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FINANCIAL SERVICES

ESTABLISHED BY EX FORCES FOR THE FORCES

# A to Z jargon buster

ARMED FORCES FINANCIAL SERVICES



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Check out our mortgage A – Z jargon buster of all the terminology you may come across when looking at mortgages

## **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 check**

Affordability checks are carried out by a lender to determine the actual amount you can borrow. This depends on your personal circumstances and will look at factors such as your income and monthly expenditure. 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, car or money.

## **Balance**

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

## **Bank Charge**

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 debtors.

## **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.

## **Buy-to-let Mortgage**

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

## **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**

This is a check of your credit rating. 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**

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

## **Credit reference agency**

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**

A person or company to who money is owed.

## **Current Account**

This is a bank account which allows a customer to deposit money and withdraw money by cash, cheque, Standing Order or Direct Debit.

## **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.

## **Debtor**

A person or business that money is owed to.

## **Debt**

Money owed to another individual or a business

## **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).

## **Early Repayment Charge (ERC)**

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

## **Equity Release**

Equity release refers to a range of products letting you access the equity (cash) tied up in your home if you are over the age of 55.

## **Financial planning**

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

## **First time buyer**

Someone purchasing a property (and mortgage) for the first time.

## **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. However, at the end of this term your mortgage will revert to your lenders Standard Variable Rate which is often much more expensive!

The UK's financial services regulator.

## **FCA (Financial Conduct Authority)**

## **Forces Help to Buy Scheme**

The scheme to help armed forces personnel get on the property ladder.

## **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 guarantor's income (less any other financial commitments, such as their own mortgage and other outgoings) is taken into account.

## **Help to Buy Scheme**

Help to Buy is a government scheme to help first-time buyers get a property with just a 5% deposit.

## **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 rate**

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

## **Interest-only mortgage**

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.

## **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.

## **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**

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%.

## Mortgage

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

## Negative equity

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

## Net

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

## New build property

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.

## Outstanding balance

The amount left on your current mortgage.

## Overdraft

An agreement with a bank that allows the customer to withdraw more money from a current account than they have in the account.

There are two types of overdraft:

- authorised (agreed in advance)
- unauthorised (where you go overdrawn without prior approval).

Going overdrawn without permission regularly could affect your credit rating



## **Over-payment**

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

## **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.

## **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.

## **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.

## **Re-mortgaging**

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.

## **Re-possession**

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.

## **Secured loan**

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

## **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 and is often much more expensive than a fixed term mortgage.

## **Term**

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.

## **Under-payment**

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

## **Unsecured loan**

A loan not backed up as property or other assets as security.

## **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.

## **Withdrawal**

Taking money out of an account.

## **Get in touch**

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