

HOME LOAN GLOSSARY

*The complete
list of loan terms
to make your
home loan
research easier.*

Terms can be tricky

This guide can help you understand the jargon



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Home Loan Glossary

We've prepared this glossary to make your home loan research easier.

| Terms | Description |
|-----------------------------|---|
| Acceptance | To agree to the terms and conditions of an offer contract. |
| Additional Repayment | Additional money paid into your loan over and above the minimum monthly repayments. |
| Amortisation | To pay off the principal and interest for a loan over a period of time. |
| Application fee | A fee paid by a borrower to cover the costs of establishing a loan. |
| Arrears | Overdue payments which are due to be paid. |
| Assets | Items of value which you own. Eg Property, Cash, Furniture & Fittings etc. |
| Balance Sheet | A financial statement confirming assets, liabilities and capital. |
| Balloon Payment | A final payment finalising a debt in which the amount paid is substantially more than previous instalments. |
| Borrower | An entity or person/s borrowing money. |



Breach of Contract

To break the conditions of a contract which have previously been agreed to.

Break costs

A cost incurred for paying out a loan balance on a fixed term loan before the term has expired.

Bridging Finance

A loan taken where the purchaser wishes to buy a new property before selling their existing property. The lender will take security over both properties until the initial property is sold.

Capital

The current value of your assets. Eg Property, Cash, vehicles etc.

Capital gain

The financial gain received when selling an asset for more than you initially purchased it for.

Capped loan

A loan where the interest rate is set so that it may reduce, but not exceed a certain level over an agreed period of time.

Cash Flow

In relation to company accounts, reported net income plus amounts charged off for depreciation, amortisation and extraordinary charges to reserves.

Terms

Description

Certificate of Title

A document which details the ownership of land and the dimensions or other details of a property.

Commercial Property

Property intended for use or occupancy by retail and wholesale businesses (e.g. stores, office buildings, hotels and service establishments).

Consumer Credit Code

The Consumer Credit Code also known as the UCCC is parliamentary legislation which is designed to protect the rights of the consumer by ensuring all lenders adhere to the same rules of lending practice.

Conveyancing

A legal process to transfer ownership of property from the seller to the buyer.

Contract for Sale

A contract used in the transfer of property, which documents the conditions for the sale of the property.

COSL

The Credit Ombudsman Service Limited.

Credit Limit

The maximum preset amount a borrower can use on a loan account



**Credit Reference or
Credit Report**

In order to approve a loan, a lender will require a credit report on the borrower to confirm previous loans applied for or credit difficulties recorded. Credit reports are prepared by authorised credit reporting agencies, such as the Credit Reference Association of Australia. The Lender obtains the borrower's permission in writing to proceed with a credit report.

Creditor

A party who is owed money

CRS

The Comparison Rate schedule which must be made available by each lender to confirm the annual percentage rate and its corresponding Comparisons Rate for loan products offered.

Daily Interest

Interest calculated on a daily basis.

Debt Service Ratio

Lenders calculate the Debt Service Ratio by taking into account a borrower's expenses as a proportion of their income.

Debtor

A party who owes money to another.

Default

Failure to make a loan repayment by a specified date.

**Deferred
Establishment Fee**

A penalty which may be charged when a loan is repaid by the borrower in full.

Direct Debit

A deduction of funds from a customer's bank, credit union or building society account.



| Terms | Description |
|--------------------------------|--|
| Disbursements | Fees and charges which are usually imposed by the solicitor when establishing a loan. |
| Discharge Fee | A fee imposed by the lender to process the discharge of a loan when it is paid out. |
| Draw down | A draw down is the transfer of money from the lender to a borrower after the loan has settled. |
| Early Repayment Penalty | If a loan is repaid before the end of its term, lenders may charge an early repayment penalty. |
| Equity | The value which an owner has in an asset over and above the debt against it. Eg the difference between the value of a property and the amount still owed on the home loan. |
| Facility | A term used to describe a loan account. |
| First Home Owners Grant | An incentive from the Federal Government giving \$7000.00 to first home buyers as a one off payment. |

| | |
|--------------------------------------|--|
| Fixed Rate | An interest rate set for an agreed term. Eg.for 2, 3, or 5 years. |
| Guarantor | A person giving a guarantee who agrees to pay another person/s debt if they default on their loan payments. |
| Government Fees | All home loans and purchase of residential property will attract certain government charges at the time of settlement. For example, stamp duty and home loan duty. |
| Gross Income | Income before tax, superannuation or payroll deductions. |
| Honeymoon Rate | Some lenders offer a 'discount' or introductory rate for a short period of time. At the end of the 'honeymoon' period, the interest rate will usually revert to the lender's standard variable rate. |
| Home loan | A form of security for a loan over property given to the lender for the repayment of the loan. |
| Home loan Guarantee Insurance | An Insurance protecting the lender against loss in the event that the borrower defaults on the repayments or other covenants of the home loan. The borrower will remain liable for their default. |
| Home loan Manager | A company responsible for the day-to-day management of loan |
| Home loane | The lender of the funds. |
| Interest | A lenders charge for the use of funds or the return on deposited funds. |

| Terms | Description |
|--|--|
| Interest-Only Loan | Under an interest-only loan, usually the borrower makes no principal repayments. The repayments are for the amount of interest only, which has accrued on the loan. These loans are usually for a short period of around 1 to 5 years. |
| Interest Rate | The rate at which interest is applied. |
| Lenders Home loan Insurance (LMI) | Also referred to as Home loan Guarantee Insurance. An Insurance protecting the lender against loss in the event that the borrower defaults on the repayments or other covenants of the home loan. The borrower will remain liable for their default. |
| Liabilities | A debt which one is liable for. Eg. Home loans, personal loans, credit cards etc. |
| Line of Credit Loan | This is a flexible loan that allows you to have funds transferred to your cheque account when required. |
| Loan | An advance of funds from a lender to a borrower on the agreement that the borrower pays interest on the loan, plus pay back the initial amount of the loan at or over an agreed time. |
| Loan Agreement | The contract between the lender and the borrower which sets out the conditions that apply to the loan. |
| Loan to Value Ratio (LVR) | This is the measure of the amount of the loan compared to the value of the property. |



Lump Sum Payment

An additional payment made by the borrower to reduce the loan amount. These payments are in addition to regular instalments.

Maturity

The date a debt or investment must be repaid.

Mortgagor

The person borrowing money in the terms of the home loan.

Net Income

income received by an individual after tax has been taken out.

Net Profit

The profit remaining in a business after all expenses have been taken out, but before tax.

Owner Occupied

Property that is lived in by its owners.

PAYE

Abbreviation for Pay-As-You-Earn, a taxation procedure for wage and salary earners under which income tax is deducted in instalments from periodic pay.

Principal

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

Terms

Description

Principal & Interest Loan

A loan where you repay a portion of the principal and the interest over the term of the loan by regular instalments.

Redraw Facility

If you have made any lump sum and additional principal repayments to your loan account, you can access those extra repayments whilst on a variable rate.

Refinancing

This means that you switch your current loan from one lender to another.

Regulated Loans

Loans which are considered for personal use and is governed by regulations of the Consumer Credit Code.

Secured

To take guarantee over property for purposes of protecting a loan.

Security

An asset used to guarantee a loan.



**Serviceability**

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

Settlement

Is the completion of the sale or purchase of a property. When the final payments are made at settlement, the lender will receive the signed transfer and the home loan. The lender will hold the title deeds and the home loan until the loan is repaid.

Settlement Date

A specific date at which buyer is to take possession of property upon finalising payment.

Signatory

A person authorised to access an account.

Stamp Duty

Stamp duty is a state government tax which is payable when a property is sold. Stamp duty is calculated on the purchase price of the property and is paid by the buyer. Each state and territory has a different rate of duty.



Terms

Description

Standard Variable Rate

An interest rate, which is applied to a loan. These may have features such as redraw facility, construction, split loans options and home loan offset.

Term

The length of a loan or a defined period within that loan. ?Transfer: A document registered with the Land Titles Office noting the change of ownership.

Valuation

A professional opinion of the value of a property.

Variable Interest Rate

This is a fluctuating rate of interest charged by lenders. Variable interest rates change as official market interest rates rise and fall.

Vendor

The seller of a property

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