Busting the jargon

At Australian Mortgage Brokers we will explain how everything works in plain English so that you can make an informed choice about what is appropriate for your needs.

Get an expert on your side

The mortgage market is complex, and getting what's right for you is not as simple as finding the lowest interest rate. You need to understand all of the fee's and charges, terms and conditions and small print. We recommend that you obtain specialist help - the sort of help you get from the experts at Australian Mortgage Brokers.

Amortisation

This is a scary sounding term but it's just another way to describe the repayment of your debt. Over the term of the loan, your regular repayments are said to "amortise" the loan.

Bad credit history

One of the factors a Lender considers in assessing your mortgage application is your credit history. If you have a poor track record in meeting your credit card or other loan repayments, you will generally be considered an increased risk of defaulting. This could mean you'll pay a higher interest rate or they might reject your mortgage application altogether.

Basic Home Loan

A Basic Home Loan offers a low but variable interest rate and few or no regular fees. However, there is also limited flexibility. e.g. you may not be able to pay off extra if you get a windfall, or vary your repayments.

Bridging Loan

If you want to buy a new home, but you have not yet sold your existing home, you could use a Bridging Loan to tide you over. The maximum you will be allowed to borrow during the bridging period is generally limited to 80% of the combined value of both properties. Bridging Loans tend to be at a higher interest rate than normal loans. But when you have sold your original home and repaid that mortgage, you can revert to a loan product with a more favourable rate.

Construction Loan or Renovation Loan

With a normal loan, you borrow the whole amount up front - and start paying interest from day one. The advantage of a Construction Loan or Renovation Loan is that you only draw down money as you need it to make progress payments. This can significantly reduce your interest payments.

Debt Consolidation?

Debt Consolidation is where you transfer your credit card debt and any personal loans to your mortgage. The advantage of doing this is that the interest rate on your Home Loan is likely to be lower than you're paying on your smaller debts. You might also benefit from a regular manageable repayment.

Equity Loan or Line of Credit (LOC)

A Line Of Credit, Equity Loan or Equity Line allows you to borrow up to a certain limit - either all at once or in smaller amounts. The advantage is that you only begin to pay interest when you "draw down" these amounts. Equity Loans give you a great deal of flexibility but you will tend to pay a higher interest rate than for a normal loan.

Fixed Rate Home Loans

With the Fixed Rate Home Loan, the interest rate on your mortgage doesn't change for an agreed period (usually 1-5 years) - no matter what happens to official interest rates.

Free lunches

In the mortgage market, you come to expect certain things. e.g If you have a small deposit, you'll pay more over the term of the loan; that having a bad credit history is going to cost you; that certain loans have certain interest rates, etc. So if you're offered a Home Loan that seems much better than normal, look closely at the fine print. Free lunches are as rare in Home Loans as they are elsewhere in life.

Loan Principal:

"Principal" is the amount of money you borrow from the Lender when you take out a home loan, mortgage, or other finance.

Loan Interest:

"Interest" is the fee the Lender charges you for the use of their money. The interest charge on your loan depends on the amount of money you borrow, the interest rate, and the term of the loan.

Loan Term

"Term" is the agreed period you have to repay your loan. For some loans, this could be a year or less, while for most Home Loans it is 25-30 years.

Loan Repayments

Over the term of the loan, you make repayments on a regular basis - typically monthly. These repayments generally cover the interest charge and a portion of the Principal.

Home Equity?

You'll hear a lot about equity in relation to Home Loans. Equity is the difference between what your home is worth today and what you still owe on your mortgage.

Honeymoon Loan

A Honeymoon Loan offers a very low interest rate for an introductory period - generally 12 months. Once the "honeymoon" is over, the interest rate reverts to the higher Variable Rate . You need to consider the cost of the loan over more than just the honeymoon period, and if any fees are incurred if you refinance after the honeymoon period.

Interest Only Home Loans

With an Interest Only Home Loan, your repayments cover just your interest - not the principal. Only at the end of the agreed period of your mortgage do you repay the principal and then you repay it in full.

Interest rate fixation

Most people looking for a mortgage are preoccupied with finding the lowest interest rate. But have you considered all the fees and charges, and the account flexibility you need? You need to consider the entire cost of the loan - not just the interest rate.

Ignoring mortgage fees and charges

Don't ignore any fees or charges linked to a Home Loan; you never know how your circumstances may change. Upfront fees for taking out a loan and monthly fees are pretty easy to understand. But, are there other fees that you may incur? Will you be able to pay extra if you have a sudden windfall? Will you be charged if you decide to move or refinance your home loan? Can you increase your mortgage repayments?

Lack of Flexibility

Different loans have different levels of flexibility i.e EFTPOS, internet banking, Redraw Facility. Ensure your Home Loan has all the features you want and don't get locked into a mortgage that will cost you to change if you change.

Negative gearing - short-term loss for long-term gain

If you earn less from an investment property than it's costing you, you're said to be negatively geared. Why might you choose to make a loss? One reason is that it reduces your taxable income. The other is that you might accept a short-term loss in the hope of a capital gain later.

Pay more and pay often

Assuming you have a mortgage that lets you pay extra, you should pay more and pay often. The interest charged on a $300,000 Home Loan at a rate of 7.15% over 30 years with monthly repayments is over $420,000. By paying off an additional $50 a month, you'll reduce the interest bill by $39,000 and your loan term by 2 years and 4 months. You could look at making repayments weekly or fortnightly rather than monthly. Over 30 years the savings add up.

Principal & Interest Home Loans

A Principal & Interest mortgage (or P & I Home Loan) is a traditional mortgage in that your repayments cover both interest and principal.

Redraw Facility

Enables you to access those extra funds you paid off your mortgage should you need to. There may be a minimum amount that can be redrawn (e.g. $2000) and there may be a fee charged for using this facility.

Reverse Mortgage or Equity Release Loan - what is it?

If you're a Retiree, a Reverse Mortgage or Equity Release Loan lets you unlock the equity in your home. It is effectively a loan against the value of your home that gives you either a lump sum, line-of-credit or in regular instalments.

Split Rate Home Loans

A Split Rate Mortgage combines elements of the Fixed Rate and Variable Rate options. e.g. You can have 80% of your Home Loan at a Fixed Rate, while the remaining 20% is at an interest rate that varies with the market. Or whatever it is that suits your needs

Standard Variable Rate Loan

A Standard Variable Rate Loan is a loan product that generally allows you to choose many "bells and whistles". e.g. a Redraw Facility, an all-in-one account facility, linked accounts and credit cards etc.

Variable Rate Home Loans

With the Variable Rate Home Loan, the interest rate on your Mortgage can change. If official interest rates go down, your interest rates go down too. However, if the Reserve Bank increases interest rates, your Home Loan rate will probably rise too.

Vendor financing

Some property developers offer "vendor financing". This may seem attractive because you don't have to deal with a Lender, or because they're willing to give you a loan when others won't. But be careful you're not paying above market rates - for the property or your Mortgage.

Glossary

Below is a glossary of terms you may encounter when purchasing property or obtaining a mortgage. The list is a general guide and is by no means exhaustive.

Amortisation period: The period of time a loan is calculated over (and repaid).

Application fee: The fee charged by a lender to cover or partially cover the lender's costs of setting up or establishing the loan

Arrears: An overdue account yet to be paid.

Assets: Money, property or goods owned.

Asset Lender: Lending institution that lends finance based on the value of the asset, which will be held as security.

Assignment: Legal transference of a right or a title to a property, to another party.

Banker's Lien: The right of a Bank to retain a customer's securities until a liability to the Bank is discharged. (See also 'General Lien').

Bankruptcy: The legal financial state and individual is in, when unable to meet debts (for Companies it's known as being 'wound up'). A debtor may be declared bankrupt by the Federal Court at either the debtors or the creditor's instigation, and the debtor's estate will be placed in the hands of an official receiver who will distribute the estate in accordance to the provisions of the Bankruptcy Act.

Borrower: A person, persons, or entity borrowing money to purchase, payoff, or refinance a product or effect.

Buyer's Agent: Person to act on behalf of the buyer to find and negotiate on properties the buyer wishes to purchase.

Caveat: A notice of warning given to a public authority, e.g. Titles Office, claiming entitlement to an interest in certain land. The caveat is registered and remains on the books as a warning to anyone who contemplates dealing with the property. It therefore prevents any action being taken without the previous notice of the person entering the caveat (the caveator).

Charge (over property): The term used to describe any right established over a borrower's property to secure a debt or performance of an obligation.

Collateral Security: Additional or supporting security given in addition to the principal security.

Contract of Sale: A written agreement outlining the terms and conditions for the purchase or sale of property.

Conveyancing: The legal process for the transferral of ownership of real estate

Credit Ombudsman Service Limited: One of the ASIC Approved Ombudsman for dealing with consumer disputes in the credit industry.

Daily Interest: Interest calculated on a daily basis - varies according to daily account balance.

Debtor: Someone who owes money to another and can be compelled to perform an obligation.

Deed: A document in writing, which is signed, sealed and delivered by the parties thereto, to prove and testify the agreement of the parties whose deed it is, to the things contained in the deed.

Depreciation: The accounting practice where the cost of a fixed asset of a business is spread over the life of the asset. Depreciation is a non-cash expense which allows the money to be retained by the business, thus technically allowing the business the capacity to replace the asset over time.

Direct Debit: Where the Lender debits (deducts) a payment from client's bank, credit union or building society account.

Disbursements: Solicitors incidental costs involved when dealing with client on behalf of the Lender, e.g. searches, certificates pest reports, etc

Draw Down: Act of transferring money from lending institution to the borrower after the loan has settled.

Encumbrance: A charge or liability, e.g. a mortgage.

Equity: Generally used to denote the financial interest of a person in a property or business enterprise, e.g. a person's equity in his house is the difference between its value and the amount still owed to a Lender. A person's overall equity refers to his net financial worth, or the difference between what he owns and what he owes (i.e. Assets - Liabilities = Equity).

Exchange: The legal point of time when the vendor and the buyer swap documentation with a view to settlement.

Fittings: Items that can be removed from a property without causing damage to it eg, carpet and curtains.

Fixed Interest (Fixed Rate): An interest rate set for an agreed term.

Fixtures: Items that would cause damage to the property if removed. Their removal must be stipulated in the contract of sale, and damage made good by the seller eg. Oven and bath etc.

General Lien: Sets out in writing the Bank's right to retain property until a debt is paid. Includes Power of Attorney and other clauses generally contained in Bank security forms

Government Fees: State and government charges at the time of settlement, e.g. stamp duty.

Gross Income/Profit: Income from a person or company, before tax, superannuation or payroll deductions.

Guarantor: A person/s who agree to be responsible for the payment of another person's debts.

Holding Deposit: A refundable deposit based on the goodwill of the buyer to go ahead with the purchase.

Indemnity: Security against damage or loss; sum paid in compensation for loss incurred.

Instrument: Formal legal document in writing, e.g. a deed of conveyance.

Interest: The Lender's charge for the use of funds or the return on deposited funds.

Interest Only Loans: A loan where the principle is paid back at the end of the term and only interest is paid during the term. These loans are usually for a short period of time, 1 to 5 years.

Joint and Several Liability: The Bank's joint account authorities, guarantee forms, etc are framed to ensure that joint account holders with debts due to the Bank of joint guarantors liable to the Bank shall be SEVERALLY liable, (i.e. individually), as well as JOINTLY. With Joint and Several Liability a creditor has as many rights of action as there are debtors; he can sue them jointly or severally until he has obtained payment, and an unsatisfied judgment against one debtor will not be a bar to an action against the others.

Joint Tenancy: Property in the names of two or more persons, where all persons have an equal interest in the whole property. When one person dies his interest passes to the survivor(s). They are known as Joint Tenants or Joint Proprietors of that property.

Liability: A debt which one is liable for; being responsible only to a limited amount.

Loan: An advance of funds from a lender to a borrower on the agreement that the borrower pays interest on the loan, plus paying back the initial amount of the loan at or over an agreed time

LVR: An acronym for Loan to Valuation Ratio, the ratio of the amount lent, to the valuation of the property

Maturity: The date a debt or investment must be paid in full.

Mortgage: A form of security for a loan usually taken over real estate. The Lender, the mortgagee has the right to take (repossess) the real estate if the mortgagor fails to repay the loan.

Mortgagee: The Lender of the funds.

Mortgagor: The person borrowing money in the terms of the mortgage.

National Consumer Credit Protection Act: Legislation that requires persons who engage in credit activities to hold an Australian Credit License or be appointed by a license holder. It imposes entry standards and enables ASIC to refuse an application where the person does not meet those standards. It also requires licensees and their representatives to meet ongoing standards of conduct while they engage in credit activities and it provides ASIC the power to suspend or cancel a licence or registration, or to ban an individual from engaging in credit activities. In addition to licensing obligations, the Act includes responsible lending conduct obligations which set in place expected standards of behaviour.

Negative Gearing: Gearing your investment so that the cost to maintain it (loan repayments, council rates, maintenance etc.) outweighs the income produced by the investment, leading to a reduction in taxable income.

Net Income: The income received by an individual AFTER TAX has been taken out.

Net Profit: The profit remaining in a business after all expenses has been taken out, but BEFORE TAX.

Off the Plan Purchase: Buying a property from the plans only, not the finished product.

Portability: Where a new property can be used as security for an existing loan, i.e. when the loan is transferred to a new security property without needing to repay the loan, reapply, or restructure.

Power of Attorney: A written authorisation to another person, or persons, to perform certain acts for the signer, as if they were the signer.

Principal: The capital sum borrowed on which interest is paid during the term of the loan.

Principal & Interest Loan: A loan in which both the principal and the interest are paid during the term of the loan

Property: A person's property is "what is he or she owns to do what they like with." It may be tangible or intangible, and may be given a monetary value (e.g. house, car, goodwill). Property may be classed 'real' which relates to land or interests in land (except leaseholds) and buildings, etc or 'personal', which relates to other kinds of property such as cars, bank accounts, leasehold interests in land.

Redraw: Borrower is able to draw on pre-paid funds

Refinancing: To replace or extend an existing loan with funds from the same institution or another.

Search: An examination to confirm that the vendor is in a position to sell the property and that there are no encumbrances on the property.

Securitisation: Is the packaging of cash flow producing assets into a marketable security, e.g. property, roads, bridges, etc. The process where mortgage backed securities (in the form of bonds) are sold directly into the capital markets. Investors in the bonds comprise of Superannuation funds as well as other major institutions.

Security: An asset that guarantees the Lender their borrowings until the loan is repaid in full. Usually the property is offered to secure the loan.

Serviceability: Ability of borrower to make and meet repayments on a loan, based on the borrowers expenses and income(s)

Settlement: Finalisation of payment by the new owner, and assumption of possession. When you pick up the keys!

Surety: Person who makes themself responsible for another's payment of debt; also knows as the guarantor.

Tenants in Common: Property in the names of two or more persons and in which each has a separate and distinct share. When one person dies his share is not passed to the survivor(s) but becomes part of his estate for disposal according to his will.

Term: The length of a home loan or a specific portion within that loan.

Third Party Security: Security provided for a mortgage by a third party (someone different from actual borrowers) who is legally different from the borrower or debtor.

Title Deed: Registration showing the ownership of property.

Title Search: Process to ensure that the vendor has the right to sell and transfer ownership.

Torrens System: System whereby ownership and all dealings on a property are detailed on the one document, i.e. a Certificate of Title or Deed of Grant. Under this system a mortgage is a charge or encumbrance on the title. Registrations is compulsory to effect legal transfer of an interest in property and each time the property is sold, mortgaged, or a mortgage discharged, the transaction is recorded on the Certificate of Title.

Unencumbered: A property free of liabilities, restrictions or mortgages.

Valuation: A report as required by the Lender, detailing a professional opinion of a property's value.

Variable Interest Rate: A rate that changes in accordance with the rates in the marketplace.

Variation: Changing any part of the original loan contract.

Vendor: Person selling a property who is the current owner

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