



PARKER
MORTGAGE & FINANCE
Purposeful Finance. Personal Guidance

A practical guide for Australian households

Home Loans Explained Simply

Understand the language, repayments and features so you can ask clearer questions about your home loan.



What are you actually borrowing?

Principal and interest

The principal is the amount you owe. Interest is the charge for borrowing it. With principal and interest repayments, you pay interest and gradually reduce the balance. Early in a long loan, a larger share of the repayment goes towards interest.

Loan term

The term is the time allowed to repay the loan. A longer term can reduce required repayments but usually increases total interest if the rate and other assumptions stay the same. A shorter term needs higher repayments.

Security

A mortgage gives the lender rights over the property securing the debt. If serious repayment problems are not resolved, the property can be at risk. Contact your lender early if you are struggling.

Term	Plain-English meaning
Loan-to-value ratio (LVR)	Loan amount divided by the lender's assessed property value, multiplied by 100.
Equity	Property value less debt secured against it. Usable borrowing against equity is subject to lender assessment.
Lenders mortgage insurance (LMI)	Cover that protects the lender if the borrower defaults. The borrower may pay the premium.

Example: A \$480,000 loan against a property valued by the lender at \$600,000 has an 80% LVR. The purchase price and lender valuation may differ.



Choose with the trade-offs in mind

Rate type	What it means	What to check
Variable	The rate can change, affecting repayments.	Features and extra repayment rules vary.
Fixed	The rate is set for an agreed period, not usually the whole loan term.	Extra repayment limits, break costs and the rate after the fixed period.
Split	Part fixed and part variable.	How features, fees and payments work on each portion.

Principal and interest repayments

These work towards clearing the debt over the agreed term. Compare the required payment with what your household can comfortably afford.

Interest-only repayments

During the interest-only period, repayments do not reduce principal. When it ends, payments can rise because the principal must be repaid over the shorter remaining period. Rates and total costs may also be higher. It needs a clear reason and repayment plan.

Ask: What will I pay now, what could change, and what will happen when the fixed or interest-only period ends?



Offset and redraw are different

Offset account

A linked account can reduce the balance used to calculate loan interest. With a 100% offset, a \$500,000 loan and \$20,000 offset balance means interest is calculated on \$480,000 while that balance remains. The loan principal is still \$500,000 before repayments.

Redraw facility

Redraw may let you access extra repayments already made into the loan. Access, fees, minimum amounts and availability depend on the loan terms. It is not the same as a separate transaction account.

Question	Offset	Redraw
Where is the money?	In a linked account.	Paid into the loan as extra repayments.
How do I access it?	Through the account, under its terms.	By requesting redraw under the loan rules.
What should I compare?	Offset percentage, balance, rate and fees.	Access limits, fees and lender conditions.

An offset is not automatically better value. Compare its extra fees or rate with the interest benefit from the balance you expect to hold.

If the property is or may become an investment, speak with a tax adviser before moving or redrawing money. Similar interest savings do not mean identical tax outcomes.



Look beyond the headline rate

Interest rate and comparison rate

The interest rate is the borrowing rate. A comparison rate combines the interest rate and most fees into one figure under stated assumptions. It does not capture every cost or the value of features, and your actual loan may differ from the advertised example.

Keep the assumptions consistent

Compare the same loan amount, remaining term and repayment type. Check eligibility, introductory periods, ongoing fees and whether the rate discount continues. Ask for a written breakdown and relevant loan information.

A repayment example

For a fictional \$500,000 principal and interest loan over 30 years, monthly repayments are approximately \$2,998 at 6% and \$3,327 at 7%. These are illustrative rates, not current offers. The increase is about \$329 per month.

Calculated with monthly interest at annual rate $\div$ 12, constant rates and 360 monthly payments. Fees and offset effects are excluded; lender calculations may differ.

Repayment frequency

Weekly or fortnightly payments can help match your pay cycle. Ask how the lender calculates them. Paying half a monthly amount every fortnight makes 26 half-payments, equal to 13 monthly payments per year; other calculations may not create that extra payment.

Useful question: What is the total cost and practical benefit of this loan for the way I will actually use it?



Questions to take to your broker

- ☐ Which rate and repayment type fit my circumstances, and why?
- ☐ What is my required repayment and how could it change?
- ☐ What upfront, ongoing and exit costs could apply?
- ☐ Can I make extra repayments, and are there limits?
- ☐ How does offset or redraw work on this specific product?
- ☐ What happens at the end of a fixed or interest-only period?

Read this next

First Home Buyer's Guide: follow the buying journey. Refinancing Guide: assess the costs and benefits of changing a loan. Getting Home Loan Ready: prepare information for an application.

Make the next conversation clearer

You do not need to know every loan term before contacting Parker Mortgage & Finance. Bring your goals and questions so the discussion can focus on the features and trade-offs that matter to you.

www.parkermortgageandfinance.com.au

Keep learning

[Moneysmart - Choosing a home loan](#)

[Moneysmart - Fixed and variable rates](#)

[Moneysmart - Interest-only loans](#)

[Moneysmart - Offset accounts](#)

[CommBank - Offset and redraw](#)

Sources checked 2 October 2026. Lender requirements, fees and government rules can change.

General education only. This guide does not consider your individual objectives, financial situation or needs and is not personal financial, tax or legal advice. Examples are illustrative. Seek appropriate advice for your circumstances.