A·N·A ASSOCIATES

Independent Mortgage Consultants

Guide to Mortgages

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The information contained within the brochure is intended as a brief guide to the descriptions of the most common mortgages, products associated with mortgages and general mortgage terms and descriptions.

It is not intended as a substitute for mortgage advice. Mortgage advice should be sought before entering into any arrangement. If you are unsure or there are any areas you do not understand, please feel free to ask your adviser.

Think carefully before securing other debts against your home. Your home may be repossessed if you do not keep up repayments on your mortgage.

Types of Repayment

Capital and Interest Repayment

The payments on this type of mortgage are usually paid monthly. The payments include two elements; repayment of the capital you have borrowed (i.e. the mortgage loan); and the interest on the loan.

In the early years (0-5) most of each payment goes toward paying the interest and a smaller part goes toward paying off the balance of the loan (the capital). As time elapses (5-17) then more of the payment goes to paying off the capital and in the latter years (17-25) the majority goes to paying off the balance of the capital. As a typical example, on a standard 25 year loan, approximately half the capital will be repaid by year 18. The size of the payment you make each month is dependent on the size of the loan, the number of years the mortgage is taken out over and the interest rate.

The lender may insist that you take life cover that will pay off the mortgage in the event of death. If not, it is advisable to consider it as a precaution in any event.

Advantages - It's a simple, clear approach - you can see your loan getting smaller. Guaranteed to pay off mortgage, provided all payments have been kept up to date.
Disadvantages - In the early years your payments will be mainly interest, so if you want to repay the mortgage or move house in the early years, you'll find that the amount you owe won't have gone down by very much.

Interest Only

The payments on this type of mortgage are usually paid monthly. An Interest Only mortgage is quite simply repaying monthly, the interest of the loan. The capital is repaid to the lender at the end of the loan period, although not guaranteed.

The lender in most cases will grant this sort of loan on the condition that you have an investment plan in place that will repay the capital at the end of the loan period. The 3 main savings plans usually acceptable to lenders are Endowments, Individual Savings Accounts (ISA) and Pensions.

Advantages - Because you are only paying off the interest, and not the loan itself, your monthly payments will be lower. Possible higher return than mortgage amount. Flexibility for movers, i.e., reusable quality of the repayment vehicle. Disciplined savings. Can choose ISA. Tax efficient option. Plan reviews built in to some policies should ensure plan is on track to repay the loan, although not guaranteed.
Disadvantages - No guarantee to repay the loan. You may be required to increase payments if the plan under performs. Tax treatment of ISA may not be maintained. The returns from investment linked vehicles have reduced over recent years and may not be sufficient to repay the loan. You are generally not able to take the pension benefits until you are 50 (55 from 2010), at which time you are usually permitted to take 25% of the fund.

Types of Mortgage Rates

Variable Rate

A variable rate mortgage is one that changes when the lender announces interest rate changes. So unlike a fixed rate, if the mortgage rate goes up then you will be paying more each month. Equally, if it goes down then you pay less.

Advantages - Usually no application or arrangement fees. Rarely do they have early repayment charges. Your monthly repayments will fall with reductions in interest rates. Gives you flexibility.
Disadvantages - Your repayments will rise with interest rates. Does not give you the ability to budget for repayments.

Fixed Rate

A fixed rate mortgage is one where for a period of time the interest rate is set and will not be affected by changes in interest rates. At the end of the period the interest rate will become the variable rate applicable at that time (see variable rate). Usually the rate is fixed between 2 and 5 years, although longer periods are usually available.

Advantages - Provides guaranteed mortgage repayments for the duration of the fixed period giving protection from rising interest rates. Variety of periods, so there is likely to be one to meet most needs. If interest rates rise above your fixed interest rate then you still pay the same amount until the end of the fixed rate period.
Disadvantages - Probably have to pay an upfront application fee and/or an arrangement fee once the loan is taken. If interest rates fall below your fixed rate you may be left paying a higher rate than the variable rate. If you repay your mortgage during the fixed period and often for a period afterwards, you may have to pay an early repayment charge. This is usually several monthsôinterest repayments.

Capped Rate

A capped rate mortgage puts a ceiling on the rate for a period of time. This means that the payments cannot go above the rate set during that time. Payments will reduce if the interest rates go down.

Advantages - Gives you a guaranteed rate to which your repayments cannot exceed. If interest rates fall your repayments will reduce with them.
Disadvantages - Usually a capped rate is higher than a fixed rate because repayments can fall with interest rates. Usually have to pay application and/or arrangement fees. If the loan is repaid during, and in some cases for a short while after, a capped rate mortgage is in place, an early repayment charge of several months repayments is payable.

Discount Rate – Including Tracker Rates

A discounted rate gives you a guarantee that for a period of time your interest rate will remain at a fixed percentage below the variable rate. Therefore, if the current variable interest rate is 7% and your rate is discounted by 2%, your mortgage would be on a rate of 5%. If the current variable interest rate were then to increase by 1%, your rate would increase by 1% in line with it.
A Tracker rate is set above or below the Bank of England (or some other) base rate, it tracks (moves up or down with) that rate. For example, the rate you pay may be 0.25% above the Bank of England base rate, whatever it may be, for say a period of 2 years.

Advantages - Gives a reduced repayment over the period of the discount. Repayments will reduce with interest rate falls.
Disadvantages - Repayments will rise with interest rates. May have to pay application and/or arrangement fees. Usually a penalty payment of several monthsôinterest will have to be paid if the loan is redeemed during or shortly after discounted period.

Collared Rate
May be used in conjunction with a capped rate or a tracker (or both). Your payments are variable but will not fall below a set level (the 'collar'). It is usually used in conjunction with a capped rate or a special-deal tracker rate (or both).

Advantages - It may be part of another interest-rate deal which otherwise appears attractive.
Disadvantages - If the rate payable is above the 'collar' and if rates fall, you may not get the full benefit of a reduced payment.

Cash Back
A cashback mortgage will give you a lump sum back once you've completed your purchase. This can either be in the form of a set amount or a percentage of the amount you have borrowed (typically three to six per cent). However, it does come with restrictions, namely that if you repay the mortgage in full within a given time (three to five years) then the cashback must be repaid.

Advantages - Can be attractive for first time buyers to receive a lump sum cash back.
Disadvantages - Generally issued on standard variable rate so interest rates will fluctuate. Likely to be early repayment charges if the loan is repaid early with a return of all or some of the original cash back amount. Likely to be more expensive in the long run.

<u>Types of Mortgages</u>

Flexible Mortgages
A flexible mortgage gives you some scope to change your monthly payments to suit your ability to pay. It's also useful if you want to pay off your loan more quickly. Several flexible features are becoming common. It is generally accepted that these are best suited to the self employed or those individuals who receive erratic or large bonuses. Flexibility to make Monthly overpayments, Monthly underpayments, Payment holidays (temporary stopping of repayments) and paying off large lump sums.

Advantages - Good for clients with irregular/fluctuating income, such as self-employed or sales roles where bonuses or commissions are paid. Usually attract arrangement fees and redemption penalties.
Disadvantages - Restrictions to acceptance criteria e.g. only over 21 years old & with a minimum salary. Gives borrower flexibility but must have a degree of financial responsibility and discipline Interest still accrues during any payment holidays. If payments are deferred it will involve higher payments in the long term.

Offset Mortgages
Offset mortgages involves client holding mortgage and all banking (current & savings accounts) with the lender and the Interest is calculated daily. The balances of savings/current accounts held against mortgage. Loan can save large amount of interest over term of mortgage or allow for early repayment.

Advantages - Beneficial to higher rate taxpayers given the tax benefits on the interest. Reduced offset amount which accrues interest. Benefits those who can save money. Fewer mortgage payments. Can be flexible.
Disadvantages - Interest rates are sometimes low compared to other savings accounts, whilst the rate linked to the mortgage can be slightly higher. Savings and sometimes current accounts must be held with the same lender.

Current Account (CAM)
Similar to offset mortgages but only one account is used to offset the loan. The borrower's income & savings paid into one account and any excess income is use to reduce loan. Discipline is required to ensure the loan is reduced rather than additional borrowing increasing the loan amount. They are usually restricted access to interest rates e.g. fixed or discounted not available but flexibility can be advantageous.

Advantages - Similar to offset mortgages they can enable tax savings and also service debt at a lower rate of interest. Potential for big savings in the interest over the term of the mortgage. They can enable you to pay off a mortgage earlier if you have a lot of savings.
Disadvantages - Requires a strict form of discipline. You could be left with a large loan at the end of the term. Not suitable for those individuals who find it difficult to manage a budget.

Self Certified Mortgages
A self certified mortgage is a type of mortgage aimed at those people who would find it difficult to provide proof of income, for example the self employed, people who have large bonuses or commissions, seasonal work etc. The lender will usually make appropriate enquiries/references to accountants, solicitors etc.
It is a criminal offence to knowingly provide incorrect information on a mortgage application.

Advantages - Gives the facility to those with irregular income to obtain a mortgage. Provides access to all types of mortgages.
Disadvantages - Sometimes can be expected to pay slightly higher interest rates. Sometimes a higher level of deposit maybe require by the lender.

Buy to Let Mortgages
In essence this is a loan you intend to take out on a property with the intention of renting to tenants. In the majority of cases the provider will lend you the money on the expected rental income, generally 120 -130% of the actual loan payments.

Advantages - Can be seen as a good (long term) investment, especially if house prices rise. Provides access to varying types of mortgages.
Disadvantages - The mortgage payments must still be met when there are no tenants. You are responsible for the upkeep of the property and ensuring it is in a good state of repair. Rental yields can fluctuate.
NB The majority of Buy-to-Let mortgages are not regulated by the Financial Services Authority (FSA).

100% + Mortgages
A loan for the full asking price (sometimes more) of the property value. It is possible to borrow more than the value of the property, sometimes 25% more for renovations, improvements etc. As these are a higher risk to the lender generally the interest rate will be higher also. These can be used with the full range of mortgage rates, for example variable, fixed, capped etc.

Advantages - Able to borrow the full asking price of a property. Useful for those with none or little deposit. Useful for those who require additional funds for home improvements.
Disadvantages - Usually charged a higher interest rate. Will be charge a higher "Higher Lending Fee" (Refer to mortgage terms). Not as many lenders offer this mortgage therefore options are limited. Will cost more over the longer term. Should property values reduce in value there is a stronger chance of negative equity.

Adverse Credit (Sub Prime/Impaired Credit)
These are mortgages specifically designed for people who do not qualify for a mainstream mortgage from lenders. For those people who may have CCJ's, arrears, defaults etc, this doesn't mean you are not able to obtain a mortgage. Lenders will still consider those with adverse credit although the lenders will sometimes charge a higher interest rate given the additional risk. For those with severe adverse credit, there are some specialist lenders who will consider those with history of credit problems.

Advantages - Facility to obtain a mortgage, when you have a bad credit history.
Disadvantages - A higher interest rate is likely. Will cost more over the longer term. A possibility that this will cost more in broker fees given the additional work involved in sourcing a mortgage.

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By securing additional lending onto you your mortgage you are increasing the term of the lending and in the long run this will cost you more.

Most Common Fees Payable

Valuation
Lenders need a valuation of the property you are buying (or re-mortgaging) to ensure that they will not be lending you more than the property is worth. The charge for this is based on the purchase price of the home you are buying (or estimated value if re-mortgaging), the higher the cost, the higher the charge. This is in your interest, as the lender will ensure that the building is worth the money you are trying to borrow.

Home Buyers Report
This is a much more comprehensive survey than the lenders basic valuation. If you are buying a second hand property (i.e. not newly built) it is advisable to have your own survey done. A qualified Surveyor who will look for defects does the survey and will comment on whether they believe it is a good buy at the price. In some cases (particularly older properties) a Full Structural Survey may be advised.

Warning: Property values as you are aware, and property prices are subject to fluctuation, this means that the price you have agreed to pay for your property, is not necessarily an indication of its future value.

Administration Fee
This cost is sometimes called a Booking Fee or Fee, usually charged on special rate mortgages.

Local Search
This is the cost that the Local Authority charges your solicitor for giving information to them regarding such things as planning in the area that the property is in and so on.

Land Registry Fee
This cost comprises both Land Registry Title and Land Registry Search.

Land Registry Search
This is the cost to establish that the person/s selling the property to you owns the property.

Land Registry Title
This is the charge made to check that the property has been registered at the Land Registry. This ensures that ownership is guaranteed by the State. The charge is on a scale related to the purchase price.

Conveyancing
This cost will vary depending on selected solicitor, this charge is for legal and administrative work to transfer the ownership of a property from one party to another.

Bankruptcy Search
This is the charge for checking that the person/s selling you the property is/are not bankrupt.

Telegraphic Transfer
The charge for transferring the money to pay for your mortgage and accompanying fees.

Higher lending Charge
Lenders will often require insurance to cover themselves against losses on mortgages, they set these at varying levels as a percentage of the loan against the value of the new home. These can start as low as 70% and may be stepped so that greater charges are made the closer the amount of the loan is to the value of the property.

VAT
Some costs are liable to VAT. Normally the VAT for the purposes of the illustration are taken out of the costs and shown separately.

Stamp Duty
Stamp Duty is a tax that is payable on some deeds and documents, including conveyancing or assignment of property above a certain price (currently over £125,000) check with your solicitor as some areas qualify for exemption. The tax is levied as a percentage of the purchase price of the property as follows:

Up to £125,000	0%
£125,001 to £250,000	1%
£250,001 to £500,000	3%
Over £500,000	4%

NB: Stamp Duty relief (temporary) for all residential property where the cost is no more than £175,000, will apply to transactions between September 3rd 2008 and September 3rd 2009. The tax is often misunderstood. The tax is payable in full for properties above the price set and none at all payable for properties below it. Therefore, under the current criteria you would pay £1,251 on a purchase price of £125,100 and nothing on a property bought at £124,900. Exemptions apply for disadvantaged areas.

A.N.A. Associates Fees
A.N.A. Associates Ltd *may* charge an arrangement fee depending on your circumstances of up to £500. This fee is for work undertaken and to support your application. This will be discussed with you by your adviser and contained within the Key Facts, about your mortgage letter and in the Key Facts Illustration.

Home Information Packs
Were introduced by the government on the 1st August 2007. They were introduced to ease the buying and selling process. The seller must ensure that they commission a Home Information Pack before placing the property on the market. The following documents are may be included as part of the 'HIP'

- Home Information Pack Index
- Energy Performance Certificate
- Sale statement
- Standard searches
- Evidence of title
- Additional information for leasehold and common hold sales, where appropriate
- Optional documents, such as the Home Condition Report can be include by the seller.

Important Notes

Compulsory Insurance
Some lenders mortgage offers may contain a condition that you take out insurance's such as buildings, contents, accident, sickness and redundancy. They may also insist that you take them out with them. Please refer to your mortgage offer to check this and that if it is a condition, it is acceptable to you.

Higher Lending Charge
This is a single premium insurance that borrowers have to pay when their loan is high in comparison to the value of the property being bought. It is an insurance policy that covers the lender should they take possession of your property following non-payment of your mortgage. This can begin at 70% loan to value, but more usually 75%, usually paid for by the lender up to 90% and sometimes 95%. The Higher Lending Charge protects the lender but the borrower pays the premium. This insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe.
You will remain liable to pay all sums owing, including arrears, interest and your lender's legal fees.
If a claim is paid to your lender under such insurance, the insurers generally have the right to recover this amount from you. In many cases the borrower may be able to add the cost of this premium to their loan.

Credit Reference Agencies
These organisations are licensed under the Consumer Credit Act 1974 and hold information about individuals which is of relevance to lenders. Lenders may refer to these agencies to assist with various decisions e.g. whether or not to proceed with a loan. Details of the conduct of your account may be passed to a Credit Reference Agency by the lender if your repayments fall into arrears. They have a duty to advise you if this should occur.

Early Repayment Charge
If you wish to repay your mortgage early, perhaps to move again or remortgage, you may have to pay an early repayment charge. Please check the details of any mortgage offer you receive so that you are aware of the conditions and that they suit your requirements, before accepting it.

Changes in Personal Circumstances
You must also be aware that if you are taking out a mortgage with a partner, or with others, that each person is responsible jointly and individually for the repayments. Therefore, if there is a breakdown of the relationship the lender can seek repayment of the loan in full from each of the parties to the mortgage and not just their share.
Should you be unable to work due to perhaps accident, sickness or unemployment, you will still have to meet your repayments. Insurance is available to cover you against these eventualities. You should also ensure that you have adequate life assurance cover for your mortgage, as well as Critical illness and income protection cover.

Confidentiality
We will treat all your personal information as private and confidential (even when you are no longer a customer), except where disclosure is made at your request or with your consent in relation to arranging your mortgage.

Adding fees to your loan
Some lenders will allow you to add the fees they charge to you to your mortgage, if you decide to add these fees to your mortgage you will pay interest on these fees over the term of the mortgage. If you are concerned about adding fees to your loan please discuss this fully with your Mortgage Adviser prior to the submission of your mortgage application.

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If having read this document you would like further information, our regulator, the Financial Services Authority has issued clear and impartial consumer guides to buying a home, these can be found on the internet at the following address:

http://www.moneymadeclear.fsa.gov.uk/guides/buying_a_home/buying_a_new_home.html

Insurance & Protection

General Insurance

There are two types of insurance to cover your home:

Buildings insurance - covers the cost of repairing or rebuilding your home if itҩs damaged or destroyed. Everyone who has a mortgage should have this cover (though if you live in a flat you might pay for it out of the service/maintenance charge instead).

Contents insurance - covers the cost of repairing or replacing your possessions if theyҲe damaged, destroyed, lost or stolen. You would normally need it if you could not otherwise afford to replace your possessions.

Personal Protection

There are various types of insurance that will pay off your mortgage or meet the monthly payments if something unexpected happens such as critical illness or death. Whether they are right for you depends on your personal circumstances. Some of these policies can be expensive, so you need to consider the cost compared to the risk of not having this insurance.

Type of Insurance	*What is it for?*	*It is right for you?*
Critical Illness Cover	Pays out a lump sum if you suffer a life-threatening illness, such as cancer or heart attack. Can be used to pay off the mortgage or for anything else.	* Yes, if clearing the mortgage would be a top priority in case of serious illness. * Yes, if you have dependants and no other household income to repay the mortgage. * No, if you have enough funds available. * No, if you want to be covered for a wider range of health problems ï consider income protection insurance instead. * No, if cover would not apply to you because of an existing illness.
Income Protection	Replaces a substantial part of your income if you are unable to work for a long period because of illness or disability (so it could be used in part to meet your mortgage payments. Continues to pay out until you recover or reach retirement, whichever is sooner.	* Yes, if you can afford it and the cover clearly applies to you ï for example, if you are in good health. * No, if you have other sources of income in the event of illness, for example if you have a policy through work/your employer. * No, if cover would not apply to you, which is possible if you have existing health problems or a dangerous job.
Life Insurance/Mortgage Protection Cover (term insurance)	Pays off the mortgage loan if you die. Note that endowment mortgages automatically include life cover ï you do not need a separate policy for any amount covered by the endowment policy.	* Yes, if you have dependants. * Yes, if you share the mortgage costs with someone else (joint mortgage). * No, if you have no dependants and it is not a joint mortgage. (The lender will take possession of your house, sell it to get their money and the rest goes to your estate.) * No, if you have enough life cover already.
Mortgage Payment Protection Insurance (MPPI). Also called accident, sickness and unemployment insurance (ASU)	Meets your mortgage payments for one or maybe two years if you are unable to work because of illness or unemployment.	* Yes, if the cover clearly applies to you ï for example, if you are a permanent full-time employee in good health. * No, if you have other sources of income to repay the mortgage in the event of illness or unemployment. * No, if cover would not apply to you, which is possible if you are a contract worker, part-timer, self-employed or have existing health problems. * No, if you already have enough cover (perhaps through income protection insurance or your employer).

<u>Glossary of Mortgage Terms</u>

The following is a list of the most general terms associated with mortgages and is intended as a guide to assist you in their understanding. It should not be relied upon as a definitive guide to terms as different lenders and insurance companies may use different definitions. Terms may differ in Scotland.

A

Accident, Sickness and Unemployment Insurance (ASU) - Also referred to as Mortgage Payment Protection Insurance (MPPI) In the event of an accident, sickness or involuntary unemployment to the borrower(s), this insurance will cover their mortgage repayments up to a level agreed at outset. ***Advisable to check all policy particulars and exclusions as the policy definitions can be restrictive.***

Administration Fee - A fee payable to the lender for administration in setting up the loan.

Adverse Credit - This is a generic term used for people with a poor credit history. This may include mortgage arrears, late payments, defaults, County Court Judgements (CCJ's), etc Borrowers with elements of adverse credit are generally offered higher rates than standard applicants are, usually with terms and conditions relating to the extent of their adverse credit history.

Annual Percentage Rate (APR) - A definition intended to identify the true cost of borrowing and to provide the consumer with a method of comparing the true costs of different types of loan. The APR includes all charges including the interest rate and associated costs and is best used to compare the overall cost of mortgages.

Arrangement Fee - A fee to cover administration, usually for arranging special rate mortgages. Other names include Application Fee, Booking Fee, Reservation Fee.

B

Base Rate - The interest rate from which lenders set their rates for lending and savings products. It is usually based on the Bank of England Base rate.

Booking fee - A fee normally charged by the lender to secure mortgage funds, payable at the time the application is submitted. Normally applies to special offer loans, such as fixed or capped rates.

Broker Fee - A fee charged by a mortgage broker or financial adviser for advising and/or arranging the purchase of the property.

Building & Contents Insurance - This insurance is highly recommended and sometimes compulsory by the lenders. Generally protects against loss or damage to the main structure of the property, also to fixtures and fittings, perimeter fences/walls and outbuildings and covers against contents. Can be bought separately but generally cheaper if bought with a combined policy. **Always check the definitions of the insurance contract as this differs between insurance companies.**

Buy-to-Let Mortgage - A mortgage designed for those wanting to buy a property with the intention of letting it to others. The lender will generally calculate the amount you can borrow on projected rental income rather than income multiples. ***(Not all buy to lets are regulated by the FSA.)***

C

Capital and Interest Mortgage - With this method the monthly mortgage repayments pay off both the initial loan amount and the interest that is charged upon it. At the end of the loan term the entire debt will be repaid providing all payment have been made on time and are up to date. Also known as: Repayment mortgage. Refer to Types of Mortgage Rates for further information.

Capped Rate Mortgage - The mortgage interest rate will not exceed a specified value during a certain period of time, but it will fluctuate up and down below that level. Some capped products will have a ceiling and a floor between which the rate payable may move, such loans may be known as cap and collar mortgages.

Cashback Mortgage - This is a mortgage in which the Lender refunds a sum of money, either as a percentage of the loan or a flat figure, to the borrower upon completion. With this type of offer the borrower will typically be tied to the Lender's standard variable rate by early repayment charges resulting in repayment of the cashback amount if the loan is repaid within a set period. Refer to Types of Mortgage Rates for further information.

CAT Standard - A government benchmark standard for financial products, setting minimum conditions for Charges, Access, and Terms - designed to enable consumers to identify products that offer a clear and fair deal. Products that meet the conditions can display the CAT mark. The CAT Standard for mortgages was launched in April 2000. See also CAT Mortgage above.
CML - Council of Mortgage Lenders, their website is www.cml.org.uk and provides useful information.
Commercial Mortgage - A loan granted for a commercial purpose, normally secured against commercial property, although residential property may be used. Usually carries a higher rate of interest than a residential mortgage because the lender perceives a higher degree of risk. (Commercial Mortgages are not regulated by the FSA).
Contents Insurance - See Building & Contents Insurance.
Conveyancing - The legal work involved in the sale and purchase of land or property. Usually completed by a solicitor.
Covenants - Are essentially legally binding agreements, or ‘promises’, within the mortgage deed. There are two types of covenants to be aware of, negative covenants and positive covenants. Negative covenants are where you agree not to do something, e.g. build on land. Positive covenants are where you agree to do something e.g. keep a roof in repair. They therefore may be restrictive on what you can or cannot do with a property.
Current Account Mortgage - A mortgage which combines a current bank account with the features of a Flexible Mortgage allowing overpayments and underpayments, payment holidays, and enabling cheques to be written from the mortgage account.
D
Debt consolidation - You effectively replace a number of existing loans with a single loan from a new lender. This can result in a reduction in your monthly payments by spreading the larger loan over a longer period and possibly, by reducing the overall interest rate. **This could then place even more secured lending onto your property and you should realise it is likely to cost more over the longer term and extend the term of the loans.**
Disbursements - These are generally legal and administrative costs associated with the house buying process. Generally these are to cover stamp duty, Search Fees, Land Registry fees etc.
Discount rate - This is based on a standard variable rate but the interest is discounted to a lower period for a set length of time. If repaid early (and sometimes for a set period after the discount rate finishes) there may be early repayment charges. Refer to Types of Mortgage Rates for further information.
E
Early Repayment Charge (ERC) also known as an Early Redemption Charge/Fee - A charge payable imposed by a lender on certain types of loan if it is repaid or partly repaid within a certain period e.g. during a fixed-rate period or while a discount applies. This can typically be a number of months interest as a penalty for repaying all or part of the mortgage before an agreed date.
Endowment - A combined life assurance and investment policy often taken out at the start of a mortgage to run for the same term. Premiums are paid to the provider who then invests the premiums with the aim of providing sufficient funds at the end of term to repay the mortgage. This is not guaranteed. Refer to Types of Mortgage Rates for further information.
Equity - The difference between the value of the property and the amount of any outstanding mortgage/loan secured against it.
F
Fixed Rate Mortgage - A mortgage where a fixed rate of interest is charged over a set period, generally over 2 to 5 years, although can be sometimes longer. At the end of the term, this usually reverts to the lenders variable rate. Can be early repayment charges if repaid early and occasionally for a set period after the fixed rate finishes. Refer to Types of Mortgage Rates for further information.
Flexible Mortgage - A mortgage which allows overpayments and underpayments on the mortgage without penalty, and, in some cases, to take payment holidays. Refer to Types of Mortgage Rates for further information.
Foreign Currency Mortgage - A mortgage taken out in a currency other than Sterling.
Please be aware that Changes in the exchange rate may increase the sterling equivalent of your debt.

Freehold - Land and/or property which is owned outright. Leaseholders have the right to occupy the land for a given number of years and nominal fee.
Full Structural Survey - A comprehensive report issued by a qualified surveyor into the condition of the property. This is generally the most expensive survey but always recommended. The survey should report all matters affecting the property.

G

Gazumping - Although the seller has received an offer, the seller accepts a higher offer before contracts are exchanged.
Ground Rent - A fee that is usually paid annually by the leaseholder to the freeholder, in respect of a leasehold property.
Guarantor - A person who promises they will pay the borrower's debt, usually if the borrower fails to. The guarantor is therefore fully liable for the repayment of the borrowed amount should the borrower default.

H

Higher Lending Charge (Formerly known as MIG Fee) - A payment to the lender to pay for an insurance policy when you lend above a certain amount, generally 75% or above loan to value. It is paid by the borrower for the benefit of the lender. The borrower remains liable for any amount claimed.
Homebuyers Report/Survey - A report by a qualified surveyor on the property. Paid for by the purchaser, it gives more information than a basic valuation but less than a Full Structural Survey.
Home Information Packs - As of 1 August, every home put on the market with four or more bedrooms needs a Home Information Pack. The Pack includes an Energy Performance Certificate, containing advice on how to cut carbon emissions and fuel bills. Also included are documents such as a sale statement, searches and evidence of title. Home Information Packs will soon be extended to smaller homes.

I

Illustration (KFI) - Sets out the costs associated with a particular mortgage and usually shows the amount for a set period along with an example if interest rates rise.
Impaired Credit - A term used to describe individuals who may have some poor credit, for example due to late payments or CCJ’s.
Individual Savings Account (ISA) - A Tax Efficient savings scheme which is a way of holding cash or stocks and shares investment. Can be used as away to repay an interest only mortgage although there are no guarantees that they will meet the intended target. These replaced Personal Equity Plans (PEP's) and Tax Exempt Special Savings Accounts (TESSA's).
Interest Only Mortgage - A mortgage whereby the original amount remains the same throughout the term of the mortgage. You pay the interest when due, usually monthly. Generally a repayment vehicle will be used to repay the loan at the end of the term, most commonly an ISA, Endowment. Refer to Types of Mortgage Rates for further information.

J

Joint Tenancy (See also tenants in common) - Under a joint tenancy the property is owned by both parties. Both have a responsibility to pay the mortgage and get an equal share when the property is sold. Should one of the joint tenant’s die the ownership automatically passes to the survivor. As opposed to tenants in common.

K

Key Facts Illustration – See Illustration.

L

Land Registry - The body charged with recording property ownership.
Land registry Fees - A fee paid to the Land Registry to register/change ownership of a property and/or land.
Leasehold - The rights over a piece of land over a set time period. These are generally over the longer term. Generally a fee is paid to the leaseholder.
Life Assurance - A policy which pays a lump sum on the death of the policyholder.
Loan to Value (LTV) - The percentage of a loan borrowed compared to the value of the property. For example if a borrower requires a mortgage of £80,000 on a property valued at £100,000 the Loan to Value would be 80%.

Local Authority Search - A search of local authority records to confirm the status of the property. Local authority searches should reveal any proposed changes in the area, the details of the planning permission for the subject property and whether any enforcement notices have been served by the local authority.

M

Mortgage Deed - The legal document establishing a loan on property.

Mortgagee - The lender.

Mortgagor(s) - The borrower taking out the mortgage.

Mortgage Indemnity Guarantee (MIG) - See Higher Lending Charge.

Mortgage Term - The term over which you agree to repay the loan

Mortgage Payment Protection Insurance (MPPI) - Also referred to as Accident, Sickness and Unemployment Insurance (ASU). Refer to Accident, Sickness and Unemployment Insurance.

N

Negative Equity - When the outstanding loan amount exceeds the value of the property secured on it.

NHBC Guarantee - A 10-year guarantee provided by the National House Building Council, that the builder will put right serious defects on a newly-built property.

O

Offset Mortgage - This is a mortgage which allows a borrower to keep balances (such as mortgage debt, savings account and current account) in separate accounts, but, for the purposes of interest calculation, all balances are aggregated. Money in savings or current accounts is set against the mortgage balance and interest is only charged on the outstanding amount, meaning interest payments are reduced. Refer to Types of Mortgage Rates for further information.

Overpayment - This is when an unscheduled capital repayment is made or when monthly payments are increased, in order that the mortgage is repaid before the end of the mortgage term, saving sums in interest. Many traditional (i.e. non-Flexible) mortgages include early repayment charges if overpayments are made within a set period.

P

Payment Protection Insurance - See Accident, Sickness & Unemployment.

R

Redemption - See Early Repayment Charge. The process of paying off your mortgage in full. Occurs at the end of the mortgage term, when changing lenders, or when moving house and taking out a new mortgage with a different lender. Fees can sometimes apply.

Re-mortgage - By arranging a loan on a property which the borrower already lives in. Generally repaying one mortgage to take another.

Repayment Mortgage - See Capital & Interest Mortgage.

Restrictive Covenants - See Covenants.

Right-To-Buy - The right of a tenant in a local authority owned property to buy the property, sometimes at a discount depending on the length of time you have been a tenant.

S

Self Certification - The process of certifying your income to the lender by signing a letter or declaration, instead of the lender acquiring references. This is a mortgage where a borrower states their income and signs a confirmation of their ability to repay a loan, without having to provide evidence such as accounts, payslips or bank statements. Consequently, self certification mortgage rates are often higher than standard mortgage rates.

Shared Ownership - A method of purchasing a proportion of a property with the remaining portion owned by a housing association. You then pay a rent for the other portion. The borrower is usually entitled to purchase the remainder of the property later.

Standard Variable Rate - The default interest rate charged by lenders which is usually in line with a stated index, such as the Bank of England Base Rate. It rises and falls broadly in line with changes in the Bank of England Base Rate and is normally applied at the end of a 'special rate' period, such as a fixed, capped or discounted rate. Refer to Types of Mortgage Rates for further information.

Stamp Duty - A government land tax charged as a percentage of the purchase price of a property which is paid by the purchaser on purchases over £125,000. Please refer to fees payable on page 7.

T

Term Assurance - The simplest form of life assurance. The insured person(s) are covered against death within a fixed period subject to the payment of the premiums as they fall due (normally monthly or yearly). If the insured person(s) survive the policy ends with no cash in value.

Tenants in Common (See also Joint Tenancy) - For tenants in common two or more people own the property, but if one of them dies, their share of the property passes to whoever he/she specifies in the will (or rules of intestacy if no will created). The share within the property does not have to be equal.

Tie-in Period - The period you agree to stay with the lender for when you take up a special offer mortgage (Fixed Rate, Discount, Cash Back etc). These sorts of products normally commit you to staying at least until the end of any special rate offer, and sometimes for a period afterwards. If you decide to repay your mortgage during the tie-in period you will normally have to pay an Early Redemption Penalty.

Title Deeds/documents - The legal documents which provide proof of ownership.

Tracker Mortgage - This is a variable mortgage that is either above or below the Bank of England's Base Rate by a set percentage within a set period. This will fall and rise in line with that index. Refer to Types of Mortgage Rates for further information.

V

Valuation - Not to be confused with a survey. A Valuation is report for the lender's own use stating the current value of the property and other information concerning the state of repair, the area, etc. See also Home Buyer's Report and Full Structural Survey.

Valuation Fee - A fee paid to the lender to cover cost of the Valuation.

Variable Rate Mortgage - See Standard variable rate Mortgage.

Vendor - The person or persons selling a property.