Lending acronyms and definitions

Terms	Definitions
Additional Repayment	An additional payment is any extra repayment you make on your loan on top of the minimum loan repayments. This can help you pay your mortgage faster. Check the terms and conditions of your loan to see if there are restrictions on how many additional payments you can make each year.
AIP Approval in Principle	Also known as Pre-Approval or conditional Approval A conditional approval for a loan. Having pre-approval means having most of the home loan paperwork done. This gives you an estimated price range. Usually completed before you begin looking for property.
Annual Fee	Some loans have annual fees to cover costs or additional services. Annual fees are generally charged on the date the loan money was paid to you. Fees and dates are outlined in the loan conditions of your contract.
APR Annual Percentage Rate	An APR is a number that represents the total yearly cost of borrowing money, expressed as a percentage of the principal loan amount. The APR on a loan or credit card aims to offer a complete picture of how much it costs to borrow money. The APR will be one of the most important numbers to consider when applying for new credit.
Application Fees	Application fees are charges that you may have to pay a lender to cover the costs of processing your loan application. See also Establishment Fee
Appraisals	The assessment of a property's value, with a written report on how much a property is worth, usually prepared by a professional valuer. See also Property Value or Valuation.
Appreciation	The amount your investment property goes up in value. If it goes down, that's called "depreciation".
Assets	Assets are the valuables you have such as savings, cars, home contents, superannuation, investments etc. Lenders also use your assets to determine the amount you can borrow.
Borrowing Capacity	Also known as Borrowing Power or Serviceability Is the maximum sum a lender is willing to provide within responsible lending guidelines, ensuring that borrowers do not

	overextend themselves by borrowing more than they can realistically afford to repay. Influenced by Lender policies, Income, Expenses, Liabilities, Interest Rate, Credit History and Household situation(including financial dependants).
Borrowing Power	See Borrowing Capacity
Cash Rate	The Cash Rate set by the RBA guides the amount of interest banks have to pay on money they borrow from one another, which lenders then pass on to customers by raising or decreasing their own interest rates on mortgages and other loans.
Capital Gain (Capital Growth)	The amount your investment property has gone up in value, compared to what you paid for it
Capital Gains Tax	Paid on the profit you make on the sale of your investment property, as assessed by the ATO.
Capitalisation (Fees & Interest)	Capitalisation is a process where the lender adds loan costs, such as interest, application fees or LMI onto your loan amount. For example, if you borrowed $600,000, and the LMI premium was approximately $16,470. When the LMI premium isn't capitalised and is deducted from the loan funds you can only borrow $583,530. However, if you capitalise LMI, then you can borrow $600,000 + $16,470 = $616,470. This gives you the full amount you were approved for plus the cost of the LMI premium. This means you will pay the LMI in instalments over the life of the loan, which means you may require a smaller deposit, however you will be paying interest on the fee that is capitalised. Capitalisation may not be available if the loan amount exceeds LVR restrictions.
Comparison Rate	The comparison rate calculates the average rate with the addition of any other upfront or ongoing fees during the loan term. It is also known as the 'true' or 'real' rate. Comparison rates operate under fixed conditions, which considers a loan of $150,000 on a 25 year loan period with a principal and interest repayment method.
Conditional Approval	A conditional approval is the lender's first decision to approve you for the loan. It means they have taken all your details into account and are likely to lend you a set amount of money to buy a specific property, if you can satisfy the remaining conditions. These conditions must be satisfied before a formal offer is made by the lender. A common condition at this stage is confirmation of a satisfactory valuation. Sometimes also known as AIP (Approval in Principle) or Pre-Approval.

Conveyancer	A conveyancer is a specialist who represents you during the transfer of home ownership from the seller to you.
Conveyancing	The process that legally transfers property ownership from one person or body to another.
Cooling off Period	A period of time which gives you an opportunity to change your mind and withdraw after you sign the sales contract. There is no cooling off period if you purchase at auction
COS Contract of Sale	An agreement relating to the sale of property with the terms and conditions of sale. All contracts must be in writing.
Credit Rating	Your credit rating is an assessment of your eligibility to receive credit (a loan). It's used to determine the risk you present to a lender, based on your borrowing and repayment history.
CRAA Credit Reference Association of Australia	Credit Reference Association of Australia – also commonly referred to as Equifax or credit report
Deposit	A deposit is a portion of the price of a property that you need to pay upfront when you intend to buy a property.
Depreciation	Depreciation represents the estimated reduction in value of a fixed assets within a fiscal year. Tangible assets, such as buildings, equipment, vehicles and so on, are purchased in large lump sums. The value of these assets decreases over time after their purchase because of wear and tear (i.e. use of the asset) and obsolescence.
DTI Debt To Income Ratio	DTI refers to how much total debt you have divided by the gross income you earn per year. DTI is calculated by taking your total debt and dividing it by your annual income. For example, if you earn $100,000 per year (I) and have a credit card of $20,000 and a home loan of $200,000 (D) then your DTI is 2.2, meaning you owe 2.2 times what you earn. Most lenders in Australia are now using the DTI to limit how much they will lend you. For a lot of lenders, the acceptable DTI is now between 6 and 7. This means some banks will lend up to seven times your gross income, although others will only go as high a six times your income unless there are mitigating factors we can use to show why they should lend you more.
Equity	The equity of your property is determined by its market value less the amount you owe on your loan. The more of your mortgage you have paid, the greater your equity will be.
Establishment Fee	An establishment fee is the same as an 'Application fee' or an 'Up-front fee'. It's the fee a lender might charge to cover the cost of processing a loan application.

FHB First Home Buyer	A First Home Buyer is a potential house buyer who has not previously purchased a residential property.
FHOG First Home Owners Grant	First Home Owners Grant is a government-funded scheme to assist first home owners buy, or build, a home. Eligibility Criteria Required.
Fixed Interest Rate	A fixed interest rate is a locked-in rate that won't change during a set period of your loan. You'll always know exactly how much your repayments will be.
Formal Approval	This can also be referred to as a full approval or Unconditional Approval. An unconditional approval is the lender's final decision to approve you for the loan. It means they have taken all your details into account and are happy to lend you a set amount of money to buy a specific property.
Genuine Savings	Savings that have grown over time or funds held without decreasing, usually for more than 3 months
Guarantor	A guarantor is somebody who vows to guarantee payment of your loan if there is reasonable doubt that you may default on payments yourself. Usually by offering additional property security to reduce the LVR.
HEM Household Expenditure Measure	The HEM is a standard benchmark that some banks use to estimate people's annual living expenses when considering home loan applications. HEM classifies more than 600 items in the Australian Bureau of Statistics' Household Expenditure Survey as absolute basics, discretionary basics or non-basics.
HGS Home Guarantee Scheme	Home Guarantee Scheme – Formally First Home Loan Deposit Scheme. A government-funded scheme to assist first home owners and single parents buy, or build, a home with a deposit between 2-5% (depending on which Guarantee they obtain) without paying Lenders Mortgage Insurance. https://www.nhfic.gov.au/support-buy-home Eligibility Criteria Required.
INV Investment Property	When the home loan is a loan for investment purposes for people who intend to rent the property the loan is taken out for.
IO Repayments Interest Only	Interest Only loan is a loan where you pay only the interest for some or all of the term, with the principal balance remaining unchanged during the interest-only period. Interest-only loans reduce your required monthly payment by excluding the principal portion. You still must pay the entire loan principal at some point.

Interest Rate (earned)	Interest earned is interest that is gained over a period of time. Usually earned on personal accounts, interest earned is an incentive for account owners to continue to place their money in a particular account. The amount of interest you earn depends on the type of account and interest rate.
Interest Rate (paid)	Interest paid is generally associated with products such as loans and credit cards. The interest rate to be paid is a charge associated with borrowing the funds for the loan or the credit card. The interest rate will change based on the product itself and the terms of the product. Interest paid is usually expressed as a per annum percentage, though it is calculated daily and charged monthly.
Lender	An entity, often a bank, that provides financing for the purchase of property.
LMI Lenders Mortgage Insurance	Lenders Mortgage Insurance (LMI) is insurance that a lender takes out to safeguard against financial loss when the LVR (loan to property Value Ratio) is higher than their policy requires – usually when the loan is over 80% of the property value. The lender is insuring itself against the risk of not recovering the outstanding loan balance if you, the borrower, are unable to meet your loan payments and the property is sold for less than the outstanding loan balance. It is important to understand that LMI covers the lender, not you (or any guarantor), even though the lender will usually pass on the cost of LMI to you. The Insurance premium amount will differ depending on the amount borrowed and the LVR.
Loan term	The loan term is the agreed length of time that the loan is to be repaid to the lender.
LVR Loan to (property) Value Ratio	Loan to property Value Ratio represented as a percentage. Calculated by dividing the amount that you borrowed by the value of your property. For example, if you borrow $350,000 and your property is valued at $420,000, your LVR is 83%.
Monthly Fees	Monthly fees cover the costs of additional services of the loan. Fees and payment dates are outlined in the loan contract
Offset	A type of lending arrangement in which a borrower also maintains a savings account with the lender that’s linked to a home loan. It functions as a regular everyday account, you can deposit money into it, make withdrawals and make purchases using a linked debit card as required. The main perk of an offset account is that deposited funds are “offset” daily against your loan balance, reducing the interest charged to your loan. An offset account can help you cut years off your home loan and save money on interest, but it can also come at a higher cost.

OO Owner Occupied	When the home loan is a loan for personal purposes for people who intend to live in the property the loan is taken out for.
Pre-Approval	Also known as AIP (Approval in Principle) or conditional Approval. A conditional approval for a loan. Having pre-approval means having most of the home loan paperwork done. This gives you an estimated price range. Usually completed before you begin looking for property.
P&I Repayments Principle & Interest	A loan where you pay interest and also repay part of the amount borrowed (principal) at the same time.
Property Share	Property share means co-owning a property with family or friends.
Property Value	The assessment of the value of your property. See also Valuation.
RBA	Reserve Bank of Australia.
Redraw	A redraw facility allows you to access extra repayments you that you may have made on your mortgage.
Settlement	The final step when buying a home. It's when property ownership is legally transferred from seller to the buyer.
Serviceability	See Borrowing Capacity
SLA Service Level Agreement	Service Level agreement – most commonly used in the finance in regard to the time it takes for the loan application to be assessed, approved and settled, this is important when choosing a lender to ensure they can meet the required time frame.
Solicitor	A legal professional who is qualified to deal with the transfer of property.
Stamp Duty	A tax the government charges on the sale of your property.
Unconditional Approval	This can also be referred to as a Formal Approval or full approval. An unconditional approval is the lender's final decision to approve you for the loan. It means they have taken all your details into account and are happy to lend you a set amount of money to buy a specific property.
Valuation	The assessment of a property's value, with a written report on how much a property is worth, usually prepared by a professional valuer. See also Appraisal or Property Value.
Variable Interest Rate	A variable interest rate changes when the market interest rate changes. This means repayments will vary.

Vendor (or seller)	The person or entity offering property or goods for sale.
Yield	The total return on an investment, shown as a percentage of the amount invested.