

FINANCE TERMS

explained

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Term	Definition
Arrears	A value that you haven't paid in respect to scheduled repayments for a debt that you owe
Asset	An item with economic value that someone holds with the expectation that it'll provide a future benefit
Balance sheet	A statement listing any assets, liabilities or equity of a person or organisation
Borrowing power	The value which someone can borrow for a loan. It's calculated by determining their income, expenses, and other debts.
Capital	The total value of an individual, or the value of an asset after costs are removed
Capital gain	The value of an asset after determining its growth and deducting the original cost it was purchased for
Compound interest	The amount of interest earned on invested money over time that's added to the original amount invested. Interest then gets paid on the entire amount. Compound interest is a strategy used to increase savings
Construction loan	A loan that covers the construction or renovation of a property. Funds are released to the borrower in stages and with the development of the property
Credit report	Also known as a file, it identifies a persons; defaults, judgements, bankruptcies, directorships, or owings
Debt	Money that is owed from one party to another
Drawdown	When approved loan funds are provided to someone and then deposited into their account
Equity	The difference between the value of a borrowed asset and how much you owe on it
Fixed interest rate	An interest rate that does not change during the course of a specified period
Guarantor	A family member or a friend who guarantees the payment of your home loan if you're willing to pay it
Interest	The amount of money that a lender charges the borrower for using the money that they lend
Interest only	When a borrower only pays the interest on the loan amount and not the principal (which is the original mortgage)

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Lenders mortgage insurance (LMI)	An insurance that is paid to the lender to protect them in case you default when you're borrowing more than 80 per cent of a property's purchase price
Loan to value ratio	The value between the amount you're wanting to borrow to service a new loan and the value of the property you're purchasing
Minimum repayments	The minimum amount of money you're required to pay back on a loan
Mortgage broker	A person that will help a borrower to find the most suitable home loan for their situation
Offset account	A bank account linked to a home loan. The balance of the funds in this account reduces the amount payable on interest
Principal	The amount of money borrowed that needs to be repaid
Redraw facility	A feature that gives you access to money that you've repaid on your loan in excess of scheduled repayment amounts
Refinance	The process of taking out a new mortgage to repay an existing loan
Stamp duty	A duty that's charged by the Government and is based on factors including a property purchase price, its type and location
Term deposit	A way to invest money while earning a fixed rate of interest. Money gets locked away for a specified time while this occurs.
Variable rate	A rate that changes in response to external factors, like when the Reserve Bank of Australia changes it's cash rate.