YOUR FIRST HOME

Jargon Buster: What are the key mortgage terms every first-time buyer should know?

We will guide you every step of the way

Buying a house can certainly be a daunting experience, especially when it's your first time doing so. What doesn't help is the wealth of jargon and terminology used during the mortgage process and throughout the entire journey to buy your new home.

If you're looking to join the property ladder and want to gain the inside scoop on some of the phrases, terminology and jargon you will expect to see, here is a handy guide.

Agreement in Principle (AIP)

Also known as a Decision in Principle (DIP), this is a statement from a lender to say they would be willing to lend a set amount of money to you to buy a property. These are particularly helpful in the early stages of the homebuying process as they demonstrate to both estate agents and to sellers (also called vendors) that you are a serious buyer. A mortgage adviser will be able to help you secure an AIP or DIP.

Arrangement fee

Mortgage lenders may charge an arrangement fee to set up the mortgage. Depending on the mortgage product and the mortgage lender, the fee can either be paid upfront or added to the mortgage balance, if the lender allows.

Conveyancer

A conveyancer is a legal professional who specialises in managing property transactions in the UK. They manage the property transaction and transfer of property ownership.

Debt-to-income ratio (DTI)

The calculation used by mortgage lenders to determine how much of your monthly income is spent paying off existing debt. This can include car finance, credit card debt or any personal loans and will be used by mortgage lenders to assess your affordability.

Early Repayment Charge (ERC)

Some mortgages, particularly fixed rate mortgages, often come with an ERC. This is the penalty a mortgage lender charges if you overpay by more than is allowed, or pay off your loan early. It can also be charged if you choose to remortgage or sell your home before the agreed period.

The amount you pay will vary depending on your mortgage lender and the type of mortgage you have, with some ERCs decreasing as the mortgage term progresses.

Energy Performance Certificate (EPC)

An EPC is a document that rates a property's energy efficiency ranging from A (most efficient) to G (least efficient). Some mortgage lenders may require a minimum EPC rating before approving a loan and some lenders offer better rates or incentives for homes with higher EPC ratings – these are often called green mortgages.

Fixed rate

Fixed rate is the most popular type of mortgage among new borrowers in the UK and means your repayments are made at a fixed interest rate for a set period of time – typically two or five years. One reason for their popularity is your monthly payment is exactly the same for the entire fixed period.

Freehold

When you own the property and the land it is built on. This is compared to leasehold where you own the property for a fixed period of time, but the freeholder maintains ownership of the land it sits on.

Joint Borrower, Sole Proprietor (JBSP)

JBSP is a type of mortgage arrangement where multiple people (usually family members) apply for a loan together, but just one person owns the home.

Loan-to-value (LTV)

LTV ratio is how much you need to borrow as a mortgage compared to the value of a property. A mortgage lender will use this ratio (which is displayed as a percentage) to consider whether to lend to you, how much you can borrow and what interest rate you will receive.

A lower LTV means you need to borrow less in comparison to the value of the property and often means a lower interest rate as there is less potential risk for the mortgage lender. With a smaller deposit often comes a higher LTV and a higher interest rate as there is greater risk to the lender. A mortgage adviser will be able to help you work out your LTV ratio and discuss potential ways to improve this if necessary.

Mortgage offer

A mortgage offer is a formal document from a mortgage lender confirming that they have approved a mortgage application and are willing to lend the borrower a specified amount. It outlines the loan terms, interest rate, repayment details, and any conditions that must be met before completion on the property purchase. A mortgage offer is typically valid for 3 to 6 months and is a key step in securing a property purchase.

Overpayment

As the name suggests, this is when you pay over and beyond your usual monthly mortgage payments. Some people choose to do this as a way to shorten their mortgage term or to save on interest. Paying off too much too early can incur a penalty, so it’s important to check what limits your lender has in place. Your mortgage adviser will be able to help with this information.

Repayment mortgage

Also known as a capital and interest mortgage, this arrangement means your monthly mortgage payments go towards paying the capital (the amount you borrowed) and the interest (the cost to borrow the money from the lender). This is compared to an interest-only mortgage where you only pay off the interest each month and repay the capital at the end of the agreement.

Stamp Duty

Stamp Duty Land Tax (SDLT) is the tax paid when purchasing a property or piece of land. The amount paid depends on its value, where it is located and whether it is your first home or an additional home. Rules are also slightly different in Scotland and Wales so it's important to speak with your local mortgage adviser to determine how much Stamp Duty you will pay.

Standard variable rate (SVR)

This is the mortgage interest rate that a lender will charge you after your initial mortgage rate ends. This rate can change at any time and is set by the lender. It can often be much higher than a rate achieved through a new deal so it can be best to seek advice and explore your options.

Tracker rate

A type of variable mortgage rate that tracks the Bank of England base rate. Unlike a fixed rate, a tracker rate will rise and fall in line with the base rate, meaning your monthly mortgage payments can go up or down.

Valuation fee

A valuation fee is charged by mortgage lenders to cover the cost of an independent assessment of the property's value to ensure it meets the mortgage lender's criteria to provide sufficient security for the mortgage loan.

Here to help you

If you're not sure about any potential jargon or phrases you come across during the process, as mortgage advice experts, we will be able to provide an explanation, as well as answer any questions you may have and help find the right mortgage for you.

We will be able to guide you every step of the way to your first home.

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YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

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