

BASIC LOAN TERMS

INFORMATION BROUGHT TO YOU BY **CENTRECAPITAL**

When applying for your first home loan or a refinance it can get very confusing. Below, are explanations of some of the terms:

PRE APPROVAL:

A pre approval is a very useful tool in determining your budget when looking for a property. It is similar to a full application except that you are yet to find a property, and as such it has conditions, usually subject to a valuation of the property once found.



LVR

Meaning Loan to Value Ratio. It is the ratio of the amount lent to the value of the property. Most lenders prefer an LVR of 80% or below. For example, if a house was worth \$400,000 and the loan was \$320,000 the LVR would be 80%, thus the deposit required would be \$80,000 or 20%.

DEPOSIT

Most lenders require a 20% deposit. Without this deposit you will be subject to Lenders Mortgage Insurance.

LENDERS MORTGAGE INSURANCE (LMI)

As above, LMI is required when a loan amount is higher than the lender's acceptable LVR which is usually around 80% of the property's value. LMI rates vary depending on the LVR, property value and the insurer used by the lender. In most cases LMI cannot be capitalized on the loan and must be paid upfront from the borrower's available funds.

FIRST HOME OWNERS' GRANT (FHOG)

The First Home Owners' Grant is a scheme funded by the state government established to assist eligible first home owners purchase their first home. It offers a \$7,000 grant towards the cost of the home as well as an exemption on stamp duty. On a \$400,000 the savings from the stamp duty would be \$13,490.

CONVEYANCING

Conveyancing is the process where a property is transferred from one party to another and is generally done by a solicitor or conveyancer. A conveyancer is a solicitor specializing in property transactions only. The cost is usually around \$1,000 to \$1,500.

PRICIPAL & INTEREST LOAN

A loan where both principal and Interest are repaid during the loan term therefore reducing the loan throughout the course of the mortgage.



INTEREST ONLY LOAN

A loan where only the interest is repaid during the loan term and principal is paid at the end of the term. These are usually for terms up to 5 years at which time a refinance would be necessary.

FIXED INTEREST

This involves setting your interest rate at an agreed level for an agreed period of time. This means it is not subject to any rate rises (or decreases). When done at the right time it can save you money and can also be a useful budgeting tool as you will have your repayments fixed for a set period.

RATE LOCK

Some lenders offer a rate lock facility. This enables you to lock in your fixed rate at the beginning of your finance application (for a nominal fee). If you are looking to fix, this protects you from any rate rises during your application which can take up to several weeks.

OFFSET ACCOUNT

An offset account is a bank account linked to your loan and helps to reduce the cost of your interest. The balance of the bank account is deducted from the loan principal therefore offsetting the loan. For example, on a \$320,000 loan with an offset account balance of \$20,000, interest is only charged on \$300,000.

REDRAW

A facility that allows you to redraw any additional repayments from your loan.

BRIDGING FINANCE

A type of interim loan to allow you to buy another property before your existing has sold. Has a relatively high interest rate.

