

HOME LOAN GLOSSARY OF TERMS

Application Fee

An application fee is charged by the lender to cover the initial costs of processing your home loan application. Depending on the lender, this fee may cover additional costs such as property valuations.

Assets

Money, shares, investment accounts, property, vehicles or anything of value that you own.

Building/pest inspection

A Building Inspection report provides information on any major structural problems/faults. A Pest Inspection Report will identify any pests such as termites that are present in the property. See our Conveyancing fact sheets for more information on these reports.

Capital Gain/ Growth/ Appreciation

The financial gain you receive when you sell something for more than you paid for it, such as an investment property.

Contract of Sale

A written agreement outlining the terms and conditions for the purchase or sale of your property. By law in NSW, an agent must not advertise a property for sale without a current, valid Contract for Sale of Land.

Conveyancing

The legal process of transferring the ownership of property from the Vendor to the Purchaser and vice-versa.

Disbursements

A solicitor or conveyancer's incidental costs when dealing with another party on your behalf. Disbursements may include (but not be limited to), Section 149 Certificates from the local council, paying for required searches such as a title search etc.

Equity

The part of the property owned by the borrower, represented by the value of the property less any outstanding debts secured against the property. EG: If you own a property worth \$300,000 and the remaining balance of your home loan is \$60,000, then the equity amount is around \$240,000.

Gearing

Borrowing to invest.

Guarantor

A person or people who agree to pay your debts in the event you cannot do so.

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Lenders Mortgage Insurance (LMI)

LMI protects the lender from any losses that may occur as a result of a default by the borrower. LMI does not offer any protection to the borrower. See our Mortgage Insurance Fact Sheet for more information.

Loan to Value Ratio (LVR)

The ratio of the amount lent to the amount the property is worth, expressed as a percentage. (ie. if the property value is \$200,000 and you borrow \$160,000, the LVR is 80%)

Maturity

The date by which your debt must be paid in full. (ie. The last day of your mortgage as described in your mortgage document)

Mortgage Stamp Duty

A government charge payable on the amount secured by your mortgage (ie how much you borrow). See: <http://www.osr.nsw.gov.au/taxes/mortgage/> for more information.

Mortgagee

The lender.

Mortgagor

The person/s borrowing money.

Negative Gearing

When borrowing costs (fees and interest) exceed the income generated by the investment, resulting in a negative cash flow.

Owner-occupier

A person who is purchasing a property as their primary place of residence. (ie: your family home)

Positive Gearing

When the income generated by the investment exceeds borrowing costs (fees and interest), resulting in a positive cash flow.

Principle

The actual amount of money borrowed or remaining unpaid on a loan, not including interest. (ie: you buy a house for \$300,000 – your loan is \$270,000 – that is the principle. Interest is on top of that amount)

Purchaser

The person or persons buying a property and whose names will be on the title of the property.

Redraw

A facility that allows the borrower to make additional repayments beyond those required in the loan agreement, and then draw back against these funds if required. (ie: if your minimum repayments are \$250

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per week and you actually pay \$300 per week, then the accrued \$50 difference is how much is available for redraw)

Security

An asset that is offered by a borrower on the basis a lender will sell the asset in the event the borrower fails to repay the loan in full. (eg: If you already have a home that you live in and want to buy an investment property, you can use your residence as security for a loan for an investment property. Be aware that if you default on the investment property loan, the lender may pursue you for your security property to recoup any shortfall on the investment loan.)

Settlement

When all parties involved in the sale of a property meet together and exchange documents and money to complete the sale. This is not a simple process, such as when you buy or sell a car. All parties to the settlement must be present, such as your solicitor, the other person's solicitor, your bank, their bank and any other parties which have an interest in the property.

Title Search

A search to confirm the ownership of the property and any encumbrances that may be on the property. A "Final Search" is generally done on or close to the day of settlement to ensure that the property is still in the name of the vendor and has not been transferred into someone else's name since exchange.

Transfer Stamp Duty

A Government charge payable on the purchase price of the property. See: http://www.lands.nsw.gov.au/about_us/faqs/paying_stamp_duty_on_a_transfer for more information.

Valuation

A report detailing a professional valuer's opinion on the value of the property. Lending institutions will generally do their own valuations on any property you are purchasing. The cost of this may be on-charged to the borrower as part of their loan establishment cost.

Vendor

The person or persons whose names are on Title of a property which is being sold. (ie: the person or persons selling a property)