

# Glossary of Terms:

**Acquisition cost:** Cost of acquiring an asset, including stamp duty payable and any other expenses incurred by the purchaser.

**All-in-one loan:** Allows you to deposit all of your income into the loan account and then withdraw money from that account for day-to-day transactions. The longer that spare funds stay in the account, the greater interest savings.

**Amortisation period:** The period of time over which a loan is calculated (and repaid).

**Appreciation:** An increase in the value of a property due to changes in market conditions or other causes.

**Assessed value:** The valuation placed on a property for the purposes of taxation by authority.

**Asset:** Anything of monetary value that is owned by a person, eg personal property, real property, bank accounts.

**Average Annualised Percentage Rate (AAPR):** Sometimes referred to as the Compulsory Comparison Rate. This figure takes into account the other costs associated with the loan, and expresses them as an average interest rate to create a level field with which to compare similar loan product interest rates.

**Basic variable:** A variable home loan at a reduced rate with fewer features than a standard variable.

**Body corporate:** An administrative body made up of all the owners within a group of units or apartments of a strata building. The owners elect a committee which handles administration and upkeep of the site.

**Break costs:** Incurred when a loan is paid off before the end of its term.

**Bridging finance:** Enables you to cover the purchase of a new property when you are yet to sell your existing property.

**Buyer's agent:** Person who acts on behalf of a buyer in finding and negotiating on properties the buyer wishes to purchase.

**Buyer's market:** When the demand for property is less than supply; the advantages shift to the buyer.

**Capital expenditure:** The cost of an improvement made to extend the useful life of a property or to add to its value.

**Capital gain:** The gain on the sale of a capital asset.

**Capital improvement:** Any structure or addition to a property erected as a permanent improvement that adds to its value and useful life.

**Capped loan:** A loan where the interest rate is not allowed to exceed a set level

for a period of time, but is allowed to drop.

**Cash flow:** A measure of cash inflow and outflow from a business. Positive cash flow means more money is coming into the business than is leaving it. Negative cash flow is the converse.

**Collateral:** An asset (such as a car or a home) that guarantees the repayment of a loan. The borrower risks losing the asset if the loan is not repaid according to the terms of the loan contract.

**Commercial property:** Property intended for use by all types of retail and wholesale stores, office buildings, hotels and service establishments.

**Common property:** Land, amenities or areas of a building within a strata title property that are shared by all owners, eg a driveway.

**Contract of Sale:** An agreement in writing setting out the terms and conditions relating to the sale of purchase of a property. It is the purchase document signed at auction.

**Conveyancing:** The legal process for transferring ownership of real estate.

**Default:** Failure to meet debt payment on a due date.

**Deferred establishment fee:** Is charged when you pay out your loan within a short period of taking it out, such as three years.

**Deposit bond:** Guarantees that the purchaser of a property will pay the full deposit by the due date.

**Depreciation:** A decline in the value of a property due to changes in market conditions or other causes.

**Disbursements:** Solicitor's incidental costs involved when dealing with a client on behalf of the lender, eg searches, certificates, pest reports, etc.

**Dual occupancy:** A block of land which is zoned so that two distinct dwellings are permitted to be constructed.

**Easements:** A right, such as a right of way, afforded a person to make limited use of another's real property.

**Equity:** The amount of an asset actually owned. Equity is the difference between the market value of the property and the amount still owed on its mortgage.

**Gearing:** Total borrowings divided by the total tangible assets of the Trust.

**Fixed rate mortgage:** A mortgage in which the interest rate does not change during the term of the loan.

**Freehold:** An estate in real property which continues for an indefinite period of time. Free hold estates may be inheritable or non-inheritable.

**Interest-only loans:** A loan where the principal is paid back at the end of the term and only interest is paid during the term. These loans are usually for a short period of time, typically one to five years.

**Internal rate of return (IRR):** The total rate of return generated by an investment over its life or a given timescale, taking into account sale and purchase prices and all cash flows associated with the holding.

**Introductory loan:** A Loan offered at a reduced rate for an introductory period (Usually no longer than 15 months and often called the 'honeymoon period') to new borrowers.

**Investment property:** A property that is not occupied by the owner but leased to produce income.

**Joint tenancy:** A form of co-ownership that gives each tenant equal shares and rights in the property, including the right of survivorship.

**Lenders mortgage insurance (LMI):** This is insurance taken out by the lender – but paid for by the borrower – to cover themselves if the borrower defaults on the loan, and property sale proceeds do not cover the outstanding amount.

**Liquid asset:** An asset, cash or otherwise, that can be converted into cash.

**Loan application fee:** Also called the establishment fee. This is a fee paid to a lender for processing a loan.

**Loan to value ratio (LVR):** The ratio of the amount lent to the value of the property.

**Low-doc plan:** A loan where limited documents are needed to provide an applicant's income.

**Market rent:** The price at which a seller is happy to sell and a buyer is willing to buy. This assumes that there is sufficient activity in the marketplace to generate enough buyers and sellers so that neither party controls the price. Establishing the market value is the objective of an appraisal.

**Mortgage protection insurance:**

Different from lenders mortgage insurance, this covers borrowers' loan repayments in the event that they are not able to meet them, eg through illness or redundancy.

**Negative gearing:** Where the return on an investment is not sufficient to cover the costs on the investment, eg property maintenance and interest on the loan.

**Net income:** Income after taxes are deducted.

**Net worth:** The value of a person's assets minus liabilities.

**Offset account:** A savings account linked to your mortgage in such a way that the interest earned on your savings is applied to reduce the interest payable on your mortgage.

**Off the plan:** To purchase a property before it is completed, having only seen the plans.

**Portability:** Where a new property can be used as security for an existing loan, ie when the loan is transferred to a new security property without needing to repay the loan, reapply or restructure.

**Principal:** The capital sum borrowed on which interest is paid during the term of the loan.

**Principal & interest loan (P&I):** A loan in which both the principal and the interest are paid during the term of the loan.

**Privacy treaty sale:** A property sale where the buyer negotiates directly with the seller, as opposed to an auction sale.

**Redraw:** Borrower is able to draw on pre-paid funds, over and above minimum repayments.

**Refinance:** The process of paying off one loan with the proceeds from a new loan using the same property as security.

**REIA:** Real Estate Institute of Australia. National representative body of real estate agents.

**Restrictive covenants:** A legal obligation in a deed by the seller upon the buyer of real estate to do or not do something.

**Seller's market:** When demand for property is greater than supply. The result is greater opportunities for owners who may find purchasers willing to offer the asking price or even a figure greater than the asking price.

**Semi-detached:** Also called a duplex. A type of construction where two buildings are attached together by a common wall.

**Stamp duty:** A state tax on conveyance or transfer of real property calculated on the total value of the property (including chattels). This calculation varies from state to state.

**Standard variable:** A variable rate home loan with comprehensive features. This is often the variable rate that fixed rate loans roll to at the end of the fixed term.

**Strata title:** A title to a unit or lot on a plan of subdivision associated with townhouses, units and blocks of flats and based on the horizontal and vertical subdivision of air space. Owners have a certificate of title, are absolute owners of a freehold unit or townhouse, and have an undivided share of the common property.

**Subdivision:** A tract of land divided into individual lots for housing development.

**Title deed:** Registration showing the ownership of a property.

**Valuation:** A written analysis of the estimated value of a property prepared by a qualified valuer.

**Vendor:** The seller.

**Yield:** The interest rate earned by or returned to an investor from an investment, stated as a percentage of the amount invested.

**Zoning:** Local authority guidelines for the permitted use of land.