Principle (AIP):
An Agreement in Principle is a document from the lender confirming the amount you can borrow. This can be used to demonstrate that you can afford to buy a property.

Annual Percentage Rate Charge (APRC):
This indicates the overall cost of the mortgage loan including fees such as arrangement or redemption fees and the interest.

Bridging loan:
A loan taken out to 'bridge' the gap whilst waiting for the sale of a property and the completion of the new mortgage.

Buildings Insurance:
An insurance policy which covers the financial cost of repairing damage to the physical structure of the property in the event of storm damage/subsidence.

Building Regulation:
Approval by the local authority of the design and materials used in building work.

Buy To Let Mortgage:
A mortgage allowing you to purchase an investment property, and to let this to tenants.

Capital Gains Tax:
A government tax on the sale of assets, including property. Generally speaking, a person’s principal private residence is exempt. Please check with an Accountant for advice on this matter.

Conveyancing:
The legal process of buying a property.

Caveat Emptor:
The legal rule which means the buyer is responsible for finding out the condition of a property and matters affecting the legal title using surveyors and solicitors.

Chain:

A series of transactions that are dependent on one another. One person can only exchange on the purchase of their property when they exchange on their sale and so on.

CHAPS payment:

A method of bank transfer of funds which ensures the money is transferred the same day. Often used to pay a deposit on a property.

Coal Mining Search:

A special search to ascertain whether any issues might affect a property. These will be carried out in designated areas.

County Court Judgement (CCJ):

This is a Court Order for non payment of a debt, which you may have. Having a CCJ on your credit file can potentially affect your chances of getting a mortgage.

Conservation Area:

A designated area that is protected by Local Authorities. Properties may be subject to legal restrictions, particularly relating to the exterior of the property.

Contaminated Land:

Land affected by contamination arising from a past use or by the storage of things on the land in the past.

Contract:

This is the agreement to buy or sell that sets out all the terms. It is prepared in duplicate. One copy is signed by the buyer and the other by the seller.

Conveyancing Quality Scheme:

Law Society scheme to improve and standardise conveyancing procedures create greater transparency and reduce property fraud.

Commonhold:

New form of legal title to property giving owners joint control over common areas and facilities.

Completion:

The process which allows the ownership of the property to be transferred from the seller to the buyer.

Critical Illness Insurance:

Pays out a lump sum in order to clear your mortgage should you be diagnosed with a specified critical illness. As an example, should you suffer a heart attack, stroke or cancer, your mortgage could be cleared regardless of whether your condition is cured.

Covenant:

Legal obligations in a deed requiring someone to do something e.g. maintaining a fence (positive) or not to do something e.g. not to start a business at the property (restrictive).

Debt Consolidation:

Taking a mortgage out to replace all secured and unsecured debt with one monthly payment.

Dematerialisation:

The process introduced by the Land Registry whereby evidence of title is recorded electronically thus doing away with paper title deeds.

Deposit:

The funds you have saved or have been gifted towards buying a property. Your mortgage will cover the balance.

Discount rate mortgage:

A discount variable mortgage has a rate which is set a certain percentage lower than the lenders standard variable rate. Similar to a tracker rate, this type of rate tracks the lenders SVR at a discounted rate.

Downsizing:

The process of selling your current home to move to a smaller one.

Early redemption charge (ERC):

Depending on your mortgage product and provider, there may be a fee you need to pay to your current lender in order to repay your mortgage early. There could also be an ERC if you pay off a large lump sum off of your mortgage balance.

Easement:

A right given to a property owner over adjoining property. This could for example be a right of way or drainage or a right to a water supply.

Energy Performance Certificate (EPC):

This demonstrates the energy efficiency of the property, rating will be between A and F.

Environmental Search:

A special search used to ascertain whether there are any environmental issues affecting a property. For example these may include flooding, radon gas or landfill.

Equity:

The market value of your home, less any outstanding loans or mortgages secured against the property.

Exchange of contracts:

This is the point at which the agreement to buy or sell becomes legally binding. If you are buying, your deposit is paid to the Sellers solicitors at this stage. The buyer becomes responsible for insurance on the property.

Fixed Rate:

A mortgage product which has a certain rate that is guaranteed not to change over the term of the product, e.g. 2 years.

FENSA certificate:

An alternative to building regulation approval for installation of windows or glazed doors.

Flying Freehold:

Where a part of one freehold property is built over part of another so that it does not touch the ground.

Freehold:

Permanent and absolute tenure of land or property. Essentially it means land that is "free of hold".

Gazumping:

The practice of sellers to accept an alternative, higher, offer for the property even though they have been dealing with another sale. The practice is not illegal in England and Wales.

Gazundering:

The opposite of gazumping where a buyer reduces their offer at the last moment in order to secure the property at a lower price. Again, this is not illegal in England or Wales.

Gifted Deposit:

Monies given to the person purchasing a property, this can equate to some or all of their deposit. The person gifting will be made to sign a declaration stating the money does not need to be repaid and they have no interest in the property being purchased.

Guarantor:

Someone who you select to cover your mortgage payments in the event you cannot pay, this would usually be a blood relative. At time of application, the lender will conduct affordability on both the applicant and the guarantor.

Help to Buy: Equity loan

A government scheme designed to help those trying to get on the housing ladder. It provides a loan, called an equity loan, that you put towards the cost of buying a new build home. The current scheme started in April 2021 and runs until March 2023.

Higher Lending Charge:

Made by mortgage lenders in the UK when the loan to value is higher then they are prepared to accept on a standard rate. Usually this is for loans 90% loan to value and above. Very rarely used now.

Incentive Disclosure:

A process whereby any incentives offered by a seller have to be disclosed to the Lender so that the true price of the property is known.

Indemnity insurance:

Special type of insurance to support e.g. possessory title, buying freehold or defective title or breach of covenant or lack of building regulation consent.

Interest Only:

Every month you pay just the interest of the amount you originally borrowed. The capital stays the same throughout the life of the mortgage and then when the term comes to an end you will need to repay the capital in full. At the time of application, a mortgage lender will need to know how you are planning to repay the capital at the end of the term, this is called the repayment method or repayment vehicle.

Inheritance Tax:

Tax payable on death on the value of the deceased's estate which will include property. The value of previous gifts may have to be taken into account.

Joint borrower, sole proprietor (JBSP):

Where the mortgage for a property is in joint names, but the deeds for the property are in the name of one person. Usually this is where parents can help their children out without being a co-owner.

Joint Tenancy:

Joint tenancy is a type of ownership where two or more people are equal owners of a property. When you enter into a joint tenancy mortgage, all tenants have equal rights to the property and each tenant owns the whole property.

Land registry:

The Government agency responsible for registration of title in England and Wales.

Leasehold:

A title that exists only for a fixed period, perhaps 99 or even 999 years. Restrictions and obligations will be contained in the lease and, usually, an annual ground rent is payable. Almost all flats are leasehold and in some parts of the country many houses are as well.

Let to buy:

Letting out your residential home and buying a new one to live in.

Lenders requirements:

Much of the process of conveyancing is dictated by Lenders who impose stringent conditions as to what is or is not acceptable. This can lead to delays and additional cost especially as Lenders are unwilling to "take a view" on the issues which often arise in the course of a transaction.

Listed Building:

A building considered to be of sufficient historic or architectural interest to merit special protection. The property will be subject to special planning restrictions.

Management Company:

Company often owned by tenants, responsible for maintenance and insurance of common parts of buildings and grounds.

Money Laundering checks:

Checks that solicitors, bankers and financial advisors have to carry out to identify clients before acting for them.

Mortgage Term:

The length of time of the overall mortgage. This will be given in years with some lenders offering a max term of 40 years.

Mortgagor:

The borrower of a mortgage.

Mortgagee:

The lender on a mortgage.

Negative equity:

When the mortgage balance on a property is higher than the value of the property.

New build property:

A property built within the last two years is classed as new build. Some lenders class a property as new build when it hasn't been lived in yet, it will differ from lender to lender.

National House Building Council (NHBC):

The NHBC has a warranty and insurance scheme for new properties providing cover against major structural defects for up to 10 years.

Offer:

The formal document setting out the amount of a loan, the terms of it and the method of repayment. May contain specific conditions that have to be complied with. A prerequisite to exchanging Contracts.

Overpayment allowance:

With some lenders you will be able to overpay a certain percentage of your loan each year, or per the product period. You may be able to either overpay regularly or by a lump sum.

Payment Holiday:

Offered by some lenders, it is an agreement to pause your monthly payments for an amount of time.

Party Wall:

Generally a structure which divides buildings, special rules apply if work is to be done to, on or in the proximity of a Party Wall.

Permanent development rights:

Automatic grant of planning permission which allow certain building works and changes of use to be carried out without having to make a planning application.

Planning Permission:

Approval given by the local authority to erect new homes or buildings or changing the use of an existing building, or to extend an existing property.

Poor credit:

Please see our guide to poor credit history on out website.

Porting:

Taking your current mortgage with you when you move home keeping the same terms etc.

Possessory Title:

Title acquired by a trespasser after a number of years. Also called title by adverse possession.

Ransom Strip:

A piece of land separating a property from the public highway or public services which can thereby prevent access or development.

Redemption:

Repayment of an existing mortgage.

Re-mortgage:

Paying off an existing mortgage by taking out a new mortgage on the same property. Often people re-mortgage to capital raise or to achieve a better interest rate and terms.

Repossession:

The legal process a lender can follow to take ownership of the property if you do not keep up repayments on your mortgage. This is often a last resort.

Self Build:

Building your own property from the ground up. Sometimes people use a specialised self build mortgage to fund this. Some lenders will lend for the purchase of the land as well.

Service Charge:

Payment under a Lease of other deeds to the Landlord or Management Company to cover the cost of maintenance, insurance and other services.

Searches:

A check through the records of public authorities for information about the property.

- Local Authority Search to check status of roads, planning permissions, compulsory purchase orders, new road proposals, tree preservation orders and similar matters.
- Water Authority Search to check if property is connected to main drainage, water and proximity of nearest adopted sewer.
- Land Registry Searches to check if the title is registered; whether there are any third party interests registered whether any of the parties are bankrupt.

Sometimes additional searches may be necessary with the Commons Registration Authority, Companies Registry, Coal Authority, Environment Agency and so on.

Shared Ownership:

Scheme allowing the purchase of a property jointly with a housing association which will put up a share of the money and allow you to purchase an enhanced share in due course.

Standard Variable Rate (SVR):

Mortgage lenders have their own standard variable rate which they may or may not adjust when the Bank of England base rate rises or falls. The standard variable rate is often the rate in which you will revert to after a certain fixed or discount period has ended.

Stamp Duty:

A tax paid by the Buyer to the Government on a property.

Statutory Declaration:

Statement made under oath in support of certain facts e.g. use of a right of way or occupation of property.

Survey:

Inspection carried out on behalf of a buyer. Goes far beyond a valuation that is usually carried out for a lender just to assess the property for loan purposes. Is strongly recommended.

Tenancy in common:

Method of owning property where the share of a deceased owner passes to the beneficiary under the terms of their will and not automatically to the co-owner.

Tie in period:

A period of time which you are tied in to a certain product or deal with a lender. If you decide to move or re-mortgage to a different lender in this period, you may be subject to paying an Early Repayment Charge.

Title Deeds:

Documents that prove legal ownership of the property. Also the deeds contain information about the property itself and the land on which it is situated.

Transfer of Equity:

When you transfer your part or all of the property to someone, this could be as a result of marriage or divorce, where someone is added to the mortgage or removed from it.

Underwriting:

Is the process every lender will perform to assess whether applicants meet their criteria and issue a mortgage offer.

Unencumbered property:

A property that does not have a legal charge registered against it.

Unregistered Land:

Property where the title has not yet been registered at the Land Registry. Unusually more complicated to deal with than registered land. Following completion of virtually any transaction involving unregistered land, the title has to be compulsorily registered.

Variable rate:

The lender reserves the right to adjust the rate so it could go up or down at any time and is not fixed. Commonly, interest rates on variable mortgages change when the Bank of England base rate changes.

V**aluation:**

A mortgage lender will carry out a valuation on a property to check and see if it is fit for mortgage purposes and if it is worth the amount you are paying. You should consider obtaining your own valuation and survey done too, so that you can check for any problems such as structural issues etc.

Vendor:

The person who is selling the property.