Common LENDING & MORTGAGE TERMS

IT'S MY HOME EXPLAINS SOME OF THE COMMON TERMS YOU MAY HEAR WHEN GETTING A LOAN AND BUYING A PROPERTY

AMORTISATION PERIOD
The time taken to repay a debt, including accrued interest, in full through regular repayments.

BASIS POINTS
Refer to a common unit of measure for interest rates and other percentages. One basis point equals 0.01 per cent. For example, 50 basis points equal 0.50 per cent.

CERTIFICATE OF TITLE
Documents the ownership of or interest in land. It provides a description of the land, proprietorship and shows any registered interests such as mortgagees, charges and caveats. It also shows any restrictive covenants and easements which affect the estate or interest.

CREDIT REPORT
A file that is kept by a credit reporting agency that shows a person's credit history. Banks and financial organisations refer to credit reports when considering applications for loans and credit cards. A person with a poor credit history may find it difficult to obtain a loan or a credit card.

EQUITY
Homeowners often talk about how much equity they have in their house. Property investors often talk about how much equity they have in their portfolio. This is the value of the property (or portfolio) over and above the amount they owe on their loan(s).

FIXED INTEREST RATE
Fixed interest rate loans lock your monthly interest repayments at a set rate for a period (typically one, three or five years), after which they will revert to the standard variable rate. They can be a good choice for buyers who want certainty around interest payments but beware of break costs or prepayment fees if you try to change your loan or want to make additional repayments.

LOAN AGREEMENT
A formal contract between you and a lender which sets out the terms and conditions of your loan.

MORTGAGE DUTY
Mortgages may attract duty based on the amount secured by the mortgage. This duty is usually paid to the applicable state authority on your behalf by your lender and added to your loan. The rate and amount of duty payable varies in each state and territory. A loan agreement protects both the borrower and the lender.

MORTGAGE PROTECTION INSURANCE
This covers your loan repayments if you fall sick, suffer an injury or lose your job. If you die prematurely, the loan will generally be paid off. Policies differ widely and can be a combination of life insurance, income protection and permanent disability insurance. This is not the same as LMI.

NEGATIVE GEARING
Borrowing money to invest where the return from the investment is less than the borrowing costs. For example, the rental income from your investment property is less than the interest payments on the loan used to purchase the property.

OFF-THE-PLAN
Buying a property off-the-plan means signing a contract to purchase an apartment that has not yet been built. You will be able to view the building and design plans but there is no physical property to inspect.

PRINCIPAL
This is the outstanding balance owing on your loan on which interest is typically calculated and charged. Generally,

your regular home loan repayments will consist of principal and interest components, gradually reducing the amount owing on your loan. With interest-only loans, only the interest is paid each month, leaving the original principal outstanding at the end of the loan term.

REDRAW

This is an optional feature on certain home loans that allows access to any additional repayments made on your home loan. If you redraw funds from your home loan, your outstanding balance will increase.

REPAYMENT FREQUENCY

Refers to the regularity of loan repayments over a period of time that you must make as indicated in your loan agreement. Repayment frequencies are generally weekly, fortnightly or monthly.

REVOLVING CREDIT OR LINE OF CREDIT

A flexible ongoing loan arrangement that allows you to borrow within a specified and agreed credit limit. Typically, the line of credit account will also be used for everyday transactions. Interest is added to the loan each month, and repayments are not necessary while the loan is within its credit limit.

SECURITY

Security for a loan refers to the asset(s) a lender can claim against if you default on your loan. For home loans, it usually includes the property being purchased.

SERVICEABILITY

Your capacity to meet loan repayments based on your income and expenses. Helia's servicing estimator **(helia.com.au/products/tools/servicing-estimator)** can provide you with a guide as to whether you may be able to meet future loan repayments.

STAMP DUTY (ON A PROPERTY PURCHASE)

(also known as transfer of land duty, transfer duty and conveyance duty)
When you buy property, you are generally required to pay stamp duty to the relevant state or territory government. The amount varies between each state and territory and is based on the market value of the property or the purchase price. Exemptions and concessions may apply in some circumstances; check with your solicitor or conveyancer to see if you are eligible.

IT IS IMPORTANT TO UNDERSTAND ALL THE TERMS RELATING TO YOUR LOAN. TRYING TO MAKE CHANGES DOWN THE TRACK CAN BE DIFFICULT AND EXPENSIVE

VARIABLE INTEREST RATE

If your loan has a variable interest rate, the interest charged on the outstanding balance of your loan may increase or decrease. Lenders may also change your regular loan repayment amount based on changes in the interest rate. Lenders do not have to track changes in the cash rate and you should make allowances for higher-than expected increases.

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