



# Home Loan Jargon

We know that the language used when purchasing property can be quite confusing, so here are some commonly used words and phrases with easy to understand definitions.

## A

### ➤ Application Fee/Establishment Fee

Fee charged to cover or partially cover the lender's internal costs of considering a loan application. Also referred to as an establishment fee by some lenders. The fees are sometimes required to be paid upfront and are not usually refundable unless the loan is refused.

### ➤ Assets

A list of what an individual currently owns, such as real estate, savings accounts, cars, home contents, superannuation, shares, etc.

## B

### ➤ Basic variable rate loan

A loan which has an interest rate that varies according to market forces. The interest rate charged is lower than a standard variable rate loan but the loan may have fewer features.

### ➤ Break costs

Costs incurred when a fixed rate loan is paid off before the end of the fixed rate period, or when additional payments are made in advance.

### ➤ Bridging finance

A short term loan that covers a financial gap between the purchase of a new property and the sale of a currently owned property.

## C

### ➤ Capital gain

The monetary gain obtained when you sell your property for more than you paid for it.

### ➤ Community title (specific to NSW)

A property title where several dwellings are erected on an estate and the owners own their property and land on freehold title, but have shared access to community facilities e.g. swimming pool, barbecue area, tennis court, etc. All property owners pay levies for upkeep of the community facilities.

### ➤ Company title

A type of ownership for a unit/flat/apartment in a building that is owned by a company. A purchaser buys particular shares in the company which gives the purchaser the right to occupy a specific unit/flat/apartment. Lenders are generally not enthusiastic about lending on company title properties.

### ➤ Comparison rate

This is a rate that includes both the interest rate and the upfront and on-going loan fees, expressed as a single percentage.



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### » Construction loan

A loan specifically for the purpose of funding the building of a new dwelling. Can also apply to major renovations of an existing property.

## D

### » Daily interest

Interest calculated on a daily basis varies according to the outstanding balance.

### » Deposit

An initial cash contribution towards the purchase of the property, usually payable on exchange of contracts.

### » Deposit bond

A substitute for cash deposit that guarantees the purchaser will pay the full purchase amount by the settlement date. Institutions providing deposit bonds act as a guarantor that payment will be made.

## E

### » Equity

The value of an asset not subject to any lender's interest. E.g. a property worth \$500,000 with an outstanding mortgage debt of \$150,000 – equity is \$350,000.

### » Equity loan

A loan that uses the equity in your property to borrow for any personal purpose, including personal investment. It usually operates like an overdraft, where the borrower has a set credit limit to which they can draw funds. The term Equity loan can also refer to a Line of Credit loan.



## F

### » First Home Owner Grant (FHOG)

The FHOG scheme is a federal government initiative but is administered by each State or Territory Revenue Office.

### » Fixed interest rate

An interest rate set for a fixed period. At the end of the fixed rate period, most lenders will allow you to fix again at the prevailing rates or revert to their standard variable rate.

### » Freehold title

The form of property ownership where the property and the land it stands on fully belong to the owner.

## G

### » Genuine savings

Funds that have been accumulated or held for a certain period of time prior to applying for a loan.

### » Guarantor

A guarantor is a third party to a loan who is helping the borrower obtain finance by offering additional security support. Guarantors are generally limited to spouses or immediate family members. A guarantor may be liable for the loan debt if the borrower defaults.



**I****Interest Only (IO)**

A loan in which only the interest on the principal is repaid with each repayment for a specified period.

**Introductory (honeymoon) rate**

A reduced interest rate offered for a specified period of a loan, usually the first twelve months.

**J****Joint tenants**

Equal holding of property between two or more persons. If one party dies, their share passes to the survivor/s. A common arrangement for married couples.

**L****Lenders' Mortgage Insurance (LMI)**

A form of insurance taken out by the lender to safeguard against a financial loss in the event of a security being sold due to the loan going into default. The borrower pays a once-only premium. The insurance covers the lender, not the borrower.

**Liabilities**

A person's debts or financial obligations, including existing credit card debts and personal loans.

**Line of Credit**

A flexible loan arrangement with a specified limit to be used at a borrower's discretion. Also referred to by some lenders as an Equity loan or All in One loan.

**Loan to Valuation Ratio (LVR)**

The ratio of the home loan amount compared to the valuation of the security. Commonly called LVR. E.g. for a loan of \$270,000 on a home valued at \$300,000, the LVR is \$270,000 divided by \$300,000 then multiplied by 100, and expressed as a percentage i.e. 90%.

**Low documentation (Low Doc) loan**

Loans available to applicants who may not have up to date or complete financial information available at the time of application.

**M****Mortgage**

A form of security for a loan usually taken over real estate. The lender (mortgagee) has the right to take the property if the mortgagor fails to repay the loan.

**Mortgagee**

The lender of the funds and holder of the mortgage.

**Mortgagor**

A person who borrows money and grants a mortgage over their property as security for the loan.



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## N

## » Non-conforming loan

Specialist lenders provide these types of loans to borrowers who fall outside the normal eligibility requirements of mainstream lenders.

## O

## » Offset account

A transactional account linked to the home loan. The balance held in this account offsets the balance in the home loan, helping to reduce the interest paid and overall term of the loan.

## » Ombudsman

An arbitrator that provides an avenue through which customers can make complaints about their loan consultant or lender and have it dealt with independently.

## P

## » Principal

The outstanding loan amount on which interest is calculated.

## » Principal and Interest (P&amp;I)

A loan in which both principal and interest are paid with each repayment during the term of the loan.

## R

## » Redraw facility

A loan facility whereby you can make additional repayments and then access those extra funds if necessary.



## » Refinancing

To replace or extend an existing loan with funds from the same lender or a different lender.

## S

## » Security

Usually the property offered as security for a loan.

## » Settlement date

Date on which the new owner finalises payment and assumes possession of land. Sometimes called the “draw down” date, as this is the date the loan is usually fully drawn.

## » Stamp duty

There are two main types of stamp duty that may be payable when borrowing to purchase a home:

**Mortgage stamp duty (loan stamp duty)**

Mortgage stamp duty will only be payable in NSW if purchasing in a company name or for loans for non housing related purposes.

**Transfer stamp duty (contract stamp duty)**

Calculated on a sliding scale based on the purchase price of the property. Significant concessions on transfer stamp duty may be available for First Home Buyers. The amount varies from State to State.



## Standard variable loan

A loan which has an interest rate that varies according to market forces. The loan usually has comprehensive features, such as offset and redraw facilities.

## Strata title

The form of property ownership most commonly associated with units, apartments and townhouses, where the owner holds title to a particular unit, which is called a lot, in a strata plan.

## Survey

A plan that shows the boundaries and the building position on a block of land.

## T

### Tenants in common

Where more than one person owns separate, defined portions of a property. If one person dies, the relevant portion passes through the deceased's estate rather than to the other property owner/s as with joint tenancy. Each owner can hold a specific share of ownership and has the right to dispose of their interest.

### Term

The length of a loan or a specific portion within the loan.

## Title search

A request to the Lands Titles Office to ascertain the ownership of a specified property and any encumbrances, covenants, and easements that may be recorded on the title.

## Torrens title

Torrens title is the most common form of property title in Australia. The Real Property Act (RPA) is the legislation that governs the operation of Torrens title. Ownership of the property is registered with the Land Titles Office and evidenced by the Certificate of Title, which shows the current owner's name and any other interests in the property e.g. mortgages.

## U

### Unencumbered

A property free of encumbrances (mortgages) or restrictions.

## V

### Valuation

A report required by the lender, detailing a professional opinion of property value.

### Variable interest rate

An interest rate that varies during the term of the loan, in accordance with market forces.

### Lendstreet Mortgage Brokers

Suite 17, 20-40 Meagher St, Chippendale, NSW 2008

Phone: 1300 317 042

Email: [support@lendstreet.com.au](mailto:support@lendstreet.com.au)

[www.lendstreet.com.au](http://www.lendstreet.com.au)

