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Get a better home loan.

Mortgage Quiz

Knowing the fundamentals of mortgages will help make the loan process easier and help you to manage your mortgage more effectively. That's why MyRate have developed this fun quiz to help you learn more about the mortgage industry, the different types of home loans, and most importantly the expensive traps you could fall into. Getting a home loan is an important decision – make sure you're prepared so that you make the right choices.

1. Joe Bloggs has assets worth over $500,000, however he currently does not have a steady income. Mr. Bloggs would like to purchase a property. What will the lender say?

a. Yes. Joe Bloggs has enough assets to support his new loan.
b. Generally no. The lender will evaluate the serviceability based on the ability to repay the loan with a steady income.
c. Yes, As long as the property value is less than his total current assets.
d. Maybe. If the assets include investment properties or an owner occupied house, then there will be no problem.

Answer: b

Lenders base their assessment on the serviceability of each applicant, not just their asset base. Serviceability takes into account a number of factors such as income, debts, funds available and more.

2. A variable interest rate is:

a. A rate which only fluctuates with any RBA increases or decreases.
b. A rate which is determined by the lender and can change at the lenders discretion.
c. A rate which remains the same for a specified period.
d. A rate which fluctuates based on the amount outstanding on the loan, and decreases with additional repayments.

Answer: b

A variable rate can change depending on any RBA increases or decreases. Variable rates are also subject to change at the lenders discretion.

3. A fixed rate is:

a. A rate which fluctuates with any RBA increases or decreases.
b. A rate which is determined by the lender and changes only at the lenders discretion.
c. A rate which remains the same for a specified period.
d. A rate which fluctuates based on the amount outstanding on the loan.

Answer: c

A fixed rate is a rate that does not fluctuate and is usually set for a specific period of time selected by the borrower.

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4. What is the purpose of lenders mortgage insurance?

a. This is insurance that will make mortgage payments for me if I become unemployed or ill.
b. Insurance that covers my home in case of damage or disaster.
c. Insurance to help marginal borrowers obtain loans.
d. Insurance that covers the lenders losses in case I default.

Answer: d

Lenders mortgage insurance is taken out by the lender to protect themselves against the borrower defaulting on their loan. The LMI premium is paid for by the borrower.

5. You are purchasing a new home, and it was recommended that you consider a 15-year mortgage as opposed to a 30-year one as a way to save money. What should you do?

a. I'd go with the 30-year deal because my repayments for the 15-year mortgage will be twice as high!
b. I would take the 30-year mortgage just to make sure I'm able to make payments. But I would still make additional principal payments whenever possible.
c. I would evaluate my finances first. If I could comfortably make payments on the 15-year mortgage, then I'd take that one.
d. Both b and c are correct, it would depend on my situation and preference**.**

Answer: d

This decision depends on the consumers preference. A longer term means lower minimum repayments, however a shorter terms means the loan is repaid quicker with less interest. Additional repayments may be able to be made to reduce the interest and the loan term.

6. Your monthly repayments towards your mortgage is $2000, and your mortgage product allows for free, no minimum redraws. One month you repaid an additional $500. How much is available for redraw?

a. $2500. Everything you repay is available for redraw.
b. $500. Only the additional amount you repaid is available.
c. $1500. Half the total amount you repaid is available for redraw.
d. Nothing will be available for redraw.

Answer: b

Redraws are available only on any additional amounts paid into the loan above the minimum set repayments.

7. You are thinking about getting a 100% loan. What does this mean?

a. You will be able to borrow 100% of all costs, including the property price, mortgage insurance, and any other government fees and charges.
b. You will be able to borrow 100% of the property price. The first home owners grant will cover any othercosts, and you won't be charged mortgage insurance.
c. You will be able to borrow 100% of the properties valuation price only. You will still have to pay any government fees, lenders mortgage insurance and any other fees and costs.
d. You don't need any savings.

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Answer: c

A 100% loan refers only to the properties valuation price. A 100% loan will allow you to borrow 100% of the properties value; however you will have to pay for any government fees, duties, mortgage insurance, lenders fees and any other fees and costs out of your own pocket.

8. Jane Smith has a mortgage of $500k on a property which has dropped in value to $480K. She currently owes $300K. How much equity does she have in the property?

a. $680K - the mortgage minus the amount owing plus the current value of the property .
b. $180K - the value of the property minus the amount owing.
c. $480K - the total value of the property.
d. $500K - the original loan amount.

Answer: b

The equity in a home is measured by the market price at the time of valuation, minus any debts outstanding.

9. John Smith would like to purchase a property. He has a steady income; however he has three cards with a total limit of $10K. Will this affect his ability to get a mortgage?

a. Yes. John should get rid of all debt or he will not be given a mortgage.
b. Yes. Three cards is over the limit - only one card is acceptable lending criteria.
c. No. 10K is a small limit, it won't affect his ability to get a loan. Lenders only worry about debts over $50K and if they are long term debts.
d. It depends on a number of factors, such as his income, the amount he would like to borrow and if he pays off all credit cards in full each month.

Answer: d

Lenders judge the serviceability of each customer based on a number of factors, including any current liabilities such as credit cards. Paying off your card in full every month can increase some customers serviceability, depending on the lender.

10. When a lender organises a valuation of a property, they:

a. Do it themselves, and generally exaggerate the value so people can borrow more.
b. Do it themselves, and generally lower the value to reduce the risk involved in lending against the property.
c. Get an independent valuer from a board of approved valuation companies to assess the property.
d. Ask the customer to organise the valuation themselves and accept the value the customer submits.

Answer: c

When organising a valuation, the lender will select an independent valuer from their approved panel to assess the value of the property.

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11. Bob Bloggs has to pay a Registration Fee on his mortgage. What is this fee?

a. A government fee charged on all home loans to register the mortgage being made.
b. A fee charged by the lender to register the mortgage on their records.
c. A government fee charged on some loans depending on the loan amount and location.
d. A fee charged by the lender to register the borrower as a valid Home Owner.

Answer: a

A registration fee is charged by the government on all mortgages. The fees vary depending on each state.

12. Lender ABC advertises an interest rate of 7% and a comparison rate of 7.5%. What is a comparison rate?

a. It's a rate calculated by the government for each lender. The rate calculates the lenders interest rate compared to all other lenders.
b. It's the lenders interest rate compared to the RBA's cash rate.
c. It's a rate which factors in all ongoing, upfront and other fees, plus the loan amount and term, and any honeymoon rates. It allows for fairer comparison between home loans.
d. It's a rate which combines the effect of the interest rate with the LVR.

Answer: c

A comparison rate combines the nominal and 'honeymoon' interest rate with any foreseeable fees, the loan amount and the term of the loan. Some fees, such as redraw fees and early repayment fees are not included in the comparison rate and should also be considered before selecting a mortgage.

13. Barbara Bloggs defaulted on a few payments on her mobile and credit cards last year. She has since paid it off and has saved enough for a deposit on a home. Does she need to tell her lender about her credit history?

a. Yes. It doesn't matter if the debt has been paid off, the defaults would be recorded on her credit file and her lender will ask for more information.
b. No. If the debts are paid off it will be wiped off Barbara's credit record and won't matter anymore.
c. No. If the debts are paid off, why complicate the process more?
d. Yes, but it won't have an impact on her application because as the debt has been paid it would have been immediately removed from her record.

Answer: a

Disclosing your credit history to your lender is important. Lenders will run a credit check which will reveal past defaults and enquiries. by disclosing your credit history earlier, alternative options and additional paperwork such as letters of explanation can be discussed before proceeding.

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14. If you have a limit of $20K on your card, but only use 2K which number will affect your loan application?

a. The limit of $20K because the lender will evaluate your ability based on the amount of credit you have available.
b. The limit of $20K. The more credit you have available, the better because it shows you have a good credit history.
c. The balance of $2K, the only thing that matters is how much you actually use, not what your limit is.
d. The ratio of your balance to the limit. The less credit you're using, the better the ratio looks to the lender.

Answer: a

The lender will consider all liabilities when evaluating your serviceability. This includes the funds available to you through a credit card, regardless of whether you use the full limit or not.

15. You have a deposit saved up worth 10% of the property you want to buy. Can you get a loan?

a. Yes, as long as you have some sort of deposit you'll get the loan.
b. No, you must have a 20% deposit saved up before a lender will look at your application.
c. It depends on a number of other factors such as fees, LMI and your serviceability, but 10% is a good start.
d. Yes, having a deposit does not matter these days; lenders will lend any amount to get your business!

Answer: c

A 20% deposit is usually not mandatory on standard loans, however having a deposit of 20% of the valuation price or more will mean that you do not have to pay for Lenders Mortgage Insurance. You will also have to consider if you have the funds on top of the deposit to cover any stamp duty, government, lender and legal fees.

16. Lender XYZ advertises a very, very low introduction rate. Should you apply for a loan with them?

a. Yes, the cheaper the better!
b. Introductory rates change to a higher rate after a period of time, and could have high fees. Better do more research.
c. No way - Introductory rates are just scams to get your business.
d. No. Introductory rates are full of traps, such as having to repay the loan in full by the end of the introductory period.

Answer: b

An introductory period is a set period from the start of the loan which interest is calculated on a lower rate. It is best to read to fine print for all introductory rate loans to see what rate the loan will revert to after the end of the introductory period. There may also be high monthly/annual fees or other restrictions on the loan.

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17. You have a choice between a fixed rate or a variable rate loan. Which is better?

a. The fixed rate, because it's always safer.
b. The variable rate because it allows you make additional repayments.
c. The variable rate because it would generally remain below fixed rates if the economic conditions are favourable and stable.
d. All the above are valid to some degree but It depends on your needs and situation.

Answer: d

The initial interest rate on a fixed loan may be higher than a variable rate loan; however the rate will never increase for that period. While a variable interest rate may be lower, it may increase at the lenders discretion. It is best to discuss your situation with a lender before deciding which option is best for you.

18. You have a car loan, and you are looking to buy your first home without a deposit. Can you consolidate your home loan and car loan into one?

a. Yes, you can borrow against the equity in the house and get a lower rate for your car loan so you can buy the car & the house at the same time.
b. No, you would usually have to wait until the property builds equity before you can refinance and consolidate your debts into it.
c. Yes, you can increase the loan amount to cover both the property value and the car.
d. No, lenders never consolidate debts for first home owners.

Answer: b

While there may be some loans offering over 100%, most lenders will only lend 100% or less of the valuation price. Which means without a deposit you will not be able to consolidate your loans into a first home purchase.

19. Your friend suggests you should refinance as you have been with your current lender at a high interest rate for the past 7 years. Refinancing is…

a. Expensive and complex, better to stay with your current lender.
b. A way to borrow more than the current value of the property with the ability to draw funds when needed.
c. A waste of time as you will have to pay all government fees twice.
d. Useful in some circumstances eg. if you can get a lower rate.

Answer: d

Refinancing can be useful if the savings you incur outweigh any costs in changing lenders. It is important to check with your current lender to see if they will charge any exit fees, as well as the fees charged by the new lender.

20. What is a security?

a. An asset used by the lender to secure the loan until it is repaid in full.
b. The mortgage insurance which provides security to the borrower.
c. A third party who makes himself responsible for the loan should the borrower default.
d. Another word for the income of the primary borrower.

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Answer: a

A security in a home loan is the house and land. If the borrower defaults on their loan, this asset can be seized by the lender.

21. Who is the Mortgagor?

a. The lender of the funds.
b. The mortgage manager.
c. The borrower.
d. The broker.

Answer: c

The "Mortgagor" is the borrower, while the lender is known as the "Mortgagee"

22. What is an off-the-plan property?

a. A property to be constructed from plans designed by the borrower.
b. All construction properties.
c. All properties which are deemed 'unliveable' by the valuation company.
d. A property purchased from the plans only, not the finished product.

Answer: d

Purchasing "Off-The-Plan" means that the property is purchased during the planning stage and before construction has commenced.

23. What is a loan principal?

a. The original amount borrowed, not including interest.
b. The interest charged each payment.
c. The total amount repaid by you over time.
d. The agreed number of years for the loan to be repaid.

Answer: a

The loan principal is the original amount borrowed not including interest.

24. What is Loan Amortisation?

a. A fancy word for a property purchased with a mortgage.
b. The reduction over time of your loan amount from regular Principal and interest repayments.
c. The interest charged by the lender each month.
d. The increase in the loan amount to capitalise mortgage insurance into the mortgage.

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Answer: b

Each time you make a payment on your loan, a portion of your payment goes towards interest and a portion towards the principal of your loan. The length of time it will take to pay of the entire principal balance of a loan is the amortisation.

25. How does an interest only loan differ from a principal and interest loan?

a. You can only get an interest only loan when you refinance your current mortgage and you have a good repayment history.
b. Over the life of the loan you typically pay less interest with an interest only loan.
c. Features and fees are always higher, and the interest rate is fixed over a period of time.
d. The repayments cover just the interest, and at the end of the period you have to repay the loan principal amount in full.

Answer: d

When you obtain an interest-only loan, your payments are considerably lower than they would be on a traditional loan; however, you're not paying off any of the principal balance on your home.

26. What is a redraw facility?

a. A facility provided by the lender for you to make and redraw additional repayments into the loan on top of your normal repayments.
b. A facility provided by the lender for you to redraw additional funds from the loan principal in return for a higher interest rate.
c. The ability to make additional repayments one month in order to skip payment the next.
d. The ability to switch between fortnightly and monthly repayments at any time.

Answer: a

A redraw facility gives you the ability to redraw any extra repayments you have made towards the loan. Some lenders may charge fees for additional repayments and redraws.

27. John Smith received indicative approval for a home loan. He then applies for a personal loan from a bank for $20,000. Will this impact his pre-approval?

a. Yes. John Smith's serviceability will need to be reconsidered in light of the new debt.
b. No, once you have pre-approval the lender cannot take it away.
c. Not if you don't tell the lender.
d. No, lenders will always make you borrow as much as possible.

Answer: a

An indicative approval is given by a lender based on the information provided by the borrower on their assets, income and debt. If the borrowers situation changes, serviceability will have to be re-assessed to determine the affordability of the loan.

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28. What's the difference between a mortgage and a home loan?

a. Home loan - a loan for the purpose of purchasing a home. Mortgage - a loan secured against a residential property.
b. Home loan - a loan secured against a residential property. Mortgage - a loan for the purpose of purchasing a home.
c. Home loan - a loan secured against a home. Mortgage - the amount left owing on your home loan.
d. No difference, it's just jargon.

Answer: a

Mortgage comes from the Old French mort (death) and gage (pledge). This means you pledge your property as security for a loan, and if you default the lender has the right to sell it (making it "dead" to the borrower).

29. At what stage in the life of a principal and interest loan do extra repayments help reduce the loan the most?

a. During the early years of the loan.
b. During the middle years of the loan.
c. During the final years of the loan.
d. It doesn't matter.

Answer: a

At the start of the loan, most of your regular repayments go towards paying off interest, so any extra payments will reduce the principal and help you turn this around. The earlier you make an extra repayment the more it will help pay off the loan sooner.

30. If you're borrowing $250,000 over 25 years, how much in interest would you save if you went with a 7.44% rate as opposed to a 8.32% loan (no calculators, use your financial intuition!)

a. $43,530.43
b. $23,530.43
c. $1,353.43
d. $3,530.43

Answer: a

A discount of 0.01% will not matter much - but there is a world of difference between the banks' standard variable rate and cheaper alternatives.

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