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MORTGAGE SERVICES



Mortgage Jargon Made Easy

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You'll hear many terms during the mortgage process that you may not understand. A confused buyer cannot be a happy one. With the amount of jargon you encounter on the way, buying a house can get a little frustrating.

In this blog we have chosen some common terms in the mortgage world that tend to boggle the mind - so if you don't know your variable rate from your fixed rate, this is the list for you!



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Mortgage Types – There are a few different types of mortgages that you can consider depending on your situation.

Repayment Mortgage: You pay a part of the capital and interest monthly. By the end of the mortgage term, (usually around 25 – 30 years) you will have paid the entire loan and own your home outright. This is the most common type of mortgage. When buying a home to live in, most people will take out a repayment mortgage.

Interest Only Mortgage: You cover only the interest per month and the full amount of loan is still pending at the end of the term. Most interest-only mortgages require only the interest payments for a specified time—typically five, seven, or 10 years. After that you must start paying both interest and a portion of the principal.

Pension Mortgage: Pension mortgage is an interest only mortgage with an additional investment plan in the form of a personal pension. A personal pension is a stock market-based investment that benefits from tax relief and tax-free growth.

Buy to Let Mortgage: A mortgage taken out to buy property to rent out to tenants. The deposit for a Buy to Let mortgage will usually be higher and these are generally interest only.

Cashback Mortgage: A cash lump sum is paid to the borrower on completion of the mortgage term. This is usually used as an incentive by lenders to tempt people to apply for their mortgage.

Offset Mortgage: This lets you link your mortgage to your savings. The way this works is by having your savings 'offset' against the value of your mortgage, so you'll only pay interest on your mortgage balance minus your savings balance. Your savings don't repay any of your mortgage, they just sit alongside it and save you interest and can help reduce the mortgage term in the long run.

Interest Types – Interest rates make the mortgage industry complex and competitive and are possibly the most important criteria in your mortgage decision.

Base Rate: A rate of interest set by the Bank of England.

Variable Rate: The interest rate can go up and down at the lender's discretion.

Tracker Rate: This is the base rate plus a percentage. The tracker interest rate follows the base rate as it fluctuates. Tracker mortgages are often a good option when the base rate is low, which it has been for several years.

Fixed Rate: The rate of interest remains fixed for a specific period. After which the arrangement reverts to the SVR. This is the most popular kind of mortgage as it offers security in case the base rate goes up.

Standard Variable Rate (SVR): A standard variable rate mortgage is what you'll be transferred onto when a fixed, tracker or discount deal comes to an end. Standard variable rates are generally higher than the rates offered by other types of mortgage.

Discount Rate: The interest rate is pegged at a set amount below the lender's standard variable rate (SVR) for either a set period (e.g. two or five years) or for your whole mortgage. The amount you pay could change very often.



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Fees and charges – Mortgages cost more than just the interest and the capital.

Arrangement/Product/Booking fee: This is the amount charged by a lender to set up the mortgage for you. It is usually due when the loan application is completed and may be added to the loan.

Early Repayment Charge: This will levy if you decide to pay the remaining amount of loan before the mortgage term is completed. Typically, the charges range from 1–5% of the value of the early repayment. Not all lenders have an early repayment fee.

Survey/Valuation Fee: The mortgage provider will conduct a survey to assess the value of the property you intent to purchase to make sure it's worth the amount you wish to borrow. Your lender might waive this fee on some mortgage deals.

Broker's Fees: Fees payable to the broker for their services in helping you find the right mortgage.

Other Key Terms

Stamp Duty: This is the Stamp Duty Land Tax and is levied on any transaction that involves exchange of property. The government has announced a Stamp Duty holiday till 31 March 2021 for properties up to £500,000. If you're looking to buy your first property or move home, you won't be charged Stamp Duty on the first £500,000 of a property purchased as long as the home you're buying will be the only home you own. This can save you up to £15,000 – so if you're thinking of moving, act quick!

Loan to Value: Essentially the size of the loan borrowed compared to the value of the property. So, if you borrow £180,000 to buy a home worth £200,000, the LTV is 90%. You are borrowing 90% of the value of the house.

Remortgage: This is a common process for mortgage holders and means a new mortgage application for your existing property, with the same or a new lender. Remortgaging happens for a variety of reasons including to release equity from a property, to consolidate debts, or to take advantage of a more favourable mortgage rate.



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Negative Equity: When the value of your loan exceeds your property value. This is usually caused by falling property prices.

Deposit: In the current market you cannot get a loan for 100% of the property price. You need to deposit at least 5% of the property price in most cases the deposit will be 10% to 15% of the property price.

Mortgage Deed: A legally binding document that mentions the terms of your mortgage and shows the transfer of property. It shows that the person who owns the home transfers the ownership to the lender as security for the mortgage.

Now that you know these terms, you are equipped with the basic knowledge to understand the mortgage world. If you have any questions about mortgages and would like to apply for one, contact us today!

Get in touch with us.

At Alexander Southwell Mortgage Services we can with all your Mortgage and Protection needs. Get in touch with us today on 02380 971117 or 07470 701788.



Your home may be repossessed if you do not keep up repayments on your **mortgage**.