

Making extra repayments

Making additional payments to your home loan can be a very powerful way to reduce your total interest paid by thousands of dollars, and take years off your home loan.

Paying a little extra each week can make a big difference over the long term.

For example, on an average loan of \$250,000, making an additional payment of just \$25 per week could save you over \$80,000 in interest and reduce your loan by five years*.

Making additional payments to your home loan can give you great savings, but what if you need to access these funds when life presents an unexpected surprise? This is where the power of a 100% offset account, or a redraw facility, come in to their own.

How does a 100% offset account work?

A 100% offset account is a separate savings account set up when you take out your home loan. The amount held in your offset account is subtracted from your loan amount for calculating interest each day.

So, if you have a home loan with a balance of \$200,000 and have \$30,000 in your offset account, your interest is calculated on \$170,000 (\$200,000 - \$30,000).

An offset account can therefore be very useful for accumulating savings and reducing the interest and term of your home loan, while also retaining ready access to these funds if required.

How does a redraw facility work?

A redraw facility gives you access to additional repayments made on your mortgage through the home loan account itself.

So, if you make additional repayments of \$30,000 on your home loan, then this amount will be available for redraw should you require these funds down the track. Until such time as you redraw these funds, they are shown as paid off your home loan, and therefore you are saving interest on this amount. Note: fees may apply to redraw funds.

Which solution suits me?

There are dozens of options from many different lenders; the right one for you depends on your specific circumstances. As a guide:

- If you want to make extra repayments on your home loan, or deposit your salary against your home loan with ready access to these funds, then a 100% offset account may be for you.
- If you prefer not to have ready access to extra repayments, as a way of helping retain savings, and want to see your home loan balance reducing, then a redraw facility may be better.
- For investors, an offset account can be a more effective way of managing extra repayments for accounting and taxation purposes.

*Calculated on a \$250,000 mortgage, 30-year loan term at 7.50% interest rate. Indicative only. Other costs may apply.
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Need help?

There is no single right or wrong answer; it is all about what you are comfortable with given your specific circumstances and plans, and then find the right lender and product to meet your needs.

This sheet provides general information only and is correct as at the document date (28/11/2018). Please refer to your Smartline Adviser for full details.

