

Glossary of Terms

At Kensington we do our best to ensure our mortgages are easy to understand, but there may be occasions where it is necessary for us to use a word or phrase in our literature that may be unfamiliar to you.

So here is a glossary of commonly used terms to help you fully understand the mortgage process.

Added to loan

The costs a borrower faces when arranging a mortgage can be added to the loan on top of the amount they have asked to borrow. These fees would be considered as 'added to the loan'.

Administration fee

A fee charged for any number of administration procedures.

Advance

The mortgage loan.

Annual percentage rate (APR)

This is a legal definition used to show the true cost of borrowing. As it is a standard definition, it enables a potential borrower to compare the costs of various types of mortgage. Every mortgage quotation must show an APR figure.

Applicant

Someone who applies for a mortgage.

APR

See Annual percentage rate.

Arrears

The term used to describe missed, late or under paid mortgage repayments.

BBR

Bank Base Rate - the base rate of interest, set by the Bank of England.



Broker

Also known as an intermediary, introducer or adviser, a broker can help you to find the most suitable financial products for your circumstances.

Buildings Insurance

All lenders require property to be insured for the full rebuilding cost should the building be damaged or destroyed. This insurance cover is a condition of all mortgages.

Buy to let

This is where a property is purchased for the purpose of letting it out to tenants.

Capital

The amount you borrow to help you buy your home, and on which interest is charged.

Capital and interest mortgage

The monthly repayment on this type of mortgage includes a repayment of capital borrowed and an amount for the interest charged.

Charge or legal charge

When an individual takes out a mortgage, the lender takes a legal 'charge' over the property. This means the lender is registering its interest in the property by recording it on the title deeds.

Commonhold

An alternative to Leasehold. Commonhold allows freehold ownership of individual 'units' (flats and houses) within a building or estate; the common parts are owned and managed jointly by the unit-holders through a Commonhold association.

Completion

The completion date on your Kensington mortgage is the date on which funds are released to your solicitor.

Compound interest

The interest calculated on accumulated unpaid interest as well as the original loan.

Consumer Credit Act (CCA)

Secured (second charge loans) are regulated by the Office of Fair Trading under Consumer Credit Act (CCA). First charge mortgages on dwellings are regulated by the Financial Services Authority (FSA).

Conveyancer

A solicitor or licensed conveyancer who does the legal work involved in selling and buying property.

Conveyancing

The legal work involved in selling and buying property.

County Court Judgement (CCJ)

This is a judgement for a debt lodged by a County Court. Judgements are recorded and will be shown when a credit check is carried out. If the debt is paid or satisfied and a satisfaction certificate obtained it will be noted on your credit file.

Credit check

A credit check determines your credit history using the services of a Credit Reference Agency.

Credit Reference Agency

An organisation that keeps details of individuals and their credit histories. Lenders will check with a credit reference agency to see if someone applying for a mortgage has any known credit problems.

Defaults

If you have defaulted on a loan or mortgage it means that you have failed to meet your agreed repayments and this will be marked on your credit record.

Deposit

The amount of money you put into buying a home (not including the money you are borrowing). The phrase may also refer to the amount paid upon exchange of contracts.

Disbursements

These are costs related to the conveyancing of a property and are charged by a Solicitor. These costs usually encompass postage, couriers and legal documentation.

Discount rate period

A set amount of time during which a reduced interest rate applies.

Early Repayment Charge (ERC)

A fee payable if you repay your mortgage in part or full before a certain date (detailed on your mortgage offer), even if you move to another lender.

Equity

The total value of your property, less the amount of the mortgage. For example, if your house is worth £60,000 and you have a mortgage of £50,000, you have equity of £10,000.

Exchange of contracts (England & Wales only)

At this stage of the property purchase, legally binding contracts are exchanged between the buyer and the seller.

Existing commitments

This phrase refers to all the other financial commitments, apart from the existing or proposed mortgage. Liabilities will include credit cards, bank loans etc.

Financial Services Authority (FSA)

The Financial Services Authority (FSA) is the independent watchdog set up by the government to regulate financial services and protect your rights. The FSA has regulated mortgage sales since 31 October 2004. All lenders must be authorised by the FSA. This means that all firms must follow FSA rules when dealing with you. You can check that a mortgage firm is authorised by calling the FSA Consumer Helpline (0845 606 1234) or through the FSA website at www.moneymadeclear.fsa.gov.uk >>

First charge

A lender will always use this to secure the main mortgage. A lender that has a first legal charge over a property will have the first call on any funds raised from the property sale.

First Time Buyer

Someone who is not currently a homeowner and has not held any mortgage in the last 12 months.

Fixed rate mortgage

A mortgage where the interest rate is fixed or set for a number of months or years. After the fixed rate period has ended, the interest rate will revert to the normal variable mortgage rate.

Freehold (England & Wales only)

This refers to land or property owned indefinitely, giving complete ownership of the land and all buildings on it. Leasehold property only gives the owner a right to hold the land for a limited period of time.

Further advance

When a customer borrows more money from their current mortgage lender. This loan is also secured by the first charge on the property.

General conditions

These are the standard conditions applicable to a mortgage. These will be found in the mortgage conditions supplied to you with your mortgage offer.

Ground rent

A yearly fee leaseholders have to pay to the freeholder or landlord who owns the land the leasehold property is on.

Home Information Pack (HIP)

The Home Information Pack contains important information for buyers and is compulsory if you wish to market your property for sale. For more information on HIPs please visit www.homeinformationpacks.gov.uk

Income Multiples

The number by which a lender multiplies your earnings to calculate how much you may be able to afford to borrow. The income multiple used by the lender will depend on your personal circumstances.

Initial interest

Initial interest is a payment covering the period between your mortgage completion and the 1st of the following month. This amount will usually be added to your first mortgage payment.

Interest

The money you are charged for borrowing.

Interest only mortgage

A mortgage where an element of interest is paid each month to the lender and no capital is repaid until the end of your mortgage term. At the end of the mortgage term the full amount of capital borrowed will still need to be repaid.

Independent Financial Adviser (IFA)

Also known as an introducer, intermediary or broker. An IFA can help you find the most suitable financial products for your circumstances.

Key Facts Illustration (KFI)

All mortgage brokers and lenders are obliged to provide this document to you. The document provides details of the mortgage you are interested in, including information on costs and services provided by the lender.

Lease

A legal contract, which gives the ownership of a leasehold property to the buyer for a fixed period of time.

Leasehold (England only)

Someone who owns a property but not the land it stands on. The property owner will lease the land from the owner for a fixed period of time. If the property is in a block of flats or apartments each property owner will hold a lease.

Leaseholder

Someone who owns a property, but not the land it stands on, for a fixed period of time.

Legal Completion

Marks the point at which you become the legal owner of the property you have purchased and the land registry records are amended to reflect this.

LIBOR

London Inter-Bank Offered Rate. This is the rate at which banks lend money to each other and plays a significant role in determining mortgage rates.

Loan to value (LTV)

The amount of money you want to borrow compared (as a percentage) to the value of the property, e.g. a mortgage of £75,000 on a property valued at £100,000 would have an LTV of 75%.

Local authority search

This is carried out by the purchaser's solicitor or conveyancer to check the status of the property. This search reveals whether any proposed changes in the area are taking place, details of planning permission for the property and whether enforcement notices have been served by the Local Authority on the property.

Main residence

Sometimes referred to as the principal residence. This is the home where someone spends most of their time.

Mortgage

A loan to buy a property. The property acts as security for the loan and so can be repossessed and sold if the mortgage repayments are not made.

Mortgage Adviser

Also known as an introducer intermediary or broker. A mortgage adviser can help you find the most suitable financial products for your circumstances.

Mortgage Deed

A legal agreement, that gives the lender a legal right to property until the mortgage is repaid in full.

Mortgage Lender

The company you take out your mortgage with.

Mortgage Term

The length of time over which the mortgage will be repaid.

Negative equity

This occurs when the property value has fallen below the amount of mortgage still owing, i.e. your property is worth less than the amount you owe on the mortgage secured on it.

Part Redemption

Part redemption occurs when you make a lump sum capital repayment in part settlement of the mortgage.

Redemption

This refers to repaying the mortgage when you are either moving to another property or the mortgage term has come to an end.

Remortgage

When a borrower moves a mortgage from one lender to another or from one product to another with the same lender, without moving home.

Right to Buy (RTB)

Tenants in some housing associations, MOD or council properties, have an option to purchase the property in which they live in from the organisation that owns it. Usually the property can be purchased at a discount based on the length of time they have been a tenant.

Repayment Mortgage

A mortgage where you pay off both the loan and the interest at the same time. If you make all repayments on a repayment mortgage for the entire term, the mortgage debt will be paid off in full.

Second charge

This is a legal charge, which is usually used to secure a second mortgage or other borrowings. It will always rank behind a first charge. See also Secured loan.

Secured Loan

This is a loan that uses equity in your home for security which may allow the loan provider to offer more competitive interest rates than Unsecured loan. However, your home is at risk if you fail to keep up repayments secured on it.

Security

The property, for which the mortgage is being used to buy, is the lender's 'security' for the loan. This means that the lender has rights over the property. If the mortgage repayments are not kept up to date, the lender may, as a last resort, need to exercise its right to repossess the property and sell it to recover the debt.

Self Certification

Self-certified mortgages are a well-established means of catering for the UK's growing self-employed population as well as the large number of consumers who work on short-term contracts or have fluctuating or portfolio income.

Kensington Variable Rate (KVR)

Kensington's standard rate of interest without any discounts or deals. This rate is linked to LIBOR and set on a quarterly basis.

Tenure

Tenure is the right to hold or occupy land for a defined amount of time.

Term

The length of your mortgage, normally expressed in years.

Title deeds

The legal documents, which set out the ownership of a property.

Variable rate

A rate that moves up and down in line with the lender's cost of funds. Variable rates are commonly linked to LIBOR.



Mortgages

