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Home loan glossary terms

Here, we are providing A-Z Glossary of the most common home loan and finance terms.

For each term, we've given a clear and easy explanation to help you understand better.

A

Agents:
Individuals or entities authorised to represent another party, typically in property transactions.

All-in-one loans:
A type of loan, usually with a variable interest rate, that permits the borrower to deposit all their income into the loan account. This account can then be used for daily expenses and transactions. The longer the funds remain, the more interest savings accrue.

Application fee:
An upfront fee paid to the lender when applying for a home loan.
Approval in principle:
An approval in principle, often known as a quotation, signifies the amount a bank is prepared to lend to an individual.

Assets:
Valuable items owned by an individual, such as property, vehicles, savings, and shares.

Amortisation period:
The designated time frame within which a loan must be repaid under the agreed-upon terms.

Appraised value:
An estimated rise in a property's value.

Arrears:
An outstanding payment that remains unpaid past its due date.

At call:
A type of bank account that allows immediate withdrawal of funds.

Auction:
A public sale where goods or properties are sold to the highest bidder.

B

Buyer's agent:
A broker or agent who acts on behalf of the property buyer during a purchase.

Break cost:
Charges are applied when a loan, especially a fixed one, is settled before its agreed-upon term.

Bridging finance:
A loan that assists in funding a new property purchase while waiting for the sale of a current property.

Building insurance:
Protection for your property against events like fires, floods, and other disasters.

C

Capital gains:
The profit realised after selling a property.

Capital gains tax:
Tax levied on the profit from selling an investment property.

Capital growth:
The appreciation in your property's value over time.

Comparison rate:
A comprehensive rate that includes both interest and fees, revealing the true cost of a loan.

Conditional pre-approval:
Conditional approval means the lender agrees to a home loan if certain criteria, like further financial details, employment verification, and homeowners insurance, are met.

Content insurance:
Coverage for the items within your home.

Contract variation:
Modifications made to an initial contract.

Conveyancing:
The legal process, managed by a conveyancer or lawyer, of transferring property ownership.

Credit:
An agreement to borrow money or goods, with a commitment to repay, often with interest.

Creditor:
A person or entity to whom you owe money.

Credit report:
A record detailing your credit history, including any missed payments.

Cross-collateralisation:
Using multiple properties as security for a loan, which can lower the Loan to Value Ratio.

D

Daily interest:
Interest is calculated daily on the remaining loan or account balance.

Debtor:
Someone who owes money.

Deed:
An official paper that proves who owns a property or what has been agreed about it.

Default:
Not fulfilling a required action in a loan agreement.

Deposit:
An initial payment made when purchasing a property, usually due when contracts are signed.

Deposit bond:
An assurance in place of a cash deposit, guaranteeing full payment by the settlement date. Providers of deposit bonds act as guarantors for this payment.

Depreciation:
An accounting term for the decrease in an asset's value over time. In Australia, this decrease can be claimed as a tax-deductible expense.

Default rate:
The new interest rate your loan changes to after a certain period.

Deposit bonds:
A backup promise that says you'll pay the full amount later if you can't pay some money now.

Discharge fee:
An extra charge for finishing off your house loan earlier than planned.

DrawnDown loan:
A Drawdown Loan, also referred to as a Drawdown Facility, is a loan type that allows you to access additional funds with minimal procedures.

E

Establishment fee:
This is a fee incurred when you apply for a new home loan, and it is paid when you access the loan funds.

Extra repayments:
Extra repayments are a common feature in many home loans that allow you to make payments above and beyond your minimum mortgage obligations. This option provides you with the opportunity to reduce interest expenses and expedite the repayment of your loan.

Equity:
Equity is the financial margin between your property's market value and the outstanding balance on your loan. For instance, if your property has a market value of $500,000 and your loan balance is $300,000, your equity stands at $200,000.

F

Fixed interest rate:
With a fixed-rate home loan, the interest rate remains constant for a predetermined period, typically ranging from 1 to 5 years. This option is ideal for borrowers seeking predictability in their regular payments throughout the fixed term.

G

Guarantor:
A guarantor is an individual who agrees to assume responsibility for loan repayment in the event that the borrower defaults or is unable to make payments.

Gazumping:
Gazumping occurs when a seller initially agrees to sell a property but then decides to sell it to another party offering a higher price.

Gearing:
Gearing, also known as 'leverage,' quantifies the level of debt relative to the equity or ownership you have in a property.

Government fees:
All home loans and residential property purchases are subject to specific government charges at the time of settlement. These charges include items such as stamp duty and mortgage duty.

Gross income:
Gross income represents your earnings before any deductions, including taxes, superannuation, or other payroll deductions.

H

Home loan deposit:
A home loan deposit is money saved or given as a commitment to buy a home, often stated as a percentage, like 20%. If your deposit is below 20% of the home's value, you may need lender insurance or a guarantor to secure the loan.

Honeymoon period:
This term denotes the initial phase of a loan when there's a temporary reduction in the home loan interest rate.

I

Interest-only loan:
Opting for interest-only repayments means you'll only pay the interest charges for a set period (1-5 years), not the principal. After this, the loan switches to principal and interest payments, increasing your repayments.

Interest rate:
When borrowing, lenders charge interest. The interest rate is the percentage applied to your remaining home loan balance to determine interest charges.

L

Lenders mortgage insurance (LMI):
When you pay less than 20% upfront for your home, lenders usually ask for LMI. It's a safety net for them if you can't make loan payments. You can either pay this fee upfront or add it to your total loan.

Loan term:
This is the time you get to pay off your loan. If you get a new loan or refinance, this duration might change. For instance, a longer loan term can mean smaller monthly payments.

Loan-to-value ratio (LVR):
The loan-to-value (LTV) ratio in a home loan is a numerical expression that signifies the percentage of the property's total value that a bank or financial institution is willing to provide as a loan to a prospective property buyer. This ratio is a crucial factor in determining the maximum loan amount a borrower can obtain in relation to the property's overall worth.

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M

Mortgage:
It's a legal paper between a borrower and a lender. It lets the lender have a claim on the property if the borrowed money isn't paid back.

Mortgagee:
This is the person or organisation lending the money for buying property or items.

Mortgagor:
This is the person or organisation borrowing the money to buy property or items.

N

National consumer credit protection act:
It is an Australian law that oversees loans like car and home loans, credit cards, and more. It is managed solely by the Australian Securities & Investment Commission (ASIC). The operation of the Act is directed by the National Consumer Credit Protection Regulations 2010. It ensures lenders are licensed, credit is suitable, and includes a code for lending behaviour.

Non-conforming loan:
A non-conforming loan does not match a bank's requirements for approval.

O

Offset account:
This account is connected to your home loan. The money in it can lower the interest you owe on your home loan. You're only charged interest on the amount left after subtracting the offset balance. This can save you a lot in interest and shorten your loan's duration.

Other products & services:
When looking at home loan deals, lenders might offer discounts on extras like credit cards or insurance. It's wise to consider if these offers suit your needs. When picking or changing home loans, compare everything: interest, fees, charges, and any bonuses.

P

Principal amount:
The principal amount is the initial loan balance upon which interest calculations and charges are based.

Parental leave option:
When you have a child, you have the opportunity to reduce your home loan repayments by up to 50% for a maximum period of 6 months if parental leave benefits are included in your loan terms. Specific conditions apply.

Portability:
Mortgage portability enables you to transfer your existing mortgage from the home you are selling to your next property. This option can save you time and spare you the complexities of refinancing, reducing stress during the transition.

Pre-approval:
Loan pre-approval is the preliminary commitment from a lender, outlining the amount they are willing to lend you under certain conditions. It's a useful step to determine your budget before embarking on a home search.

Principal amount:
The principal amount is the initial loan balance upon which interest calculations and charges are based.

Progressive redraws:
If your home loan includes the progressive redraws feature, you can make incremental payments to builders as construction milestones are achieved, ensuring funds are released at each stage of the build.

For instance, as the builder completes stages such as laying the foundation (slab), building frames, or reaching the lockup phase, you can disburse payments corresponding to these specific achievements in the construction process.

S

Security:
It refers to the property that a lender uses as collateral to secure the loan. This means that if the borrower fails to repay the loan, the lender has the right to take ownership of the property. In some cases, a borrower may have the option to nominate multiple properties as security for a single loan or secure multiple loans against a single property.

Serviceability:
Serviceability is a measure of the borrower's ability to make loan repayments based on their income and expenses. Lenders assess a borrower's serviceability to determine whether they can comfortably meet their loan obligations without financial strain.

Service and administration fees:
When considering a home loan, it's important to be aware of all associated fees. This includes ongoing fees as well as service and administration fees. These fees should be taken into account when comparing different loan offers to understand the total cost of borrowing.

Sum insured:
The sum insured represents the specific amount an insurance company is responsible for reimbursing in case of a covered loss. Although frequently linked to homeowner's or property insurance, this concept extends to various other insurance categories.

Split loans:
Split loans refer to the option of dividing the balance of a home loan into two separate loan accounts. One account may have a variable interest rate, while the other has a fixed interest rate. This provides borrowers with both flexibility and certainty in managing their loans.

Stamp duty:
Stamp duty (also called transfer duty or duty)is a tax imposed by state and territory governments on legal documents related to property transactions. The amount of stamp duty varies based on the borrowed amount and the purchase price of the property. It's an important cost to consider and budget for when purchasing a home.

Strata title:
Strata title is a form of property ownership that grants individuals ownership of specific units within a larger building. This ownership allows them the right to sell, lease, or transfer their units as they see fit. Additionally, it involves membership in the building's corporate body, responsible for managing communal areas and facilities within the structure.

Strata report:
A strata report provides a summary of the strata records for a property that has a strata title, such as an apartment, villa, or townhouse. This report is crucial for potential buyers as it may reveal any issues or concerns related to the property's strata arrangements.

T

Title deed:
A title deed is an official document that serves as a legal record of property ownership.

Title search:
A title search involves examining records filed at the land titles office to confirm property interests. It provides information on property ownership, mortgages, charges, restrictive covenants, and easements that may affect the property.

Top-up:
A top-up is a feature available for certain home loans, allowing borrowers to increase the existing loan limit.

V

Valuation fee:
It's the cost of getting an independent assessment of a property's value, which can affect your loan amount when buying or refinancing.

Variable interest rate:
This rate can change over time based on market conditions, impacting your loan's interest charges and monthly payments.

Vendor:
In real estate, the vendor is the property seller.