Home loans glossary of terms

YOUR HOUSE

Mortgages can be complex pieces of documentation – consider arming yourself with knowledge of these introductory terms to help understand the process.

C

Comparison rate: A rate that helps you work out the true cost of a loan. It includes the interest rate, and most fees and charges relating to a loan, reduced to a single percentage figure[1].

Conveyancing: For home loans, conveyancing is the process involved in the transfer of title of the property between two parties.

Credit limit: The maximum amount you can borrow from a registered financial institution under your home loan contract.

Credit report: Your credit report details your credit history. Credit reporting agencies collect information from and provide information to credit providers who subscribe to their services.

D

Deposit: A percentage of the purchase price that is paid on exchange of sale of land contracts. Can be paid on trust to the real estate agent on trust or to the solicitor acting for the seller of the property.

E

Equity: Is the portion of your home that you own outright. If you have no mortgage on your home, you have 100% of the equity. In other words, if you sold your home, all the money from the sale would go to you.

F

Fixed interest rate: A fixed interest rate cements the annual interest rate paid on your loan for a certain period of time, usually one to five years.

G

Guarantor: When a borrower enters into a loan contract, the borrower agrees to certain obligations, such as making the required repayments. A guarantor guarantees or promises that the borrower will perform their obligations by providing additional security and/or agreeing to assist in servicing the loan.

I

Interest: The interest you pay is calculated based on an interest rate which may fluctuate (known as ‘variable’) or be set for a period of time (known as ‘fixed’).

Interest-only loans: Interest-only loans only require you to pay back the interest on your loan, rather than the principal and interest. These usually only last for fixed period of time, and during which your repayments may be less; but your principal would not have reduced unless you made additional repayments.

1. Comparison rates are true only for the example given and may not include all fees and charges. Different terms, fees or other loan amounts may result in a different comparison rate.

Introductory rate: An introductory rate is usually a discounted rate offered for a short period at the start of your loan.

L

Lenders' Mortgage Insurance (LMI): Lenders' Mortgage Insurance is usually charged when a loan is greater than 80% of the property value. This is an additional fee that is paid only once and can be paid outright or can be included in your home loan amount.

Loan-to-value ratio (LVR): This is often known as "LVR". An LVR is the comparison between the amount you wish to borrow and the value of the real property secured against the loan. An LVR is used to differentiate between products or different rates within products (for example: a higher interest rate may apply when an LVR is over 80%).

M

Mortgage: Mortgage and home loan are often used interchangeably but actually serve different functions in loans for real estate. A mortgage is a document that is registered at the Land Titles Office over the land that is used as security for the home loan. It demonstrates that the bank or credit provider has an interest in the land as security for the money it has lent to the borrower and generally contains provisions which the borrower must comply with in relation to the land that is secured.

O

Offset account: An offset account is a bank account that is linked with your home loan. The amount in this account is taken off your home loan when calculating the interest accrued, and usually reduce the amount of interest that you pay. Your repayments often stay the same, but the term of the loan can be reduce meaning that a home loan could be reduced.

P

Pre-approval: A pre-approved loan means that the lender is offering an individual a specific type of loan for a specific amount. It is usually valid for a limited period of time and subject to pre-conditions to full approval, such as full substantiation of your income and the ability for suitable security to be provided.

Principal: The principal on your loan is the amount you initially borrow. Over the course of the loan, you will pay this off, along with the interest accrued.

Portability: If you wish to move or sell your home before the mortgage is paid in full, you may be able to use a portable loan to transfer your current loan from one property to another.

R

Redraw facility: A redraw facility allows you to withdraw surplus funds you have contributed to your home loan through making additional repayments.

Refinancing: When you replace or extend an existing loan with funds from either the same or a different bank or financial institution.

S

Security: In relation to mortgages or home loans, security may be the property in which the loan is used to buy, or it may be another property.

Settlement: Property settlement is usually conducted between your legal and financial representatives and those of the seller. It's when ownership passes from the seller to you, and you pay the balance of the sale price.

Split loan: Also known as a partially-fixed rate loan, some mortgages allow for a certain proportion of your loan to be fixed, and the rest to be variable.

Stamp duty: A state tax imposed on certain transactions, such as car registrations and property transfers.

V

Variable interest rate: A variable interest rate changes in accordance to the lender's policies. If the economic conditions permit it, the interest rate of a lender may drop, and the variable interest rate you pay will drop in turn. However, the opposite is also true, and the rates may increase.