smartmove
professional mortgage advisors

Lending Concepts Explained

An insight into the terminologies used in Lending

>>> click through the below terms for more details

B	Bridging Home Loans			
C	Construction loans			
D	Debt Consolidation			
E	Extending the term of your loan	Exit Strategy	Early Repayment Fees / Break Cost	Equity Release & Reverse Mortgage
F	Frequency of Repayments and Paying off your Mortgage Faster			Fixed Rate
G	Guarantees	Government Grants		
I	Interest Only (IO)	Interest in Advance	Interest Capitalisation	
L	Line of Credit	Lender Cash Back and Special Offers	Lenders Mortgage Insurance (LMI)	Lenders Mortgage Insurance Premiums
N	Negative Gearing			
O	Offset Account			
P	Packaged Home Loan Products	Principal and Interest Repayments (P&I)		Portability
R	Redraw Account	Rate Lock	Risk Based Pricing	Repay and Access Your Home Loan
S	Split Loans	Self-Managed Super Funds (SMSF)	Switching Home Loans	Time to Settlement
V	Variable Rate			

SWITCHING HOME LOANS

Refinancing your home loan to take advantage of a lower interest rate might save you money. When switching home loans, it is important the benefits outweigh the costs. Here are some other things to consider before switching home loans:

Ask your current lender for a better deal

Tell your current lender you are planning to switch to a cheaper loan offered by a different lender. To keep your business, your lender may reduce the interest rate on your current loan. Any deal your current lender is prepared to offer should be compared to the other loans you are considering.

Negotiate the length of the new loan

Some lenders will only refinance with a new 25- or 30-year loan term. You could end up with a longer loan term than the years left to pay off your current mortgage. The longer you have a loan, the more you will pay in interest. If you do decide to switch, negotiate a loan with a similar length to your current one.

Weigh up the cost of lender's mortgage insurance

If you have less than 20% equity in your home, you might have to pay lenders' mortgage insurance (LMI). This can increase the cost of switching and outweigh the savings you will get from a lower interest rate. If you decide to switch, ask for a refund of some of the LMI from your current loan.

Compare the costs of switching your mortgage

Get at least two different quotes on home loans for your situation.

Compare the fees and charges

Your advisor can help you find out what is available by comparing some or all of the following things. Your mortgage advisor will calculate if you will save money by changing home loans and show how long it will take to recover the cost of switching.

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LINE OF CREDIT

With a line of credit loan, you use a single account for your home loan and your everyday spending.

While traditional personal loans have a fixed term, a line of credit lets you access extra money whenever you want (up to your credit limit).

This means you can use it as and when you need it without applying for another loan, which allows more flexibility than fixed-term loans.

You can use a line of credit for just about anything – think holiday, home renovations, or even a new car. Best of all, you only pay interest on the amount you've borrowed, not your entire credit limit.

You can also often access your money pretty easily, by transferring to a transaction account using online banking and then either paying for things with direct transfers or withdrawing money at an ATM.

EQUITY RELEASE & REVERSE MORTGAGE

'Equity' is the value of your home, less any money you owe on it (on your mortgage).
'Home equity release' lets you access some of your equity, while you continue to live in your home.

If you are aged 60 or over, own your home, and need to access money, 'home equity release' may be an option. For example, you may want money for home renovations, medical expenses or to help with living costs.
A reverse mortgage allows you to borrow money using the equity in your home as security.

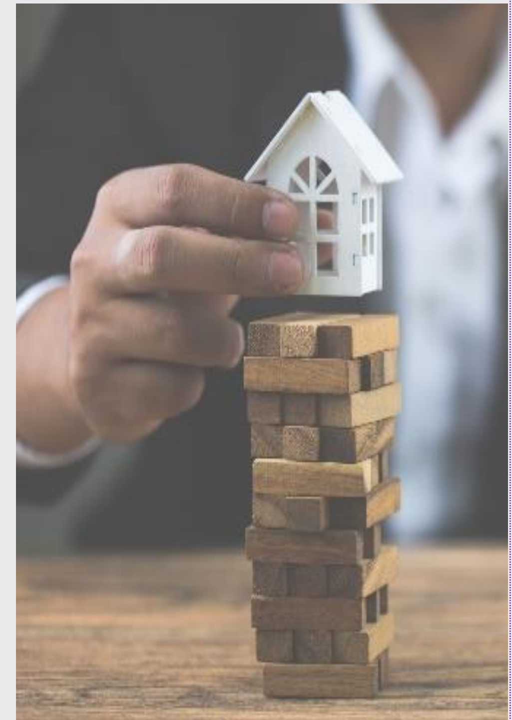
If you are aged 60, the most you can borrow is likely to be 15–20% of the value of your home. As a guide, add 1% for each year over the age of 60. So, at 65, the most you can borrow will be about 20–25%.
The minimum you can borrow varies but is typically about $10,000.

BRIDGING LOANS

A bridging loan, or bridging finance, is a short-term loan that can help you finance the purchase of a new property while you sell your current property. A bridging loan can also give you the finance to build a new home while you keep living in your existing property.

Most people sell their old home first, and then buy their new home with the available equity. But there are times when buying first may suit you better. A bridging loan gives you the flexibility to purchase a new property before you've sold your existing property.

In a competitive market, this could be the difference between purchasing the ideal property or missing out due to timing.



CONSTRUCTION LOANS

A construction loan is specifically designed for people who are building a house rather than buying a house that is already standing. Most commonly, a construction loan has a progressive draw-down. Essentially, this means that the funds needed for payments of construction costs are released as they occur across the period of building, rather than being fully funded all at once.

Typically, your loan will be interest-only while the construction occurs and will then revert to a principal and interest loan once fully funded and the construction is completed. For example, if by the third progress payment only $150,000 has been drawn down on a $300,000 loan, interest would only be charged on $150,000.00

How do progress payments work?

Once a construction loan has been approved and the property is being built, lenders will generally make progress payments throughout the various stages of construction. Progress payments will typically be paid directly to the builder at the completion of each stage.

Gaining approval for a construction loan is a different process to applying for a standard home loan on an existing property.

When you apply for a construction loan, the lender may consider the expected value of the property upon completion of construction, as well as the total amount required to pay the builder. An independent property appraiser will then typically estimate the expected value of the property when completed.

The lender will typically also require further valuations and inspections during the project. If the loan is approved, your lender will give you a loan offer. You will then have to make a deposit, as you would with most other types of home loans. This acts as security at this stage of construction.

A larger deposit can help to convince your lender that you are a less risky borrower. You'll typically need at least a 5% deposit, keeping in mind that you may have to pay lenders' mortgage insurance if your deposit is less than 20%.

SELF-MANAGED SUPER FUND (SMSF) LOANS

SMSF home loans are more complex than regular home loans, as any property purchased must be for the sole benefit of the SMSF, not the individual trustees

While you can both borrow and loan money from an SMSF for the purpose of buying property, there are many restrictions, regulations, and conditions that you must meet to ensure that the purchase is legal.

Borrowing or gearing your super into property involves very strict borrowing conditions. It is called a 'limited recourse borrowing arrangement'.

You can only purchase a single asset with a limited recourse borrowing arrangement. For example, a residential or commercial property. You should assess whether the investment is consistent with the investment strategy and risk profile of the fund.

DEBT CONSOLIDATION

Having multiple debts can be a little stressful at times. You might find yourself juggling several repayments coming out of your account at different times. To help make your debts easier to manage, you could consolidate your existing debts into one easy-to-manage loan.

Debt Consolidation is when you roll multiple credit cards, store cards, and other personal loan debts into one loan, oftentimes linked with your home loan or as part of your home loan. Essentially, the bank pays off your other approved debts so you're left with just one to manage and pay off.

For every loan, credit card, or store credit you have, you're probably paying different interest rates and fees. And if you're only making the minimum repayments, the interest you pay could end up being much more than the original purchase or loan amount. What's more, keeping track of multiple payments with different due dates can be difficult.

Consolidating your debts into one means you only have one loan, one interest rate, and one regular repayment. Home loans or personal loans often have lower interest rates than many other credit options, so you could pay less interest over the life of the loan. And unlike credit cards, you can choose the term of your loan, so you have an end date in sight.

However, while debt consolidation would allow you to streamline your debts under a lower rate and lower overall financial exposure on monthly basis if you extend the term of any of your loans and don't focus on paying off the principal, be aware that you could end up paying more in interest over time and the equity in your property will build up at a slower rate.

You will also end up paying more interest if you incur further credit cards, personal loans, or car loans after consolidating existing debt. It is recommended that you make extra or more frequent repayments to avoid paying additional interest over the life of the loan.

FREQUENCY OF REPAYMENTS / PAYING OFF YOUR MORTGAGE

Making higher or more frequent payments on your mortgage will save you money and help you pay down your home loan faster.

Consider an offset account

An offset account is a savings or transaction account linked to your mortgage. Your offset account balance reduces the amount you owe on your mortgage. This reduces the amount of interest you pay and helps you pay off your mortgage faster. For example, for a $500,000 mortgage, $20,000 in an offset account means you are only charged interest on $480.000.

Avoid and interest-only loan

Paying both the principal and the interest is the best way to get your mortgage paid off faster. Most home loans are principal and interest loans. This means repayments reduce the principal (the amount borrowed) and cover the interest for the period.

Make extra payments

Extra repayments on your mortgage can cut your loan by years. On a typical 25-year principal and interest mortgage, most of your payments during the first five to eight years go towards paying off interest. So, anything extra you put in during that time will reduce the amount of interest you pay and shorten the life of your loan.

Switch to fortnightly payments

If you are currently paying monthly, consider switching to fortnightly repayments. By paying half the monthly amount every two weeks you'll make the equivalent of an extra month's repayment each year (as each year has 26 fortnights).

Make higher repayments

Another way to get ahead on your mortgage is to make repayments as if you had a loan with a higher rate of interest. The extra money will help to pay off your mortgage sooner. If you switch to a loan with a lower interest rate, keep making the same repayments you had at the higher rate and if interest rates drop, keep repaying your mortgage at the higher rate.

FREQUENCY OF MORTGAGE REPAYMENTS
As home loan interest is calculated daily; weekly and fortnightly repayments are better than monthly repayments to save you interest over the life of the loan.

PRINCIPAL AND INTEREST REPAYMENTS

Most people take on this type of home loan.
You make regular repayments on the amount borrowed (the principal), plus you pay interest on that amount. You pay off the loan over an agreed period (loan term), for example, 25 or 30 years. Repayments cover loan principal and interest so that the loan is paid in full by the end of the loan term.

The interest rate on a standard home loan will often be cheaper than a more sophisticated loan that offers additional features. Applicants could pay less interest over the life of the loan as compared with a loan that features a period of interest-only repayments. Interest rates on principal and interest repayments are generally lower than interest only.

Fixed, variable, and partially fixed-rate loans are all variations on standard principal and interest loans. There will always be penalties for paying out the fixed-rate portion of a loan early.

INTEREST ONLY (IO)

With an interest-only loan, you only pay off the interest on the loan for a fixed period, rather than paying off the interest and principal. Interest-only loans are an option if you cannot initially make higher repayments.

Benefits of Interest only repayments:

- *Higher cash on hand for other purposes*
- *Flexibility to manage cash flow*
- *Smaller initial payments on investment home loans may serve a tax purpose. (Please seek tax advice)*

Potential risks when taking interest-only loans:

- *Higher interest rates may apply to interest-only loans.*
- *Interest-only payments will not reduce the loan principal. Not repaying the loan principal will result in the applicant paying more interest over the loan term. After the end of the interest-only period, principal and interest repayments will be required and these will be higher than they would have been if the loan had principal and interest repayments throughout the loan term.*
- *The amount of equity that is built up in the property securing the loan will be less with an interest-only loan.*

It will take you longer to pay off the loan because you will still have to pay off the principal after the interest-only stage. You will pay more interest overall. With an interest-only loan, the loan balance does not decrease over time until the interest-only period expires, and you start paying off the principal as well as the interest.

INTEREST IN ADVANCE

Interest in Advance is a repayment option that offers an additional interest rate discount on Fixed Rate investment property loans for paying 12 months interest in advance.

Benefits of Interest in advance repayments:

- By prepaying interest you can potentially reduce your tax liability for the coming financial year and conveniently consolidate interest repayments into one lump sum payment.
- This is not financial advice: we recommend that you consult your financial adviser to determine the benefits which may be applicable.
- Interest Only in Advance is different to choosing to make interest-only repayments on a new or existing home loan.

Potential risks when taking interest in advance loans:

- *Rate must be fixed and all the risks set out above in relation to 'Fixed Interest' rate are applicable.*
- *There could be other different risks applicable to specific lender products (e.g. limitations on refunds for interest paid in advance).*

RISK BASED PRICING

Risk-based pricing is the interest rate that lenders offer to a client based on factors such as their credit rating, the security type, employment status, and financial situation. Rather than specify an interest rate they will have a minimum and maximum rate range for the loan and will offer you an interest rate within that range based on these factors.

If the lender decides that you are low risk and that you are likely to repay the loan on time you will get a lower rate. If you are a higher risk, which may be because you have more debt or a lower income, the lender may charge you a higher interest rate.

VARIABLE RATE

A variable rate home loan typically offers more flexibility than a fixed rate home loan.

It generally comes with a range of features which may help you react to changes in your life or financial circumstances.

For example, many variable rate home loans let you make additional repayments to pay off your loan faster and then let you redraw these additional funds if you need them in the future. Many variable rate home loans have an offset account feature which could reduce the amount of interest you pay.

A potential drawback of a variable rate home loan is that interest rates can change at any time. This means they can go up and down. Interest rate and repayment may increase while the loan is on a variable rate. It's a good idea to consider whether you can afford higher loan repayments if interest rates were to go up.

FIXED RATE

A fixed rate home loan can give you peace of mind that the required repayment amount will be the same during the period of the fixed term, which can be very handy when you are trying to stick to a budget

You can generally choose the time period you would like to fix your interest rate for. Depending on the lender, this could be for up to 5 years. Generally, at the end of the fixed term your loan will roll over to a variable rate, unless you choose to repeat the process.

While a fixed interest rate can be useful to help protect you against potential interest rate rises, it can mean that you're stuck with the fixed rate if variable interest rates decrease during the fixed period

Fixed rate home loans generally have fewer features than variable rate home loans. It's also important to note that if you decide to pay off, sell the property, or refinance your home loan before the end of the fixed term, you may have to pay break costs. These may be significant sums of money.

SPLIT LOANS

A split home loan is when you divide your loan into multiple parts - meaning you could nominate a portion of the loan to have a fixed interest rate and the remainder could have a variable interest rate.

How does a Split Loan facility work?

Depending on your circumstances, splitting your home loan between fixed and variable interest rates can enable you to get the best of both worlds. You can split your loan at any time, from when you've just settled or throughout the life of the loan as your circumstances change.

While a portion of your home loan is fixed, rate is fixed for a specified term giving certainty of interest and repayments for the fixed rate portion, you would be protected if interest rates rise (however, you wouldn't benefit from a drop in interest rates), and you'd always know what your repayments will be.

With the variable part of your home loan, you'd have the flexibility to make unlimited additional repayments, which could mean paying off that portion of your home loan faster, as well as potential access to benefits such as redraw and an offset account depending on the type of variable rate home loan you choose. However, interest charged, and repayments will change to reflect interest rate movements for the variable rate portion.

Some important things to remember:

- You will not obtain the full benefit of rate decreases and will still have some exposure to the risk of rate increases.
- You will generally not be able to change the ratio of the fixed and variable portions.
- You will be required to make separate repayments for each portion.
- Fixed rate may change between the time of approval and the time of drawdown if rate guarantee has not been obtained.
- Limited or no flexibility in relation to the fixed rate portion concerning making additional repayments, redraws and offset accounts during the fixed rate period.
- Possibility of expensive break costs in relation to the fixed rate portion if during the fixed rate period, you:
  - Repay loan in full;
  - Switch to another product or loan type;
  - Make additional repayments;
  - Sell the property or seek further funds

RATE LOCK

How Rate Lock Works?

Interest rates may rise or fall from the time you agree to proceed with the loan. For example, you see that a bank has a fixed rate home loan for 4%. Prior to settlement the rate could rise to 4.3% or fall to 3.7%. By choosing a rate lock option the interest rate you locked in at application would be applied to your loan when it settles.

Most lenders will allow you to take the lower rate if interest rates fall however that is not the case with all lenders and some may apply the higher rate you locked in to prior to settlement.

Rate lock normally lasts for a specified period and will be different for each lender. Normally this may be 60 days or 3 months. It is usually better to rate lock for the maximum period to ensure you are covered in the event the approval and settlement of you loan takes longer than anticipated.

Rate Lock Fees
Most lenders charge a fee for rate lock and the fee will vary from lender to lender. Some charge a set $ fee and others will charge a percentage of the amount you are borrowing i.e. 0.15% of a $400,000 loan would incur a $600 fee.

EXTENDING THE TERM OF YOUR LOAN

Extending your loan term when you refinance introduces additional interest costs that may outweigh the savings you can benefit from in your new loan.

As Adam and Rachel's example suggests; by extending the loan term by 5 years they will incur 5 years more of interest payments and increase the total amount of years they are paying interest, to 35 years.

If you are unable to negotiate the same loan term as your current one but would still like to refinance your home loan to a more competitive interest rate you can consider.

EXIT STRATEGY

An exit strategy is a term used for the plan and methods you intend to use to be able to repay your loan at the point of retirement.

Exit strategies can vary from person to person and may depend on age, financial position, income level, and plans for retirement.

INTEREST CAPITALISATION

When interest is added to the total loan amount of a loan but isn't immediately paid back.

Interest capitalisation works by allowing a principal-and-interest borrower to temporarily stop paying off the interest that is being added to their loan for a period.

A lender will then take this added interest into account when calculating interest on the new loan balance in the next period.
This is known as compounding interest or paying interest on existing interest.

NEGATIVE GEARING

'Negative gearing' happens when the costs of owning a rental property exceed the rent returns you earn. When you take an investment loan, your property is 'geared'.

Investors negatively gear as they can generally claim a tax deduction for the investment loss. The aim is for the capital growth to offset the loss in earlier years. Negatively gearing investment properties normally plays an important part in investor strategies. When the cost of owning a rental property outweighs the income it generates each year it is a taxable loss which can normally be offset against other income including your wage or salary, to provide tax savings.

GUARANTEES

If you guarantee a loan for a family member or friend, you are known as the guarantor.
You are responsible for paying back the entire loan if the borrower cannot. Before you agree to be a guarantor, think carefully about your own finances. If the borrower cannot make the loan repayments, you will have to pay back the entire loan amount plus interest.

If you can't make the repayments, the lender could repossess your home or car if it was used as security for the loan.

GOVERNMENT GRANTS

The state and federal governments currently make several different grants available to

- First Home Buyers (FHB)
- First Home Super Saver (FHSS)
- First Home Owner Grant (FHOG)
- Commonwealth Government First Home Loan Deposit Scheme
- Home Builder Grant
- Stamp Duty Concessions

You may need to seek advice from your solicitor or conveyancer and confirm if there are any stamp/transfer duty consequences or benefits.

REDRAW ACCOUNT

How does a redraw facility work?

When you pay more than the minimum monthly payment on your home loan the extra funds accumulate in your mortgage account over time which may then be available to withdraw at a later date.

For example, if your minimum monthly payment is $800 and you pay an extra $200 per month for 12 months you have an extra $2400 that may be available for you to withdraw at a later date.

Things to remember:

- *The lender may charge fees for each redraw*
- *Each redraw may be subject to the lender's discretion*

How to redraw money?

Every lender is likely to have different options. Most will let you request redraw via online banking, by making a phone call, or by visiting a branch. Lenders may also have different minimum and maximum redraw amounts and may also charge a fee for each redraw you make.

Redraw facilities vs a savings account

Redraw facilities can be an effective place to keep your savings. But instead of earning interest as you would in a savings account, you are reducing the amount of interest you pay on your home loan. this may work out better in the long run.

Generally, the interest you will save by having your money in redraw will be more than you would earn from keeping the same amount in a savings account because home loan interest rates are normally higher than the interest rates offered by savings accounts.

Redraw vs Offset Account?

Offset accounts and redraw facilities both have the potential to save you interest on your home loan but there are important differences.

An offset account works much like an everyday transaction account. You can withdraw money at ATMs and buy things using a debit card.

A redraw isn't an account as such, but rather a facility attached to your home loan, so it doesn't give you the flexibility to access money in the same way that an offset account can.

For some people, this can be a benefit as it may reduce the temptation to spend the money in the same way they would if it was available in an offset account.

OFFSET ACCOUNT

An offset account is a savings account or transaction account linked to your home loan account. You can make deposits or withdraw from it as you would with a regular transaction account.. The big difference is that when you hold money in an offset account over a period of time, you can reduce the amount of interest charged on your home loan. The higher the balance and the longer the period, the less interest you'll pay. And this could help you pay off your loan sooner.

Generally speaking, the offset feature is only available on variable rate home loans (although some lenders offer an offset feature on selected fixed rate home loans)For example, if you had a loan of $350,000, with $100,000 in a linked 100% offset account and $100,000 repaid, you may only pay interest on $150,000 of your balance. This means you will be charged less interest because your interest is not calculated on the remaining full balance of your home loan.

There are two types of offset accounts:

Balance offset account - These accounts offset the interest payable on the mortgage by the balance of the account. The percentage of the balance that will be offset can range right up to 100%. However, a partial offset account may only offset your mortgage by a portion of the balance, for example, a 50% offset account will only offset the interest-bearing portion of your mortgage by 50% of your offset account balance. So, the higher the percentage of the offset account, the more you will save in interest on your mortgage.

Interest offset account - These accounts offset the interest payable on your mortgage by the interest earned in the account. However, this could be substantially less than the interest rate of the mortgage. Depending on the interest rates of your mortgage and offset account these accounts are likely to be significantly less favorable than balance offset accounts. They are also less common.

Pros and Cons of an Offset Account

By having a decent amount of money in your offset account you might effectively cut years from your home loan and pay thousands of $ less in interest. You do not necessarily need a huge amount of spare savings though – with a 100% offset account every cent is saving you money in interest off your loan.

Secondly, an offset account is simple for most people to manage. You could have your salary deposited into a standard savings account or transaction account every payday, and if it was linked as an offset account to your loan it would automatically save you money on your interest payments.

In addition, having an offset account can be an easy way to keep excess funds at hand while still minimising the interest payments on your mortgage, so if your financial situation changes or if something unexpected like a medical emergency were to happen, then you will be able to easily access the money that has been offsetting your mortgage. An alternative strategy of having to redraw on extra repayments you have made on your home loan is often limited to minimum amounts and/or come with fees.

PACKAGED HOME LOAN PRODUCTS

Many lenders offer packaged home loans which allow you to sign up to a home loan as well as other financial products such as a credit card and transaction account with the same bank or financial institution.

A packaged home loan generally comes with the advantages of a discounted interest rate and lower fees, however there may be other products that could provide you with similar discounted interest rates and lower fees without the need to obtain a credit card or transaction account.

The credit card and transaction account may also introduce further ongoing fees and charges that should be considered when comparing the overall ongoing costs of packaged home loan products.

Standard home loan products may offer cheaper rates and fees with no frills or features but may charge a fee each time you want to access money through a redraw facility

WAYS TO REPAY AND ACCESS YOUR HOME LOAN

Direct Debit Repayment

When you set up direct debit repayments you authorise your lender to automatically draw repayments from a chosen bank account.

Apart from ensuring there is enough cash in the account, you do not have to remember to make repayments. Lenders normally allow payments to be made weekly, fortnightly, or monthly.

Salary Deductions - Some lenders allow Direct Salary and Other Income Credits to repay a home loan.

This feature allows you to have your salary credited directly into your home loan.

Internet Banking - Internet banking allows you to view the details of your loan account online.

Debit Card - To access home loans with linked debit cards you will need to have an offset account.

The offset account can then be linked to your debit card, so you have the offset reducing the amount of interest payable on your home loan combined with the convenience of spending some money from that account when needed.

Telephone Banking - Similar to internet banking, telephone banking allows you to access the details of your loan account via the phone.

EARLY REPAYMENT FEES/BREAK COST

Some lenders charge an early repayment fee or break cost if a loan is fully paid before the end of your loan term. These fees vary between lenders and loans and are disclosed in your loan contracts issued by your lender.

LENDER CASH BACK AND SPECIAL OFFERS

Lenders sometimes offer things like discounted interest rates, promotional introductory interest rates, and sign-up incentives such as cashback offers, rewards for switching, gift vouchers, and more to encourage customers to choose their bank.

Every lender has a different credit policy and the different documents a lender will ask for is set out in the lender's credit policy. If your situation falls outside of the lender's policy, it is likely that the application may be declined.

A lender's approval or denial decision and the criteria they base their decision upon may vary significantly from one lender to another, which explains why a loan application may be approved by some lenders but not others.

As your mortgage advisor is accredited with a range of lenders, they are required to have knowledge of lender credit policies. Having this knowledge and access to a range of lenders gives your mortgage advisor the ability to ensure they provide you with the outcome that meets your requirements and objectives.

Consider comparing different home loans before committing

It may not be in your interest to pick a lender and its product because the sign-up offer looks good.

It is a good idea to compare different home loan products and their costs across the life of the loan and decide which home loan is best for you based on what you need, even if it doesn't have a sign-up offer attached.

LENDERS MORTGAGE INSURANCE

If you do not have a substantial deposit saved, your lender may be prepared to provide you a home loan with a smaller deposit, by taking out Lenders Mortgage Insurance (LMI).

Lenders Mortgage Insurance is an insurance policy that your lender takes out to protect itself against the risk that you (the borrower) default on your loan repayments and your lender is unable to recover the full outstanding loan amount.

The lender protects itself with Lenders Mortgage Insurance and a borrower buys a home sooner with a smaller deposit. Lenders Mortgage Insurance protects your lender, not you, the borrower.

LENDERS MORTGAGE INSURANCE PREMIUMS

Lenders' mortgage insurance (LMI) premiums are payable in two ways: as an up-front fee or by capitalisation.

Capitalising your LMI premium essentially means adding it to the total loan amount and paying it off in regular installments with your home loan.

This will mean you are also paying interest on the LMI for the life of the home loan, so are likely to pay more. Capitalisation is the most common way of paying for LMI.

PORTABILITY

Loan portability allows you to transfer your existing loan to your new property without having to go through the hassle of refinancing and the inconvenience of closing one loan and having to apply for a new one. It also means you can keep the features and facilities you already have set up with your loan, such as online banking or a linked offset account

How does loan portability work?

When you port your home loan to your new property, you will be transferring the current balance and interest rate as well as any attached features such as a linked offset account to your new home. Instead of the loan being secured against your old home, it will instead be secured against your new home.

The process is generally much quicker than applying for a new loan and you can avoid potential upfront costs involved with applying for a new loan.

When you port your home loan you could also switch your loan from fixed to variable (or variable to fixed) and may also be able to top up your loan with extra funds (if needed) when you move your loan to a new property.

STAYING WITH A PARTICULAR LENDER

Refinancing does not have to involve finding and moving to a new lender.
You can refinance with your current lender and save on refinancing costs and time.

Benefits of Staying with the Same Lender

By keeping your home loan with your current lender and merely switching products or asking for a lower rate, you can enjoy important advantages.

If you are refinancing solely to enjoy a lower interest rate and lower your mortgage repayments, staying with your current lender makes it possible to enact a quick, simple rate change. Your lender can apply a discount rate.

Even if you are interested in a different home loan product, for example, if you want to refinance to a fixed-rate mortgage or a line of credit home loan, you can save on discharge and settlement fees by staying with your existing lender.

In some cases, your mortgage advisor may be able to negotiate a better rate or home loan deal because the lender may want to keep you as their customer. Your mortgage advisor will negotiate on your behalf with the lender. They will do this with their knowledge of the mortgage market across a range of lenders and your personal and financial circumstances.

TIME FOR SETTLEMENT

Securing a home loan for a new property can be a daunting process if you are new to the process or you are trying to manage the process without the support of an experienced mortgage advisor.

Generally, it takes between 4-6 weeks from the time your advisor submits your application to reach a settlement on your property, depending on the state in which you live. Some other factors may determine how quickly you get approved including the lender, the complexity of your situation, and how quickly you return your mortgage documents.

If you have limited time until your settlement day your advisor may compare and recommend lenders that are able to meet your required timeframe.

Once you have agreed on a loan, your advisor will manage the application and make sure everything is in order for the approval and settlement process to complete.

LENDER CREDIT POLICIES

Lenders have a specific credit policy they use to assess and approve loan applications.

A lender's credit policy is a document that outlines the requirements and procedures for approving a loan and normally considers the following factors:

- *Borrower criteria*
- *Residency status*
- *Guarantors*
- *Savings requirements*
- *Employment and income*
- *Expenses and liabilities*
- *Property and security*
- *Loan to valuation ratio*
- *Lenders mortgage insurance*
- *Maximum loan amounts*
- *Loan purpose; and*
- *Interest only loans*

>>> More on Lending Concepts

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