



**Home Loans**  
**Investment Loans**  
**Business Loans**  
**Commercial Property Loans**  
**Asset Finance**



## **Fact Sheet: Mortgage Basics**

### **What is a Mortgage?**

A mortgage is an offering of a property (ie your home) as security for a loan (ie your home loan). The loan finances the property, with the property being encumbered by the lender until final payment has been completed. By obtaining a mortgage, the Borrower is able to buy a house or other real estate.

### **Mortgages – The Different types of Loans**

**There are two main types of loans:** Line of Credit Loans, or revolving loans, and Term Loans are the two predominant types of loans available from most lenders today:

#### *Line Of Credit:*

A line of credit loan allows you to access the equity in your home to use as you wish. It is an ongoing loan (sometimes referred to as revolving or evergreen) and often comes with a credit card. This type of loan is useful to pay for costs including renovations on your home. The loan acts like a large overdraft, similar to a credit card that can be accessed via EFTPOS or ATM's and Internet Banking like a normal account.

#### **Term Loan:**

Term loans are a more traditional loan, where a mortgage is taken out over an agreed term, which is usually 25 to 30 years. Regular payments are made throughout this period, according to the interest rate that applies at that time. Longer mortgage terms will result in lower monthly repayments, however, the total repayments over the life of the loan will be far more than a shorter term loan.

Term mortgages include the following types:

- Fixed rate Loans
- Variable Loans
- Full or Low Doc Loans
- Reverse Mortgages
- Construction Loan

### **Fixed vs Variable Rate Loans:**

Over time, with changes to the Economy and underlying Reserve Bank Cash Rate, the interest rates on home loans will fluctuate accordingly, which can have a great affect on your actual repayment amounts on your mortgage. If you are not comfortable about the possibility of having to pay more per month, you may wish to consider a fixed rate mortgage, where the interest rate stays at the same rate for a predetermined length of time.

#### **Fixed Rate Mortgage – Is it right for you?**

Fixed rate loans generally have the interest rate fixed for a term of one to five years with lenders occasionally offering a ten years term.



Home Loans  
Investment Loans  
Business Loans  
Commercial Property Loans  
Asset Finance



### ***Advantages and Disadvantages of fixed rate mortgages:***

**Advantages:** Allows Peace of mind that interest rates and repayments do not change for the duration of the fixed period.

**Disadvantages:** Provides less flexibility as there are often limitations on additional repayments and also early repayment costs should you look at breaking the fixed rate contract early.

### **Variable Rate – Is it the more suitable choice?**

The interest rate of a variable rate loan will fluctuate from time to time, thereby resulting in increases or decreases to your repayments. They do however provide more flexibility in terms of additional repayments or early repayment. You can also negotiate a discount off the Standard variable rate loans for the life of the loan depending on the loan amount, and there are some great budget loans available if you are happy with a simple loan product with minimal features.

### ***Advantages and Disadvantages of variable rate mortgages:***

**Advantages:** More flexible than a fixed rate loan with no limit on additional repayments being made. Often the lenders have some great package discounts available as well.

**Disadvantages:** If interest rates increase this will be passed onto you as the borrower.

### **So, which one is best for me?**

Fixed rate home loans provide you with the comfort of knowing how much your repayments will be regardless of what interest rates do. While variable rate home loans may benefit from interest rate reductions, so it is difficult to predict which direction interest rates will move.

Fixed Home loans are not as flexible as variable rate loans, and if you are looking at terminating the fixed rate loan early, you could have significant termination fees to pay.

Sometimes a combination of the two can be the best option allowing you to make additional repayments to the variable rate portion over the fixed term with no penalty, and having a portion on a fixed rate to protect you from any upward movements to the interest rates.

In all cases we recommend that you speak with one of our professional lending specialists to understand exactly which loan will be most suitable for your circumstances. We will discuss your repayment goals and how long you intend to have to property for to ensure whichever option you make is the best one for your personal circumstances.

**An informed decision is always the best decision.**

***If you would like more Details on Home Loans or would like to speak to a Professional Mortgage Specialist about your personal circumstances, please phone Loan Wize for an appointment.***