

Ready to build or renovate your dream home?

We'll help you sort out your finances so you can focus on planning, building and enjoying your new home.



TO RENOVATE OR BUILD

Which approach is right for you?

YOUR FINANCE OPTIONS

Find the right finance tools for the job

THINGS TO CONSIDER

Costs and requirements to be aware of

WE'RE HERE TO HELP

Our home loan service is at no cost to you

Better choices for a better life

Home loans | Financial planning | Risk & general insurance | Car loans | Business lending

Is this guide right for you?

Building a brand new home or completing major renovations on an existing property are some of the most exciting projects we can undertake as home owners. Just as your builder needs the right tools for the job, you need to make sure you have the right type of loan for your important project.

This guide has been prepared to take you through your loan options, take a look at the potential pros and cons and discuss how we can help.

It's important to remember this is only a guide to help you ask the right questions and highlight the important considerations. Your local Mortgage Choice broker can help you assess the mortgage market and find a home loan that's tailored to your individual needs.

As part of the service we offer, we'll meet with you to compare hundreds of competitive loans from our wide selection of quality lenders to find a loan that gives you an outstanding result. We'll also complete the application, take care of the legwork and keep you updated along the way.

You'll be pleased to know that our home loan service is totally free of charge - the lenders pay us after your loan settles. As Mortgage Choice brokers, we get paid the same rate regardless of which home loan you choose from our wide choice of lenders.

This means that you can be sure that what matters to us is the home loan that's right for you.

**WE'RE HERE TO HELP, SO PLEASE GIVE
US A CALL TODAY.**



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The information contained in this booklet refers only to loans provided by our panel of lenders with whom Mortgage Choice Limited has an arrangement under which it receives commissions and other payments. Not all brokers sell the products of all lenders.

The information provided in this guide is for general education purposes only and does not constitute specialist advice. This guide has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should consider the appropriateness of the advice to your situation before taking any action. It should not be relied upon for the purposes of entering into any legal or financial commitments. Specific investment advice should be obtained from a suitably qualified professional before adopting any investment strategy. If any financial product has been mentioned, you should obtain and read a copy of the relevant Product Disclosure Statement and consider the information contained within that Statement with regard to your personal circumstances before making any decision about whether to acquire the product.

Construction or renovation?

Home buyers enjoy a wealth of choices when it comes to creating their 'dream' home. You can choose to build a new home from scratch, buy 'off the plan' or renovate an established home.

Each option has its own set of pros and cons, and it pays to consider your choices carefully, because whatever your choice, it's a fair bet it involves a sizeable financial commitment. Let's take a look at some of the key points to weigh up.

Building a new home

There's something very exciting about choosing a piece of land, deciding your preferred style of dwelling and watching as your home takes shape over a period of weeks or months. At the top end of the price scale, you can choose to have an architect design a one-off home that truly reflects your tastes. However, for sheer simplicity and value, it can be hard to go past a house and land package offered by a major developer.

The beauty of these packages is that they tend to come with a fixed price contract that includes all major costs. One thing to look out for is 'site variations' - additional costs relevant to your particular block of land. A sloped block, for example, is likely to incur higher site variations than a level lot.

On a longer term basis, buying into a large scale housing estate can limit the short term capital gains on your home, especially if many new properties are being constructed in the area.

Buying off the plan

Buying off the plan refers to the process of buying a property - often an apartment - which has not yet been constructed or which is only partially built.

One of the big pluses of buying off the plan is the potential savings on stamp duty, which may be based on land value only. In addition, you may have to put down only a small deposit, potentially as little as 5-10% of the purchase price, with the balance payable on completion. This gives you an opportunity to save additional funds to put towards your home purchase and extra time to arrange loan finance.

However, there can be pitfalls with buying off the plan. If the property market cools between the time you sign the sale contract and the completion of the building, you could end up paying more for your home than necessary, which is a situation that can also affect your loan approval. Similarly, interest rates can change in the intervening period.

More significantly, buying off the plan involves a leap of faith in the developer and the quality of construction - even the best display suites are no substitute for the finished product.



Get expert advice for peace of mind

Off the plan sale contracts can be complex, so it's essential to have the contract reviewed by your solicitor or conveyancer so that you can go into the transaction with your eyes wide open.

Renovating an established home

If you've been in your home for a while and you love the place but feel that you need more space, or maybe your home needs updating, renovating your home could be far cheaper than selling and buying a new home. Alternatively, you may be planning to buy an affordably priced 'renovator's delight' that you plan to refurbish before you call it 'home'.

Whatever the case, before you start looking at paint charts and carpet swatches, it is worth seeking the advice of a licensed builder or architect about the likely cost of your renovations. Home improvement projects have a habit of running beyond the initial budget. Speak to a local real estate agent as well to ensure you won't fall into the trap of overcapitalising (where the cost of the renovation outweighs the value it adds to your home).



Your finance options

If you're planning a home renovation, the question of how you'll fund the project should carry as much weight as decisions about your preferred design and choices of fittings and finishes.

It may be possible to fund minor home improvements through cash savings and/or a personal loan, but if you're planning a major project it can pay to look at various ways to use a home loan as a source of finance. Home loans often come with the lowest interest rates of all forms of credit and offer a variety of flexible features that can be ideally suited to paying for home improvements.

Redraw

If you are ahead with your home loan, you may be able to withdraw any extra repayments you've made through a redraw facility. While this is a low cost option, you will be limited to the value of additional payments made in the past, which may not be sufficient to cover the cost of the renovation.

Loan top up

If you're happy with your current loan and lender, a loan top up can be a simple way to access additional funds at low home loan rates. This could involve taking your loan back to its original level or adding a bit extra. While topping up your existing loan may involve less paperwork than refinancing to a new loan, your lender could ask for a new valuation of the property. The valuation will usually be based on the property as it stands – the impact of your planned renovations may not be taken into account.

Loan refinance

In today's competitive mortgage market, it is always worth taking a look to see if you could secure a new loan offering a better rate or improved features, and a major renovation can be an ideal cue to consider refinancing.

If you have owned your home for some time, you may have considerable equity built up in the property, so a loan refinance could be a great way to access this equity as a source of low cost funds for your renovation.

In some cases, the lender may want to value your property, as this will shape the loan size for which you are eligible. So it can be worth taking some time to present your home in the best possible light in order to maximise the valuation.

The key thing to remember is that your Mortgage Choice broker can crunch the numbers to help you decide the funding solution that delivers the best possible outcome for your needs.

Line of credit loan

A line of credit home loan lets you borrow funds – as you need them – up to an approved value. It can be a handy option for renovators who may need to make varying payments at different times for materials and/or builder's costs. Along with flexibility, a line of credit can be cost effective, as you pay interest only on the funds drawn down.

Construction loan

Unlike a traditional home loan where the funds are made available to borrowers in a single lump sum, a construction loan lets you draw on the loan balance when payments need to be made to your builder at certain stages. These payments are known as progress payments. Think of it as a 'drip feed' of funds to meet ongoing costs as construction work progresses.

While work is still progressing, your lender will require you to make repayments of interest on the money that has been drawn down. So, at the start of your loan, you can expect small repayments, and these will gradually increase as your building project nears completion.

It means you aren't paying interest on money you haven't used as you would with a traditional home loan, so with a construction loan your repayments should be far lower until your project is complete.

Construction loans normally have a variable rate and in general you can expect a maximum Loan to Valuation Ratio ('LVR' – the amount of your home loan compared to the value of your home, expressed as a percentage) of 95%. This is something worth speaking to your Mortgage Choice broker about, as the situation varies widely between lenders.



Worth knowing...

Lenders often set a maximum timeframe for the complete draw down of your loan, usually within 6 months.

If you are not planning to build until later, the land may need to be purchased separately under a land loan.

Applying for a construction loan

In some ways, the process of applying for a construction loan is much the same as for the process for a standard home loan.

Your lender will want to see proof of your income (e.g. your last 2 pay advices or most recent tax return and tax assessment notice), evidence of savings (e.g. bank statements) and record of money you owe (e.g. credit card or loan statements).

These show the lender that you have the financial capacity and personal discipline to repay the loan.

But unlike a traditional home loan, when you apply for a construction loan you are asking your lender to provide funding for an asset that isn't yet built, which means the lender will ask for some additional documents.

Additional documentation you'll need:

- Tender or copy of a fixed price building contract detailing all of the building specifications, variations, allowances and costs.
- Copy of the plans of the new property that have been approved by the Local Council or Building Surveyor. The plans will generally not have to be approved at the time of application, but they must be approved before drawdown.
- Evidence that construction is being undertaken or supervised by a registered and insured builder who takes full responsibility for the construction and is able to provide appropriate guarantees as required by the various state legislatures (e.g. copy of your builder's insurance policy and builder's licence).
- Details of insurance for builder's risk.

This may seem like heaps of paperwork but these are all documents that go hand in hand with organising any major building project.

TIP!

Speed up the application process

Check out the checklist in this guide for a full list of everything you'll need for your loan application.

The more documents you have, the faster the process of applying will be.

Check if you're eligible for building incentives

It's a good idea to check if you're eligible for any home building incentives. Some state and territory governments offer stamp duty concessions and other incentives when you build a new home rather than buy an established dwelling.

Check the website of the revenue office in your state or territory to see if they offer any incentives (see Table 1).

Table 1: State / Territory Revenue Offices

State/Territory Revenue Offices	Website
ACT	www.revenue.act.gov.au
NSW	www.osr.nsw.gov.au
NT	www.revenue.nt.gov.au
QLD	www.osr.qld.gov.au
SA	www.revenuesa.sa.gov.au
TAS	www.sro.tas.gov.au
VIC	www.sro.vic.gov.au
WA	www.treasury.wa.gov.au



Our broker was always really patient and extremely knowledgeable. He answered everything I wanted to know about the loan and how it would work. Best of all, he explained why the loan was the right choice for us.

Mortgage Choice Customer



Making progress payments

Once your loan is approved, the funds will be provided in a series of payments. These are usually made in line with various milestones that have been achieved by your builder. Importantly, these stages should be outlined in your building contract.

You should note that the lender will usually not release loan funds until own personal contributions have been used.

The loan amounts that are withdrawn are often referred to as 'progress payments', and are typically made at six important stages of construction:

1. **Preparation:** This is the preparation stage when your builder will organise council approvals, source materials and line up a team of skilled trades people so that work on your project can commence.
2. **Slab (or base floor):** At this stage, the site for your home is prepared and the concrete slab (also known as a 'pad') is poured. Depending on the nature of your block of land, this stage may also involve levelling the land and constructing retaining walls.
3. **Frame:** This is where your new home starts to become a reality. Teams of carpenters will work to erect the wall frames and roof trusses, giving you an idea of how your home will look.
4. **Lock up:** This is always an exciting stage as your home is really beginning to take shape. The walls are bricked and the roofing is complete. Windows and doors will be fitted so that your home is weatherproof and can be securely locked when the builders depart each evening.

5. **Fit out:** This will see the installation of your choice of bathroom, kitchen and laundry. Walls will be painted in your choice of colours, tiles will be set and floor coverings laid. By now you'll be eager to move into the new building and make it your home!
6. **Completion:** You're on the home stretch now, literally. All that remains is for appliances to be installed and landscaping completed (if included in your building contract). Once these are finished, your builder will walk through the property with you to ensure everything is completed to your satisfaction. A representative of your local council will inspect your home one last time to check that it complies with the relevant building codes.



Worth knowing...

Before your lender will release funds for each progress payment, you will need to provide invoices from your builder and a 'Loan Disbursement Authority'.

The lender may also want to inspect the project before making each payment - this offers the benefit of a second set of eyes checking your builder's workmanship.



A closer look at the costs

It's important to have a clear idea of exactly what you're going to repay with any loan – and a construction loan is no different. Make sure you understand what you'll be up for, and when you'll be asked to pay.

Loan fees

You may be asked to pay loan fees each time you draw down part of the loan. These fees usually comprise:

1. **Inspection fees:** As noted earlier, your lender may want to physically inspect your home each time a progress payment falls due. This lets your lender check that construction is progressing at an acceptable rate and to an acceptable standard of delivery. A fee may be levied for each inspection, and while the cost is often between \$100 and \$200, the fee may vary according to the lender and location of your property.
2. **Drawdown fee:** Some lenders charge a fee to cover the costs of making the loan funds available. You may be asked to pay a single fee at the start of your loan or a smaller fee each time you request a progress payment.

Insurance

Most insurance companies will not provide cover for homes that are under construction. In those instances where cover is available, the premiums can be costly and the policy may feature a raft of exclusions.

That's why it is so important to deal with a reputable builder. Licensed/registered builders must have insurance in place that protects you against non-completion of the project, structural defects and public liability claims.

Once construction is complete, you will need to take out your own building insurance – in fact, this will be a requirement of your loan. Along with building insurance, it also makes good financial sense to take out contents cover. Using the same insurer for both home and contents insurance often means securing a discount on the combined policy. Comparing premiums across a range of insurers will help you get the best deal possible.



Make sure you have all the facts

When completing a building project or major renovation, unexpected expenses can sometimes arise. While your building contract should offer a fixed price, it is worth speaking with your lender to determine whether you are able to vary the loan amount if construction costs vary unexpectedly. Otherwise these costs may need to be paid from your own funds.

Managing your loan during construction

A construction loan can be a very budget-friendly loan while your home is being built. Your loan repayments will normally be interest only until your home is completed. No repayments of principal are required until the full balance of the loan is drawn down.

Interest is calculated only on the funds used to date. This means you'll have lower monthly repayments at a time when you may be paying rent on temporary accommodation or purchasing key items to furnish your new home.

That said, many lenders will accept additional repayments during construction and these will come straight off the loan principal, helping you get ahead with the loan and save on long term interest charges.

Budgeting for your repayments

Your builder will provide a detailed schedule of progress payments in your contract, which will form a guide for your monthly loan payments. Remember, you will be asked to make only interest payments during this time.

As a guide, let's say Liz and Andrew use a \$300,000 construction loan to build their new home. We'll assume the interest rate is 5.0% p.a. with a one month gap between each progress payment.

As Table 2 shows, interest is charged only on funds that have been drawn down at the time of each progress payment. You'll find that sometimes a stage may complete fairly quickly and you may receive two progress payments in the same month.

When construction is complete and the progress payments have been finalised, your loan will revert to principal and interest payments and you will start repaying the principal sum borrowed over the chosen loan term.

Tip for investors

If you're taking out the loan as an investor, you may be able to continue making interest only repayments. This is something your Mortgage Choice broker can help you check with the lender.



My husband and I are both very happy with the loan and lender recommended by Mortgage Choice [for our land loan]. Now I can't wait for our home to be built. We have just selected the design that we believe is right for our block of land, and we'll be heading back to our Mortgage Choice broker to arrange a loan for our new home construction too.

Mortgage Choice Customer



Table 2: Progress payments and loan repayments

Construction stage	Progress payment	Loan amount drawn down	Monthly loan repayment
Stage 1 – Preparation 10%	\$30,000	\$30,000	\$125
Stage 2 – Slab 10%	\$30,000	\$60,000	\$250
Stage 3 – Frame 20%	\$60,000	\$120,000	\$500
Stage 4 – Lock up 20%	\$60,000	\$180,000	\$750
Stage 5 – Fit out 20%	\$60,000	\$240,000	\$1,000
Stage 6 – Completion 20%	\$60,000	\$300,000	\$1,250

Your home is now complete!

This is the moment you've been waiting for. At last you can see, feel and touch your home – it's real, it's yours and it's just waiting for you to move in.

Final documents

Your lender may want to inspect the property and complete a final valuation before making the last progress payment to your builder. You will need to provide several documents to complete the sign-off process.

These include:

- A 'Certificate of Occupancy' which shows the building is safe to be lived in. Depending on your state or territory, this document may be known as an 'Occupancy Permit', 'Final Occupation Certificate' or 'Certificate of Classification'.
- Your builder's final invoice.
- A comprehensive building insurance policy with your lender noted as Mortgagee.

Switching to a standard loan

Once the final payment is made to the builder, your loan will switch to the standard home loan or loan package that you've agreed on with your lender. Other options such as switching to a fixed rate may be available, with or without additional fees.

Now you're free to move in, celebrate with your family and friends and make a fresh start in your brand new home. Enjoy!



The help we've enjoyed from Mortgage Choice has made us very happy. It was fantastic to buy the land we wanted, and we're really excited about settling into our new home.

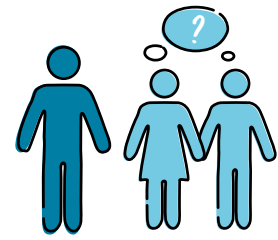
Mortgage Choice Customer



What does a Mortgage Choice broker do?

1

We will ***work with you to evaluate your home loan needs.***



2



We will ***calculate how much you can borrow*** so you know the price range you can afford.

3

We will then ***compare and contrast hundreds of home loan products from our wide choice of lenders.***



4

And provide ***expert advice to help you choose the right home loan.***



5



We will do all the ***paperwork and follow through the entire process with the lender making it as hassle-free as possible for you.***

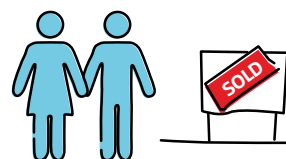
6

We may even be able to get you ***pre-approval on your home loan.***



7

We will do all of this at ***no charge to you because the lenders pay us.***



What to bring to your appointment

Below is a list of some basic information that may be required when applying for a loan. It is a guide only and in some cases lenders may ask for additional information as you proceed through the application process.

Originals or certified copies are required for all documents listed below except for Insurance/ Superannuation details and Property details (however, a certified copy of the Contract of Sale/Offer and Acceptance may be required, when applying for the FHOG).

Personal identification

One or more of the following forms of photographic ID

- Australian or foreign passport
- Australian driver's licence
- Australian state or territory issued proof of age card

OR

One of the following forms of non-photographic ID from each of the 2 groups below:

Group 1

- Australian birth certificate or extract
- Foreign birth certificate
- Australian citizenship certificate

Group 2

- Rating authority - bill sighted less than 12 months old
- Public utility record - bill sighted less than 3 months old
- ATO tax assessment notice less than 12 months old

First Home Owner Grant applications also require:

- Certified copies of ID
- Change of name documentation
- Marriage certificate (if relevant)

Income details (if you are an employee)

- The latest 2 consecutive, computer generated payslips from current employer. Must show business name, ABN and minimum 3 months' year to date income figure
- Current letter of employment with salary component (signed, dated on letterhead, stating start date, business ABN, and year to date income) may be required
- Most recent payment summary (if same employer)
- If income includes overtime / commissions / bonuses, the following additional evidence may be required:
 - Last 2 years' ATO tax assessment notices
 - Last 2 years' tax returns

Income details (if you are self-employed)

- Last 2 years' tax returns and tax assessment notices for all individual applicants and all businesses
- Balance sheets and profit and loss statements covering the most recent 2 years
- Details of external liabilities: leases, hire purchase, overdrafts, company loans and/or guarantees





Income details (other than employment)

- Property rental income statements
- Dividend statements for shares and other investments
- Centrelink letter confirming family payments or other government pensions
- Private pension payment summary or statement
- Written evidence of other regular and ongoing income

Financial contribution details

- Evidence of 6 months' genuine savings from bank account statements, term deposit statements or share transaction records (in some cases only 3 months' evidence may be required)
- If other funds are being put towards the purchase, evidence will be required as to where the funds are currently held, or if the funds are being gifted, a Statutory Declaration from the gift provider will be required

Financial commitments details

- Most recent statements covering the past 3 months for any existing loans (home, personal, lease, hire purchase, etc). Where statements are issued infrequently, interim statements may be required. Internet statements attached to the most recent original statement will generally suffice
- Most recent statements for all existing credit cards and store cards (if refinancing more statements may be required)
- Additional evidence may be required where any of the above is being consolidated into the loan

Property details

- If refinancing - a copy of your most recent council rates notice
- If property is already chosen - a copy of the Contract of Sale (Offer and Acceptance in WA)
- If constructing - a copy of the tender, fixed price building contract, council approved plans, specifications, building insurance, an estimate of expected building costs and any other details you may already have such as property plans and local council approvals

Insurance/Superannuation details

- Superannuation fund statement(s)
- Certificate(s) of Currency for insurance policies



Your questions, answered

Frequently asked questions

Will I pay upfront fees for my loan?

Some lenders charge upfront fees to cover the loan application and/or property valuation. As your home loan expert, we will crunch all the numbers to give you a detailed plan of potential fees.

What if I don't qualify for the size of loan I want?

A key advantage of partnering with your local Mortgage Choice broker is that we can tell you the loan amounts you can borrow from each panel lender and run you through your options if you wish to borrow more money.

How do I set a spending budget for my new home?

Talk to your local Mortgage Choice broker about arranging pre-approval for a construction loan before you head off to visit display homes. This way you will have a clear idea about the type of home or house and land package you can realistically afford.

Is a construction loan likely to cost more than a regular home loan?

As with all loans, the rate you pay will vary between lenders, and your Mortgage Choice broker is here to help you find a competitive rate. That said, a construction loan can help you save during the building process. You won't normally be asked to start making full principal and interest payments until handover has occurred and you are ready to move in.

Can I pay extra on my loan during the construction phase?

Most lenders let you make additional payments on your loan even when the loan is in the progress stage. This can give you a great head start in terms of paying off the loan sooner and saving on long term interest costs. Your Mortgage Choice broker can explain all the features of your loan before you commit to it.

What if the building costs increase during construction?

With any building project, there is always the possibility of unexpected costs. Lenders tend to be fairly understanding about this, although you should let your lender know about any cost blow-outs as soon as possible or you may need to cover the extra amount yourself.

What if my builder goes out of business?

All licensed builders in Australia are required by law to have insurance for this possibility. If your builder goes bust before your home is fully constructed, you can appoint another builder to complete the job and make a claim on the original builder's insurance to cover any additional costs. That said, prevention is worth a tonne of cure and it pays to choose a well-established, reputable builder.

We're here to help

We know building a new home or completing a major renovation is a big financial commitment, so you want to have confidence that you have the right finance to complete your dream home.

That's where your local Mortgage Choice home loan expert can help. We will compare hundreds of loan options from our wide panel of banks and lenders to find the right loan for your needs. Best of all, our home loan service is at no charge to you.

Save time. Save hassle.

As your home loan expert, we can save you the time and hassle of visiting multiple lenders. We'll even take care of the loan application paperwork and liaise with your chosen lender all the way through to settlement, keeping you informed along the way.

Protect what you have worked hard for

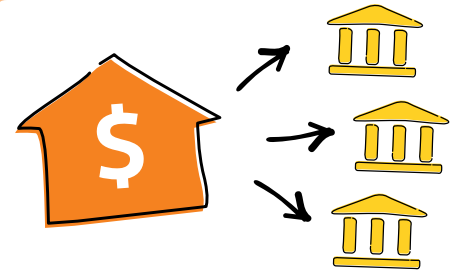
Along with managing the loan process on your behalf, we'll work with you to make sure you have the right insurance in place to protect yourself, your family and your assets should the unexpected happen.

The bottom line is that we'll focus on the finance so you can focus on what matters to you – **moving into your new home.**

How does a Mortgage Choice broker get paid?

1

Our home loan service is at no charge to our customers
as the lenders pay Mortgage Choice a commission on the loan when it settles.
This doesn't affect the deal you get from the lender.



2



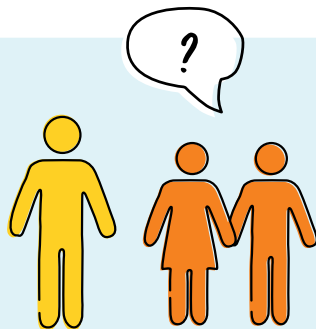
Mortgage Choice then pays a commission to the broker.

3

At Mortgage Choice, we pay your broker the same rate no matter which home loan you choose from our wide choice of lenders.



4



This means you can tap into your broker's expertise at no charge,
and save yourself time and hassle looking for the right home loan option.

Jargon explained

Application fee / Establishment fee

Fee charged to cover or partially cover the lender's internal costs of considering and processing a loan application. The fees are sometimes required to be paid upfront and are not usually refundable unless the loan is refused.

Assets

A list of what an individual currently owns, such as real estate, savings accounts, cars, home contents, superannuation, shares etc.

Basic variable rate loan

A loan which has an interest rate that varies according to market forces. The interest rate charged is lower than a standard variable rate loan but the loan may have fewer features.

Break costs

Costs incurred when a fixed rate loan is paid off before the end of the fixed rate period, or when additional payments are made in advance.

Bridging finance

A short term loan that covers a financial gap between the purchase of a new property and the sale of a currently owned property.

Capital gain

The monetary gain obtained when you sell an asset for more than you paid for it. Such gains may be taxable.

Community title (specific to NSW)

A property title where several dwellings are erected on an estate and the owners own their property and land on freehold title, but have shared access to community facilities e.g. swimming pool, barbecue area, tennis court etc. All property owners pay levies for upkeep of the community facilities.

Company title

A type of ownership for a unit/flat/apartment in a building that is owned by a company. A purchaser buys particular shares in the company which gives the purchaser the right to occupy a specific unit/flat/apartment. Lenders are generally not enthusiastic about lending on company title properties.

Comparison rate

This is a rate that includes both the actual interest rate and the upfront and on-going loan fees, expressed as a single percentage.

Construction loan

A loan specifically for the purpose of funding the building of a new dwelling. Can also apply to major renovations or improvements.

Daily interest

Interest calculated on a daily basis, on the outstanding balance of the loan or investment account.

Deposit

An initial cash contribution towards the purchase of the property, usually payable on exchange of contracts.

Deposit bond

A substitute for cash deposit that guarantees the purchaser will pay the full deposit amount by the settlement date. Institutions providing deposit bonds act as a guarantor that payment will be made.

Equity

The value of an asset not subject to any lender's interest, e.g. a property worth \$500,000 with an outstanding mortgage debt of \$150,000 - equity is \$350,000.

Equity loan

A loan that uses the equity in your property to borrow for any personal purpose, including personal investment. It usually operates like an overdraft, where the borrower has a set credit limit to which they can draw funds. The term Equity loan can also refer to a Line of Credit loan.

First Home Owner Grant (FHOG)

Various State Governments provide financial grants to purchasers of their first home, to assist in meeting the purchase costs.

Fixed interest rate

An interest rate set for a fixed period. At the end of the fixed rate period, most lenders will allow you to fix again at the prevailing rates or revert to their standard variable rate.

Freehold title

The form of property ownership where a parcel of land fully belongs to the owner.

Genuine savings

Funds that have been accumulated or held for a certain period of time prior to applying for a loan.

Guarantor

A guarantor is a third party to a loan who is helping the borrower obtain finance by offering additional security support. Guarantors are generally limited to spouses or immediate family members. A guarantor may be liable for the loan debt if the borrower defaults.

Interest Only (IO)

A loan in which only the interest on the principal is repaid with each repayment for a specified period.

Introductory (honeymoon) rate

A reduced interest rate offered for a specified period of a loan, usually the first twelve months.

Joint tenants

Equal holding of property between two or more persons. If one party dies, their share passes to the survivor/s. This is a common arrangement for married couples.

Lenders Mortgage Insurance (LMI)

A form of insurance taken out by the lender to safeguard against a financial loss in the event of a security being sold due to the loan going into default. The borrower pays a once-only premium. The insurance covers the lender, not the borrower.

Liabilities

A person's debts or financial obligations, including existing credit card debts and personal loans.

Line of Credit

A flexible loan arrangement with a specified credit limit to be used at a borrower's discretion. Also referred to by some lenders as an Equity loan or All in One loan.

Loan to Valuation Ratio (LVR)

The ratio of the home loan amount compared to the valuation of the security. Commonly called LVR e.g. for a loan of \$400,000 on a home valued at \$500,000, the LVR is \$400,000 divided by \$500,000 expressed as a percentage i.e. 80%.

Mortgage

A form of security for a loan, usually taken over real estate. The lender (mortgagee) has the right to take the property if the mortgagor fails to repay the loan.

Mortgagee

The lender of the funds and holder of the mortgage.

Mortgagor

A person who borrows money and grants a mortgage over their property as security for the loan.

Non-conforming loan

Specialist lenders provide these types of loans to borrowers who fall outside the normal eligibility requirements of mainstream lenders.

Offset account

A transactional account linked to the home loan. The balance held in this account offsets the balance in the home loan, helping to reduce the interest paid and the overall term of the loan.

Ombudsman

An arbitrator that provides an avenue through which customers can make complaints about their loan consultant or lender and have it dealt with independently.

Principal

The outstanding loan amount on which interest is calculated.

Principal and Interest (P&I)

A loan in which both principal and interest are paid with each repayment during the term of the loan.

Redraw facility

A loan facility whereby you can make additional repayments and then access those extra funds if necessary.

Refinancing

To replace or extend an existing loan with funds from the same lender or a different lender.

Security

Usually the property offered as security for a loan.

Settlement date

Date on which the new owner finalises payment and assumes possession of land. Sometimes called the "draw down" date, as this is the date the loan is usually fully drawn.

Stamp duty

There are two main types of stamp duty that may be payable when borrowing to purchase a home:

- **Mortgage stamp duty** (loan stamp duty)
Mortgage stamp duty will be payable in NSW only, if purchasing in a company name or for loans for non-housing related purposes.
- **Transfer stamp duty** (contract stamp duty)
Calculated on a sliding scale based on the purchase price of the property.

Standard variable loan

A loan which has an interest rate that varies according to market forces. The loan usually has comprehensive features, such as offset and redraw facilities.

Strata title

The form of property ownership most commonly associated with units, apartments and townhouses, where the owner holds title to a particular unit, which is called a lot, in a strata plan.

Survey

A plan that shows the boundaries and the building position on a block of land.

Tenants in common

Where more than one person owns separate, defined portions of a property. If one person dies, the relevant portion passes through the deceased's estate rather than to the other property owner/s as with joint tenancy. Each owner can hold a specific share of ownership and has the right to dispose of their interest.

Term

The length of a loan or a specific portion within the loan.

Title search

A request to the relevant government office* to ascertain the ownership of a specified property and any encumbrances, covenants and easements that may be recorded on the title.

Torrens title

Torrens title is the most common form of property title in Australia. The Real Property Act (RPA) is the legislation that governs the operation of Torrens title. Ownership of the property is registered with the relevant government office and evidenced by the Certificate of Title, which shows the current owner's name and any other interests in the property e.g. mortgages.

Unencumbered

A property free of encumbrances (mortgages) or restrictions.

Valuation

A report (often required by the lender), detailing a professional opinion of property value.

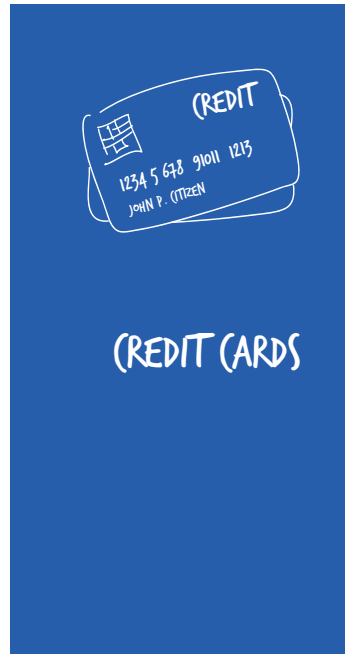
Variable interest rate

An interest rate that varies during the term of the loan, in accordance with market forces.

NOTE:

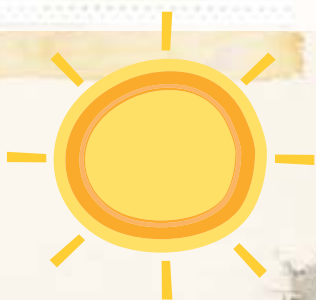
*Who can help with a title search in your state or territory?

- ACT: Access Canberra
- NSW: Land and Property Information (LPI)
- NT, TAS: Land Titles Office
- QLD: Department of Natural Resources and Mines
- SA: Land Services office
- VIC: Land Victoria
- WA: Landgate



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- **Right loan for you.** At Mortgage Choice, the only thing that matters to us is the home loan that's right for you. So, as your Mortgage Choice broker, we're paid the same rate no matter which home loan you choose from our wide choice of lenders.
- **Wide choice.** We can compare hundreds of highly competitive home loan options from a wide choice of lenders, including the big banks.
- **Less stress.** We make it easier for you by preparing the paperwork, lodging the application and following up with the lender for you as your loan progresses to settlement.
- **No cost to you.** There is no charge to you for our home loan service because the lender pays us after your loan settles.
- **Range of products.** We can also help you with financial planning, commercial loans, car loans, personal loans, asset finance, general insurance and credit cards.



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