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Home Loan

Whether you are looking to buy your first home, investing or refinancing we are able to assist you in securing your loan. We have access to hundreds of different loan product offered by more than 30 lenders including bank, credit union, non-bank lender and private funder. Below are some guide about home loan feature.

Variable Rate
Variable interest rate will move with changes to the lender's headline rate which will change according to market conditions and/or the lender's policies. If the interest rate increases, your minimum loan repayments will increase accordingly. If you have a variable interest rate loan, you can make extra additional loan repayments at no extra cost which may help you to pay off your loan sooner.

Fixed Rate
Fixed rate refers to loan interest rate that is fixed for a set period of time (between 1 to 5 years). The advantage of fixing the interest rate on your loan is that it provides you with certainty over your loan repayment (during the fixed rate term) and it will not be affected by rising interest rates. There are several disadvantages of a fixed rate loan including:

- additional loan repayment is restricted during the fixed rate term
- if you repay or refinance your fixed rate loan/s before the end of the fixed term you will incur significant break costs
- the offset feature is generally not available on a fixed rate loan
- redraw facility may not be available on fixed rate loan

Partial fixed rate or split loan
Certain loan products allow you to split your loan into 2 or more loan accounts whereby you can apply different features to each loan account, such as fixing one split while keeping the other split variable.

Loan Term
This refers to the period of time over which the loan is set to be repaid in regular payments set out in the loan agreement. This can last from 1 year to 30 years. Loan with a longer term will have a lower minimum regular repayment, however the cumulative interest cost will be higher as principal loan is repaid over a longer time.

Principal and Interest
With principal and interest repayment, you will make regular loan repayments which will pay down the loan principal as well as paying the interest. Principal and interest repayment is less risky and preferred by lenders, as such the interest rate is usually lower. Characteristics of a principal and interest loan include:

- If the variable interest rate *decreases*, your minimum loan repayments will remain the same and a larger percentage of your repayments will go towards reducing the principal loan balance
- If the variable interest rate *increases*, the lender will recalculate your minimum loan repayment amount and send you a letter advising you of your increased minimum loan repayments
- Funds in your offset account *will not* affect your minimum loan repayments but will reduce the interest payable on your loan. Thus, a larger percentage of your loan repayments will go towards reducing the principal loan balance

Interest only

With interest only repayment, your loan repayment will only be the interest charged on the principal loan balance and no part of the principal loan by your committed repayments during the interest only period. The interest rates on interest only loans are generally higher as APRA recently imposed a restriction on the amount of interest only loans that the lender can write. Characteristics of an interest only loan include:

- During the interest only loan term, your loan repayments *do not* reduce the principal loan balance.
- You can only apply for interest only repayments for a limited period of the loan term.
- On expiry of the interest only repayment term, the minimum principal and interest repayment amount will apply over the remaining loan term unless you re-apply for a further interest only repayment term.

Offset account

An offset account is a transaction account linked to your home loan. The money you have in the offset account will offset the loan balance, and you will only be charged interest on the net balance. For example, if your loan account balance is $500,000 and you have $50,000 in your offset transaction account, the lender will charge you interest on the net balance of $450,000. The interest is calculated daily and charged monthly to your loan account. Not all loan products come with an offset account and there is generally a monthly or annual fee charged for having an offset account feature.

Redraw facility

Some loan products have redraw facility that allow you to draw out the extra principal loan balance that you have repaid in addition to the minimum repayment agreed in the loan agreement. Different lenders may impose a range of fees or conditions / restrictions on the redraw feature.

Line of Credit (LOC)

LOC works like a credit card facility. Essentially it is flexible revolving credit facility whereby the lender approves a maximum credit limit for the borrower to access anytime. The credit limit of the LOC does not reduce as you repay the loan balance (unlike a traditional home loan) and you pay interest only on the amount of loan balance drawn down. LOC is suitable for borrowers who are disciplined in their money management but requires a flexible loan structure due to say irregular income or seasonal expenditure.

Loan portability

Loan portability is a feature of a loan that allows you to transfer an existing loan from one property to another. You can either transfer the loan to an unencumbered property that you already own or if you sell your existing property and buy new property, to transfer the loan to your new property your sale and purchase must settle on the same day for the loan to be ported, which can be challenging.

Introductory rate

Some lenders offer low interest rates for say the first 2 years of a 30-year loan, sometimes also known as the honeymoon rate. Before taking up these types of loan, find out what the interest rate will be after the 'honeymoon' period ends to avoid nasty surprises.

Comparison rate

A comparison rate is a rate to help you identify the true cost of a loan. It factors in the interest rate, fees and charges and displays a single percentage rate that can be used to compare between various loans from different lenders. The drawback of the comparison is that the guideline used to calculate the comparison rate is based on a $150,000 loan balance and a 25-years loan term which may not always be relevant for your circumstance.

Lenders' Mortgage Insurance (LMI) cost
LMI cost is applicable once your total loan amount exceeds 80% of the property value. It protects the lender in the unfortunate event of you defaulting on your home loan. LMI cost is a one-off insurance payment that can be added (or capitalised) into your loan instead paying it upfront. The amount of LMI cost varies between lenders and is also influenced by other factors such as the loan amount, Loan-to-Value Ratio (LVR) and the loan purpose. LMI cost is non-refundable and non-transferrable.

Disclaimer: Please note that this guide is developed without taking into account your objectives, financial situation or needs. It should not be used, relied upon, or treated as a substitute for specific professional advice.