Mortgage Jargon Buster

Variable rate

Your monthly payment fluctuates in line with a standard variable rate (SVR) of interest, set by the lender.

You probably won't get penalised if you decide to change lenders and you may be able to repay additional amounts without penalty too. Many lenders wont offer their standard variable rate to new borrowers.

Tracker Rate

Your monthly payment fluctuates in line with a rate thats equal to, higher, or lower than a chosen base rate (usually the Bank of England base rate).

The rate charged on the mortgage tracks that rate, usually for a set period of two to three years. You may have to pay a penalty to leave your lender, especially during the tracker deal period. You may also have to pay an early repayment charge if you pay back extra amounts during the tracker period.

A tracker may suit you if you can afford to pay more when interest rates go up, in exchange for benefiting when they go down. It's not a good choice if your budget won't stretch to higher monthly payments.

Fixed Rate

With a fixed rate mortgage the rate stays the same, so your payments are set at a certain level for an agreed period. At the end of that period, the lender will usually switch you onto its SVR.

You may have to pay a penalty to leave your lender, especially during the fixed rate period. You may also have to pay an early repayment charge if you pay back extra amounts during the fixed rate period.

A fixed rate mortgage makes budgeting much easier because your payments will stay the same - even if interest rates go up. However, it also means you won't benefit if rates go down.

Discounted Rate

Like a variable rate mortgage, your monthly payments can go up or down. However, you'll get a discount on the lenders SVR for a set period of time, after which youll usually switch to the full SVR.

You may have to pay a penalty for overpayments and early repayment and the lender may choose not to reduce (or delay reducing) their variable rate - even if the base rate goes down.

Discounted rate mortgages can give you a gentler start to your mortgage, at a time when money may be tight. However, you must be confident you can afford the payments when the discount ends or if the lenders SVR increases.

Flexible mortgages

These schemes allow you to overpay, underpay or even take a payment 'holiday'. Any unpaid interest will be added to the outstanding mortgage; any overpayment will reduce it. Some have the facility to draw down additional funds to a pre-agreed limit.

Offset Mortgages

Taking out an offset mortgage enables you to use your savings to reduce your mortgage balance and the interest you pay on it. For example, if you borrowed
£200,000 but have £50,000 in savings, you would only be paying interest on £150,000.

Offset mortgages are generally more expensive than standard deals, but can reduce your monthly payments, whilst still giving you access to savings.

Repayment Methods

The two most common ways of repaying your mortgage are capital repayment and interest only.

Capital repayment

This is the most appropriate method for repaying a residential mortgage. Your monthly payments will comprise a portion to pay the interest on the money you've borrowed, as well as a portion to repay the capital sum (the amount you've borrowed).

The benefit of capital repayment is that you can see the mortgage reducing each year (albeit very slowly in the early years) and you are guaranteed to repay the debt at the end of the mortgage term, as long as payments are maintained.

Interest only

If you opt for an interest only loan, your monthly payments will only cover the interest on the mortgage balance. The capital (the amount you borrowed) will remain the same and will need to be repaid at the end of your mortgage term. This means you will need a separate investment or combination of investments to generate the capital required.

Lenders are becoming increasingly strict in terms of the types of investments they will accept as a repayment vehicle. If you fail to generate enough to repay your mortgage by the end of the mortgage term, you may be forced to sell your property and downsize.

How much will it cost?

Many people underestimate the costs involved when buying a property. Heres a summary of the main costs you can expect to incur.

Valuation fee

Lenders usually ask you to enclose a cheque for the valuation fee with your mortgage application form, or you can pay it by credit/debit card.

The type of valuation you choose will depend on factors such as the age and condition of the property and whether there is any history of subsidence in the area. If the valuation isn't carried out the fee can be refunded.

Arrangement fee

You can either pay this in advance, enclosing a cheque with your mortgage application, by credit/debit card, or on completion of your mortgage.

Some lenders will allow the fee to be added to your mortgage, but this means you will be charged interest on it over the term of the mortgage. You may get some or all of it back if the mortgage is declined or withdrawn (this will be specified in your mortgage key facts illustration).

Legal costs and fees

The fees charged by a solicitor include the charge for conveyancing (the transfer of ownership of land), the cost of legal registrations and miscellaneous costs (known as disbursements) such as local search fees and land registry fees.

You should try to obtain an estimate of these costs early on in the process. Some lenders may offer to finance some or all of the legal costs as an incentive.

Stamp duty

Stamp duty is a 'purchase tax' and is generally payable where the purchase price of the property is higher than a pre-defined limit set by the government. Your Pia Adviser will be able to confirm the current charge, which is based on a percentage of the property purchase price (stamp duty is not payable for remortgages).

Higher lending charge

If the amount you wish to borrow is greater than a certain proportion of the properties value (typically 75%) you may incur a higher lending charge.

This charge is there to protect the lender in the event the property is repossessed and the loan, plus any unpaid interest, exceeds the sale value of the property. In some cases the charge can be added to the loan.

Early repayment charge

Some lenders charge for early repayment of your loan before the end of the normal mortgage term. This can sometimes be a significant amount, so you should always check the terms in the offer letter from your lender.

Advisers fee

Your Pia Adviser will explain how they will be paid for arranging your mortgage. The exact details will be shown on your key facts illustration.

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