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.

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.

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.

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.

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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.

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.

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.

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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 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.

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.

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

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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 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.

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.

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.

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

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 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, bond and investment trusts.

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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.

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.