

Base Rate

The base rate, sometimes referred to as the 'repo' rate, is the minimum rate at which banks are prepared to lend money - it acts as the benchmark for other interest rates, including personal loans and mortgages.

The high street banks' base rate changes following the Bank of England's signals through its daily money market operations.

Bridging Finance

Temporary loan to cover the position which will ultimately be covered by long term finance such as somebody moving house who temporarily owns two houses simultaneously.

Business Angels

Wealthy individuals prepared to invest between £10,000 and £100,000 in a start-up, early-stage or developing firm. They often have managerial and/or technical experience to offer the management team as well as equity and debt finance. Medium to long term investment in high-risk situation.

Buy to Let Mortgages

These are mortgage raised on properties that are to be let out to tenants. The rental income is then used to pay the mortgage. Usually the rental income will need to be around 125% of the mortgage cost, though some lenders will allow the rental income to be the same as the mortgage cost.

Capital & Interest Mortgage

This is one of the most usual types of mortgage . The monthly repayment made by the borrower includes a repayment of capital borrowed and an amount for the interest charged. At the beginning of the mortgage most of the payment is used to cover the interest and only a small amount is paid towards reducing the mortgage. Over the term of the mortgage more and more of the monthly payment is comprised of paying back the capital borrowed. As long as the monthly payments of repayments are always made on time the mortgage is guaranteed to be paid off at the end of the term.

Debenture

A bond, deed or fixed interest security issued by a company or demanded by a bank, usually secured on company assets either specifically or in general. Debenture stock may be quoted on a stock exchange. A debenture ranks ahead of everything except the liquidator's fees in the event of a liquidation ,and debenture interest must be paid before dividends are declared. The debenture deed is normally held by trustees on behalf of holders and the company is required to maintain a register of its debentures and notify Companies House. In the case where debenture stock is issued on the open market its value will depend on the yield and the issuer's credit rating. In all cases debentures are secured on actual or potential assets of the company. A mortgage debenture will be secured on a specific property, or a floating debenture will be backed by all the company's assets. Exceptions to this are naked or unsecured debentures which rely on the company's promise to pay.

Debt Consolidation

Borrowers with a number of different loans - usually which are unsecured (not secured on the property) - may find that they can replace these loans with a single loan secured on the property. This can often reduce the borrower's monthly outgoings by paying only one loan which is secured on the property, sometimes over a longer term.

Early Repayment Charge

This is a charge made by your mortgage lender, which is payable on certain types of loan - usually discounted or fixed interest rate loans. The charge is only applied if the loan is redeemed or part-redeemed within the specified early repayment charge period.

This is the downside of benefiting from the certainty conferred by fixed rates or the cheaper mortgage offered by discounted rates.

Some lenders lock you in to a three or six month repayment charge - you've been warned, if someone is offering you an incredibly good interest rate below the rate prevailing on variable rate mortgages, the chances are they want something - your loyalty, and that could mean it'll cost you if you decide to move lender in future.

Equity Finance

Organisations and individuals that are prepared to provide capital for your business in return for a stake in it's equity.

Factoring

Factoring is similar to invoice discounting, which is the practice of obtaining money on the security of book debts. A factor, however, normally accepts responsibility for credit control, debt collection and credit risk. There are two principal types of factoring: 'with service' is the collection of debts and the assumption of credit risk. Invoices are handed to the factor who pays monies to the customer at stated intervals. The other 'with service plus finance' is where the factor pays the customer up to 90% of the invoice value at once.

Flying Freehold

A term used to describe that part of a freehold property which is built above land which is not part of the property freehold, e.g. a bedroom built over a common access passageway.

Flying freeholds can cause you difficulties when trying to get a mortgage . At worst, a home lender will decide they're not prepared to lend.

Freehold

The legal right to hold land/property as the absolute outright owner, free of payment or any other duty owed to another party.

As a freeholder, you can then offer to rent your land/property to parties with whom you'll have a legal agreement. In other words, you may create leaseholders.

Most houses are sold as freehold properties but most flats are sold on a leasehold basis.

Gazumping

Gazumping is the term used to describe a situation in which the seller of an asset (let's say a house) accepts a purchase offer, having already accepted another lower offer from another potential buyer.

In other words, the seller changes his allegiance to a second buyer who offers more money.

A buyer with ready cash will often be in a position to gazump somebody who has to raise capital through a mortgage. This is because under English law, the seller is not legally committed to go ahead with the sale until the point at which contracts are exchanged .

Gazumping tends to become a feature of property bull markets, where house prices are racing ahead and buyers begin to panic that they may find their potential dream home rising in value out of their 'price range'. Estate agents having put a buyer and seller together often discover a fresh potential buyer appears on the scene. The agent then has a judgment to make, does he advise his client, the seller to switch allegiance to the new purchaser

Gazundering

The practice of withdrawing a price already offered and making a lower offer. This is the other side of the coin to gazumping. When the property market is weak, a buyer may try to reduce his or her bid for a home prior to the exchange of contracts (when the transaction becomes legally enforceable).

The verb "to gazunder" first made a widespread appearance in the UK property market in the late 1980s. It is a blend of gazump and under, denoting the arbitrary reduction of an offered price by a purchaser, usually near to the date of exchange of contracts, putting pressure on the seller to accept a lower value rather than look for another buyer.

Guarantor

If you borrow money and suddenly find you can't pay, the lender may find they have a bad debt on his hands. And so, basically if a lender thinks you might not be able to pay back a loan being applied for, they can ask for a guarantor - a third party who will pay your debts if you can't (or won't). So a guarantor is a third party who stands liable to cover any shortfall or default on the borrower's debt.

In the early 1990s, a number of mortgage lenders offered escape routes to 'young' people in negative equity provided their parents acted as guarantors of the excess debt. The assumption was that the parents would either own their own homes outright or have significant equity in the property to be able to provide a guarantee for their offspring to move up the property ladder from starter homes their own, younger families, might have outgrown

Home Buyers Report

This is a property survey report which has more information than a mortgage valuation but is not as detailed as a full structural survey report. This report is used by the lender in place of the mortgage valuation report and gives more information that will enable a borrower to reach a decision on whether or not to purchase. A detailed structural survey report may be more suitable for some types of property, e.g. older. It is essential that professional advice is sought in this area.

Initial Interest

This often catches borrowers unaware. Initial interest is a payment that covers the period between completion and the normal date when the mortgage payment is due, e.g. a mortgage maybe completed on the 15th of the month and the first payment fall is on the 28th.

A borrower will therefore have to pay interest for the period between the 15th and the 28th, 13 days' interest. This is an extra cost not always pointed out to borrowers until they have completed.

Interest Only Loans

An interest only mortgage is a loan in which you pay no more than the interest charged. In effect, you are merely servicing the debt, not reducing it. The amount you owe remains constant.

If you have an interest only mortgage, the onus is on you to arrange how to repay the capital at the end of the mortgage term. Most borrowers with these types of loan take out some kind of long-term savings plan such as an endowment policy or Individual Savings Account or make lump sum payments to repay the capital.

Invoice Discounting

Invoice Discounting is a debtor invoice finance product (facility) whereby an invoice discounting company (also known as a *discounter* or *invoice discounter*) will provide you with invoice finance of up to 90% of the value of your outstanding sales invoices (accounts receivable) e.g. with outstanding unpaid sales invoices of £240,000 you could receive an initial cash injection of over £200,000. You can then use that cash to fund further growth and expansion.

With invoice discounting you retain control of your sales ledger and the facility can even be completely confidential, so that your customers don't know that the discounter is involved with the finance of your business.

Joint Tenants

This is the owning of land or property by two or more people who are co-owners or "joint tenants".

Each has rights in the whole of the property and is entitled to a share of any money raised from selling it. The other key point about a joint tenancy is that when one of the joint tenants dies, the ownership of the property automatically passes to the survivor(s), in contrast to property held by 'tenants in common'.

Land Registry

This is the government department responsible for maintaining and updating the register of all properties in England & Wales with registered titles. The head office is in London with district registries around the country.

A Land Registry certificate provides details of the property including a plan and, if the property is leasehold, a copy of the lease.

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

You can find H.M. Land Registry at: 32 Lincolns Inn Fields, London WC2A 3PH.

The Land Registry also has a website www.landreg.gov.uk

Land Registry Fee

This is the fee paid to the Land Registry to record a change in the records following a transaction involving land registered with them.

The change is usually notified to them by the borrower's solicitor.

Leasehold

Holding a 'leasehold' gives you the right of possession, but not ownership, of a property for an agreed period of time.

Ultimately, ownership remains with the freeholder. The duration of the right of ownership is usually a fixed term granted by the lease.

The lease will set out details of rents and obligations such as repairs etc. Leasehold is in direct contrast to Freehold where ownership is absolute.

A Lessee is a person to whom a lease is granted - to you and me that's the tenant. While a lessor is the person who grants a lease - the landlord.

Leasing

Leasing of an asset is based on the concept that it is not necessary to own an asset in order to have the use of it. By leasing a piece of equipment a company can avoid the heavy capital outlay of purchasing it. Leased assets remain the property of the leasing company and leasing payments are fully deductible as they do not represent the capital purchase of an asset. A balloon payment at the end of the lease may secure ownership.

LIBOR (London Inter-bank Offer Rate)

The rate of interest offered by banks for funds lent in the short-term wholesale market for periods overnight to five years. The market allows individual banks to adjust their liquidity positions covering shortages by borrowing from banks with surpluses and vice versa. This reduces the need for each bank to hold large quantities of liquid assets releasing funds for more profitable lending. LIBOR is quoted daily and is the most significant benchmark for wholesale commercial domestic and international lending.

LIBOR Linked Mortgage

This is a mortgage in which the rate of interest is linked to the London Inter-Bank Offered Rate (LIBOR).

The mortgage interest rate is a set percentage above LIBOR, reviewed on a regular basis and will fluctuate in line with the movements in LIBOR.

LIBID - London Inter-Bank Bid Rate

Banks in the City of London tend to lend and borrow money from one another in the wholesale money markets. The rate at which a bank is willing to borrow money is called the London Inter Bank Bid Rate (LIBID).

The rate at which a bank is willing to lend money is called the London Inter Bank Offer Rate (LIBOR) .

Loan to Value

The 'loan to value' ratio is ratio between the size of the loan you are seeking and the mortgage lender's valuation of the property.

So if you're borrowing £55,000 on a property valued at £100,000, the LTV is 55% and the lender will feel comfortable you have enough equity in the property for it to be reassured if you stopped making your interest/capital repayments, it could sell your property and recoup the money you owe.

Local Search

This forms part of the home buying process and is a task which will be taken care of by the person who handles your conveyancing.

It is an application to the local authority for a certificate providing certain information about a property. It is also taken to mean the certificate itself which will show whether the property is affected by road building or outstanding matters such as sanitary notices, planning permission for any building work previously carried out, connection to the mains sewer, etc.

It is clearly common sense to do a local search to prevent you buying your home only to discover there is planning permission for a motorway 100 meters away or a refuse tip next to your garden.

Hire Purchase

A loan offered by a finance house (often at quite high rates of interest) for the purchase of a product repayable over a set period - sometimes known as 'deferred purchase'. The product is owned by the finance house and hired to the user until the debt is repaid.

Mortgage

Most of us do not buy our homes outright for cash - instead we borrow money to do so. In legal terms, a mortgage is a deed pledging freehold or leasehold property as security for a loan. The lender advances money and receives certain rights, including the authority to sell the property if repayments are not maintained.

Second Charge Secured Loan

This is also known as a secured loan - it's an additional mortgage taken out on a property where there is already a mortgage .

You may wish to take out a secured loan from a bank or a building society in order to carry out home improvements or you may be taking advantage of the equity in your property to raise funds to set up in business.

The rate of interest on your second mortgage is likely to be higher than that of your first mortgage to reflect the fact you're borrowing more heavily and so deemed to be a higher risk to the lender.

Although both of them are secured on your property, the legal charge of a second mortgage ranks behind or second to the "first" mortgage, making it a higher risk for the lender.

Stock Finance

Depending upon the type and value of the stock being held, finance can be offered against the stock that a business holds.

Overdraft

Borrowing through an allowance agreed for a current account where sums exceeding cash held in the account can be paid. Basically an agreement by a bank to sustain an overdrawn current account.

Revolving Credit

An agreement between a bank and its customers, where the bank makes a loan for fixed periods (usually a year) and where the amount repaid over the period can be borrowed again under the terms of the agreement.

Self Certification

This refers to loan applications that can be made without evidencing the income that is being stated. Whilst the income does not have to be proven in these cases the income does have to exist or else the mortgage would not be affordable. They are most often used by self employed applicants where up to date accounts may not be readily available. Please download the separate Self Certified document for further information

Tenancy in Common

A situation where land is to belong to a number of persons in common. It is vested in the first four persons mentioned in the deed and these hold it in trust for all persons concerned. These four persons are legally 'tenants in common'.

Venture Capital

This is a fund raising technique for companies or individuals who are willing to exchange equity in the company in return for money in order to grow or expand the business. A venture capitalist differs from an angel investor in terms of wanting greater control of company and a quicker return on investment.