



MORTGAGE TERMINOLOGY

There are a number of issues you need to be aware of when taking out a mortgage. These include some of the terms used to describe elements of the mortgage process and the different fees you may encounter. Some of the most common are outlined below -

Fees & Charges

These include:

- **Procuration Fee** – the total sum paid by a lender for placing the mortgage with them. This will include amounts paid to all parties associated with the mortgage, and not just the introducing mortgage adviser
- **Reservation Fee** - In some cases, especially for new homes, you may be expected to pay a reservation fee or deposit. You should check whether this is returnable or not and obtain a receipt from the builder, the developer or their agent
- **Arrangement Fee** - Depending on the mortgage we recommend, some lenders may require an arrangement fee to set up the loan. Where we also make a charge, we will advise you of these costs in advance and confirm this in writing
- **Valuation Fee** - Before a lender will offer you mortgage funds, it will usually require a qualified surveyor to inspect the property and to submit a valuation report. This is to ensure that the property is suitable for the loan requested; the report does not necessarily give you an indication as to the condition of the property. If the property is new and building not completed, you may have to pay an additional fee for a second valuation when it is finished. This type of report is purely for the benefit of the lender
- **Survey Fee** - In addition to the valuation fee, you may wish to have your own survey carried out by a qualified surveyor; this can take the form of a 'Home Buyers Report' or 'Building Survey'. (The 'Building survey' report is the most comprehensive – and accordingly the most expensive.) Most lenders will allow you to have this carried out at the same time as the valuation report, thus saving you money. However you need to check this out before proceeding so as to ensure your money is not wasted
- **Legal Fees** - Your solicitor or legal adviser will make a charge for both the sale and purchase or remortgage of the house. We may be able to obtain preferential terms
- **Land Registry Fee** – This is a once-only charge to reimburse your solicitor or legal adviser who carries out the registration work on your behalf
- **Local Authority Search** – This procedure, carried out by your solicitor or legal adviser, is to check whether any official plans, decisions or restrictions affect the property you intend to buy. This may take some weeks

- **Bankruptcy Search** – Your solicitor or legal adviser will undertake on behalf of the lender a bankruptcy search on you and your partner immediately prior to completion of the purchase
- **Stamp Duty Land Tax** – This is a Government tax imposed on most purchases of properties. There are some areas in the United Kingdom that have reduced stamp duty fee bands. Please ask for details
- **Telegraphic Transfer Costs** – It is usual for the lender to transfer your mortgage funds to your solicitor's or legal adviser's bank by telegraphic transfer. A charge for this will be added to your final account
- **Mining Search** – If you live in an area where mining has been or is likely to be carried out, the lender may request your solicitor or legal adviser to carry out an appropriate search on its behalf
- **Estate Agent Fees** – If you are selling your house through an Estate Agent, their fee will normally be paid by your Solicitor or legal adviser on your behalf from the sale proceeds. Estate Agent's fees are not payable when you are buying a house

Mortgage Types

There are a number of alternative types of mortgage that can be available at any given time. The most common are:

- A **variable rate** mortgage, where the amount of your monthly repayment is linked to the mortgage interest rate charged by your lender. If the mortgage rate is increased, the amount of your monthly repayment increases. Conversely, when the mortgage rate decreases, so does the amount of your monthly repayment. The change in your monthly payment is calculated to ensure that the mortgage loan is on course to be repaid within the agreed term.
- A **fixed rate** mortgage, where the interest rate charged is fixed at a certain level for a set period of time. Whilst during this period you would be protected from any increase in monthly payments, caused by an increase in variable mortgage rates, you would not benefit from any decrease in monthly payments, caused by a reduction in those rates. However, during the fixed rate period, you would know exactly how much your gross mortgage payments would be
- A **capped rate** mortgage is a variable rate mortgage, with a specified maximum interest rate that can be charged, for a set period. In other words, whilst your monthly payments will be affected by movements in the mortgage rate, you will know the maximum rate that could be charged during the set period and hence be protected from rates higher than the maximum limit. (A *collared* rate is a specified minimum rate; hence a *capped and collared* mortgage will be a variable rate mortgage, where the rate will be limited between a known minimum and maximum)
- A **discounted rate** mortgage is a variable rate mortgage, which allows a known reduction in the mortgage rate charged for a set term. This differs from a *deferred* rate mortgage, where instead of allowing a discount in the rate charged, a reduced monthly payment is allowed, with the shortfall being added to the mortgage debt

At the end of any **fixed, capped or discounted rate** period, your mortgage will revert to a variable rate. This may be higher than the rate you have been paying. In some cases, the lender may offer you an alternative rate. Please refer to your mortgage offer letter for details.

Some **fixed, capped and discounted rate** mortgages can be continued if you move house during the term of the offer rate. Please refer to your mortgage offer letter to see if this applies.

Repayment Types

There are two ways in which you can repay your mortgage. These are:

- **Capital and interest repayment** (the associated mortgage is called a **repayment mortgage**). With a repayment mortgage, your monthly payments cover the interest charged and also include an element of capital repayment. You will therefore see your mortgage debt decreasing over time. It should be noted that in the early years, most of each payment is used to cover the interest charged. As the mortgage debt decreases, a higher proportion of each monthly payment is used towards capital reduction. The lender may insist that life cover be in place to cover the mortgage debt.
- **Interest payment** (the associated mortgage tends to be referred to as an **interest only mortgage**). With an interest only mortgage, your monthly payments only cover the interest charged and therefore the mortgage debt will remain at a constant level.

Repayment of Your Mortgage

YOUR HOME MAY BE REPOSSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE. Your home is also at risk if you fail to ensure that your mortgage loan is repaid by the end of its term. It is your responsibility to ensure that your mortgage is repaid on time. If you have an interest only mortgage, it is also your responsibility to ensure that you have an investment plan (or other method/plan) in place to repay the mortgage debt.

Early Repayment of Your Mortgage

If you wish to repay your mortgage early, perhaps to move again or re-mortgage, you may have to pay an early redemption charge, which is a charge made by the lender. Please check the details of any mortgage offer you receive so that you are aware of the conditions and that they suit your requirements, before accepting it. If you have an existing mortgage and wish to change the arrangements, we can find out the details from your lender for you if you give us written permission.

Changes in Personal Circumstances

If you are taking out a mortgage with a partner, or with others, each person is responsible jointly and individually (collectively known as Joint & Several liability) for the repayments. Therefore, if there is a breakdown of the relationship, the lender can seek repayment of the full amount of the loan from each of the parties to the mortgage. Should you be unable to work due to perhaps accident, sickness or unemployment, you will still have to meet your repayments. Insurances are available to cover you against these possibilities. You should also ensure that you have adequate life assurance cover for your mortgage.

Other Mortgage Related Services

We can also arrange **Buildings and Contents Insurance**, as well as **Accident, Sickness and Unemployment Insurance**. You will be required to arrange Buildings Insurance, by the lender, to cover the rebuilding of your property should it be damaged. Some lenders also insist that you take out Contents Insurance and/or Accident, Sickness and Unemployment Insurance. Please refer to your mortgage

offer letter to check whether any such condition applies and if so that it is acceptable to you. Some lenders may insist that any insurance cover is arranged through them. Again, you should refer to your mortgage offer letter to check this and if so that it is acceptable to you.

Higher Lending Charge

If your mortgage represents a high percentage of the price or valuation of your property (usually 75% or more) you may have to pay a 'higher lending charge. Some, or all of this fee may be used by the lender, at its discretion, to obtain mortgage indemnity insurance to act as extra security for its sole benefit. If this is the case, the lender will give you a written explanation, stating that:

Such insurance will not protect you if your property is subsequently taken into possession and sold for less than the amount you owe, you will remain liable to pay all sums owing, including arrears, interest and your lender's legal fees. If a claim is paid to your lender under such insurance, the insurers generally have a right to recover this amount from you.

Credit Reference Agencies

These are organisations, licensed under the Consumer Credit Act 1974, which hold information about individuals that is of relevance to lenders. Lenders may refer to these agencies for information that may assist them with making various decisions, for example whether or not to provide a mortgage loan. The enquiry they make may also be recorded on your file at a Credit Reference Agency. Details of the conduct of your account may be passed to a Credit Reference Agency by the lender if your repayments fall into arrears. They have a duty to advise you if this should occur.

Call us on 01689 824000 or email us at info@linkmortgages.net

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