

Banking Terminology Jargon Buster

Sometimes the world of banking can seem a bit like a dictionary of acronyms, making it hard to get to the nitty gritty of sums and figures and find the information you're after.



At Hodge we do our best to try to keep things as simple and straightforward as possible, and use language that's easy to understand, rather than wrapped up in industry jargon. But, we know that's not always possible, and sometimes you'll see technical terms – from us, as well as other banks – where there's no other option.

So, with that in mind, we've created this jargon buster to help you differentiate between your DiPs and your SVRs, and everything in between. Read on so that when you bank online, you know your APRs from your ISAs.

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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. The same principle applies for mortgages too, but in reverse, as it refers to the interest you'll pay, rather than earn.

AGREEMENT IN PRINCIPLE

A document from a mortgage lender confirming that you will be able to borrow a certain amount. You can use this to prove to a seller that you can afford to buy their property.

APR

This stands for Annual Percentage Rate, which takes into account the interest rate and additional charges of a credit offer. Before you sign a credit agreement, lenders have to tell you what the APR will be. It's always expressed as a percentage of the amount you've borrowed and is used for comparing credit cards and unsecured loans.

APY

The Annual Percentage Yield is earned on a deposit account, and savers can use APY as a factor to help work out which savings options are the best.

ARRANGEMENT FEE

Sometimes you'll pay an arrangement fee (sometimes called a product 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 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.

ATM

You probably know them better as the hole-in-the-wall that withdraws cash if you need it. But the posh word for them is an Automated Teller Machine. There's a network of fee-free ATMs in convenient locations around the UK.

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 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.

BASE RATE

You've probably heard the Bank of England base rate mentioned on the news and, while it doesn't really impact savers directly, it is the rate that banks and lenders use to calculate how much interest you'll pay on mortgages and other financial products.

BROKER

This is an adviser who can help you arrange a mortgage. You may have to pay more for a broker than sorting it directly with the bank or building society.

BUILDINGS INSURANCE

Insurance that covers you for damage to the structure of your home. A lender will require you to have this in place when you take out a mortgage.

BUY-TO-LET

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

C

CAPITAL

The amount of money you borrow to buy a property.

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 basically the profit that you make on a purchase.

CAPITAL GAINS TAX (or CGT)

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.

CCJ/COUNTY COURT JUDGEMENT

These are made against you for non-payment of debt and could make it harder for you to get a mortgage.

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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.

COLLAR

If your mortgage deal has a collar, your interest rate will not fall any lower than the specified amount.

COMPOUND INTEREST

Whereas normal interest is based on a percentage of the original sum of money, compound interest also accounts for the money added on by previous instalments of interest. Compounding can work to your advantage as your savings and investments grow over time, as interest is added to the 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

With banks offering so many different accounts, it's probably worth explaining that this is the one that works as a one-stop shop for your finances. It's usually where your main salary goes and where bills are paid via direct debit, and where your cash is withdrawn.

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 credit checks and confirmation of income, 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 property. The minimum deposit you usually need is 5%, the cheapest deals are often available to people who can pay a larger deposit of at least 40%.

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. Once you have instructed the bank, direct debits are controlled by the organisation that you're paying the money to.

DISCOUNTED-RATE MORTGAGE

A discounted-rate deal is one where the interest rate you are charged is a set amount less than your mortgage lender's standard variable rate (SVR).

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 have to pay if you chose to repay all or part of your mortgage earlier than the original mortgage term.

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.

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EQUITY RELEASE

Equity release describes a scheme specifically designed for homeowners who are later in life to release cash, or equity, in their property. It's important to get independent financial advice for an equity release mortgage.

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.

FLEXIBLE MORTGAGE

A flexible mortgage deal allows you to overpay, underpay or even take a payment holiday from your mortgage. This can help you pay off your mortgage early and save money on interest, but flexible mortgages are usually more expensive than conventional ones.

FREEHOLD

You own the building and the land it stands on.

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.

GUARANTOR

A third party who agrees to meet the monthly mortgage repayments if you are unable to. This is most common with first-time buyers, and the guarantor is usually their parent or guardian.

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 were created 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 best decisions when working out what to do with your money.

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 and then pay the rest in a lump sum at the end of a loan period.

INTERMEDIARY

Like a broker, an intermediary can help you arrange a mortgage.

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.

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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

LAND REGISTRY

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

LASTING POWER OF ATTORNEY

An LPA is a legal document that lets the donor appoint one or more people to make decisions on their behalf.

LEASEHOLD

You own the building but not the land it stands on, and only for a certain period (anything up to 999 years).

LIFETIME MORTGAGE

See 'equity release mortgage'.

LOAN TO VALUE (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 maturity 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. Hodge now offers the ability to carry out maturity instructions for online bank accounts from the online portal.

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 lender, outlining your legal obligations and your lender's rights if you miss a payment.

MORTGAGE TERM

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

N

NEGATIVE EQUITY

When the value of your home falls below the remaining mortgage amount.

NO NEGATIVE EQUITY GUARANTEE

Products which meet the Equity Release Council Product Standards are required to feature this clause. This guarantee means the estate will never owe more than the property is worth when it is sold to repay the equity release mortgage.

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

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.

P

PIN

This is the four-figure number you use to withdraw cash and pay for items with your debit card.

PORTING

A portable mortgage allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees. Read more about porting your mortgage.

R

REMORTGAGE

This is when you change your existing mortgage without actually 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.

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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 RIO is a retirement interest only mortgage where you pay the interest on the loan and then the cost of the entire 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 basically tracks changes in the price of items that consumers regularly buy, like milk, bread, and even gin and wine. Over time, changes in those prices are used to determine the rate of inflation.

S

SERVICE CHARGE

The fee paid to a managing agent for the ongoing maintenance of a leasehold property.

SHARED OWNERSHIP

You buy a share of a property (usually between 25% and 75%) and pay rent on the remaining share, which is owned by the local housing association.

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 which identify your bank. 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 properties or land in England and Northern Ireland. There are separate property transaction taxes in Scotland (the Land and Buildings Transaction Tax) and Wales (the Land Transaction Tax).

Check the Government website for full details: <https://www.gov.uk/stamp-duty-land-tax>

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.

SVR

The Standard Variable Rate is a default rate that your mortgage will revert back to when your initial term ends and it could 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.

TRACKER MORTGAGE

The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.

TRANSFER OF EQUITY (TOE)

A TOE is a type of contract variation that allows a person to be added or removed from an existing mortgage.

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 pay on a mortgage changes depending on the standard rate of the lender.