Precision Loans – Product Information Guide

Variable Rate Loans (Basic & Standard)

These two loan types are effectively the same in the way they work. The only differences are in the interest rate charged, and the features available. A standard variable loan will usually have a full range of features, whilst a basic variable loan will have a more restricted range. A summary of the usual differences is set out below. Please note that this is a general guide, and that differences between lenders may arise with specific products.

Feature	Standard Variable	Basic Variable
Redraw	Yes	Yes
Extra Repayments	Yes	Yes
Discounts available for higher loan amounts	Yes	No
Mortgage Offset Account	Yes	No
Line of Credit option	Yes	No
Ability to change to fixed rate	Yes	No

Discount Variable Rate loans or introductory offers

Many Lenders have developed a variant of their Standard Variable loan product, by offering new customers a reduced or discounted rate of interest for a set time. These discount periods can range from 6 months to 24 months, after which the interest rate reverts to the Standard Variable Rate. In order for the Lender to ensure that they recoup the cost of the discount and to discourage borrowers from continually changing from introductory products of various lenders, most have introduced penalties should the borrower repay the facility within a specific time.

Fixed Rate Loans

A Fixed Rate Loan is a loan where the interest rate is guaranteed to remain the same during an initial term, regardless of what may occur in the market with variable rate loans. Traditionally lenders have offered terms of between 1 – 5 years for fixed rates, however some Lenders may offered terms of up to 10 years.

Fixed Rate term loans normally require the loan to be renegotiated at the conclusion of the fixed term, thus a 5 year fixed term loan would normally be required to be repaid in full at the end of year 5. However most Lenders have the ability to arrange for the facility to revert to the Standard Variable Rate after the Fixed Rate term has expired. Thus a loan facility can be established for a 25 or 30 year loan term with the first 5 years, fixed at a specific interest rate.

It is important to note that fixed rates will not be adjusted by the Reserve Bank's official cash rate during the fixed period.

Fixed rate loans are popular with borrowers that want to take a conservative approach to borrowing, as they guarantee that the loan repayment will be the same for the Fixed Rate period. Many property investors have also found the Fixed Rate loans attractive products due to the product offering the comfort of guaranteed repayments. Fixed loans are not appropriate if you intend or foresee that you may payout your loan early for any reason.

Borrowers who take fixed rate loans need to understand that they are committing to a contract with the lending institution for the fixed rate term, and that should the contract be broken or the term changed, the Lender may charge the borrower substantial fees to cover the costs of breaking the contract.

These 'break costs' and can be very expensive. The break costs are determined by many factors, such as the term remaining, the current interest rate environment and the amount of the outstanding balance. They cannot be estimated when the contract is taken out.

In addition to the potentially prohibitive break costs, many Lenders also restrict the amount of extra repayments that can be made on the loan during the fixed rate period. It is also important to note that many fixed loans restrict redraw access or offset accounts, the ability to salary sacrifice or direct salary crediting or allow you to amend your repayment type from interest only to principle and interest or vice versa. The restrictions vary from lender to lender, and if you are thinking of taking a fixed rate loan, these restrictions may be a very important factor to consider.

Some lenders offer a rate lock for a small fee to 'lock in' the fixed rate at the time of application. If the fixed rate changes between the time of application and settlement, the rate lock guarantees the initial rate. Without the rate lock, the fixed rates may change prior to settlement. The cost of the rate lock, the expiry date and its purpose depends on each individual lender.

Line of Credit/Home Equity Loans

Also known as Come and Go facilities, Equity Loans or Revolving Lines of credit, these loans offer similar benefits and operating features as the common bank overdraft. A line of credit loan allows the borrower to establish a credit or facility limit, and then draw from and pay down the loan without restriction. The borrower has the ability to use the entire limit at any time and does not have to comply with an amortised repayment schedule.

Most Lenders who offer these loans require that the monthly interest charge be the minimum payment required to maintain the account. That means that the borrower can determine, how much if any, principal repayment they wish to make.

The credit or facility limit is normally determined by two factors:

- borrowers ability to repay, and
- level of equity in the property being offered as security.

These facilities have the benefits of allowing the borrower to utilise as much or as little of the credit facility for whatever time frame they require, while still only being charged interest for the outstanding balance. The facilities even allow for the balance to move from a credit balance to a debit balance. Most Lenders will also allow for the borrower to operate their loan account as their transaction accounts, as an 'all in one' account.

Important Note*: Line of credit loans are not suitable for all people, as the facility allows for the original limit to be reused. Without proper discipline, it is possible to never pay down the loan at all with this kind of loan.*

Precision Loans – Loan Features & Other Terms

Interest Only Payments
Most Lenders will offer borrowers the ability to make interest only payments on their loan for a set period. That means that the monthly repayment has no principal reduction component, and the outstanding loan balance will remain unchanged during the term of the interest only period.
Generally the terms offered by the Lenders are between 1 –5 years but some lenders may offer up to 10 years. After the initial interest only period, the loan will revert to the normal amortised repayments over the remaining term of the loan. For example, and loan with a 30 year term may have a 5 year interest only term, followed by a 25 year principal and interest term.

Loan Portability
Loan portability allows the borrower the option of using keeping their existing loan arrangements, but changing the property that secures it. For example, a borrower may sell their current home, and purchase a new home, and simply transfer the existing loan to the new home.

Offset Account
A Mortgage Offset account allows the borrower to have any savings or credit balances in their transaction account to be offset against their loan facility when interest is calculated. Offset accounts are offered by most Lenders which offer normal transaction type accounts.

Most Lenders will offer '100%' offset, which means that any credit balance in the account will offset the outstanding balance of the loan facility. The mortgage offset account itself does not earn any interest. However, benefit in that the interest on the loan charged is calculated on the net outstanding balance, after reducing the outstanding balance by the amount deposited in the offset account. For example, if a borrower had a loan with a balance of $100,000, and an offset account with a balance of $10,000, then interest is calculated on the net balance of $90,000.

As mortgage offset accounts are regulated by the Financial Services Reform Act, providing advice on these accounts to consumers may only be done by via the holder of an Australian Financial Services License (AFSL). If a consumer requires a mortgage offset account, the lender who offers the product will provide the consumer with a Product Disclosure Statement which contains all relevant information.

Redraw
Loan redraw feature allows a borrower to withdraw any additional funds that they have paid of their loan facility over and above the normal minimum repayment.
For example, if a borrower has been paying an additional $500 per month of their loan, after 12 months, the borrower would be able to redraw $6,000.

The redrawn funds can be used for any purpose. Lenders may charge a fee to redraw extra payments, with costs typically varying from nil to $50 per redraw.

Split Accounts or Combination Loans
Most lenders allow borrowers to split their loan into a number of different products. For example, a borrower may elect to take a combination of a Fixed and Variable Rate loans in order to minimise the potential effect of an interest rate rise, while still maintaining the flexibility of a Variable Rate loan.

Lenders Mortgage Insurance (LMI)
Lender's Mortgage Insurance is an insurance policy obtained by the lender, but paid for by the borrower. It is for the protection of the lender, and not the borrower. The LMI policy protects the lender against any losses where:

- the borrower default on their loan;
- the lender sells the security property; and
- There are not adequate funds to cover the outstanding loan and any fees and charges that may have accrued.

LMI is usually taken by the lender when the value of the loan requested exceeds 80% of the value of the security property. The LMI premium is based upon a sliding scale depending upon the loan to value ratio ("LVR") - the higher the LVR, the higher the premium. LMI premiums can be substantial, and must be factored into the overall cost of borrowing to ensure that there is not a shortfall of funds when it comes to settle a loan transaction.

LMI will normally not cover penalty interest, early repayment penalties, and LMI premium, physical damage to property and fees and charges not directly related to costs incurred by the lender in order to recover the debt. LMI companies may refund a portion of the LMI premium if the facility insured has been fully repaid within 12 months of advancement of funds.

LMI is available for both owner occupied & investment loans. In addition to the borrower needing to satisfy a lender's criteria, they must usually also meet the requirements of the mortgage insurer.

In many cases an application may meet the lending guidelines of the lender, but fail to meet the mortgage insurer's guidelines, in which case the lender will decline the loan.

Some Lenders may allow borrowers to add the LMI premium to the loan amount, which in effect allows the applicant to borrow in excess of the stated LVR.

Loan Refinances and Discharges
When refinancing a loan, it is important to understand the following components:

- Break costs may be payable and these may be significant.
- It is necessary for you to obtain a quote from the lender regarding the payout figure for the loan, any associated break costs, discharge fees or additional fees. Please note that these amounts are quoted as at a particular date and may change subject to the date of settlement.
- Break costs may also change (increase or decrease) from the date of the enquiry to the time the loan is actually discharged.
- Consider whether you could avoid any break costs by obtaining an additional loan, substituting security or waiting for a fixed term to expire?

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