Offset accounts & redraw facilities.

Two ways to use your own money to reduce the interest you pay.

A mortgage offset account is a savings or transaction account that can be linked to your home loan. The balance in this account 'offsets' daily against the balance of your home loan before interest is calculated. An offset account can help you cut years off your home loan term and save money on interest.

How offset accounts work

If you have a home loan balance of $500,000 and have $10,000 in your 100% offset account, you'll only pay interest on a home loan balance of $490,000. Because your home loan interest is calculated daily, every dollar in your offset account can save you money in interest. That means more of your repayment goes towards paying down the principal, potentially helping you to repay your home loan faster.

Home Loan Balance $500,000	— linked —	Offset Account Savings $10,000

Home loan interest calculated on $490,000

Types of offset accounts available

100% offset account	100% of the funds in your offset account are applied against your home loan balance before interest is calculated.
Partial offset account	A partial offset means that part of the funds in the offset account are used against your home loan before interest is calculated. This can be far less effective than a 100% offset account.

Benefits of an offset account

— **An offset account is easy to manage.** Simply have your salary and any other income deposited into your account to have an immediate impact on the amount of interest you pay, as the interest on your home loan is calculated daily.

— **An offset account offers convenience and flexibility** should you need it, as the account allows transactions and transfers giving you the same accessibility as an everyday transaction account.

— **Some lenders offer multiple offset accounts** linked to your home loan, so you can manage your finances while still benefiting from the interest saved on your home loan. This can be a great way to save for big expenses such as a holiday or a new car while still saving on home loan interest.

— **Offset accounts are usually part of a home loan package** that incur an annual fee, lower interest rate and other product discounts could still help you save money.

— An offset account can be **more beneficial than a savings account** as the interest you may earn on a savings account is less than the interest incurred on a home loan.

Things to consider

- There are many kinds of offset accounts, and the features will differ depending on the loan type and lender. For example, not all offset accounts are 100%, some may only be partial. Fixed rate home loans may only allow 100% offset for a set period, or other conditions may apply.
- You may incur monthly fees for having an offset account. It pays to look at the total charges associated with your home loan package to determine if having this product leaves you better off financially.
- Some lenders may require a minimum balance in the offset account.
- Weigh up the pros and cons carefully to decide if an offset account is the right product for your situation.

Things to consider for investors

Investors may be able to claim a tax deduction for interest paid on their investment property loan if it is clear that the loan's purpose is specifically to fund the investment property.

- These investors often use an offset account to reduce the interest charged to their owner-occupied loan, which is not tax deductible. You could withdraw as much as you like from the offset account for personal use and the loan will still be 100% tax deductible.
- If there is a possibility that you may turn your existing home into an investment, then having an offset account can be useful. This is because you are effectively building up a cash buffer which you can use in the future to help purchase another property.
- There may be additional tax advantages of using an offset account for example when you decide to upgrade your owner-occupied home and decide to retain the property as an investment. Money deposited in an offset account can be withdrawn at any.

Redraw facilities

A redraw facility is a loan feature that is usually available with variable rate home loans and some fixed rate loans. A redraw facility lets you access any extra repayments you've made on your home loan.

To use a redraw facility, you first need to make extra repayments, or regularly pay more money on top of your minimum loan repayment amount. Use our handy online calculators to find out how much interest you could save by making extra or larger than minimum repayments.

How a redraw facility works. If your minimum monthly repayments are $700 per month and you pay $900 for a period of 12 months, you will have paid an extra $2,400. A redraw facility would allow you to access the extra $2,400 you have paid.

Benefits of a redraw facility

Access to funds	A redraw facility is a useful feature for those who want an emergency fund for unexpected situations or expenses and who don't require regular or immediate access to their extra funds.
Savings	A redraw facility can be an excellent savings tool. Any excess funds put into your home loan are earning the same interest rate being charged on your home loan. By comparison, savings accounts generally pay much lower interest rates.

Benefits of a redraw facility

Interest and Tax benefits	There may potentially be tax advantages when using a redraw facility. Interest earned on your savings account is considered income and may be taxable, whereas any interest that is saved on your home loan by having money in a redraw facility will not be subject to tax and you'll be building valuable equity in your property.

Things to consider

- Some lenders may charge a flat fee for having a redraw facility. This is known as an activation fee. Once the redraw facility is activated, you can use the redraw facility as often as you like.
- Some lenders may impose a fee for each redraw. This fee will vary between lenders and loans.
- Some lenders may offer unlimited free redraws while some lenders may only offer a few free redraws per year. Once the limit of free redraws is exceeded the lender might charge a fee for each additional redraw.
- Redraw facilities can have a minimum and maximum amount which can be withdrawn at any one time. While some will have no minimum set amounts, others may set the minimum redraw amount as high as $5,000.

Redraw versus offset

- Choosing between an offset account and a redraw facility on your home loan will depend on how accessible you need your money to be. You should also consider any associated bank fees with each facility.
- Weigh up the pros and cons carefully to decide if an offset account or a redraw facility is best for you.
- You may prefer the convenience of the offset account as your everyday savings works for you to save interest without you having to do anything.
- Alternatively, you may prefer the discipline of the redraw facility as your extra repayments are 'out of sight, out of mind' in your loan and not as easy to access (normally an overnight process).

Remember: An offset account is a *separate deposit account*, whereas a redraw facility is a *feature* on your loan. It is possible to use a combination of both.

Need help with anything?

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