



**COMMON
HOME LOAN
TERMS &
CONCEPTS
IN
AUSTRALIA**

Compiled by
**MCT - Genuine Care for
your Financial Well-being**

Australian Credit Licence 550668

First Home Buyer (FHB): First home owner in Australia. First home owners may have some support and incentives from the government and different states will have different supporting schemes, such as: Stamp Duty waived or Lenders Mortgage Insurance (LMI) waived.

Pre-approval / Approval-in-Principle: The lender agrees in principle to provide you with finance to buy the house, but this is not a full or final approval. Having a pre-approval gives you an idea of how much you can borrow, which can help you narrow your options when looking for a home, negotiate with more certainty, or bid more confidently if you're participating in home auctions. A pre-approval is generally valid for three months, with your income needing to be verified again at the end of the three-month period to extend the pre-approval.

Lenders Mortgage Insurance (LMI): An insurance package to protect the lender in the event that the borrower is unable to meet their home loan obligations. This term is often known as LMI and this insurance plan is paid by the borrower. LMI will apply when the borrowing amount is above 80% of the security value ($LVR \geq 80\%$) This amount is tiered based on the property value and the loan amount secured by it.

Loan-to-Value / Loan-to-Valuation Ratio (LVR): A ratio used by lenders to measure the risk associated with a home loan. This rate is calculated by taking the percentage of the loan amount by the value of the property. The higher the ratio is, the higher the risk to the lender and the higher the interest rate is. LVR is also normally used to indicate the maximum loan amount available. E.g. for an Owner occupied home loan, the maximum LVR is typically 95% (*inclusive of LMI*) of the property value; while for an investment property, it is usually 90% (*inclusive of LMI*).

Valuation / Valuation Process: This refers to the official value of the property, as assessed and confirmed by the bank or a third party. The bank can conduct due diligence on the property, including assessment of the property value and associated risks through a variety of methods depending on the information provided. The bank can appoint independent valuation companies to re-evaluate the value of the property. The valuation of the bank may differ from the price on the contract of sale.

Contract of Sale (COS): A legally binding document containing the terms and conditions agreed between the seller and the buyer regarding the goods, in this case real estate.

Cooling-off Period: During the cooling-off period, the buyer (or purchaser) can change their mind and withdraw from the real estate contract of sale without suffering any legal consequences, even if they've signed it. Different states have different regulations on cooling-off periods, therefore, you should consult with your legal representative (conveyancer/solicitor) before signing a contract. *Note: the cooling-off period does not apply at auctions unless pre negotiated beforehand.*

Deposit: This is the down payment to purchase a property, usually 10% of the property's value. The deposit must be paid into the real estate agent's trust account; under no circumstances should you transfer money to a personal account.

Stamp Duty: A fee paid to the government when purchasing real estate. Normally, this fee is about 5.5% of property's value. First home owners may be exempt if they meet the eligibility criteria in their respective state.

Finance Clauses / Subject to Finance: This is a provision in the Contract of Sale that protects the buyer in case their home loan is not approved. Usually this clause states "Subject to finance approval within 14 days". If the bank declines the loan application, the buyer can get the full amount of the initial deposit back and terminate the contract.

Subject to Building & Pest Inspection: This clause means that the buyer has the right to hire a inspector to check on the structure/current condition of the property, and also the risks of termites. The sale of the property will only proceed if a standard building inspection has been performed and no major defects have been found. The buyer can cancel the contract if there are major defects and/or termite damage found.

Conditional Approval: A formal but conditional approval shows that your loan application has been assessed, and is close to meeting the lender's requirements. With conditional approval, you'll have to meet some conditions outlined by the lender before you can get final unconditional approval.

Formal Approval / Unconditional Approval: Unconditional or final approval is when all the conditions of the loan application have been met and deemed satisfactory by the lender. Once unconditional approval is granted, you can proceed to loan documentation and settlement.

Building Insurance: Insurance for the building/property in the event of a total rebuilding or repair due to damage. This is a mandatory requirement when borrowing money from a bank to buy a house. You will need to arrange this insurance after the Contract of Sale is signed and before settlement.

Body Corporate: A legal entity established to manage an apartment block or project land divided into lots, primarily for residential purposes, as prescribed by law. The Body Corporate is responsible for the management, maintenance, and insurance of common areas on behalf of all property owners.

Fund to Complete (FTC): The amount of money that the buyer/borrower needs to contribute at the time of receiving the house (settlement) to finalise the property purchase. This amount will be calculated and notified to you by your real estate attorney (conveyancer/solicitor) prior to settlement.

Settlement: The date when the lender/bank disburses the loan funds to the seller, and the buyer can take possession of the property and move in. The settlement process will be coordinated between the seller's legal representative, the buyer's legal representative and the bank, usually through a settlement system, such as PEXA.

Owner-occupied Home Loan (OOHL): A loan for the purpose of buying a house for you to live in.

Investment Home Loan (IHL): A loan for the purpose of buying a house for you to rent out as an investment.

Construction Loan: A loan for the purpose of building a house, either for personal residence or for investment purpose.

Principal & Interest repayment (P&I): A repayment option where each installment includes both a portion of the principal (the amount borrowed) and the interest charged.

Interest Only repayment (IO): A repayment option where you pay interest only, without reducing the principal balance. Some lenders may allow you to have interest-only repayments for a limited period, typically 1 to 5 years. Usually applied to buying investment property.

Interest in Advance: An option that allows you to prepay interest on your interest-only investment loan in advance, usually for 12 months. This strategy may have tax implications, so it's important to seek accounting or tax advice before proceeding.

Offset Account: This is a transaction account linked to your home loan to help reduce the amount of interest. The amount of interest incurred will be calculated on the difference between the offset account and the home loan's balances.

For example: If your home loan balance is \$500,000, and you have \$200,000 in your offset account, then you only pay the interest incurred from the amount of \$300,000.

Redraw Facility: This is a feature of a home loan account that allows you to pay more than your monthly or fortnightly repayments to reduce the principal amount. This overpayment can be redrawn (withdrawn) later if you need the money to renovate your house or use it for some unforeseen purposes.

Variable Interest Rate: Floating interest rate that can increase/decrease over time, according to the market conditions.

Fixed Interest Rate: Fixed interest rate is an interest rate that remains the same for a fixed period of time, with a choice of application period from 1 to 5 years.

Rate Lock: An agreement with your lender to secure (or "lock in") fixed interest rate to prevent interest rate from rising before the loan is settled. A rate lock fee may apply — usually a flat fee (e.g., \$750) or a small percentage of the loan amount (e.g., 0.25% or 0.5%), depending on the lender.

House & Land Package: A package of products designed by the developer or seller that includes purchasing the land separately and construction of a new house on that land after that. The land selling company and the construction company are two different parties.

If you take out a loan for a house and land package, you will start paying interest from the time you settle on the land, and continue to pay interest during the construction period as funds are progressively drawn.

Progress Payment: Payments made to the builder during the construction process, which is usually divided into 5-6 payment stages as specified in the building contract (e.g., deposit, slab, frame, lock-up, fixing, and completion stages).

Off-the-plan Purchase: Purchasing a property for a proposed value before it is built or completed, based on the developer's plans and specifications. Settlement occurs once the construction is complete and the title is registered. If you borrow money to buy that property, you only start paying interest when settlement takes place.

Cross-security / Cross-collateralisation: When multiple properties are used to secure one loan or when a property that is collateral for an initial loan is used as collateral for a second loan.



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