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FINANCIAL SERVICES
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JARGON BUSTER

A

Account balance

This is the amount of money in an account. This could be either a credit balance (money you own) on a savings account, or a debit balance (money you owe) for a mortgage or a loan.

AER

AER stands for the annual equivalent rate and shows what the interest rate would be if interest was paid and added to the capital balance each year.

Affordability

Some providers calculate affordability based on 125% of the mortgage interest. This is calculated at a notional rate of 5.99% or the rate of the selected product if higher. This means that you must be able to show that the amount you are likely to receive in rent each month is 125% of either 5.99%, or the monthly interest you will pay on your selected mortgage.

Affordability check

Affordability checks are carried out by a lender to determine the actual amount you can borrow. This depends on your personal circumstances such as your income and expenditure, however, the actual amount that you can borrow may differ between lenders.

APR

APR stands for the annual percentage rate. You can use it to compare different credit and loan offers.

Arrears

When someone is in 'arrears' they have missed payments that they should have made towards their mortgage or debt.

Assets

Assets are things that a person or company owns, such as a house or money.

B

Balance Bank charge

The balance is the sum of money outstanding on your mortgage.

This is a fee you have to pay your bank for either going overdrawn or for an unpaid instalment such as a Direct Debit, cheque or standing order.

Bankruptcy

This is a legal process of declaring that a person cannot repay their debts, providing protection to the debtor (the person that owes the money).

Borrow back

Borrow back is a facility offered on Flexible mortgages which allows, subject to agreement with the lender, any overpayments to be returned and transferred into the borrower's bank account.

Budget

A budget is a financial plan drawn up for an individual or family to work out how much money is coming in and going out each month. A budget would usually cover a period of one month, although it can be longer. You can use our budget planner to work out what you can afford.

Buy-to-let mortgage

Buy-to-let mortgages are designed to fund the purchase of a house that will then be rented out.

C

Capital

This is the overall amount of money saved or invested, or the amount you have borrowed.

Change of parties

This is a request to change the name of the parties (people) named on your mortgage account. This may be requested as a result of a change in personal circumstances.

Consent to let

This is a request to let out a property on which a residential mortgage is currently held.

Credit agreement

This is a contractual agreement in which a borrower receives something of value now and agrees to repay the lender at a later date.

Credit check

Too many unnecessary checks are bad for your credit rating, so make sure you only do this with a lender that you are keen to use.

Credit history Credit reference agency

A record of the credit an individual has had in the past.

This is a firm that collects information about an individual's credit history which can then be used by lenders.

Credit scoring

When you apply for any form of credit, the lender will usually 'credit score' your application. The lender uses this information as part of their decision on whether to accept your application and, where relevant, to set any credit limit and interest rate.

Creditor Current account

A person or business that money is owed to.

This is a bank account which allows a customer to deposit money and withdraw money by cash, cheque, Standing Order or Direct Debit. You can use our budget planner to help you work out what you can afford.

D

Debit card

A debit card is issued by a bank, usually with a current account. It is used in a similar way to a credit card, but when an individual makes a purchase, the money is taken from the associated account (usually a current account) immediately.

Debt Decision in Principle (DIP)

Money owed to another individual or a business.

Also referred to as an Application in Principle, this informs the borrower if, in principle, a lender will provide the money and what amount.

Deposit

A payment made into an account or an amount of money that is paid on an item to demonstrate the intention to fully purchase an item at a later date (for example, the deposit on a house).

DIP

Remember, the decision in principle is based on the accuracy of the information you provide, so please make sure it's correct.

E

Early Repayment Charge (ERC)

A charge you may have to pay if you leave (by paying back your mortgage early and/or moving to another lender) while you're in any special rate period.

Endowment

An endowment is an investment plan that you usually pay in to every month. It will pay out a lump sum at the end of a fixed period, or on death, whichever is sooner. Endowments can be used to repay an interest-only mortgage.

Equity

Usually applied to home ownership, equity illustrates the difference between the current value (or market value) and the amount of the loan or mortgage that is still outstanding.

Everyday mortgage

Our Everyday mortgages provide you with a simple solution. You can make overpayments of up to 10% of your balance each year without having to pay an early repayment charge. You will also have the option to apply for a payment holiday.

F

Fee-saver option (FSO)

With a mortgage deal offering a fee-saver option, there is no product fee to pay, but this may mean that you have to pay a slightly higher interest rate than you would on a mortgage with a product fee. Take a look at the different types of mortgages we offer.

Financial planning

This is the process of setting financial goals or targets and producing a plan, such as a budget to achieve it.

Fixed-rate mortgage

With a fixed-rate mortgage, the rate of interest you will pay is 'fixed' over the term you choose. This means that you will know how much you need to pay each month and your payments will not change while you are in your special rate period, regardless of changes to the bank of England Base Rate.

Flexible mortgage

Our Flexible mortgages come with additional options which allow you manage your mortgage in a way that suits you. You can make unlimited penalty-free overpayments that allow you to pay off your mortgage quicker. Subject to us agreeing, you can then make underpayments or borrow back the money you've overpaid. You can also apply to take payment holidays, subject to our terms and conditions.

FSA (Financial Services Authority) Further borrowing

The UK's financial services regulator.

An additional amount borrowed, with the mortgaged property as security.

G

Gross

The full amount of money earned or paid before any deductions such as tax.

Guarantor

With a guarantor mortgage another person (usually a parent or relative) agrees to guarantee the mortgage in the event that you fail to make the regular mortgage repayments. The guarantors income (less any other financial commitments, such as their own mortgage and other outgoings) is taken into account. Guarantor mortgages are only awarded in exceptional circumstances and are only available on those cases deemed to fit the applicable criteria.

H

Hire purchase

A form of credit involving an initial payment followed by regular (usually monthly) payments until the full costs of the goods and any interest is covered. Until payments are completed, the goods belong to the credit company and can be repossessed.

I

Income multiples

The factor by which your earnings are multiplied to work out how much you can borrow. This may differ from lender to lender.

Individual Voluntary Arrangement (IVA)

An agreement between the debtor (the person that owes the money) and their creditors (the person or business the money is owed to) to pay off the balance over a period of time. This can be an alternative to bankruptcy.

Interest

The money that you earn on a deposit made, or the money that you pay for borrowing money.

Interest rate Interest-only mortgage

The amount of interest paid or charged (usually given as a percentage).

This is a mortgage taken out where you only pay back the interest charges each month. As the initial loan amount is not being reduced, this will need to be repaid in some other way. If you choose an interest only mortgage, your monthly payment will only include the interest you need to pay. At the end of the term, you will still need to repay the amount you originally borrowed and any additional borrowing you may have taken, so it's best to think about how you will do this, for example, through a repayment vehicle such as an investment or savings plan which should be reviewed on a regular basis.

K

KFI (Key Facts Illustration)

A KFI is a document provided by the mortgage lender, in a standard format, so that you can compare the service, product and offer that they are providing.

L

Legal fees

A fee you pay to a solicitor for their services. You may use a solicitor to help you buy a property, or go through divorce.

Lending Code

Northern Rock plc subscribes to the Lending Code which is monitored and enforced by the Lending Standards Board. The Lending Code sets minimum standards of good practice when dealing with certain customers in the UK in relation to loans, current account overdrafts, charge cards and credit cards.

Loan

An agreement between a lender and a borrower in which the borrower agrees to repay the money borrowed over a period of time.

Loan amount

This is how much you will need to borrow in the form of a mortgage. So, if a property is valued at £190,000 and you have a £20,000 deposit, the loan amount will be £170,000.

Loan-to-value (LTV)

This is the ratio between the size of the loan you are looking for and the value of the property you are buying. For instance, if you're borrowing £70,000 on a property valued at £100,000, the LTV is 70%.

M

Mortgage

A loan to finance the purchase of a house, with the house used as security for the loan.

N

Negative equity

When the amount you owe your mortgage lender is more than the value of your home.

Net new build property

The amount of money earned or paid after any deductions such as tax.

A new build property is one that has been built within the last two years, or one that has never been bought from a builder.

O

Outstanding balance Overdraft

The amount left on your current mortgage.

An overdraft is an agreement with a bank that allows the customer to withdraw more money from a current account than they have in the account. Quite simply, it's a form of lending. There are two types of overdraft: authorised (agreed in advance between you and your bank) and unauthorised (where you go overdrawn without your bank's prior approval). Going overdrawn without permission regularly could affect your credit rating appearing on your credit history.

Overpayment

Any additional payment made on top of the contractual monthly mortgage payment.

P

P11D

Your employer uses a P11D to tell HM Revenue & Customs (HMRC) about the value of any benefits in kind they've given you during the tax year.

P60

An annual summary of all your payslips. Your employer gives you one at the end of every tax year, if you still work for the employer. Keep it safe.

Part-and-part mortgage

A part-and-part mortgage is where you pay back part of the initial loan and part of the interest charges. When the term ends, you will still need to pay off some of your original loan, but this will have reduced over time.

Payment holiday

A break in mortgage repayments that may be agreed with the lender and subject to an affordability check. Please note that interest will continue to be charged during a payment holiday. Taking a payment holiday will also increase the outstanding balance upon which future loan interest charges are calculated.

Payslip

A payslip shows how much you've been paid by your employer and also how much tax you've paid. Your employer should give you one every time you get paid.

Porting

This is the process of keeping your existing mortgage when moving home.

Product fee

When you take out a mortgage, there may be a fee to pay to cover the cost of arranging your deal. This is often referred to as a product fee and it forms part of the terms and conditions of your mortgage deal.

Property value

This is how much the property you wish to buy has been valued at.

R

Remortgaging

Remortgaging means moving your mortgage from one lender to another without moving home. The new mortgage simply pays off the old mortgage.

Repayment method

There are three ways you can manage the repayment of your loan - repayment; interest only; or part-and-part.

Repayment mortgage

A mortgage taken out where you pay back both the initial loan and the interest charges. Once all of the payments are made, the mortgage will be fully repaid. With a repayment mortgage, your monthly payment covers the interest you need to pay, plus a percentage of the original loan. This means that you will reduce your balance and the mortgage will be repaid when the term ends.

Repossession

A legal process which involves a lender taking possession of a property which was used as the security for the loan. It could also refer to a hire purchase company taking possession of the goods when repayments haven't been made.

S

Secured loan Stamp duty

A loan (such as a mortgage) with property or other assets as security.

Stamp duty is a tax charged by Her Majesty's Revenue and Customs on certain house and land purchases and some transfers of property. See other costs to consider when moving home.

Standard Variable Rate (SVR)

The lender's normal mortgage rate which you will revert to after any discount or special rate period. It moves up or down at the lender’s discretion.

T

Take-home pay Term

See Net.

The term is the period over which a loan is scheduled to be repaid or an investment runs for. The scheduled period of time it will take to pay back the mortgage is often referred to as the 'term'. A common term length is 25 years. Increasing the number of years you pay the mortgage off over will lower your payments but the downside of this is that you will pay more for the mortgage in the long run.

Tracker mortgage
A mortgage with an interest rate linked to a particular base rate, which it moves up and down with. This means that your payments may change throughout the term of the loan.

U

Underpayment
A reduction in mortgage repayments that may be agreed with the lender and subject to an affordability check.

Unsecured loan
A loan (such as a mortgage) not backed up as property or other assets as security.

V

Valuation
Part of the process of getting a mortgage involves arranging a valuation report which you will need to pay for. This is to make sure the property is worth the amount you want to borrow. A basic valuation may not highlight potential problems that you may have with the property. You should consider carrying out a more detailed survey which we can help arrange for you. See our guide to valuations.

W

Withdrawal
Taking money out of an account.

If you have any questions please get in touch with AFFS
info@affs.co.uk or call 01797 364666