

FINANCE TERMS SIMPLIFIED



Amortising loan	The formal loan term for a standard principle and interest loan
Arrears	Being overdue in repayments
Asset	An item owned with a monetary value (land and/or property)
Bona-fide	Genuine and above board
Break cost	Fees charged by the funder if the loan is paid-off in full before the end of the loan term
Bridging finance	A temporary loan used to get finance when you are between buying your new home and selling the old one
Budget	A detailed view of your income and expenses
Capital gains tax	Tax payment on the profit made when selling an investment property
Cash advance	A loan on an existing line of credit, typically a credit card attracting higher-than-normal interest.
Certificate of title	Document showing who owns a property as well as all the associated details of size and whether there is a mortgage registered on the title.
Comparison rate	Rate which includes fees and charges so loans can be compared on an equal basis (eg. A loan with a low advertised rate but high fees might cost the same as a loan with a higher advertised rate but low fees)
Contract variation	Any variation or alteration to the terms of a contract
Conveyancing	Legal work carried out by your legal representative to transfer ownership of a property
Creditor	A person or organisation who loans money on the expectation it is to be repaid
Credit	An agreement whereby the borrower receives goods or money now, on the understanding it is to be repaid under set guidelines and commonly attracts interest on the amount borrowed
Credit report	A report outlining an individuals credit history, public records and any credit black spots
Daily interest	Interest calculated on a daily basis. Most variable rate loans calculate interest on a daily basis
Debit card	A bank access card used to make withdrawals from current funds in a bank account
Debt	An amount of money owed by one person or organisation to another
Debt consolidation	To combine one or more debts previously held separately into one merged amount
Debt Servicing Ratio (DSR)	The Debt Servicing Ratio measures whether you can afford the mortgage payments. To calculate the DSR, the lender uses a number of factors to work out the amount of your income that is available to repay the debt.

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Default	Failure to make a loan repayment by a specified date
Deferred payment	An agreement between two parties where the amount due to be paid on a given date may be postponed until a later date
Deposit	Amount given in advance to show intention to purchase a property
Deposit bond	An insurance policy to cover the deposit on a property being purchased
Depreciation	The amount claimed on an investment property for the reduction in the value of an item due to usage, passage of time, wear and tear
Equity	The difference between your mortgage and your property's value
Fixed interest	Your interest rate is locked in for a fixed term, you are then protected against interest rates rises for the selected 'fixed' term period
Gearing	Investment property is negatively geared when expenses exceed rental income. Investment property is positively geared when the rental income received is greater than the total amount of expenses
Hardship variation	It may be possible to vary the terms of your contract should you find yourself in a situation where you are having difficulty meeting your repayment obligations
Lender	A person or organisation who provides money to another under the provision that it will be repaid according to set guidelines and terms
Liquid assets	Are assets, either in cash or easily convertible to cash
Loan to Value Ratio (LVR)	The value of the loan divided by the value of the property that the loan secures (eg. If you buy a \$500,000 property and need a \$350,000 loan – your LVR is 70%)
Mortgage	A loan for the purpose of purchasing a property where the property is used as security
Mortgage foreclosure	Where the lender forces the sale of the property held under the deed of mortgage in order to recoup unpaid monies owing under the terms of the agreement
Mortgagee	The lending institution
Mortgagor	The borrower
Non-conforming loans	Designed for those clients where it is more difficult to meet the borrowing conditions of standard loans
Offset account	An offset account is an account linked to your mortgage. The balance in the account 'offsets' the principle of the loan. Overall interest is calculated on the principal less the offset balance.
Ombudsman	Government body established within a particular industry to investigate and resolve disputes as an outside entity to the debate
Principal	The amount of capital borrowed
Refinance	Switching your loan from one product (or lender) to another, usually with a better rate or conditions. Your initial loan is paid out and your debt is transferred across to the new product or lender
Repossess	To reclaim possession of goods or assets for failure to make payments against the loan

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Secured loan	In this type of loan, the property being purchased is held as security against the loan
Settlement	The day on which the process of changing title of a property occurs. Your legal representative will organize for the exchange of money and documents so that you become the legal owner of the property
Unsecured loan	A loan in which no property is held as security, generally attracting a higher rate of interest due increased risk on the part of the lender
Valuation	An estimation of the value of the property prepared by an independent professional valuer
Variable interest rate	The interest rate will vary depending on several factors, including the Reserve Banks current cash rate, and prevailing lender sentiment
Vendor	The person who is selling the property

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