

Banking Terminology Jargon Buster

The world of banking is filled with acronyms and industry terms which can make it difficult to find the information you're after.

We try to keep things as simple and straightforward as possible by using language that's easy to understand. But we know that's not always possible, and sometimes you'll see technical terms where there's no other option.

So, with that in mind, we've created this jargon buster, explaining banking terms in plain English. Hopefully this will act as a glossary, to help you understand the difference between DiPs and SVRs, and everything in between.



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A

AER

AER stands for Annual Equivalent Rate, and it's a type of interest rate for savings accounts. It's calculated based on the interest, bonuses, and charges on your savings account across a 12-month period. Variable AER means the amount of interest you'll earn will change, either going up or down.

AFFORDABILITY

A bank or lender will make affordability checks, which look at your ability to pay your mortgage, and make sure you can afford your repayments.

APR

This stands for Annual Percentage Rate. It gives you a clearer view of the overall cost of borrowing over a year, taking into account the interest rate and any additional charges. You'll typically see it on loans and credit cards.

APY

The Annual Percentage Yield can show you the amount of interest your investment or savings could earn in a year. It's also sometimes referred to as an Effective Annual Rate (EAR). Generally, the higher the APY, the more interest you could earn. But keep in mind that how much you can earn also depends on how much money you have in your account.

ARRANGEMENT FEE

Sometimes you'll pay an arrangement fee for setting up a mortgage. It can either be paid separately, when you first take the mortgage, or be added to your loan, meaning you'll pay interest on it for the whole mortgage term.

ARREARS

If you go into arrears it usually means you've missed a payment at least once on your mortgage repayments. It's really important to get in touch with the mortgage provider as soon as possible if you think you may go into arrears. Arrears can be incurred on any type of lending including personal loans and credit cards.

ATM

You probably know them better as the hole-in-the-wall that you use to withdraw cash if you need it. But the official name for them is an Automated Teller Machine. There's a network of fee-free ATMs in convenient locations around the UK. Some may charge you for using them, so always check.

ATTORNEY

If a person grants Lasting Power of Attorney to a friend or family member to help make decisions on their behalf when they're not able to, the person chosen to make those decisions is called the attorney.

AUTOMATED CREDIT TRANSFER

This is a direct payment made to your account from another account.

B

BACS

A BACS (Bankers' Automated Clearing Services) transfer is one where you send money electronically to pay for something.

BALANCE TRANSFER

If you owe money on a credit card (typically one that's charging you interest), you can transfer the debt onto another card, usually with a better rate, and it's known as a balance transfer. Balance transfers often charge a Balance Transfer Fee, a charge made for making the transfer. Normally the fee is added to the amount you're moving from one credit card to another.

BASE RATE

You've probably heard the Bank of England base rate mentioned on the news. It's the rate that banks and lenders use to calculate how much interest you'll pay on mortgages and other financial products. It can also affect how much interest you earn on any savings you have too.

BROKER

This is an adviser who can help you arrange a mortgage. You may have to pay more for a broker than getting a mortgage directly with a mortgage lender. If you're looking for a mortgage broker, the unbiased website can help you www.unbiased.co.uk

BUY-TO-LET

A buy-to-let property is one that's bought with the sole intention of letting it out to tenants. Some lenders offer a special mortgage for this.

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C

CAPITAL

The amount of money you borrow to buy a property.

CAPITAL AND INTEREST MORTGAGE

This is a mortgage where you pay off the capital balance (amount you borrowed) plus any interest each month. At the end of the mortgage term you'll have paid back the amount in full.

CAPITAL GAIN

You make a capital gain if you sell a long-term asset (such as a house) for more than it cost you to buy. It's the profit that you make on a purchase.

CAPITAL GAINS TAX (or GGT)

Capital Gains Tax is a tax charged if you sell, give away, exchange or otherwise dispose of a property and make a profit or 'gain'. The tax is on the 'gain', rather than the amount of money you received.

CAPPED RATE

If your mortgage has a capped rate, the rate will never go above the 'cap', even if the Bank of England rates change.

CHILD TRUST FUNDS

These are tax free savings accounts for children born between September 1 2002 and January 2 2011. They were designed so children can become savers for their adult life, and have since been replaced by Junior ISAs. You can't apply for a new one now that the government scheme is closed, but you can keep an existing one.

CLEARED FUNDS

These are the cash balances in an account that can be immediately withdrawn or used in financial transactions.

COMPOUND INTEREST

So, normal interest is based on a percentage of the original sum of money. When it comes to compound interest, it accounts for the original sum plus the amount added by the interest. Basically, it's interest on interest.

CONVEYANCING

Conveyancing is a term used to describe the legal process you must go through when you buy or sell property. This can be done by a solicitor or licensed conveyancer.

CREDIT SCORE

A credit score is a tool that lenders use to help determine whether you qualify for a particular credit card, loan, mortgage or service. Your credit score reflects the way you've managed your debts and bills in the past, so if you have previously borrowed money and consistently kept up with repayments, you'll probably have a good score. However, a history of missing or making late payments would have had a negative impact.

CURRENT ACCOUNT

Typically, current accounts are those that have most flexibility around access and withdrawals. They're usually used for salaries to be paid into, and where cash can be withdrawn without notice.

D

DECISION IN PRINCIPLE (DIP)

A Decision in Principle (or an Agreement in Principle) is a document that shows the amount of money you can potentially borrow. This is usually subject to further checks and can be given to estate agents to show affordability when buying a property.

DEPOSIT

A deposit is usually the amount of money you put towards the cost of a buying something, typically property. The minimum deposit you need will vary by lender. Typically, the higher the deposit the lower the rate on a mortgage.

DIRECT DEBIT

A direct debit is an authorisation that you send to your bank, which allows another organisation to take a payment from your account. It's a great way of paying monthly bills because it means you don't need to do anything once set up. Once you've instructed the bank, direct debits are controlled by the organisation that you're paying the money to.

DONOR/GRANTER

If a person is granting Lasting Power of Attorney to a friend or family member to help make decisions on their behalf, they're known as the donor or granter.

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E

EAR

Effective Annual Rate is very similar to APR, but while APR is only used to refer to products that exclusively lend money (like a loan or a mortgage), EAR applies for things that are in credit (like a current account). You'd probably only see it to describe the interest on an overdraft. The EAR is calculated by the interest charged if you're overdrawn, how often interest is charged, and what the effect of compound interest is on your debt.

EARLY REPAYMENT CHARGE (ERC)

These are penalty charges you would pay if you chose to repay all or part of your mortgage earlier than the original mortgage term. These will vary by lender so always check the small print so you're clear.

EARLY REPAYMENT PROMISE (ERP)

Unique to Hodge, the Early Repayment Promise means if you're moving out of your home and you pay your mortgage in full, we'll waive the Early Repayment Charges – giving you one less thing to worry about.

ENDOWMENT MORTGAGE

This is a type of interest-only mortgage where you pay the money into an endowment (or investment) to pay off the mortgage at the end of the term.

EXCHANGE RATE TRANSACTION FEE (ERTF)

If you've been abroad and used your debit card, this is the Exchange Rate Transaction Fee that you'll be charged.

EQUITY

Equity is the amount of a property that belongs to you, for example, the deposit you put towards the purchase, plus the amount you've already paid off your mortgage.

EQUITY RELEASE

Equity release describes a type of mortgage designed for homeowners who are later in life looking to release cash, or equity, in their property. It's important to get independent financial advice for an equity release mortgage as there's lots to think about.

F

FIXED RATE BOND

A fixed bond savings account allows you to put your cash away for a set amount of time where it will earn a fixed amount of interest. You aren't able to access the money during this period, but, as you may get to benefit from a higher interest rate than other types of saving, it can work well for larger sums of money. The longer your fixed term period, the higher interest rates you'll receive.

FIXED RATE MORTGAGE

If you have a fixed rate mortgage, the rate you pay remains the same for the period of time agreed.

FUNDS/ FUND YOUR ACCOUNT

Once you've opened a savings account, or you want to start a trading or investment account, you'll need to put money in it, which can be done in several ways, including direct debit, credit card, bank transfer and PayPal.

G

GROSS INTEREST

This is interest which has not had any income tax taken out of it. It's expressed as a percentage and is the opposite of net interest, which has taxes, fees, and other costs deducted.

H

HIGHER LENDING CHARGE

This is sometimes charged by your mortgage lender if you are borrowing more than 75% of the property's value. It protects the lender against you missing payments on your mortgage.

HOLIDAY LET MORTGAGE

Similar to buy to let, holiday let mortgages are for properties which will be rented out short-term to holiday makers.

I

IBAN

This stands for International Bank Account Number and is usually required for international money transfers when making a payment between international bank accounts.

IFA

IFA stands for Independent Financial Advisor, and like brokers, they can help and guide you to make the right decisions for you when working out what to do with your money.

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INSTANT ACCESS

An instant access account is one where you can withdraw cash easily and quickly. You can access money when you need it without having to pay any fees and you won't be charged when opening an account either.

INTEREST ONLY MORTGAGE

This is a mortgage where you only pay the interest cost each month. The original amount borrowed is paid in a lump sum at the end of a loan period.

INTERMEDIARY

Like a broker, an intermediary can help you arrange a mortgage. You can use www.unbiased.co.uk if you're looking for one to help.

ISA

This is an Individual Savings Account – a savings account that allows you to store money without having to pay tax on the interest gained. The main difference between an ISA and other savings accounts is the tax-free element, meaning you get more for your money. You can opt for different types of ISAs – cash ISAs, stocks and shares ISAs, innovative finance ISAs, lifetime ISAs, or even a Help To Buy ISA.

J

JOINT MORTGAGE

A joint mortgage is a mortgage taken out by two or more people. This might be used if you buy a house with a partner or friend and can also be used by parents who want to help their children buy a property.

JUNIOR ISA

These replaced the Child Trust Fund when the government scheme ended. They are tax-free savings accounts for children aged 18 and under, where they can save or invest up to £9,000 a year. Any money put in a Junior ISA has to be left untouched until the child turns 18. There are two types: a Junior Cash ISA (you put in the cash and then get a defined amount of interest) and Junior Stocks and Shares ISA (where the return depends on the value of the stocks and shares).

L

LASTING POWER OF ATTORNEY

A Lasting Power of Attorney is a legal document that lets someone appoint one or more people to make decisions on their behalf. This happens when they're no longer able to make those decisions for themselves.

LAND REGISTRY

The Land Registry is the official body responsible for maintaining details of property ownership.

LIFETIME MORTGAGE

A type of equity release mortgage that's secured against your home. You don't make any monthly payments – the loan is repaid (usually by the sale of your house) when you pass away or go into long term care.

LTV

Loan-to-value is the size of your mortgage as a percentage of your property's value.

M

MATURITY

Maturity or maturity date can mean two things. If you've got a loan, it's the date the final payment is due. For savings accounts like bonds and deposits, it's the date that your account 'matures' – meaning you can access the money and decide what to do next.

MATURITY INSTRUCTIONS

If you have a fixed term account that is about to mature, you can give instructions to your bank about what to do next. You might want to reinvest, lock some away for a rainy day, access some of it now or take all your savings out. With an account from Hodge, you can confirm your instructions for online bank accounts using our online banking through the website.

MENTAL CAPACITY

A person with mental capacity is considered to have a general understanding of the decision they need to make, why they need to make it and what's likely to happen when they make it.

MONTHLY REPAYMENT

The amount you pay your mortgage lender each month. The amount you pay is usually pre agreed.

MORTGAGE DEED

The mortgage deed is a formal contract between you and your mortgage lender. It provides the lender with interest and legal rights over your property. When your mortgage is complete, the deeds typically pass to you confirming outright ownership by you.

MORTGAGE TERM

The amount of time you take a mortgage out for – 25 years, for example.

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N

NEGATIVE EQUITY

When the value of your home falls below the remaining mortgage amount, meaning you owe more than the property is worth.

NOMINATED BANK ACCOUNT

A nominated (or linked) bank account is the account you register when you open a savings account. At Hodge, so that we can keep your money safe and protect against fraud, we only accept deposits from this account, and we'll always transfer money back to this account, whether that's interest payments, withdrawals, or at maturity.

O

OFFICE OF PUBLIC GUARDIAN

A government department that administers Lasting Power of Attorney and protects people who lack mental capacity.

OVERDRAFT

When your bank allows you to spend more money than you have in your account, you'll have an overdraft, which sometimes incurs interest until you pay back the money you've used.

OVERPAYMENT

An overpayment is any additional payment you make over your usual monthly mortgage payment. Overpayments can either be a one-off lump sum or a regular overpayment made throughout the year. Most mortgages will have a limit to how much you can overpay each year.

P

PIN

A personal identification number, it's the four-digit number you use to withdraw cash and pay for items with your debit card. Never write your pin down or save it anywhere, commit it to memory so that it's always safely stored.

R

RESIDENTIAL MORTGAGE

A large, long-term loan that you take out to buy a home you plan to live in (not to rent out or use for commercial purposes).

REMORTGAGE

This is when you change your existing mortgage without moving house. It can be a way of saving money or releasing equity from your home.

REPAYMENT MORTGAGE

You pay off the mortgage interest and part of the capital of your loan each month. Unless you miss any repayments, you'll have paid off the mortgage by the end of the term.

REPAYMENT VEHICLE

Required by lenders if you take out an interest-only mortgage, this is the means by which you're intending to pay off your mortgage at the end of the term – for example, another property, or a stocks and shares portfolio.

RIO MORTGAGE

A retirement interest only (RIO) mortgage is designed to help older borrowers who might not be able to get a standard residential mortgage. With Hodge they're available to borrowers over 50. You pay the interest on the loan monthly and then the cost of the loan at the end of the term.

RPI

This stands for Retail Price Index, and is a measure of inflation for goods or services. It tracks changes in the price of items that people regularly buy, like milk. Over time, changes in those prices are used to determine the rate of inflation.

S

SORT CODE

When you open a bank account, you will be given an account number and sort code, which allow money to be transferred into your account. On your bank card, the sort number is the six figures that are usually separated into pairs. The first two digits identify which bank it is and the last four digits refer to the specific branch of the bank, where the account was created.

STAMP DUTY LAND TAX

This is a tax that's currently payable on a residential property in the UK if it's over £125,000.

STOCKS AND SHARES ISA

This is also known as an investment ISA and is a tax-efficient investment account. A stocks and share ISA allows you to invest an amount of money in a wide range of shares, funds, bonds and investment trusts.

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SVR

The Standard Variable Rate is the rate set by your mortgage provider. It is the rate your mortgage will revert to when you reach the end of your fixed-rate term. As the word "variable" suggests, this can change and may be higher or lower than your original rate.

STANDING ORDER

This is very similar to a direct debit but you control when the payment goes out and it will always be for the same amount of money. For example, it could be used to put money in your child's account each month.

SWIFT

The Society for Worldwide Interbank Financial Telecommunications is a global payment system for paying by credit transfer between different countries.

T

TIE IN PERIOD

A tie in period is the time that you are 'locked in' to your mortgage deal. You'll have to pay an early repayment charge if you leave your mortgage during this period.

V

VALUATION SURVEY

Lenders always carry out a valuation survey to check whether the property is worth roughly the amount you're paying for it. You should always have your own survey done too, to check for structural problems.

VARIABLE RATE MORTGAGE

This is when the amount you repay on a mortgage changes depending on the standard rate of the lender.