Borrowers' Guide to Mortgages and Explanation of Terms

BORROWER'S GUIDE TO MORTGAGES AND EXPLANATIONS OF TERMS

This guide is an introduction to mortgages and explains the terms you will come across in relation to your loan. Specific terms and conditions including fees and charges which may apply to specific mortgage products, are detailed in the product guide or the Key Facts Illustration provided by your broker and/or lender.

TYPES OF MORTGAGE PRODUCTS

OWNER OCCUPIED PROPERTIES

Standard Variable Rate (SVR)
The interest rate is variable for the term of the loan and may change at any time.

Fixed Rate
Interest charged is fixed for an initial period and does not change until this period ends. Normally the rate then payable when the fixed term ends is Standard Variable Rate (SVR).

Discounted Rate
This is a variable rate at a percentage discount from SVR, and the rate will move up or down in line with changes in the SVR. Normally the rate then payable when the discount term ends is SVR.

Base Rate Tracker
This is a variable rate which tracks the Bank of England base rate and will move up or down in line with changes in this rate. The rate is set at a percentage above or below the base rate and will normally track the rate for the full term of the mortgage.

Stepped Discounted Rate
This is similar to the Discounted Rate and is variable at a percentage discount from

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SVR, however the percentage discount lowers each year that the stepped discount applies, e.g. 1.50% discount for the first year, 1.00% discount for the second year and so on. There will be an Early Repayment Charge during the discount term. See the specific product guide or KFI+ for full details.

LETTING PROPERTIES

Buy to Let

This type of mortgage is for purchasing a property with the intention of letting it out under a rental agreement; and if neither you nor a family member are living in the property. Buy to let products can be fixed or variable rate and will depend on the products available at the time of application.

Consumer Buy to Let
These mortgages are for re-mortgaging a property that you or an immediate family member has lived in and you do not own other properties that are being let. Consumer Buy to let products can be fixed or variable rate and will depend on the products available at the time of application.

TYPES OF BORROWER

Borrowers who are employed or self-employed can normally choose any standard mortgage products for either a house purchase or a re-mortgage of their existing loan; however there are those borrowers whose income or credit is not standard, or who require a specialist type of mortgage.

NON-STANDARD INCOME OR CREDIT
These mortgages may be fixed or variable and are designed for borrowers whose income is not standard (e.g. mainly pension or savings income); or who may have previous credit issues.

CONTRACTORS
There are specific mortgages for borrowers working on a contract or freelance basis,

where the income used for affordability purposes is based on current and previous contract daily rates.

SELF BUILD
There are specific products designed for those looking to build their own home. The total amount of the mortgage is agreed at the outset and then drawn down in stages based on interim valuations of the completed work.

SHARED OWNERSHIP
This is for borrowers looking to start purchasing their housing association property in stages, making mortgage repayments to the lender and rental payments to the housing association.

REPAYMENT METHODS

CAPITAL AND INTEREST
Your monthly instalment will cover both interest on the outstanding loan and repayment of the capital sum borrowed over an agreed number of years. At the end of the term agreed the mortgage is paid off in full. The percentage of your repayment to the capital gradually increases over the term as the total amount of interest charged on the reducing balance becomes less each year.

INTEREST ONLY
Your monthly instalment will only cover the interest on the outstanding loan and therefore the balance outstanding will remain the same. This means that the original capital sum must be repaid at the end of the mortgage term. You will need to arrange a means of repaying the capital, which will usually involve an additional monthly payment to a third party. The following are suitable repayment vehicles that can be used to pay off the capital:

- Pension
- ISA
- Endowment
- Stocks & shares
- Other investments
- Second property
- Sale of property

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REPAYMENT AND INTEREST ONLY
A loan can be set up in two parts if required, one repayment and one interest only.

EXPLANATION OF TERMS

Annual Percentage Rate of Charge (APRC)
The Annual Percentage Rate of Charge enables you to compare the cost of different loans on a 'like for like' basis. Usually, the higher the APRC on a loan, the more you will have to pay. The figure is calculated on the average loan size and repayment term of data gathered on the specific or similar type of mortgage.

Capital
The sum of money that is lent to you to purchase or remortgage a property. Interest is payable on the capital that is released to you. You will have to repay both the capital and the interest due to the lender by the end of your mortgage term.

Completion
This is the last stage in the purchase of a property. The legal documentation is finalised and the lender has sent the mortgage funds to your solicitor. Once your solicitor forwards the funds to the seller's solicitor the property is owned by you and you can move into your new home.

Early Repayment Charge
A charge that may be incurred if you repay your mortgage (in whole or in part) before the end of a specified time period. Details of any early repayment charges applicable to a product will be shown on the product guide and detailed in your key facts Illustration and mortgage offer.

Equity
The monetary difference between a property's actual value and the mortgage held

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against the property. If the property is worth less than the mortgage outstanding this will be described as 'negative equity'.

Fees
A number of fees will apply to any mortgage including fees paid to the broker and the lender, valuation fees, solicitors fees and possibly stamp duty. Specific fees for arranging your mortgage will be detailed on the Key Facts Illustration.

Interest Rate
This is the rate at which the interest charged on the mortgage is calculated.

Joint and Several Liability
An undertaking by two or more people to be responsible for; either individually or jointly, the mortgage and any other associated liabilities with the loan.

Key Facts Illustration (KFI+)
A KFI+ is a document produced by mortgage lenders which summarises all the important features of the mortgage and must be fair, clear and not misleading. It must be presented in a standard way, so you can check the cost and terms of the mortgage and compare it with other similar mortgages from the same lender or other lenders.

Loan to Value (LTV)
The loan to value represents the percentage of the value of the property which the borrower is seeking to borrow. For example, a property worth £150,000 with an outstanding mortgage of £75,000 = a 50% LTV (outstanding mortgage amount / property value x 100).

Mortgage Offer
This is the document that states that the lender is prepared to offer you a mortgage for the purchase or remortgage of a property. This document will give details of the exact amount of money that will be lent to you and on what terms.

Overpayments
Overpayments are payments made to the lender of more than the required monthly repayment amount and can be made to pay off a loan more quickly. Generally in fixed or discount rate schemes an Early Repayment Charge will apply which means

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you will either not be able to make any overpayments or you may only be able to pay a small amount more than your normal monthly repayment.

Remortgage
A remortgage is the process of moving your existing mortgage loan from one lender to another.

Stamp Duty (Land & Buildings Transaction Tax in Scotland)
This is a tax payable on property purchases above a level set by the government. The amount depends on the purchase price of the property. Stamp duty may also be payable upon a remortgage where there is a transfer of ownership.

Standard Variable Rate (SVR)
The SVR is generally the follow on rate on any fixed or discount scheme, although a new deal may be available when your fixed or discount term comes to an end.

Title Deeds
These are legal documents that show the ownership of the property.

Transfer of Equity
The process of adding or removing a party to or from a mortgage.

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