kaboodle

GLOSSARY

Below are some terms that you may find useful to help you with some of the language that's used in the mortgage business. If you have a specific specific that you would like answered just pick up the phone and give us a call.

Application Fee	The lenders may charge you a fee for applying for a home loan. These are sometimes waived by the lender during a promotion.
Annual Fee	The fee paid to the lender by the borrower on the anniversary of the loan. Most lenders will charge an annual fee if you have a professional package with an offset account. If you want to avoid paying fees a basic home loan could be a better option for you.
Assessment Rate	When the lenders consider your loan application they'll assess your ability to repay the loan at a higher interest rate. This provides the lenders with a level of comfort that should rates rise you will still be able to repay the loan. Even though you may be able to afford repayments at the advertised rates if you can't service the loan at the assessment rate they won't lend you the money.
Basis Points	An expression of interest rates. 1 basis points equals 0.01%. If the RBA reduces interest rates by 25 basis points lenders may pass on the full rate cut which is expressed as 0.25%.
Borrowing Capacity	The amount that a lender will loan to you based on your income, assets, liabilities, and expenses.
Break Costs	The fees payable to the lender when you wish to exit a fixed rate product before the fixed loan term has expired. Every lender calculates this differently, however usually the lender will charge an admin fee and consider the lost income from future interest charges when calculating the fee payable.
Bridging Finance	A loan that can be used when buying a new property before the existing facility has been sold. Eligibility for bridging finance is determined based on your ability to repay the "peak debt", that is are you able to repay both sets of loans until the existing property is sold. Bridging finance reverts to a standard loan when the existing property is sold. For this reason bridging finance is usually a short term product.
Comparison Rate	An expression of an interest rate. Many home loan products attract fees and charges. These are not expressed in the headline interest rate that the lenders advertise. The comparison rate includes the fees and charges associated with a product to help you take these costs into consideration when comparing home loan products.
Conditional Approval	A lender has approved your loan based on the information provided. The approval is still subject to further conditions being met to satisfy the lender e.g. an independent valuation of your property resulting in an acceptable security value which the bank will lend against.
Conveyancer	A third party which facilitates the legal process of transferring the property from the vendor to the buyer. Both the vendor and buyer would have their own conveyancer in any transaction.
Credit Limit	The maximum amount the lender will allow you to borrow in a loan facility.
Credit Report	Credit reporting companies such as Veda keep records of every time you apply for credit e.g. home loan, credit cards, personal loans etc. With your permission Lenders access these reports to determine if you have a clean record or have past defaults listed against your name. If you have defaults it will restrict which lenders are happy to lend you money.
Deposit	The funds you have available to contribute towards the property purchase. Typically your deposit will be the amount you have saved less any transaction costs associated with the purchase e.g. stamp duty.
Discharge fee	The fee payable to the lender when you refinance to your loan to another lender. The lender charges an administration fee to cover their costs associated with processing the exiting loan.
Drawdown	Occurs when the funds you have borrowed are paid to the vendor selling the property.
Equity	The value of your properties less any debt that is held by a lender. E.g. Your property is worth \$500,000. Your loan balance is \$400,000. The equity position would be \$100,000. You may wish to draw upon the equity for investment purposes or for general home improvements. Keep in mind that if your loan to value ratio exceed 80% you would need to pay Lenders Mortgages Insurance (LMI).
First Home Owners Grant	Government grants available to first time property buyers. In the past this has included discounts on stamp duty and even cash to contribute towards the property purchase. The grant changes regularly depending on what the government of the day is looking to achieve. For the latest information on the grant visit your local office of state revenue website.
Fixed Interest rate product	An interest rate that will apply to your loan for an agreed period – usually a 2 to 3 year period. During the fixed rate period the interest rate won't change irrespective of decisions made by the RBA. This will give you comfort that your repayments won't change during the period. However you are locked in. If you wish to refinance elsewhere you need to pay break costs.
Guarantors	A third party – usually immediately family – that agree to guarantee that you'll meet your loan repayments. If you are unable the Guarantor will need to make your loan repayment. The lender will normally take a portion of the Guarantor's property as security. If you fail to meet your loan repayments and the Guarantor is also unable to cover the payment the bank could repossess both properties.
Interest in Advance	Occurs when the interest payable on a loan is charged up front by the lender for a given period. This is normally an option that an investor would consider to reduce their taxable income in a financial year.
Interest in Arrears	Occurs when the interest payable on a loan is charged at the end of a give period e.g. the end of the month. Most home loans will calculate interest daily but only charge you at the end of the month.
Interest Only Loans	A repayment option available with many home loans. The lender agrees to only charge you interest on the funds borrow for a period of time. 5 years is fairly common. After the interest only period the loan would revert back to a principal and interest repayment where you would start to pay down the debt. Interest only repayments are popular with investors as they do not wish to pay down the funds borrowed as principal repayments are not tax deductible.
Introductory Rate	A discounted interest rate that is applicable to loan repayments for an initial period of the loan. Once the introductory rate expires the interest will revert to a high rate and your loan repayments will increase.
Investment Loans	Loans that are used to secured an investment property. Lenders can assess investment loans different to owner occupied loans. Some lenders are currently charging a higher interest rate for investment loans.
Lenders Mortgage Insurance (LMI)	A once off premium paid by you the borrower to the lender at the commencement of the loan if you are borrowing more than 80% of the value of the property or Loan to Value Ratio (LVR). It's important that you be aware that the insurance does not cover you, but covers the banks in the event that you are not able to make the agreed repayments. The higher the loan amount and the LVR , the greater the LMI premium.
Line of Credit	A full transaction loan account secured against residential property. Borrowers are able to draw on funds up to the limit of the facility. Repayments are calculated monthly against the interest rate and the amount of debt outstanding in the facility.
Loan Agreement (Loan Docs)	The formal contractual agreement between the borrower and lender outlining loan details, terms, conditions and the obligations of both parties. Check your loan documents carefully! The lender's offer in the formal approval should match those contained in the loan documents.
Loan to Value Ratio (LVR)	The ratio of the amount borrowed to the value of the property (security). E.g. The property you wish to buy is valued at is \$400,000. The amount of funds that you wish to borrow is \$320,000. The LVR is 80%. It's worth noting that if you intend to borrow above 80% LMI will be payable. Lenders interest rates also tend to be higher for loans with an LVR above 80%.
Monthly Service Fee	A fee payable by the borrow to the lender every month.
Mortgage	A documented agreement between yourself and lender that specifies the lender's ownership of a portion of a property being used as security so that the funds can be lent to you.
Mortgagee	The lender.
Mortgagor	You the borrower.
Offset Account	Commonly this is a full transactional account that's linked to a variable rate home loan product. The offset account reduces the interest payable against the home loan. E.g. if you have a loan for \$100,000 and a have \$25,000 sitting in the offset you would only pay interest on \$75,000. Most lenders off a full transactional account with a credit card to borrowers as part of a professional package. Lenders will charge an annual fee for an offset account. Make sure you ask whether the offset is a "Full Offset" or a "Partial Offset" account. A Partial offset account does very little to reduce the interest payable.
Portability	Provides borrowers the flexibility to transfer the loan to a new security. This is likely to occur when you sell and buy a home. The new home is added as security to the loan and the home being sold is released.
Pre-approval	The lender assesses your income, assets, liabilities and expenses to determine how much you can borrow. A pre-approval is still subject to you offering acceptable security to complete the transaction. A pre-approval may also but subject to other conditions such as having the available funds to complete the transaction at settlement. A pre-approval is a good option if you are house hunting as it gives you a level of confidence that – subject to the conditions specified – the bank with lend to you.
Purchasing Costs	There's quite a few costs that you may not have considered when purchasing a property including Legals, pest and building inspections, registration of mortgage and title transfer, stamp duty and Lenders Mortgage Insurance (LMI). Don't worry…we'll help you work out all the cost associated with your transaction.
Principal	The outstanding balance on a loan. Interest is calculated based on the principal.
Principal and Interest	A repayment type where the borrower is paying down both the principal as well as the interest due each month. (Some Lenders also offer weekly or fortnightly repayments).
Rate Lock	For a fee you can lock in the interest rate available on a fixed rate product. This guarantees – for the period of the rate lock – that if the fixed rate rises prior to your settlement you will receive the interest rate you locked in at formal approval.
Redraw	A loan feature that allows you redraw additional funds that you have paid into the loan. E.g. you might get a good tax return and pay this into the loan to get ahead of repayments. Restrictions on the amount you can redraw may be applicable. Some lenders apply fees when you redraw money from the home loan.
Refinancing	Involves moving your home loan to another lender. Typically done to obtain a better interest rate. Fees and charges may be applicable from both your existing lender and the new lender so you'll need to consider these when deciding to proceed.
Repayments	The money that you will need to repay back to the lender (normally) each month. Repayments can be interest only or principal and interest.
Reserve Bank of Australia (RBA)	The independent government agency responsible for setting monetary policy in Australia. Monetary policy is used to determine the cost of borrowing funds. Typically if the RBA want to grow the economy they'll reduce interest rates. If economic activity is too strong (causing inflation to rise) interest rates will rise. The RBA set the cash rate. The lenders will add a margin to the cash rate when lending funds.
Security	Typically the property used to secure a residential loan. The value of the security (or property you wish to buy) will often be determined by the Contract of Sale or by an independent Valuer.
Settlement	The conclusion of the process to buy or sell a property.
Split Loans	It is possible to have two or more types of loans within the total credit limit approved by the lender. E.g. you could have a fixed and a variable portion of the loan. You may also have different repayment types for each portion e.g. interest only on the variable and principal and interest on the fixed. Having a loan split may incur fees from the lender.
Stamp Duty	A government fee. Payable by the buyer when a property title is transferred into their name. Stamp duty is different in the every state.
Term	The agreed period of time that the loan is to remain in place. 30 years is common.
Valuation	The value of the security (or property) that you wish to buy. Typically this is produced by an independent Valuer.
Variable interest rate	The interest rate that applies to your loan can increase or decrease at the discretion of the lender. Typically a move by the RBA will prompt the lenders to review their variable interest rates.