

Home Buying – Glossary of terms

GLOSSARY OF AFFORDABLE HOME OWNERSHIP TERMINOLOGY

The terms below are often used in house buying or mortgage process. You may come across these terms when you are in the process of buying a low cost affordable home so we have provided clear definitions below.

Advance

The mortgage loan.

Affordable Housing

This includes two categories: social housing, where rent levels are set in line with the government's rent restructuring regime and intermediate housing which includes a mix of low cost home ownership and other reduced cost rental housing

Agreement in principle certificate (AIP)

A document indicating how much a bank or building society will lend based on the applicant's monthly income and outgoings.

Annual Percentage Rate (APR)

The cost of credit expressed as a yearly rate. The annual percentage rate is often not the same as the interest rate. It is a percentage that results from an equation considering the amount financed, the charges, and the term of the loan.

Application Fee

Fee charged by a lender to cover the initial costs of processing a loan application.

Arrears

Any unpaid rent and or service charge.

Bridging loan

A short-term loan to bridge the period between you buying a new property and selling your previous home.

Broker/ Intermediary

A person who arranges a mortgage with a lender. Mortgage brokers must state which lenders they use and how much lenders pay them for arranging mortgages.

Building survey

An extensive survey, carried out by a qualified surveyor, to spot faults and potential problems in the property you are buying.

Capital

The amount you have borrowed on the mortgage, and on which interest is charged.

Communal Areas

The parts of the building and grounds, which are used by some or all of the residents. These can include hallways, gardens and parking areas.

Completion

The point when the buyer becomes the legal owner of the property. This occurs when solicitors from both sides complete the transaction on behalf of the buyer and seller, usually on the date of moving in.

Contract

The legal document which transfers the ownership of the property from the seller to the buyer.

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.

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.

Credit Report

A report detailing the credit history of a consumer that is used to help determine the consumer's credit-worthiness.

Credit Score

A statistical method of assessing an applicant's credit worthiness. An applicant's credit card history; amount of outstanding debt; the type of credit used; negative information such as bankruptcies or late payments; collection accounts and judgments; too little credit history, and too many credit lines with the maximum amount borrowed are all included in credit-scoring models to determine the credit score.

Cyclical Redecorations and repairs

This applies to flats only. External and internal communal areas which are redecorated periodically according to a programme.

Communal Areas

Parts of the building and grounds, which are used by some or all of the residents. These can include hallways, gardens and parking areas.

Deed

A formal written instrument by which title to real property is transferred from one owner to another. Also known as a "conveyance".

Disbursements

The fees, such as stamp duty and Land Registry fees, which are paid to the conveyancer.

Dwelling

The 2001 census defines a dwelling as a self-contained unit of accommodation. It is self-contained where all the rooms (in particular the basic facilities such as kitchen and bathroom) are behind a door that only the household can use. A dwelling can consist of one household space (self-contained) or more than one household space (shared).

Early redemption fee - early repayment charge

The charge some lenders make if a mortgage is paid off early.

Energy Performance Certificate (EPC)

A compulsory part of the Home Information Pack. The EPC shows the current energy rating of a property as well as ways that the rating could be improved

Energy Rating

The energy rating is a measure of how energy efficient a home is. The higher the rating the more energy efficient the home is and the lower the fuel bills will be.

Equity

The total value of your property, less the amount of the mortgage. Also the interest or value which owner has in real estate over and above the debts against it. For example the difference between the appraised value of a property and the balance of a first mortgage and any other outstanding liens on the property.

Equity loan

In shared ownership, this is where the remaining share of your home is purchased by e.g. a social landlord and is financed through an equity loan.

Exchange of contracts

The point where the property sale becomes legally binding.

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 and brokers must either be authorised directly by the FSA or be agents (known as "appointed representatives") for other authorised firms. This means that all firms must follow FSA rules when dealing with you. You can check that a mortgage firm is authorised through the **FSA website** - or by calling the FSA Consumer Helpline (0845 606 1234).

Fixed Equity

Some leases of properties (mainly in rural areas) contain a clause, which fixes the level of equity, for example at 60%. This will be the only share available to a prospective shared owner for purchase.

Flexible Tenure

A way of reducing the share owned by a leaseholder or for the social landlord to buy the share back with the shared owner then becoming an assured rented resident. Subject to funding and eligibility criteria.

- owns all of a house (not flat), i.e. a leaseholder who has staircased to 100% ownership
- a landlord, such as a housing association or council, who owns the building and grounds of a block of apartments.
- a landlord who owns the freehold interest of a house, where the leaseholder has not staircased to 100%.

Freehold

A freehold indicates that the property and land upon which it is built is completely and absolutely legally owned by the party offering the sale.

Graduated Payment Mortgage

A residential mortgage with monthly payments that start at a low level and increase at a predetermined rate.

Ground rent

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

High lending fees

Not all lenders charge these, but if you borrow a high percentage of the price of the property - for example, over 80% or 90% - you may have to pay this type of fee. This is because the mortgage represents a higher risk to the lender if you do not keep up your repayments. Lenders sometimes buy insurance (called mortgage indemnity) to protect themselves. This insurance does not protect you - you would still be responsible for your debt, even if the lender claimed on its insurance.

Homebuy

Low cost home ownership schemes. Homebuy is a term used to describe the choice of housing products and is made up of several different types of scheme, including:

- Mychoice HomeBuy
- OwnHome
- Social Homebuy – a scheme for housing association rented residents to buy a share in their home on a shared ownership basis.

Homebuy agent

Works closely with the council and are able to tell you what affordable housing opportunities exist.

Home-buyer's report

A surveyor's report on a property. This type of survey is less extensive than a full building survey but more extensive than the lender's valuation.

Home information packs

An explanation of terms commonly associated with Home Information Packs can be found below.

Home Condition Report

An objective report on the condition of a property designed to be used by home buyers, sellers and mortgage lenders. A description of the general condition of a home taking into account its age and location.

Home Contents Form

A list of the items that will be left in the property when it is sold. The Home Contents Form is a non-compulsory part of Home Information Pack and is intended to be of use to the buyer.

Home Information Pack

The Home Information Pack contains a series of documents relating to a property being sold. Introduced in 2007 the pack is designed to assist potential buyers of a home.

Home Use Form

Also known as a Sellers Property Information Form the home use form is a questionnaire giving information about a property such as its council tax band, land boundaries and connected utilities.

Household

A household comprises one person living alone, or a group of people (not necessarily related) living at the same address who share living accommodation (that is a living or sitting room).

Housing Association

Also known as Registered Social Landlords (RSLs). A not-for-profit organisation providing social housing and run by a voluntary committee registered with the Housing Corporation. They improve properties and build new homes mainly for rent. Any surplus is ploughed back into the organisation to maintain existing homes and to help finance new ones. They exist to provide affordable housing including providing access to affordable or low cost home ownership schemes.

Interest

The money you are charged for borrowing.

Intermediate housing

A collective term for all forms of both shared ownership and submarket rented housing (primarily for key workers), but excluding social rented housing. Prices will be above social rents, but substantially below open market levels

Joint Tenancy

An equal undivided ownership of property by two or more persons. Upon the death of any owner, the survivors take the decedent's interest in the property.

Key worker

Certain public sector occupations have been defined by the government as being 'key worker' posts and these workers are able to apply for home ownership schemes and intermediate renting. Intermediate renting is where rent levels are set somewhere between that charged by social and private landlords.

Definitions of key workers vary from borough to borough. Occupations may include some or all of the following:-

- Education staff such as qualified teachers and support staff in schools and colleges, children's social workers and qualified nursery nurses in LEA schools
- Police officers and community support officers including those working for the British Transport Police. This could also include some front line civilian police roles.
- Prison and probation service

- Local authority employed clinical staff, such as adult social workers, occupational therapists, educational psychologists, speech and language therapists
- Fire Fighters
- Clinical and non-clinical staff employed by the NHS

Land Registry fee

A fee paid to the Land Registry to register ownership of a property.

Lease

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

Leaseholder

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

Leasehold

Where a dwelling or building is let to a tenant and where the tenants is able to sell the lease. The interest sold is called the leasehold. In all leasehold cases a ground rent will be paid to the freeholder. This generally applies to flats or other forms of construction where there are common areas and facilities. The freeholder retains the responsibility for maintaining these common areas and services, the financial costs of which can be transferred to leaseholders in line with the terms of the original lease.

Lender

The bank or building society with whom you have your mortgage.

Lien

A legal hold or claim on property as security for a debt or charge.

Loan-To-Value Ratio

The relationship between the amount of the mortgage and the appraised value of the property, expressed as a percentage of the appraised value. The percentage of the appraised value of your home less the balance of your first mortgage and other outstanding liens on your property.

Management Fee

You will pay a fee as part of your rent to cover the administration costs involved in calculation, collection and record keeping of your rent.

Market Value

The highest price which a buyer, ready, willing and able but not compelled to buy, would pay, and the lowest price a seller, ready, willing and able but, not compelled to sell, would accept.

Mixed use

A scheme with a mix of residential and commercial properties.

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. A lien or claim against real property given by the buyer to the lender as security for money borrowed

Mortgage application fees

These are fees charged by the lender to organise the mortgage for you. These are not usually refunded if you then do not go ahead with the mortgage. Some lenders will only charge such fees for specific mortgage deals.

Mortgage deed

The legal agreement which gives the lender a legal right to property.

Mortgage indemnity

Is insurance your lender may take out for its protection in case, at some future stage, you fall significantly behind with your mortgage payments and your lender has to repossess your property and sell it. If the property is sold for less than the amount of your outstanding mortgage, your lender can claim on the mortgage indemnity to recover some (or all) of its loss.

You should be aware that mortgage indemnity does not cover the purchaser. You must repay all the money owed under your mortgage, whether or not your lender makes an indemnity claim.

Mortgage Life Insurance

A type of term life insurance often bought by mortgagors. The coverage decreases as the mortgage balance declines. If the borrower dies while the policy is in force, the debt is automatically covered by insurance proceeds.

Mortgage term

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

My Choice Homebuy

This scheme replaces open market homebuy and offers a similar equity loan model. Through it you can apply for a mortgage with any lender. The scheme provides up to 50% of the value of the chosen property as an equity loan with the loan redeemed in full when the property is sold.

Offer of advance

The formal offer of a mortgage from a lender.

OwnHome

This scheme introduced alongside MyChoice Homebuy replaces the Open Market Homebuy scheme. This scheme allows you to raise an equity loan to equal up to 40% of the value of a property in the open market and where owner occupiers pay nothing for the first five years on the equity loan.

Redemption

The paying off of a mortgage loan.

Rent

The amount due under the lease each month for the share of the home owned by the Housing Association.

Resales

The procedure when you sell your share of an affordable home ownership home.

Retention

When the lender holds back some of the mortgage money until certain repairs has been done, the amount held back is known as retention'.

Sale Statement

A document detailing the terms on which a property is being offered for sale. The sale statement includes information such as if the property is freehold or leasehold and who is selling.

Security

The property 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 can repossess the property and sell it to recover the debt.

Service charges

Charges made to tenants, additional to the rent and including leaseholders, for the provision of services associated with occupancy of their dwelling, for example, warden facilities, caretaking, cleaning, repairs and maintenance of communal areas.

Shared Owner

Someone who owns a share in his or her home.

Shared ownership

A programme whereby people who cannot get full mortgages share the cost of purchasing a property with an association.

This is achieved by the landlord transferring rights over the property to the applicant by lease. The applicant (lessee) and the social landlord each pay a part of the purchase price, the lessee making mortgage payments to a bank or building society on the share purchased and paying an affordable rent to the social landlord on the social landlord's remaining share.

The term 'shared ownership' applies to any scheme where a proportion of ownership may be purchased. Conventionally, lessees have the option to 'staircase' their stake of ownership in a property by purchasing further shares from the social landlord.

Sinking Fund

A fund set up to collect money on a regular basis over time to cover the cost of future major repairs. An example would be for a replacement roof.

Social housing

'Homes for letting or low-cost home ownership and associated amenities and services, for people whose personal circumstances make it difficult for them to meet their housing needs in the open market.'

If a unit has received any form of subsidy in the past (detailed below) then it is social housing regardless of the purpose of that unit. Unsubsidised housing may, however, also be categorised as social housing where it is let or sold in the same way and at the same rent levels or cost as subsidised social housing.

Staircasing

In the context of shared ownership an option available to lessees whereby the stake of ownership is increased by acquiring further shares, e.g. if the initial share was 25%, they may buy another 25% from the social landlord to bring their joint share of the equity up to 50%.

Structural repairs

Major repair works that are essential to maintain the basic functions of stability and weather resistance in the main structural elements of a dwelling, i.e. in floors, walls and roofs. It also includes work to secondary elements of the structural envelope (for example, balconies, parapets and gutters). Major works to these elements will involve replacement or substantial reconstruction of the component or element.

Stamp duty

A government tax on buying properties costing more than £120,000. The tax will be between 1- 4% depending on the purchase price. Prospective buyers should factor in the requirement to pay stamp duty when determining their ability to purchase a home.

Subject to survey and contract

Wording included in any agreement before the exchange of contracts. This wording allows the seller or buyer to withdraw from the property sale.

Survey (Lender's survey)

A map or plan made by a licensed surveyor on behalf of the purchaser showing the results of measuring the land with its elevations, improvements, boundaries, and its relationship to surrounding tracts of land. A survey is often required by the lender to assure a building is actually sited on the land according to its legal

description. The report often includes a property valuation which is used by the lender to assess the mortgage loan.

Tenant

A tenant is someone who lives in a property belonging to the landlord or freeholder and holds a tenancy, lease or licence.

Tenancy in Common

A type of joint ownership of property by two or more persons with no right of survivorship.

Term assurance

Life insurance to pay off a mortgage if the borrower dies.

Title deeds

The legal documents which sets out the ownership of a property.

Title Insurance

Protects lenders and home owners against loss of their interest in property due to legal defects in title. Insurance that is required by a lender to protect against loss due to disputes over ownership of a property.

Title Search or Examination

Examination of records to ensure that the seller is the legal owner of a property and that there are no liens, charges or other claims against the property.

Valuation

The lender's inspection of the property to assess whether it is suitable for a mortgage.