FORDYCE & PLAYLE

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guide: jargon buster

One of the trickiest parts of buying a home is learning a whole new language, especially when some abbreviations mean exactly the same as another.

We have asked our mortgage team to put together a handy guide to help you work out your DIPs from your LTVs.

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advance	Simply another word for the mortgage loan amount.
AIP / DIP / mortgage promise	The early stage of the mortgage process where a mortgage lender runs a credit search and says whether or not they would consider lending you money.
APR	Annual Percentage Rate, a complicated figure to work out and is used to compare different mortgages. Not a very helpful figure as it works out the cost over the entire life of the mortgage and assume a constant interest rate which is rarely if ever a real life scenario.
bank base rate (BBR)	Is a rate set by the Bank of England for general lending purposes. The banks have discretion as to what rate they actually charge and what their interest rates should be. An important figure for tracker rate mortgages.
buildings insurance	As it says on the tin, a compulsory insurance that will cover issues regarding the building. For example if your home burnt down the insurance would pay for the works to rebuild. For flats and leasehold properties sometimes this insurance is taken out buy the building owner/ freeholder.
capital & repayment	Means that the monthly payments you make to the mortgage are repaying both the interest and the amount you have borrowed.
completion	A term used for the moment when your new mortgage comes in force and you become the owner of the property.
contents insurance	A non-compulsory insurance that will cover any issues in relation to the contents of your home. There are various levels of cover available.
ERC	The term used for the person or business looking after the legal role in the home buying process.
fixed rate	Early Repayment Charge, a penalty fee for repaying your mortgage early. This would apply during the special period of the mortgage such as the fixed period.
further advance	Once you have a mortgage you may wish to borrow more money, a further advance is like a top up where your existing lender provides some additional monies to you and this increases the balance of your mortgage or liability to them.

IDD	Initial Disclosure Document, is a detailed list of the services provided by your adviser and whether or not fees will be charged. There are different levels of advice and you should be aware of the type of advice that's being offered i.e. is it 'restricted' or 'whole of market' etc.
interest only	Means the monthly payments you make towards the mortgage are repaying only the interest and that you will still owe the money you borrowed at the end of the mortgage term.
KFI	Key Fact Illustration, is a document containing all the terms and costs of a particular mortgage product.
lender	The institution that is going to lend you the money. This could be a bank, building society or a specialist lender.
life assurance	An insurance that could pay off your mortgage in the event of death depending on the type of contract taken out. A very important insurance if you have a family or if you are buying with a partner who could not afford to stay living in the property if one were to pass away.
LTV	Loan to Value, is a calculation on the percentage of the mortgage amount to the value of the property. Typically the lower the LTV the lower the interest rate. Lenders price their interest rates by the LTV thresholds so keep an eye on this figure as the difference between 75% and 76% could mean a more expensive mortgage.
net income / gross income	Net Income = your earnings once you have paid tax etc. Gross Income = your earnings before you have paid tax etc.
new build	A property being lived in for the first time. Be aware mortgage lenders may restrict the LTV on new builds, especially flats.
overpayments	Some lenders will allow you to overpay on your mortgage within a certain limit, without incurring any ERCs.
porting	Some lenders will allow you to move home and take your mortgage with you to avoid ERCs, but there are special conditions relating to this.
term	The term is the amount of years you wish to pay your mortgage over. The longer the term the cheaper the monthly repayments but be aware the longer the term the more interest you will inevitably pay.
tracker	Type of mortgage where your interest rate will tend to move when the Bank of England changes it's Bank Base Rate, although it is up to the individual lender still what rate they will apply to your loan. There is a risk your monthly payments will increase as well as decrease so this is to be carefully considered.
valuation	A report carried out by a surveyor to see if the property is suitable to lend money on and to evaluate the value of the property.

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