

GLOSSARY

Jargon. Can't do without it.

You may come across some of these terms when dealing with Financial Services – Banking, Insurance, Mortgages, Financial Advice, etc.

This list is an indication only, there are many more terms not included below. Definitions are made to the best of our ability and should not be solely relied upon. Some of these terms and definitions can also be interpreted differently, in other context.

Here we go ...

AAPR (AVERAGE ANNUALISED PERCENTAGE RATE)

In relation to consumer loans -Also called the Compulsory Comparison Rate, or true rate. This figure takes into account some other costs associated with the loan etc., and expresses them as an average interest rate, to create a level field with which to compare like loan product interest rates ('apples to apples').

ACCOUNTS PAYABLE

Money owed by businesses or individuals, usually for goods bought or services rendered.

ACCRUED CREDIT CHARGE

Unpaid interest / charges accumulated on an outstanding loan / credit facility.

ACCRUED INTEREST

Interest accumulated on an investment that has not yet been paid or credited to the investor.

ACCUMULATION FUND

A type of super fund that reflects total contribution on behalf of the member, plus all the earnings within the funds, minus all fees, charges and taxes. Opposite to a Defined Benefits Fund.

ACCOUNT KEEPING/ ADMINISTRATION FEE

An ongoing fee charged by the lender for administration of the account.

APPROVAL PERIOD

The length of time the approval is available / valid before the finance offer is withdrawn.

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ACCEPTANCE

To agree to the terms of an offer or contract.

ACTUARY

A qualified professional specialising in the technical aspects related to life insurance, superannuation, investment, etc.

ACCUMULATION STAGE

A phase, in the wealth building process, where funds are regularly contributed into savings, super, investment, etc. vehicles with the aim of long term wealth creation.

ADDITIONAL REPAYMENT

Extra funds paid into any financial debt facility, in addition to the agreed minimum payments.

AGENT

An intermediary (go between) who acts on behalf of clients, with product / service provider, Ex; Real Estate Agent.

ALL ORDINARIES INDEX - "ALL ORDS"

An index of more than 250 Australian companies listed on the Australian Stock Exchange, that is used by equity investors to measure movements in the equities market.

ALLOCATED PENSION

A type of retirement investment product that provides a regular and ongoing income, from the investment of a lump sum.

ALLOWABLE DEDUCTIONS

The costs, losses or expenses, approved by the Australian Taxation Office, that can be used to reduce taxable income.

AMORTISATION

To pay off a loan within an agreed period of time. The systematic repayment and payout of a debt. The writing down of the book value of an asset.

AMORTISATION PERIOD

The period of time over which a debt is paid out, or the book value of an asset is written down.

ANNUITY

A series of regular payments received by an individual, which is predefined, in return for a lump sum amount paid to an institution.

APPLICATION FEE

The fee, also called establishment fee, charged by a lender to cover or partially cover the lender's costs of setting up or establishing the loan.

ADF -APPROVED DEPOSIT FUND

A specified managed investment fund, approved by the Australian Government, that can only accept funds from superannuation payouts.

ARBITRAGE

An investment technique which takes advantage of differing prices in different markets, or different maturity dates of investments. This is usually associated with the commodity market.

ARREARS

An overdue account yet to be paid. Amounts towards rent, interest, repayments, etc. which are owed and not yet paid.

ARREARS FEE

A charge or fee for administering the arrears position.

ASSESSABLE INCOME

Generally refers to all forms and sources of income that are defined as income under the Australian Income Tax Assessment Act, including business income and capital gains.

ASSETS

Money, property or goods, of some tangible value, owned by an entity (individuals, companies, etc.).

ASSET ALLOCATION

Choosing/selecting assets while investing, based on predefined criteria, within an investment portfolio.

ASSET BACKING

A security with a value, and which pays dividends, has to be backed by something, on which its valuation is based.

ASSET LENDER

Lending institutions that lend money based on the value of the asset, which will be held as security.

ASSIGNMENT

Legal transference of a right or a title to a property, from one entity to another.

AT CALL

Funds in accounts that can be accessed at any time and not locked away for a specified period, as with term deposits. In practice, this unlimited access may be restricted by the opening hours of the financial institution or the type of withdrawal access it offers. Institutions may take up to 24 hours to process withdrawals (e.g. some cash management trusts) or offer true instant access via ATMs and Internet banking).

AUDIT

A regular, periodic and systematic review of accounts of person/entity to verify/examine reliability of assets, liabilities, financial transactions, controls, records, etc.

AUTHORISED REPRESENTATIVE

Person or entity, legally authorised to represent, act or provide a service by person or entity which holds the original license issued by relevant authority.

AUTOMATIC REINVESTMENT

The process of adding back (reinvesting) income derived from that particular investment.

BANK

A financial institution generally offering a wide range of financial services regulated by legislation (Commonwealth and State). Funds are raised from various sources but regulated by the government.

BAD DEBT

A debt which is written down (cleared from records) and assumed as a loss, once it is decided that it is unlikely to be recovered.

BALANCED FUND

A type of managed investment fund where investments are made in a range of categories such as cash, fixed interest, bonds, property, Australian shares, international shares, etc., based on set criteria.

BALANCE SHEET

A detailed financial statement of persons or an entity, summarising assets and liabilities. Gives a snapshot of financial health at a particular point in time.

BALLOON PAYMENT

Usually a single lump sum payment at the end of a loan which pays out that debt in full.

BASIC RATE

Applied to loans commonly called "No Frills Loans" which are generally cheaper than standard Variable Rate Loans and may not have extra features such as a linked credit card or mortgage offset.

BANKER'S LIEN

The right of a Bank to retain a customer's securities until a liability to the Bank is charged. (See also 'General Lien').

BANKRUPTCY

The legal financial state an individual can be in, when unable to meet debt commitments. A debtor (one who owes money) may be declared bankrupt by the Federal Court at either the debtors or the creditors instigation, and the

debtors estate will be placed in the hands of an official receiver who will distribute the estate in accordance to the provisions of the Bankruptcy Act.

BASIS POINT

One hundredth of 1 percent. $1/100$ th of 1 percent. $1/100\% = 0.01$. A fraction of a percentage point.

BAYCORP LTD (VEDA ADVANTAGE)

The company which may record and hold credit information on individuals and businesses, such as loan applications, credit defaults, etc. Previously known as CRAA, and may often be referred to as the 'CRAA Check'.

BEAR MARKET

The opposite of a Bull market. Characterises a pessimistic outlook/perception and falling prices in the share market.

BELOW PAR

A security which is trading below its face value. Opposite of Above Par.

BENEFICIARY

A person or an entity who receives financial benefit.

BLUE CHIP

Usually associated with securities of entities which have a stable record of profits and dividends.

BONDS

Securities which are usually issued by governments, companies and other entities which pay fixed interest for specific periods.

BORROWER

A person or entity borrowing money to purchase, pay-off, or refinance a product or effect.

BPAY

BPay is an Australia-wide electronic bill payment service, offered by most financial institutions. It enables consumers to pay bills to a range of businesses registered with the service via phone or internet. Customers use a unique Biller Code for each business and an allocated reference number for their bill. Funds come out of their credit card or savings account. Payment can be made 24/7 which is then processed either the same day or next day. A similar rival scheme set up by Australia Post is called POSTbillpay.

BREAK COST

May be incurred when a fixed rate loan is discharged or paid out DURING the fixed term of a fixed rate loan. As an example, if you have a 5 year fixed interest loan contract and you need to pay out the loan in the third year the lender may incur an "economic loss". This will have to be paid by the borrower. These calculations can be complex and are outlined in the loan contract.

BRIDGING FINANCE

A short term debt facility, often used to secure an asset while long term finance is being sought.

BUILDING SOCIETY

A financial institution generally offering a wide range of financial services. A cooperative owned institution may raise funds from individuals & the wider market for its activities.

BROKER

Usually an individual acting as an intermediary between a buyer and seller, for monetary compensation.

BUDGET

Usually a financial plan of action which details expenditure and income, for a stipulated time frame

BULL MARKET.

Opposite of Bear market. Usually denotes an optimistic outlook/perception and rising prices in the share market.

BULLION

Gold or silver denoted in a specified weight.

BUSINESS CYCLE

Denotes fluctuation in the market between good and bad times, shown as a cycle of boom (good times), slow down, bust (bad times), and pick up leading to boom again.

BUY BACK

Usually denotes an agreement/understanding that the seller of a financial security will buy the security back, within a specified time, at a predetermined price.

BUYERS MARKET

Denotes the state of market where there is excess supply compared to current demand. That buyers are in control and tend to set the price in the market.

BUYER'S AGENT

Person or entity acting on behalf of the buyer, to help find and negotiate price and terms on the purchase of financial assets.

CALL (IN AN OPTIONS CONTRACT)

A call option provides the right but not the obligation to buy a specific amount of shares at specified rates and within specified time frames

CAPITAL

Also see Assets. The current value of your assets, including car, property, business, cash etc., minus any liabilities you may have.

CAPITAL GAIN

The financial gain you get when you sell something for more than you bought it. Maybe subject to the capital gains tax, which is paid on the gained amount. Opposite of Capital Loss.

CAPITAL GUARANTEED

Usually an investment product which may guarantee return of invested capital, irrespective of any losses suffered by the fund itself.

CAPITALISM

A system of economic/social organisation of a society where the means of production, distribution and exchange of goods and services within that economy remains, predominantly, in private hands and not dominated by the state (government).

CASH MANAGEMENT TRUST

Usually a type of unit trust which invests investors money in typical money market investments, which are usually not accessible by retail investors. They can provide better returns to investors when compared to some typical banks and deposit taking institutions.

CASH FLOW

The net amount of cash (money) flowing through the account of individuals or businesses, in a given period. A steady and positive Cash flow is essential to meet payments as they occur.

CAVEAT

A notice of warning given to a public authority, e.g. Titles Office, claiming entitlement to, or an interest in a particular asset. The caveat is registered and remains on the books as a warning to anyone who contemplates dealing with that particular asset. It therefore prevents any action being taken without the previous notice of the person or entity entering the caveat (the caveator).

CAVEAT EMPTOR

Meaning of a Latin term "Buyer Beware". Usually under common law a buyer is obliged to check the product carefully before buying as there may not be redress if it is found not suitable later on. This has been modified in modern times with the introduction of consumer protection laws and warranty protection.

CHARGE (OVER PROPERTY)

The term used to describe any right established over a borrower's property to secure a debt, or performance of an obligation.

COLLATERAL

Property or assets made available to a lender by a borrower, as security (to support) a loan.

COLLATERAL SECURITY

Can also mean additional or supporting security given in addition to the principal security. Collectibles Coins, antiques, paintings, artefacts, etc. Investments in items of value which may gain in value over a period of time.

COMMISSION

Fees paid to an intermediary (Broker, Agent, etc.), by a product/service provider for introducing or acting on behalf of a purchaser of that particular good/service.

COMPARISON RATES SCHEDULE

See CRS

COMPULSORY COMPARISON RATE

Or CCR, is the figure expressed as an interest rate that takes into account some of the extra costs of a loan product. The formula used to calculate the CCR is regulated by the Uniform Consumer Credit Code (UCCC) and all Australian lenders are required to use the same formula.

COMMERCIAL LOAN

A loan which is either secured by commercial property or where the funds are used for the purpose of purchasing a commercial property or some other commercial purpose.

COMMUNITY TITLE OR COMPANY TITLE

Consists of a one entity, being either a company or a group, owning a property in which units / shares are purchased by various individuals or entities. This has become less common.

COMMUTATION

In the context of superannuation, it usually means the conversion of an annuity or pension into a lump sum amount.

COMPARISON RATES

Can be useful to compare different loan offers objectively (compare apples to apples). Lenders and brokers must disclose a benchmark comparison rate in their advertising of home loans and personal loans since July 2003. This Comparison Rate is designed to reflect the total annual cost to a borrower of a loan. It wraps up interest payments and fees and expresses all these costs in one rate, or the average annual percentage rate (AAPR).

COMPOUND INTEREST

“The magic of compounding” is a powerful tool in wealth creation. It is a method of calculating interest, over a period of time, not only the principal (initial) amount invested, but also accrued interest which adds on to the principal (Interest on Interest).

COMPULSORY PRESERVATION

In the context of Superannuation – A part of an individuals super fund benefit which must remain within the superscheme until certain conditions are met (Death, Permanent disablement, retirement, emigration, etc.).

CONCESSIONAL CONTRIBUTIONS

In the context of Superannuation – Usually contributions made to a superannuation fund, on behalf of a person, where the source of the contribution is “before tax income” (untaxed monies). The contributor may be entitled to taxation benefits because of choosing to make this particular contribution. Salary sacrifice contributions, Super Guarantee (SG) contributions towards an employees super account, etc., are examples of concessional contributions.

CONDITIONAL APPROVAL

Approval of a debt facility which is subject to certain conditions. Once the conditions are satisfied a full approval or "unconditional" approval may be obtained.

CONSTRUCTION LOAN

Where the funds are predominately being used for the construction of a property.

CONTRACT NOTE

Usually a document issued by a stock broker to confirm purchase or sale of shares, with the date, quantity, price, brokerage fees, etc. details on it.

CONTRACT FOR SALE

A legally enforceable contract for the transfer of ownership of property. The format for a contract differs in each State or Territory of Australia.

COOLING OFF PERIOD

A predetermined time between a holding deposit being paid & contracts being signed. This gives the parties concerned time to think about their decision. These are different in each State or Territory in Australia. It is very important that you understand your cooling off period before signing anything.

CONSUMER CREDIT CODE

Legislation designed to protect the rights of the individual (personal consumer) by ensuring banks and other financial institutions all adhere to the same rules when providing personal, domestic or household credit. It should provide borrowers with complete and honest information. Also known as the Uniform Consumer Credit Code or UCCC.

CONTRIBUTIONS TAX

In the context of Superannuation – The tax deducted from funds entering into the super fund of a person where the source of the incoming money (the contributor) is entitled to a tax deduction.

CONVEYANCING

The legal process for the transfer of ownership of real estate.

COSL

Credit Ombudsman Service Limited. Formerly known as MIOS (Mortgage Industry Ombudsman Service).

COUNTRY RISK

The risk involved with investing funds in another country. The other types of risks to be kept in mind, while making investment decisions are Currency risk, legal risks, political risks, settlement risk, etc.

COVER NOTE

With regards to Insurance – Usually a temporary document issued to an applicant to cover the risk, until a permanent insurance contract is paid for, prepared, and delivered to the applicant.

CRAA

See Baycorp Ltd (VEDA Advantage).

CREDIT ADVANTAGE LIMITED

See Baycorp Ltd (VEDA Advantage).

CREDIT RATING

The assessment / evaluation of a person's or entity's capacity to take on debt and make regular repayments.

CREDIT UNION

A financial cooperative supervised by the Australian Financial Institutions Commission. Generally funds come from an individual, community or employer.

CRS

Comparison Rate Schedule. The schedule displayed by a lender that give the annual percentage rate and the respective Comparison Rate, for the lender's loan products for specific amounts over specific terms.

CUSTODIAN

A financial institution (Ex; Bank) which holds an asset on behalf of clients.

DAILY INTEREST

Interest calculated on a daily basis -varies according to daily account balance.

DAY TRADING

Buying and selling securities (shares, etc.), usually within the day (not keeping it overnight).

DEBENTURE

A type of security which usually pays a fixed interest, issued by companies to borrow funds from investors, for the medium to long term. They are usually classified as secure debt, secured against assets of the company, ranking ahead of shareholders.

DEBTOR

Someone who owes money to another and can be compelled to perform an obligation.

DEBT SERVICE RATIO

With reference to an economy (country) – the ratio of the principal & Interest repayment against its debt, compared to its export earnings.

DEED

A document in writing, which is signed, sealed and delivered by the parties thereto, to prove and testify the agreement of the parties whose deed it is, to the things contained in the deed.

DEPRECIATION

The accounting practice where the cost of a fixed asset of an asset is spread over the life of the asset. Depreciation is a non-cash expense which allows the money to be retained by the business, thus technically allowing the business the capacity to replace the asset over time.

DEFAULT

Where the normal repayment has not been made on the specified date.

DEFERRED ESTABLISHMENT / APPLICATION FEE

Some lenders discount the application fee but will charge the full fee should the loan be repaid prior to a predetermined length of time set by the lender.

DEFINED BENEFIT FUND

A type of superannuation fund where the final payout to the member is based on criteria such as length of service, salary, etc. and NOT on any contributions over a period of time.

DEPOSIT BOND

A tool used to facilitate the exchanging of contracts. Instead of providing a 10% deposit which sits in a "trust" account during the settlement period, the purchaser pays for and takes out a deposit bond. It is like an insurance policy. It provides certainty to the vendor. The deposit bond provider will pay the vendor money due (10% deposit) in case the purchaser defaults on the contract. Money is then recovered back from the purchaser.

DEPOSIT TAKING INSTITUTIONS

Organisations (Banks, building societies, credit unions, corporations, etc.) that accept customer funds and may pay interest on these funds.

DEPRECIATION

An estimated decrease, over time, of the capital value of an asset due to age, usage, etc. over time. In accounting terms this depreciated value could count as an expense, thus reducing the profit or raising the loss, for that accounting period.

DELAYED SETTLEMENT

When both parties (buyer and seller of an asset) agree to a settlement date beyond the date fixed earlier. The regulation covering this can differ in each State and Territory in Australia.

DIRECT DEBIT

Where the Lender debits (deducts) a payment from client's bank, credit union or building society account.

DISBURSEMENTS

Solicitors incidental costs involved when dealing with client on behalf of the Lender, e.g. searches, certificates pest reports, etc.

DISCOUNTED CASH FLOW

A method of measuring the value of today's money compared to a future date, or today's value of future money. Also defined as the 'Time Value of Money'. Example – If we are expecting a return of 10% per year, then \$100 invested today would be worth \$110 in one year. Conversely the current value of \$110, receivable in one years time, is \$100.

DISCRETIONARY EXPENDITURE

Expenditure that may not be considered essential, that may not be kept aside or committed to debt repayments, essential expenditures, etc. Funds available towards lifestyle expenditure or savings.

DIVERSIFICATION

The often heard cliché “Do not keep all your eggs in one basket”. The concept of spreading investments between different categories, sectors, fund managers, etc. to reduce volatility, or, to manage risk levels in proportion to the expected return, over a period of time.

DIVIDEND

A payment declared by a company and paid to shareholders from company profits.

DRAW DOWN

Act of transferring money from lending institution to the borrower after the loan has settled.

DSR

Debt Service Ratio. A measure of a borrower's regular expenditures as a proportion of his income. It helps lenders determine borrowers capacity to repay a loan.

DUTY OF CARE

A legal concept which means individuals and organisations in the financial services industry have an obligation to keep the interests of clients as first priority, to not be negligent in the provision of services to clients.

EARLY DISCHARGE FEE

A fee or penalty payable if a loan is repaid before a certain minimum period of time. Many lenders charge this fee if loans are repaid within the first 3-4 years.

EFTPOS

Electronic Funds Transfer at Point Of Sale. Means of payment whereby debit card holders can pay for purchases by electronic debiting their savings account.

EMPLOYER CONTRIBUTION

With regards to superannuation – As per the Superannuation Guarantee (SG) scheme an employer is obligated to contribute a percentage of an employee's income (in most cases), towards the employee's superannuation fund.

ETP – EMPLOYMENT TERMINATION PAYMENT

Called Eligible Termination payment prior to July 2007. These are payments received by individuals on retirement, retrenchment, etc. Usually consists of a tax free and taxable component.

ENCUMBRANCE

A charge or liability, e.g. a mortgage.

EQUITY

Generally used to denote the financial interest of a person in a property or business enterprise, e.g. a person's equity in his house is the difference between its value and the amount still owed to a Lender. A person's overall equity refers to his net financial worth, or the difference between what he owns and what he owes (i.e. Assets - Liabilities = Equity).

ESTABLISHMENT FEE

A fee paid by the borrower to establish the loan & mortgage.

EXCHANGED CONTRACT

Exchange can occur when both parties sign the contract (agreement) to purchase / sell the property & usually a deposit is handed over at the time of exchange of contract. An exchanged contract will contain signatures of both vendor and borrower.

ESTATE

The value of all assets and related liabilities of an individual.

EXCHANGE

With regards to property -The legal point of time when the vendor and the buyer swap documentation with a view to settlement.

FEE SIMPLE

'The estate in fee simple', which usually denotes the highest estate in the land, and is the closest the law comes to recognising absolute ownership for all practical purposes. However, while we refer to a proprietor of an estate in fee simple (who is the owner for all practical purposes), their ownership is not legally absolute, for absolute legal ownership of all and rest with the Crown.

FINANCIAL ADVISER

A professional within the financial services industry, with the relevant qualifications and experience, who can assist clients plan, implement and achieve their financial goals.

FIRE SALE VALUE

A 'worst case scenario' value of an asset. The price an asset is assumed to fetch in a distressed sale. Usually below Book Value, Market Value, Going Concern Value, etc.

FIRB – FOREIGN INVESTMENT REVIEW BOARD

An advisory board consisting of government & non-governmental members who advise government on foreign investment matters.

FITTINGS

Items that can be removed from a property without causing damage to it. Some examples are light fittings, kitchen fittings, carpet, curtains, etc.

FIXED INTEREST (FIXED RATE)

An interest rate set for an agreed term. Fixed interest products usually pay a fixed rate of return over an agreed period. Products could include term deposits, bonds, debentures, etc.

FIXTURES

Items that would cause damage to the property if removed. Their removal must be stipulated in the contract of sale, and damage made good by the seller. Some examples are Oven, bath, cooking range, etc.

FRANKED DIVIDENDS

Dividends paid to shareholders where some tax has been paid by the company on the money distributed to shareholders.

FRINGE BENEFITS TAX

Taxes payable by employers for benefits paid to employees for which employees have not been taxed. Benefits usually form part of salary packages including loan repayments, motor vehicles, education expenses, etc.

FUTURES CONTRACT

Futures is a highly speculative investment sector. Futures contracts are usually agreements to buy or sell an agreed quantity of a commodity (precious metals, port bellies, US Dollars, etc.) at a specified rate on a specific date. It is a binding contract enforceable by law, traded on a futures exchange.

GARNISHEE ORDER

A court order taken out by a creditor on a person's employer or banker for the deduction of funds from his wages or bank account to repay a debt.

GEARING

The relationship between value of an asset and the debt associated with it. The more the debt value the higher it is said to be geared.

GAZUMPING

Usually translates to 'Short Change', 'Swindle', 'Do Under', etc. In relation to property sales – an unethical practice of renegeing on an agreed sale price in response to a better offer.

GENERAL LAW SYSTEM

With regards to property -System whereby all dealings on a property are made in the form of conveyances, whether the transaction is a sale, a mortgage, a re-conveyance, etc. Under this system the mortgage is in fact a transfer of ownership. When a conveyance is prepared it forms part of the chain of title and must be carefully preserved in order to prove the "root" to title.

GENERAL LIEN

Sets out in writing the Bank's right to retain property until a debt is paid. Includes Power of Attorney and other clauses generally contained in Bank security forms.

GOVERNMENT FEES

State and government charges at the time of settlement, e.g. stamp duty.

GROSS INCOME/PROFIT

Income from a person or company, before tax, superannuation or payroll deductions.

GUARANTOR

A person/s who agree to be responsible for the payment of another person's debts.

HOLDING DEPOSIT

A refundable deposit based on the goodwill of the buyer to go ahead with the purchase.

HOME LOAN

A loan taken out to assist with purchase of a home and land, refinance a home for owner occupation or investment or any other worthwhile purpose. Generally using a residential property as security.

HEDGE FUND

Usually an entity or vehicle formed by a group of high net worth individuals who speculate on high risk markets and investments.

HIRE PURCHASE

The purchase of equipment (vehicles, yellow goods, etc.) with payments made in instalments. The goods is 'hired' to the 'Hirer' (the purchaser) but not ownership until the last instalment is paid.

INDEMNITY

Security against damage or loss; A sum paid in compensation for loss incurred.

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A mathematically calculated figure, based on certain criteria, which measures the rate of change in trends of

various investments and sectors.

INDUSTRY SUPERANNUATION FUND

Usually a superannuation fund catering for several employers belonging to a particular industry type or sector.

INFLATION

An increase in the cost of goods & services. A relative decline in purchasing power. An inappropriate increase in money supply.

INSOLVENCY

A condition where liabilities exceed the valuation of assets and debts are unable to be repaid as they fall due, by individuals or companies.

INSTALMENTS

A series of ongoing and regular repayments, usually made against outstanding debt or credit.

INSTRUMENT

Formal legal document in writing, e.g. a deed of conveyance.

INSURANCE

Protection against possible hazard. A formal contract where an insurer agrees to pay the insured party an agreed sum as reimbursement, if certain agreed-to event occurs, and an agreed premium has been paid by the insured.

INTEREST

The Lender's charge for the use of funds or the return on deposited funds.

INTEREST ONLY LOANS

A loan where the principle 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, 1 to 5 years.

INTESTATE

A legal term where a person dies without leaving a legally enforceable will.

INTRODUCTORY OR HONEYMOON RATE

Discounted interest rate for a specified period of time (usually 3-24 months) to entice you to borrow from a lender. At the end of the honeymoon period the interest rate generally reverts to the standard variable home loan rate.

INVESTMENT LOAN

Where the property is used to gain income &/or capital gain. A tax benefit may apply -our advice is to consult your accountant for further assistance.

JOINT AND SEVERAL LIABILITY

The Bank's joint account authorities, guarantee forms, etc. are framed to ensure that joint account holders with debts due to the Bank of joint guarantors liable to the Bank shall be SEVERALLY liable, (i.e. individually), as well as JOINTLY. With Joint and Several Liability a creditor has as many rights of action as there are debtors; he can sue them jointly or severally until he has obtained payment, and an unsatisfied judgement against one debtor will not be a bar to an action against the others.

JOINT NOMINATION

Where 2 or more applicants can nomination 1 person to receive copies of any notice or documents. It assists with the lender sending out documentation to each borrower, applicant or guarantor.

JOINT TENANCY

Property in the names of two or more persons, where all persons have an equal interest in the whole property. When one person dies his interest passes to the survivor(s). They are known as Joint Tenants or Joint Proprietors of that property.

JOINT VENTURE

Usually a combined activity between different companies, countries, governments, sectors, etc. Usually done to combine technical expertise, financial ability, access to bigger markets, satisfy government requirements, etc.

JUNK BOND

A bond issued by companies, usually with a low credit rating but higher yield (higher returns on investment).

KICKBACK

Usually denotes a negative practice of providing a part of a fee, commission, salary, value of a contract, etc. unethically, illegally or both. Not to be confused with the legitimate, and fully disclosed, charging and payment of Fees, commissions, etc.

LAUNDERED FUNDS

Usually unaccounted and/or illegal funds, obtained by dubious means, which are passed through legitimate accounts (washed) to disguise their actual source.

LIABILITY

A borrowing or debt by an individual or entity which one is liable (responsible) for.

LAND LOAN

Where the funds are predominately being used to purchase land for eventual construction.

LENDER

The person or institution granting the funds / loan. By lending funds, they accept a risk. The higher the risk, the harder the loan may be to obtain and the higher the interest rate and fees.

LENDERS LEGAL FEES

Most lenders use external solicitors to draft documentation to a home loan / mortgage. Most lenders pass this cost

on to borrowers.

LENDERS MORTGAGE INSURANCE (LMI)

This is an insurance policy taken out by the lender to protect the lender in case of default by the borrower. In most cases LMI is payable by the borrower where borrowing more than 80% of the value of the property. LMI does not cover the borrower.

LEVERAGE

The use of borrowed money, usually along with some own funds, to purchase assets or invest. The potential for higher returns, but also higher losses has to be considered.

LESSEE

A person or entity who pays rent or instalments and to whom a lease is granted by the lessor. The lessor is the one who has granted the lease to the lessee and remains the owner of the property or asset throughout the term of the lease.

LIEN

Usually the right to hold on to the property of another person or entity, as security, until a condition or obligation is fulfilled.

LIMITED LIABILITY

The cornerstone of modern commercial structures. Liability (responsibility) of shareholders & investors is limited to the value of their shares and does not extend to any of their other assets, even if the liabilities of the company in which they have invested is more than the value of the shares themselves.

LIMITED RECOURSE FINANCE

A financial arrangement where the lender can require the borrower to repay the loan only on certain pre agreed conditions, apart from using or disposing the collateral (assets like property, equipment, etc.) to recover the debt.

LINE OF CREDIT

A flexible loan similar to an overdraft where you have a maximum limit and you only pay interest when you draw funds down (interest is only calculated on the amount drawn NOT the funds available). The account operates as a day-to-day account and there may be no obligation by the borrower to gradually pay off the loan principal amount over a period of time.

LICENCE HOLDER

In the financial services industry – An individual or entity having been issued an appropriate license by relevant authorities for providing particular services within the framework of the license.

LIQUIDITY

The availability of assets which can be converted to cash quickly and with minimum cost.

LISTED COMPANY

A company registered and listed with the stock exchange, and whose shares usually can be bought and sold through the stock exchange.

LOAN

An advance of funds from a lender to a borrower on the agreement that the borrower pays interest on the loan, plus paying back the initial amount of the loan at or over an agreed time.

LVR

(Loan to Valuation Ratio) the ratio of the amount lent, to the valuation of the property.

LUMP SUM BENEFIT

In relation to superannuation – A payment paid to a superannuation member or beneficiary, in one full amount or a lump sum.

MARKET VALUE

The valuation of an asset based on what it would sell for in the market, irrespective of its original purchase price.

MASTER TRUST

An investment vehicle where investor funds are spread across various fund managers for diversification. A specialist administrator takes charge of client administration including consolidated tax and investment reporting, for an additional fee.

MATURITY

The date a debt or investment must be paid in full.

MIOS

Mortgage Industry Ombudsman Service. Now COSL -see COSL.

MONEY MARKET

Usually a facility to trade in short term fixed interest instruments like treasury notes, bank bills, certificate of deposits, etc.

MORTGAGE

A form of security for a loan usually taken over real estate. The Lender, the mortgagee has the right to take (repossess) the real estate if the mortgagor fails to repay the loan.

MORTGAGEE

The Lender of the funds.

MORTGAGOR

The person borrowing money in the terms of the mortgage.

MORTGAGE REGISTRATION FEE

State Government fee payable for the transfer of title, discharge of mortgage, registration of mortgage, registration of a caveat, discharge of a caveat & other registrations such as leases.

MORTGAGE STAMP DUTY

State Government duty payable on the borrowers mortgage amount. The borrower generally pays the duty. The amount of duty varies from state to state.

NEGATIVE GEARING

Gearing your investment so that the cost to maintain it (loan repayments, council rates, maintenance etc.) is higher than the income produced by the investment. This is a loss making proposition on face value, but, capital gain (increase in the value of the investment) in the longer term could help overcome the losses. Also, there may be some taxation benefits for the investor.

NET INCOME

The income received by an individual after taking out taxes & levies. Take home pay.

NET PROFIT

The profit remaining in a business after all expenses have been taken out, but BEFORE TAX.

NON BANK FINANCIAL INSTITUTION

Any institution which is not a bank, but involved in the financial services industry (merchant banks, investment banks, building societies, credit unions, finance companies, etc.).

NON-CONFORMING LOANS

Usually refers to loans that cater for those who do not conform, do not meet standard income verification and credit history criteria set by most lending institutions. Unusual property, self-employed income not easily verified, poor credit records, non residence, etc. may be acceptable to non-conforming or sub prime lenders. Non-conforming loans are usually at higher interest rates to reflect higher risk to lenders.

NON PERFORMING LOANS

Usually refers to loans where the borrower is not making repayments as per the contract or not repaid the loan in full, but the lender is still booking interest and declared the borrower as a defaulter (has not yet given up).

NET WORTH

The value of an asset/entity/person, after all debts, costs, expenses, taxes, etc. have been deducted.

NO-CLAIM BONUS

Usually, in general insurance terms, an incentive given to a policyholder, on renewal, if there has not been any claims made in the previous year.

NON CONCESSIONAL CONTRIBUTION

Related to superannuation – Usually contributions made to superannuation funds, where the source of the funds coming in is 'after tax funds' (where tax has already been paid). The superannuation fund may not deduct contributions tax. Some sources could be spouse contributions from after tax income, government co-contributions, etc.

OFF THE PLAN PURCHASE

Buying a property from the plans only, before construction, not the finished product.

OFFICIAL CASH RATE

the Official Cash Rate is the interest rate set by the Reserve Bank of Australia and used to influence the general level of interest rates in banking and the economy. Changes to the cash rate, also termed "official interest rates", flow on to variable home loan, personal loan and credit card rates within days or weeks.

OFFSET ACCOUNT/MORTGAGE OFFSET

Offset accounts can help reduce interest payments to the lender over a period of time. However, not all offset accounts are equal and may not suit borrowers particular needs and preferences.

OLD SYSTEM TITLE OR COMMON LAW TITLE

Related to property titles -Consists of each transaction listing all ownership & mortgage transactions since the property's origin. Not very common.

OPPORTUNITY COST

The concept that we may forego (miss out) on an alternative course of action (and hence may pay a cost), when making choices or taking action.

OPTIONS

In relation to derivatives – A contract which gives the holder the right, but not the obligation, to buy or sell a security or its underlying commodity, at a pre-agreed price and specified time frame

ORIGINATOR

A non-bank lender competing with traditional banks and generally offering more flexibility. Funds generally come from money market or mortgage trusts etc., usually not from direct bank funding.

OWNER OCCUPIED LOAN

Loan against a property which is the primary residence of the borrower.

OUTSOURCE

To pay someone else to do something rather than doing it yourself.

OVERCAPITALISE

To spend too much money on an asset, which beyond a point, may not enhance the market value or sale value of that asset.

PAYE – PAY AS YOU GO

Relates to a procedure where tax is collected (deducted at source) and paid to the tax office, by employers, on behalf of employees, from wages/salary.

PAYOUT FIGURE

Usually an amount of funds required to be paid towards completely repaying an outstanding debt, as per terms specified in the debt contract.

PAY BACK PERIOD

Usually means the time taken to recoup all funds initially invested into an investment.

PENSION FUNDS

Usually refers to superannuation funds which may pay regular benefits to a person who is retired in the form of a pension.

PLAIN VANILLA

Usually refers to a simple financial product or service, without complication and features ('bells and whistles') attached to it.

PORTABILITY

The ability to transfer funds from one investment or superannuation fund to another fund or arrangement. In property purchase terms - Where a new property can be used as security for an existing loan, i.e. when the loan is transferred to a new security property without needing to repay the loan, reapply, or restructure.

PORTFOLIO

With regards to financial investments – A well planned, executed and managed set of investments in shares, property, fixed-term investments, managed funds, cash, etc.

POWER OF ATTORNEY

A written, legal authorisation to another person, or persons, to perform certain acts set out within the limits of the power of attorney document.

PRINCIPAL

In financial terms – The initial amount, or face value, of funds invested before adding interest, fees, charges, etc. are added. The capital sum borrowed on which interest is paid during the term of the loan.

PRINCIPAL & INTEREST LOAN

A loan in which both the principal and the interest are paid during the term of the loan.

POSITIVE GEARING

It is an investment strategy whereby an asset is purchased and its related income and expenditures result in a net profit which is added from your taxable income therefore increasing your tax payable. The fact that you are generating positive income may enable you to purchase additional investment assets.

PRE-APPROVAL OR APPROVAL IN PRINCIPAL

Approval of a loan subject to certain conditions generally used to ensure you qualify for a loan prior to bidding or searching for a property to purchase.

PE RATIO (PRICE TO EARNING RATIO)

The market price of a company share divided by the earnings of the company. It is a yardstick, one of the ratios to measure the suitability/value of a particular company, while making investment decisions.

PROPERTY

A person's property is "That which he or she owns, to do what they like with." It may be tangible or intangible, and may be given a monetary value (e.g. house, car, goodwill). Property may be classed 'real' which relates to land or interests in land (except leaseholds) and buildings, etc. or 'personal', which relates to other kinds of property such as cars, bank accounts, leasehold interests in land, etc.

PROPERTY TRUST

Usually a unit trust structure where investors (individuals and entities) pool funds together, to invest into the real estate market.

PROPER AUTHORITY

In relation to the financial services industry – An authority given to certain person or entity to act on behalf of individuals or entities holding appropriate Licenses, within the limits of the issued licence.

PROSPECTUS

In relation to the financial services industry -A written document/brochure that needs to be provided to the public (any potential investor) by any entity (company, investment institution, trust, semi-government institution, etc.) when an investment offer is made or solicited. It usually sets out details of the investment offered, returns or interest offered, and all other relevant terms and conditions. It should be registered with ASIC.

PUBLIC TRUSTEE

A body (semi-government) set up to monitor the wishes of a public member on behalf of beneficiaries.

REDEMPTION

In financial services terms – The process where an investment is converted back to cash.

REDRAW

Borrower is able to draw on pre-paid funds

REFINANCING

To replace or extend an existing loan with funds from the same institution or another.

REPOSSESSION

The taking back, or reclaiming, of goods by a seller from a buyer, usually because the buyer has not paid for the goods, or has defaulted on payments as per the agreed contract, or has otherwise not met fully with the terms and conditions of the purchase/loan contract.

REVALUATION

The change in value, either upward or downward, of any asset or investment, after an assessment.

RIGHT OF WAY

With regards to property -A restriction placed on the title of the land generally pertaining to shared driveway or access driveways.

RISK MANAGEMENT

In relation to financial services – Risk is the exposure by an individual or entity to danger. A potential that chosen activity, or inactivity, may lead to undesirable outcomes (health, life, incomes, losses, etc.). Risk management involves understanding the person or entity (risk profile of person or entity), analysing the various risks involved (risk of death, disability, trauma, loss of income, accidents, public and product liability, damage or theft of property, etc.), deciding on which risks to manage (avoid activity, control the risk, finance the risk, etc.), setting up a strategy to manage these risks, and continually assess risk management strategy on an ongoing and regular basis.

ROLLOVER

In relation to the financial services industry – The continuance, renewal or transfer of funds (investments, deposits, debt, superannuation, etc.) usually after the expiry of a set time or certain conditions, with possible pre-agreed adjustments (interest rates, taxation, and other terms).

SALARY SACRIFICE

In relation to salary income – A facility where pre tax income is diverted towards other forms of benefit, rather than taking it as after tax income.

SEARCH

In reference to property purchase, sale and ownership -An examination to confirm that the vendor is in a position to sell the property and that there are no encumbrances on the property.

SECOND MORTGAGE

An extra mortgage on an asset (usually property), on top of an existing mortgage (first mortgage) on the same asset. Terms on the second mortgage are usually tighter (higher interest rates, etc.).

SECURITISATION

Is the packaging, or bundling, of cash flow producing assets into a marketable security, e.g. mortgages, vehicle loans, credit card receivables, roads, bridges, etc. The process where these packaged assets (in the form of bonds) are sold directly into the capital markets. Investors in the bonds comprise of banks, financial institutions, government entities, superannuation funds, managed funds, etc., as well as other major institutions.

SECURITY

An asset that guarantees the Lender, against the borrowing of a borrower, until the loan is repaid in full. Usually property is offered to secure the loan.

SERVICEABILITY

Ability of borrower to make and meet repayments on a loan, based on the borrowers expenses and income.

SETTLEMENT

In property finance terms -Finalisation of payment by the new owner, and assumption of possession. When you pick up the keys!

SHARES

To own a share in a company is to have partial ownership of a company. A shareholder is entitled to a part of the company's profits (usually in the form of dividends), and also the increase or decrease in the market value of shareholding (capital gain or loss), when the share is sold.

SHORT TERM MONEY MARKET

That area of the financial markets where investments, borrowing and lending activity is for the short term (usually less than one year). The cash market (overnight money and 7 day bills), 90 & 180 day bills of exchange, promissory notes, CD's (certificate of deposits), treasury notes, etc. are some examples. Participants in this market include managed funds, banks, stockbrokers and other financial institutions.

SOLICITOR'S FUNDS

Short term loans/funding, organised by solicitors for selected borrowers, usually by pooling investment funds from participating clients. Funding usually for less than 3 years with interest only repayments, more used as a stopgap or bridging facility (in between arrangement) until borrower organises more long term facilities from banks or other financial institutions.

STAMP DUTY

A charge, fee, tax or duty imposed by State Governments on certain legal instruments and transactions. The most common example is the stamp duty payable when property is bought and sold.

STANDARD VARIABLE RATE

Most common rate charged by lenders. Generally linked to the official cash rate that can fluctuate (rise and fall) due to the economic conditions.

STOCKBROKER

An individual primarily engaged in the purchase and sale of securities, on behalf of clients, for a consideration (fee or brokerage).

STRATA TITLE

Right of title or ownership of a section or "unit" of a larger building.

SUB-PRIME / CREDIT IMPAIRED LENDING

'Sub-prime lending', also called 'non-conforming' loans, refers to loans that cater for those who can't meet the standard income verification and credit history criteria mainstream lenders like banks and mortgage originators use for ordinary borrowers. Such borrowers include those who are self-employed, have a poor credit record or who have recently arrived in Australia. Non-conforming loans are usually at higher interest rates to reflect higher risk of these borrowers.

SUBSTITUTION OF SECURITY

When a property or cash of equal value replaces a security for more than the LVR required.

SUPERANNUATION

A payment scheme or pension payable to individuals on retirement from full time work, reaching a certain age, or

meeting other condition. Also refers to a government mandated and supported scheme for the accumulation, investment and distribution of funds on behalf of individuals.

SURETY

Person who makes himself responsible for another's payment of debt, also known as the guarantor.

SWITCHING FEE

A fee incurred when an existing borrower wishes to change from one loan type to another e.g. Variable Rate Loan to Fixed Rate Loan.

TAX MINIMISATION

A legal process of strategic investment keeping in mind to reducing or minimising tax payable. Tax avoidance means going a bit further and trying to, still legally, exploit loopholes in taxation legislation, emphasising more the letter rather than the spirit of the law. Tax evasion is an illegal activity of avoiding paying taxes owed legitimately to the taxation department.

TENANTS IN COMMON

Property in the names of two or more persons and in which each has a separate and distinct share. When one person dies his share is not passed to the survivor(s) but becomes part of his estate for disposal according to his will.

TERM

In relation to property loans - The length of a home loan or a specific portion within that loan.

TERM DEPOSIT

Fixed-term deposits are savings accounts which offer higher rates of interest in return for committing funds for a set period. The longer the term, the higher the rate of interest. Money in a term deposit cannot be withdrawn at any time like a standard "at call" savings account.

THIRD PARTY SECURITY

Security provided for a mortgage by a third party (someone different from actual borrowers) who is legally different from the borrower or debtor.

TITLE DEED

Registration showing the ownership of property.

TITLE SEARCH

Process to ensure that the vendor has the right to sell and transfer ownership.

SYSTEM

System whereby ownership and all dealings on a property are detailed on the one document, i.e. a Certificate of Title or Deed of Grant. Under this system a mortgage is a charge or encumbrance on the title. Registration is compulsory to effect legal transfer of an interest in property and each time the property is sold, mortgaged, or a mortgage discharged, the transaction is recorded on the Certificate of Title.

TRANSFER STAMP DUTY

Government duty payable on the contract of sale.

TRUSTS

In relation to financial services – A trust is a legal entity, which is entrusted with assets (money, property, etc.) to be administered (by independent third party/s, either individuals or entities, called trustee/s), on behalf of others (beneficiaries of the trust). The Trust Deed is a document which entitles the trustees to act -sets out the purpose for which the trust has been formed, the rights & obligations of the trustee/s / managers, rights & obligations of beneficiaries, guidelines and rules under which the trust shall invest assets and operate, describes how benefits shall be accumulated and passed on to beneficiaries.

UNENCUMBERED

A property free of liabilities, restrictions or mortgages.

UNDERWRITER

In relation to financial services – A bank, broker, investment bank, financial institution, etc., or a combination of these forming a syndicate to guarantee (for a fee) that an issue of securities will be successfully taken up by or placed (sold) in the market. To sell the product (securities) to the wider market and buy any residuals (unsold parcel), thereby ensuring that the seller of the securities is assured of raising the full amount of money it originally intended.

UNIFORM CONSUMER CREDIT CODE OR UCCC

The "Credit Code" is a body of legislation designed to protect borrowers whose purpose for borrowing money is for private or domestic purposes. It is the duty of all lenders and lending brokers to ensure that the provisions of the Code are being complied with when providing credit of this nature.

UNSECURED LOAN

A loan where the borrower has not provided any collateral (asset against which the loan is secured) and the lender is entirely dependent on the borrowers capacity and willingness to repay. In case of default the lender has to go through the legal system to claim against the borrowers other assets.

VALUATION

A report as required by the Lender, detailing a professional opinion of a property's value.

VALUATION OR EVALUATION FEE

A fee paid for a professional opinion of the value of a property.

VARIABLE INTEREST RATE

A rate that changes in accordance with the rates in the market place. Also known as adjustable rate mortgage.

VARIATION

In relation to a property contract -Changing any part of the original loan contract.

VENDOR

Person selling a property who is the current owner.

VOLATILITY

Fast, erratic, unexpected, mercurial, unpredictable change in the price, value, performance, returns, etc. of any investment or asset.

WHOLE-OF-LIFE POLICY

An insurance term – A type of policy which usually has an investment component built into it. The policyholder can either cash in the policy or the beneficiaries are paid out the value of the policy on death of the policyholder.

WILL

A legal statement or document which sets out how a person wants his assets to be distributed or disposed off, after his death.

WRIT

A legal term – A document signed by, or on behalf of, a court. There are many types of writs, example ; A writ of execution – A direction by the court to a court officer to ensure a judgement is carried out.

WRITE DOWN

To write down – to reduce the currently recorded or assumed value of an asset or liability, taking into consideration depreciation, fall in market prices, etc. To write off – to eliminate (remove from the record or calculations) currently recorded or assumed value of an asset or liability. Example ; An unrecoverable debt may be written off as a loss or expense.

YIELD

Total return (usually annual) derived from an asset or investment, the actual rate of return, which is a percentage of the actual (net) outlay (money invested) against the actual return, per annum.

ZONING

Local authority guide as to the permitted uses of the land & construction on said land .