XL FINANCIAL SERVICES

Glossary of Terms

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Accident, Sickness and Unemployment Insurance (ASU): In the event of an accident, sickness or involuntary unemployment befalling a borrower, this insurance will cover their mortgage repayments. Some Lenders attach mandatory insurance cover to their most attractive rates, although this is increasingly uncommon. Also known as: Mortgage Payment Protection Insurance (MPPI).

Adverse Credit: This is an umbrella term used of applicants with poor credit history. This may include mortgage arrears, defaults, County Court Judgements (CCJs), bankruptcy, Individual Voluntary Agreements (IVAs) and house repossession. Borrowers with elements of adverse credit are offered higher rates than standard Full Status applicants are, usually with terms and conditions relating to the extent of their adverse credit history. Often, adverse credit mortgages are Libor-linked rates.

Affordability Assessment: This is the processed used by a lender to assess how much can be lent to on a mortgage. It is complex and takes into account income, cost of running the property, other debts, dependent children and adults and costs for the property (i.e. service charges and rent). This is different for each lender and is based on the amount borrowed as a percentage of the property (known as loan to value) in some cases as well.

Annual Percentage Rate of Charge (APRC): The APRC is a rate calculated using a generic formula applicable to all Lenders, which includes all the costs associated with a mortgage. This allows for easy comparisons to be made between the different mortgage products offered by each Lender. Also Known as Annual Percentage Rate (APR)

Arrangement fee: This fee may be charged on specific products and is either payable in advance, added to the loan or deducted from the advance on completion. It covers the administrative expenses incurred whilst processing an application.

Base Rate: Every month to 6 weeks the Monetary Policy Committee sets the Bank of England Base Rate, to which all mortgage rates are linked either directly, as Tracker mortgages, or indirectly, in all other cases.

Booking fee: This fee may be charged on specific products and is either payable in advance, added to the loan or deducted from the advance on completion. It is normally payable in order to reserve funds when a product is likely to sell out quickly.

Buildings and Contents Insurance: This insurance covers damage to the mortgaged property and/or its contents in a variety of specified scenarios. It is compulsory for all mortgages to have buildings insurance but you do not have to take the lenders own products and can choose your own insurance (as long as the terms of the plan are acceptable to the lender).

Buy-to-Let mortgage (BTL): This is a mortgage for property that will be let by the borrower to other tenants. When Lenders calculate how large a loan the borrower can afford to repay on BTL they usually do so primarily on the basis of projected rental income, rather than salary income multiples.

Capital and Interest mortgages: 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.
Also known as: Repayment mortgage.

Capital Rest Period: This is the regularity with which a Lender calculates the outstanding balance on mortgages, and hence the size of monthly repayments. It is usually annually, monthly or daily. With Capital and Interest mortgages this can be important; an annual interest calculation means that the borrower will pay interest on capital repayments that have been made in the course of that year. In contrast a daily or monthly interest calculation means that the balance, and consequently the interest charged, will reduce with every capital repayment made.

Capped rate mortgage: This is a mortgage that is guaranteed not to rise above a specific rate (the 'cap') within a set period. Unless this is combined with another rate, such as a Discount or Tracker, the Lender's Standard Variable Rate will be charged if it is lower than the capped rate; if it rises above this ceiling the rate charged will remain at the capped level. There are often early repayment charges applicable if the loan is repaid within the capped period.

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 required to repay the cashback if the loan is repaid within a set period.

Completion: This is the moment when a transfer of property has legally taken place, after all legal documentation has been completed and funds have been transferred from the buyer's solicitor to the seller's solicitor.

Contents Insurance: See Buildings and Contents Insurance.

Conveyancing: This is the legal process whereby ownership of a property is transferred or a remortgage is completed.

Date of Entry: In Scotland this is the date on which the property buyer pays the purchase price to the property seller, and. the property seller gives the keys and legal ownership to the property purchaser.

Discounted rate mortgage: This is a variable mortgage that is discounted from a Lender's standard variable rate by a set percentage within a set period. There are often early repayment charges applicable if the loan is repaid within the discounted period.

Early Repayment Charge (ERC): This is a penalty charged on mortgages when the loan is repaid in full within a set period. Usually it applies on a pro rata basis when capital repayments are made outside of the agreed monthly payments. Many Early Repayment Charge periods are linked to those of offers, such as Capped, Discounted or Fixed rate periods. Previously, some mortgage rates have extended Early Repayment Charges which tie in borrowers even while they are paying the Lender's Standard Variable Rate however these are less common now.
Previously known as: Early Redemption Penalty (ERP); Redemption Penalty.

Endowment: A repayment vehicle associated with Interest Only mortgages.

Exchange of Contracts: This is the stage in England, Wales and Northern Ireland that the deposit money is paid and both parties are legally bound to fulfil the agreed conditions of sale and purchase.

Exclusive mortgage: This is a mortgage only available to intermediaries through a specific lender, packager or mortgage club, in conjunction with a Lender who provides the funding.

Fixed rate mortgage: This is a mortgage that is charged at a fixed rate within a set period. There are often early repayment charges applicable if the loan is repaid within the fixed period.

Flexible mortgage: As its name suggests, this is a type of mortgage that offers considerably more flexibility than traditional mortgages. Although specific details vary between Lenders, the core features of Flexible mortgages are:
- daily or monthly capital rest
- ability to make overpayments at any point of the loan term without an early repayment charge

In addition, many Flexible mortgages allow borrowers to:
- defer payment by taking payment holidays
- drawback overpayments
- drawdown further advances
- underpay without penalty (often only to the amount of any previous overpayments)

Freehold: The buyer of a Freehold property owns both the property and the land it stands on indefinitely. See also Leasehold.

Gazumping: This is when a prospective purchaser has an offer for a property accepted, before another potential buyer puts in a higher offer for the same property.

Higher Lending Charge: This is a premium charged by Lenders in order to indemnify themselves, and NOT the borrower, against any financial shortfall they may incur in the event of repossessing a property which must then be sold at a loss. It is applicable if the amount required is higher than a certain percentage of the property value, usually 85% loan to value; often the Lender will pay the cost of this insurance themselves between 75% and 90% loan to value. If payable, the charge may either be added to the loan or deducted from the advance on completion.
Previously known as: Additional Security Fee; Indemnity; Mortgage Indemnity Guarantee (MIG).

Homebuyers' Report: See Valuation Fee.

Individual Savings Account (ISA): A repayment vehicle associated with Interest Only mortgages.

Interest Only mortgages: With this method the initial loan amount remains the same throughout the term of the loan, while the monthly mortgage repayments only pay off the interest being charged on this amount. For this reason, Interest Only mortgages are usually tied to investment in one of a number of different repayment vehicles, which, ideally, should cover the initial loan amount at the end of the loan term. These repayment vehicles include endowment policies, personal pensions, ISAs etc.

Joint Borrower / Sole Proprietor (JBSP) Mortgages: These are modern mortgages that allow 2 to 4 people (depending on the lender). However, the property can be owed in just one or two of the names at land registry. This is helpful for parents looking to support their children by going on the mortgage but not owning the property.

Leasehold: The buyer of a Leasehold property owns the property for a set number of years, but doesn't own the land on which it stands. See also Freehold.

Let to Buy mortgage (LTB): This is a mortgage where the borrower's current property is let to other tenants and the rental income is used to cover the mortgage repayments on a new property, bought as the borrower's main residence. When Lenders calculate how large a loan the borrower can afford to repay on LTB they mainly do so primarily on the basis of projected rental income, rather than salary income multiples.

Libor-Linked mortgage: This is a variable mortgage that is either above or below the London Inter-Bank Offered Rate by a set percentage within a set period. The Libor rate is set independently every 3 months. It is often associated with Lenders that offer loans to borrowers with elements of adverse credit.

Life Policy: See Term Assurance.

Loan to Value (LTV): This is a percentage figure of the loan amount in relation to the property value. For instance a £100,000 property bought with a mortgage of £70,000 has an LTV of 70%. The higher the LTV, the higher the interest rate charged will be; above certain LTVs a Higher Lending Charge may come into effect.

Mortgage Payment Protection Insurance (MPPI): See Accident, Sickness and Unemployment Insurance (ASU).

Non-Conforming: See Adverse Credit.

Offset mortgage: This is a fully Flexible 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.

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 considerable sums in interest. Many traditional mortgages include early repayment charges if overpayments are made within a set period but allow a certain percentage (usually 10%) to be paid yearly without charge.

Pension: A repayment vehicle associated with Interest Only mortgages.

Portability: A portable mortgage is one that can be transferred to another property without paying an early repayment charge if the borrower moves house within an early repayment charge period. It is only the rate that is portable and in most cases you would need to meet the lenders current criteria in order to port the rate.

Procuration Fee: This is commission paid by Lenders to intermediaries for introducing business to them. If the intermediary receives more than £250 they are obliged to disclose to the borrower the exact amount they received.
Also known as: Broker Fee.

Repayment mortgage: See Capital and Interest mortgages.

Right to Buy (RTB): This is when a tenant living in a council-owned property purchases it at a discount, the size of which depends on the length of their tenancy.

Self Build: This is a mortgage for property under construction. The loan is paid out in stages as the property is completed, in order to ensure the LTV does not rise too high at any point.

Shared Ownership: This is a scheme operated by a Housing Association where the borrower owns part of a property, and pays the mortgage on this, while a Housing Association owns the rest of the property, and the borrower pays rent on this.

Split Loan: This is a mortgage that is taken partly on a Capital and Interest basis and partly on an Interest Only basis. Also known as a part and part mortgage.

Stamp Duty: This is a government tax charged on the sale of properties. The tax is calculated as a percentage based on the value of the property above a threshold set in the Chancellor's annual budget. The tax rate is divided into bands with the percentage increasing with the value of the property. It is not payable on remortgages.

Standard Variable Rate (SVR): This is a variable rate determined entirely at each Lender's discretion. Unless linked to Libor or the Bank of England Base Rate, the SVR is the reverting rate at the end of any special offer period, such as a Capped, Discounted or Fixed rate.

Term Assurance: This insurance repays the mortgage in the event of the insured person's death.
Also known as: Life Policy.

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.

Valuation Fee: Whether purchasing or remortgaging the Lender undertakes a valuation of the property to ensure it provides adequate security. The charge is borne by the borrower and increases exponentially with the valuation/purchase price. There are 3 levels of valuation: in order of increasing detail these are Basic, Homebuyers' Report, and Structural survey. The more stringent the valuation, the higher the fee.

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