

Glossary

Loan Valuation ratio (LVR)

The ratio of the amount borrowed to the valuation of the security (property)

e.g. House Value \$400,000

 Loan Amount \$300,000

$\$300,000 / \$400,000 \times 100 = 75\% \text{ LVR}$

Pre-Approval

A home loan pre-approval confirms how much you can borrow from the lender. It is conditional upon the property you wish to purchase being an acceptable security and subject to valuation. This is in no way a binding agreement from the lender to lend you anything. At the time when a full approval is sought from the lender, your income, credit profile etc will be assessed in full.

Conditional Approval

This is a relatively clear indication of a lender's intention to offer to lend you money for a property subject to some conditions being met. It takes into account your personal financial information but is not a binding agreement from the lender to lend you anything. It is also known as a preliminary approval.

Unconditional Approval

This is a lender's willingness to lend you a specific amount of money for a specific property given your personal situation, post all credit assessment. This is a formal approval. It's usually then up to you to decide whether to go forward.

Redraw Facility

A redraw facility allows you to make additional repayments into your loan account and then access these extra funds when necessary. It has two key advantages: it encourages borrowers to make extra repayments, thereby saving on interest costs and it provides flexible access to funds when they are most needed. A redraw facility is available on most variable rate loans but is not available on fixed rate loans.



Equity

The value of your property minus the amount you owe on your mortgage. Equity in your property can be used for a variety of purposes such as purchasing an investment property.

Genuine Savings

Demonstrated funds saved by a borrower over a period of time, traditionally three months. Lenders will generally require evidence of at least 5% or more of the purchase price saved. Some lenders will consider rental payments (evidenced via a rental ledger) as genuine savings.

Settlement

The process of a property title being transferred from a seller (vendor) to a buyer once the balance of the purchase price is paid. This is the date when interest starts to be calculated and home loan repayments begin.

Offset Account

An offset account is a non-interest earning account where the balance is offset against the home loan to reduce the total interest payable. Offset account with significant savings can lead to lower interest being paid on your loan. Those accounts will usually attract a higher fee than a basic transaction account.

Tenants in Common

Tenants in Common are the joint ownership with equal or unequal shares. Each joint owner may dispose of their share in the property independently and unlike joint tenancy, the shares do not automatically pass to the other owners in the event of death but form part of a person's estate.

Joint Tenants

Joint tenants are an equal holding of the property between two or more persons. If one party dies their share passes to the survivor (s). Property held under joint tenancy cannot be bequeathed under a will.

Unencumbered

Unencumbered means a property free of mortgages, encumbrances, covenants or restrictions.



Security

For home loans this is the property that the bank is going to take to secure the loan against. The bank will be shown on the title as the mortgage.

Lender Mortgage Insurance (LMI)

Lenders mortgage insurance is a one-off, non-refundable insurance premium. It protects your lender in the unfortunate event of you defaulting on your home loan, LMI does NOT protect you. For loans above 80% LVR, the LMI is payable by the client. The higher the LVR the higher the premium is payable. For loan applications where LMI is payable, the application must be assessed by both the Lender and the LMI provider.

Borrowing Capacity

It gives you an estimate of what a lender may lend to you:

- Annual Income
- Monthly Expenses
- Number of dependents and ages
- Proposed rent for investment loans