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Useful Terms

LENDING TERMS

MORTGAGE BROKER - Is a finance professional who seeks to negotiate optimum rates and terms on behalf of the borrower from a panel of lenders.

LENDER - A financial institution from which makes funds are available to be borrowed.

GENUINE SAVINGS - The deposit contributed to the loan amount when you are borrowing the majority of your property value. This deposit must be saved by the borrower for a period of time normally 3 months. Different forms of savings are accepted by different banks which may include shares, term deposits, and some assets.

FIXED INTEREST RATE - The interest rate is fixed/guaranteed for a chosen time period. This ranges from 1 to 15 years. However 1-5 year fixed interest rates are more common.

RATE LOCK FEE - This is the fee banks charge to guarantee the fixed interest rate at the time of application for an agreed period of time. Normally, when choosing a fixed rate loan the interest rate is not guaranteed until the day of settlement.

VARIABLE INTEREST RATE - The interest rate fluctuates with the market and can change at any time.

PRINCIPLE - The original amount borrowed or the amount on the loan that remains unpaid.

SPLIT LOAN - Where the total amount you are borrowing is split into two or more separate accounts so that you can choose different products, payment terms or interest rates for each different portion.

INTEREST ONLY LOAN - The borrower only pays the interest on the loan. Therefore the principle will not be reduced over the term of the loan.

PRINCIPLE AND INTEREST LOAN - You repay both the Principle and Interest components of the loan over the chosen term, so at the end of the loan you have no more debt.

OFF-SET ACCOUNT - Is essentially a simple savings account that you can have card access to in order to receive payments and pay bills. Instead of earning interest in the savings account the balance of the account is classed as being paid off your home loan. For example if you had a $100,000 loan and in your offset account there was $10,000 then the interest calculated daily would only be calculated on $90,000.

REDRAW - Allows you to redraw any extra funds you have been paying into your home loan above the minimum monthly repayment. (Not all loans have this feature and some banks have a fee or minimum withdrawal amount.)

EQUITY - The equity in a property is the amount of the property you own. You can work out your equity by subtracting the loan amount from your house value. Equity can be used to secure another loan.

LENDERS MORTGAGE INSURANCE (LMI) - A once off insurance premium that is paid to the lenders insurer to allow you to borrow above 80% of the property value. This insurance protects the lender in case you were to default on your loan. LMI does not protect you, it protects the lender. The premium in most cases can be added onto the loan amount.

LINE OF CREDIT (LOC) - Is a loan product secured against your home that is offered by most lenders. It gives you a limit of funds that you are able to draw down and use when you need them. You only have to pay interest on the funds you have actually spent. Most LOCs are set up to pay interest only repayments. A LOC is a bit like a very large credit card and should only be used if you are able to control your finances otherwise you could end up owing a lot of money to the bank.

CONDITIONAL APPROVAL - Is where the bank has assessed some of your paperwork and given approval subject to certain conditions E.g. the valuation, or providing an updated payslip. Unless those particular conditions are met, full approval will not be given by the bank. You should not go unconditional on your purchase until full approval is given by the lender.

UNCONDITIONAL APPROVAL - Is where the bank has assessed all of your information and given you full approval for the loan. Once you have full approval you are able to go unconditional on the purchase of the property.

REAL ESTATE TERMS

DEPOSIT - The amount of money you pay to the real estate agent to show that you are serious about purchasing a property. This money is held in trust until settlement of the loan.

VENDOR - Is the person who is selling their house.

SUBJECT TO - Are conditions that need to be met before you go unconditional on the purchase contract, which means once met you have to buy the property. Usually these conditions include but may not be limited to: building and pest report, finance etc.

OFFER - Is the price you are willing to pay for the property. Once you submit an offer the real estate agent will then present the offer to the vendor to see if they will accept the offer.

AUCTION TERMS

AUCTION - Is public sale in which property is sold to the highest bidder. To bid at an auction you need to be registered before the auction starts. If you are the winner at an auction you are automatically entered into an unconditional contract to purchase the property and you have to pay a deposit on the day.

RESERVE PRICE - Is the minimal price the vendor is prepared to sell the house for. This is set before the Auction and only the auctioneer knows the price.

HOUSE ON THE MARKET - Once the bidding goes above the reserve price the auctioneer will announce the house is now “on the market”. This means that whoevers the highest bidder at the end will purchase the property.

PASSED IN - If no one placed any bids or all of the bids were below the reserve – the property will “pass in”. This means the house wasn’t sold. Usually the highest bidder has the right to negotiate first with the vendor to agree on a sale price. Once a property is passed in you can negotiate your own terms for the contract E.g. Finance clause, smaller deposit, longer settlement etc.