Mortgage and house-buying jargon explained…

Arranging a mortgage and moving home can be a confusing experience so here is a really useful guide to the jargon provided by ***Your Mortgage*** Magazine…

Advance
The mortgage loan.

Appointed representative
This is a salesperson, company or organisation that advises on the investment products (endowments, pensions, unit trusts and so on) of one single life assurance company.

APR
Annual Percentage Rate. This is meant to be a way of comparing the cost of credit. It takes into account most of the up-front and on-going costs involved in taking out a mortgage. You cannot always rely on it because lenders work it out in different ways

Arrangement fee
A fee you pay to the lender in return for a mortgage deal. This deal could be fixed, discounted or cashback. The fees are known as the:

- application fee
- booking fee
- completion fee
- drawdown fee
- reservation fee

ASU Insurance
This covers accident, sickness and unemployment. It provides a monthly payment if you cannot work for an extended period due to an accident, sickness or unemployment.

BBA
British Bankers Association. This is the trade organisation of the banks.

Bonuses
These are payments that a life assurance company adds to a 'with-profits' endowment. Bonuses are usually made at the end of each year, and there may be a final (terminal) bonus when the endowment comes to the end of its term. This normally coincides with when you have to repay the mortgage. Bonuses aren't guaranteed and the amount awarded can change each year. However, once a bonus is made by the life company, they can't take it away.

BSA
Building Societies' Association. This is the trade organisation of the building societies.

Buildings insurance
This covers the cost of rebuilding or repairing the structure of the property. Lenders insist you have enough buildings insurance before theygive you a mortgage. With leasehold properties, it is the freeholder's responsibility to arrange buildings insurance, although the freeholder will usually pass on the charges to the leaseholder.

Buildings and contents insurance
This is combined insurance, which may be cheaper than one policy for buildings insurance and another separate policy for contents insurance.

Capital and interest
Your monthly payments are partly to pay the interest on the amount you borrowed and partly to repay the outstanding mortgage. Also known as a repayment mortgage.

Capped rate
An interest rate charged for a set period of months or years which can go up and down with the variable rate, but there is a maximum (capped) interest rate which it cannot go above.

Cashback
A payment you receive when you take out a mortgage. It may be a fixed amount, or a percentage of the amount of the mortgage.

CCJ
County Court Judgement. A decision reached in the County Court which can be for not paying debts. If you pay off the debt, the CCJ is satisfied and a note is put on your records to say this.

CML
Council of Mortgage Lenders. Building societies and most banks and other lenders are members of this trade organisation.

Completion
When the sale and purchase of the property are finalised, and you become the owner of the house or flat.

Conclusion of missives
In Scotland, this is the same as exchanging contracts.

Contents insurance
Insurance cover for your possessions. This may include cover against loss or damage away from the home.

Contracts
The legal documents under which you and the person selling the property agree to buy and sell the property .

Conveyancing
The legal process involved in buying and selling property.

Credit search
A check the lender makes with a specialist company to find out whether you have any County Court Judgements or a record of not paying loans, credit-card bills and so on.

Credit scoring
A lender's way of assessing whether you are a good risk to lend a mortgage to.

Critical Illness
Insurance that generally pays out a lump sum if you are diagnosed with a life-threatening illness or disease.

Date of entry
In Scotland, this is the same as exchanging contracts.

Decreasing term assurance
Life assurance that pays out an amount if you die during an agreed period or the term of the policy. The amount of cover reduces each year. So, this makes it ideal to cover repayment mortgages where the amount you owe the lender reduces each year. Decreasing term assurance is usually cheaper than level term assurance.

Deposit
The amount of money you put towards buying a property.

Direct lender
A lender that arranges mortgages over the phone, through the post, or even on the Internet.

Disbursements
A solicitor's expenses - for example, for stamp duty, HM Land Registry fees, searches, faxes and so on.

Discount term
The time that a discounted rate applies to a variable-rate mortgage. This term may be for a guaranteed number of months or years, or it could be until a set date in the future; for example, 30 June 2005.

Discounted rate
A guaranteed reduction in the standard variable mortgage rate. This often lasts for an agreed period .

Early redemption charges
A fee charged by the lender if you pay off all or part of your mortgage before an agreed date or you move the loan to another lender. These charges usually apply on fixed, discounted, or cashback mortgages.

Endowment
A life assurance policy that is designed to produce a lump sum to pay off an interest-only mortgage. There are different types of endowments, for example, 'with-profits', 'unit-linked' and 'unitised with-profits'.

Equity
The amount of value in a property that isn't covered by a mortgage – simply take the amount of the mortgage from the valuation to work out the equity.

Equity release
You take a new, larger mortgage, or increase a mortgage you already have and use some or all of the extra money you have raised for home improvements, holidays and so on.

Estate agency fees
The amount the estate agent charges the person selling the property. This is usually worked out as a percentage of the sale price, and may be negotiable. On a 4% fee, the estate agent selling the property for £60,000, would receive £2,400.

Exchange of contracts
The point where you and the person selling the property sign and swap identical contracts that show the price and what fixtures and fittings are being sold, as well as a date when everything will be finalised. When you exchange contracts the deal becomes legally binding, and if you or the seller pull out before completion, you or they will have to pay compensation to the other side.

Execution only
The company selling or arranging an investment product like a pension or PEP cannot and does not give any advice on the benefits of the scheme – they simply sell the product.

Extra cover or accidental cover
This is insurance against damage to the structure of your property and its contents - for instance, putting your foot through the ceiling or spilling paint on the carpet.

Fixed rate
The interest charged on the mortgage is for a set amount for an agreed period of months or years.

Fixtures
Any item that is attached to a property, and so is legally part of the property.

Flexible mortgage
A type of mortgage where you can make extra payments and even under payments without paying a charge or penalty.

FPC
Financial planning certificate. These are professional qualifications for financial advisers. There are FPC Levels I, II, III and IV. Level IV is the highest qualification.

Freehold
This is when you own the property and the land it is on.

Freeholder
Someone who owns the freehold of the property.

Gazumping
This is when the person selling the property accepts an offer from a potential buyer, and then accepts a new, higher offer from another buyer before exchange of contracts.

Gazundering
This is when the person selling the property accepts an offer, and then the buyer puts in a new, lower offer just before exchange of contracts.

Gross monthly repayment
The amount you must repay to the lender before tax relief, has been applied to interest charges.

Ground rent
A fee that a leaseholder has to pay the freeholder every year.

Guaranteed death benefit
On certain policies, there is a guarantee that the company will pay out a certain amount when you die.

HM Land Registry
The official organisation that keeps records of properties in England and Wales. Transfer of ownership has to be registered with the HM Land Registry.

Homebuyer's report
This is when a professional surveyor checks the structural state of a property. This is more detailed than a valuation but less detailed than the structural survey. The report is optional and you pay the bill; but, this report should pick up possible problems and may give you the chance to negotiate a lower price. And, you have more grounds to sue or get compensation from a surveyor for a poor report than you would from a simple valuation.

IFAs
Independent Financial Advisers. These advisers can give you information on and recommend investment products (endowments, pensions, PEPs) from the whole range of life assurance and investment companies.

Income multipliers or multiples
The size of mortgage that lenders will offer will often be worked out by multiplying your income each year by a set figure. If you are the only person taking out the mortgage, the usual maximum income multiple is three times your yearly income. So someone earning £15,000 could borrow three times this amount, or £45,000. If you are taking out a mortgage with someone else, the multipliers might be three times the main income plus one times the second income. Or it could be two-and-a-half times the two incomes added together. (Lenders may consider including all or part of any regular bonuses or commission you receive as your income.

Income protection insurance
This covers accident, sickness and unemployment. It provides a monthly payment if you cannot work for an extended period due to an accident, sickness or unemployment.

Income references
This is confirmation from your employer that you earn the amount you claim in your mortgage application. Accountants may also give confirmation of income if you are self-employed.

Interest only
Your monthly payments to your lender are simply made up of interest. You do not pay off any of the mortgage during the term of the mortgage. You pay off the mortgage finally using the proceeds of a separate investment plan for example, an endowment, personal pension or PEP and so on.

IPT
Insurance premium tax. A tax on all UK general insurance. This is currently charged at 4% of the premium when you buy it from an insurance company or an insurance broker (but the Government can change this rate).

Leasehold
This is when you own the property for a set number of years, after which it goes back to the freeholder. Most flats in England are leasehold, and although most lenders will lend on leasehold properties, they will demand that there is a number of years left on the lease before making a loan (this could be 60 years, but will depend on the lender).

Leaseholder
Someone who owns a leasehold property.

Level term assurance
Life assurance which pays out a lump amount if you die during the term. The amount of cover stays the same throughout the term, which makes the cover suitable for interest-only loans because the amount you owe on the mortgage stays the same until the end of the mortgage.

Licensed conveyancer
An alternative to solicitors, these people specialise in the legal side of buying and selling property.

Loyalty bonus
These are special schemes if you already have a mortgage, that may provide reduced interest rates or fees, and even services like removals.

LTV
Loan to value. This is the size of the mortgage as a percentage of the value of the property or the price you are paying for the property. (A £45,000 mortgage on a house valued at £50,000 would mean an LTV of 90%.

MGI
Mortgage guarantee insurance. This is insurance that covers the lender in case your property is repossessed and the lender cannot get back their money. (The lender may add the MGI, which usually applies on high LTV mortgages, to the mortgage.) This is also known as MIG (Mortgage Indemnity Guarantee).

Mortgage
A loan to buy a home where you put up the property as security against you paying back the loan.

Mortgagee
The company or organisation which lends you the money under a mortgage.

Mortgagor
The person taking out the mortgage.

MRP
Mortgage Repayment Protection. This is insurance you take through the lender when you take out the loan. This will pay an agreed monthly payment if you cannot work because of an accident, sickness or unemployment. This amount should cover your mortgage repayments.

Multiple agency
A number of estate agents agree to try to sell the property.

Mutuals
Organisations owned by and for the benefit of their members (savers and borrowers), with no outside shareholders. Building societies are mutuals, and so are some insurance and investment companies.

Negative equity
This is where the money you owe on the mortgage is greater than the value of the property. For example, if you had a £60,000 mortgage on a property valued at £50,000, you would have £10,000 negative equity.

Net monthly repayment
The monthly repayment you make to the lender after tax relief has been taken into account.

New for old
This is insurance cover which will pay the full cost of replacing damaged or lost property with a similar, new item.

No-claims bonus
This is similar to motor insurance. You will be given a discount on buildings and contents insurance if you haven't made a claim for a number of years.

Non-status
This means the lender does not need employment or income references from you. This type of loan is often offered to self-employed people.

On risk
This is when your insurance cover begins. This may be before you have paid a premium.

PEP
Personal equity plan. This is a tax-free way to own shares or unit trusts. Depending on the lender, you can use PEPs to repay an interest-only mortgage.

Percentage advance
The size of the mortgage worked out as a percentage of the price you are paying for the property or valuation. (If your property was valued at £80,000, a £60,000 mortgage would be a 75% advance.

Personal pension
This is a structured personal savings and investment plan to provide for your financial needs after you retire. You can use some or all of the proceeds from a personal pension to pay off an interest-only mortgage. You will need to arrange life assurance separately.

PHI
Permanent health insurance. This pays a regular monthly amount until you retire or return to work if you cannot work because of illness or an accident.

Policy excess
The amount you will have to pay when you make a claim. For example, this may be the first £50 of a £500 claim for damage caused by a storm.

Policy schedule
This gives policy details of how much cover you have (the sum insured), the discount you qualify for (if any), and the premiums you have to pay. With some policies you may get a new schedule when you renew the policy or whenever you want to change your policy.

Possession
The lenders' term for repossessing your property.

Private medical insurance
This simply pays the costs for private medical or hospital treatment.

Purchaser
The buyer of the property.

Rebuilding cost
This is the recommended amount (from your property valuation) that you should take out buildings insurance cover for. This may be higher or lower than the market value of your property.

Remittance fee
A charge made by the lender for sending the mortgage funds to your solicitor when the purchase is just about to be completed.

Remortgage
A new mortgage although you are not moving home.

Removal expenses
The cost of hiring a removal firm. This may depend on the total amount and size of your possessions, the distance travelled, the number of stairs and so on.

Repayment
Your monthly payments are partly to pay the interest on the amount you borrowed and partly to repay the outstanding mortgage. Also known as a capital and interest mortgage.

Replacement value
This is the cost of buying the same or similar items as new if you have to replace them in the event of a claim.

Sealing fee
A charge made by lenders when you repay the mortgage.

Searches
Checks carried out during the conveyancing. These checks are made with local authorities and other official organisations to check planning proposals and other matters that may affect the value of the property, and if it can be sold in the future.

Self-certified
You confirm how much you earn, and the lender does not need any references.

Settlement
In Scotland, this is the same as completion.

Sole agent
A single estate agent agrees to sell the property.

Solicitor
The person who deals with the conveyancing.

Stamp duty
A tax you pay on properties which cost over £60,000.

This is charged as follows:
Property value 60k - 250k stamp duty = 1%
Property value 250k - 500k stamp duty = 2%
Property value 500k+ stamp duty = 3%

So a property costing £67,500 would have stamp duty of £675

Structural survey
This is the most wide-ranging check of the outside and inside of a property. This is carried out by a professional surveyor, and it should pick up all but the most hidden faults. The structural survey is optional and you must pay the bill, but it provides the greatest protection for the potential buyer in terms of the information it provides. It also gives you cover against negligence by the surveyor.

Sum assured
How much the life assurance or investment company guarantees to pay you, if you have an endowment policy and you die. This figure may be less than the mortgage amount unless the policy is specifically designed to match the mortgage amount.

SVR
Standard variable rate. The interest rate the lender charges goes up and down, with your interest payments changing accordingly.

Tie-in period
As a condition of a special mortgage deal (discount or fixed rate, for example), you may have to agree to stay with the lender for a period of months or years after the deal has ended. If you move your mortgage elsewhere during this period, you may have to pay an early redemption charge.

Term
The period of years over which you take the mortgage and when you have to repay it. Most new mortgages are taken on a 25-year term.

Third party buildings insurance
A charge a lender may make if you decide to take buildings insurance from someone other than the lender. A typical charge is around £35.

Title deeds
Documents to show proof of who owns the freehold and leasehold property.

Transfer deed
A document that, once you sign it, actually transfers the ownership of the property to you.

Unit trust
A popular type of stock market-linked investment that you may use to repay an interest-only mortgage. Your monthly premiums buy units in a fund of stocks and shares that is run by a professional manager. The value of units can go down as well as up, and a unit trust doesn't include life assurance.

Unit-linked endowment
Your monthly premiums are used to buy units in a fund or funds run by professional managers. Like unit trusts, the price of these units can go up and down, so the value of the endowment can constantly change.

Unitised with-profits endowment
A mixture of the unit-linked and with-profits endowments. Like the unit-linked endowment your monthly premiums are used to buy units in a fund, or funds. Unlike the unit-linked endowment, the value of the units cannot fall, once an increase has been made.

Valuation
A simple check of the property in order to find out how much it is worth and whether it is suitable to lend a mortgage on. This is carried out by a professional surveyor for the lender. You usually pay the bill and will usually get a copy of the report.

Variable rate
The interest rate the lender charges goes up and down, with your interest payments changing accordingly.

Vendor
The person selling the property.

With-profits endowment
Your monthly premiums are pooled together and invested for you by a life insurance company. The policy will have a basic sum assured which bonuses are added to, to build up a cash sum. This should be enough at the end of the term to repay the mortgage.