

Additional repayments: offset vs. redraw

Why you should make additional repayments

Making additional payments on your home loan can be a very powerful way to reduce the total interest you pay by thousands of dollars and take years off your home loan. Even a little bit each week can make a big difference over the long term.

For example: You have a home loan of \$300,000. If you make additional repayments of \$200 per month, you would save almost \$60,000 in interest and reduce your loan term by over six years.*

How to make additional repayments

While additional payments can generate good savings, you may want to retain access to these funds in case you decide to make a large purchase or your circumstances change. There are two main options in this case, both are common home loan features: a 100% offset account or a redraw facility.

Offset account

A 100% offset account is a separate savings account that is linked to your home loan. The amount held in your offset account is subtracted from your loan balance each day, reducing the interest charged.

For example: If you have a home loan of \$300,000, but you have \$20,000 in your offset account, your interest is calculated on \$280,000.

Features of an offset account:

- It has normal transaction account functionality so you can withdraw funds easily and as often as you like without needing further permission.
- For investors, this may be the more effective option for accounting and taxation purposes.

Redraw facility

This feature allows you to withdraw any additional repayments you have made on your mortgage through the home loan account itself. Until the funds are redrawn, however, they go onto your home loan, thereby reducing the interest charged.

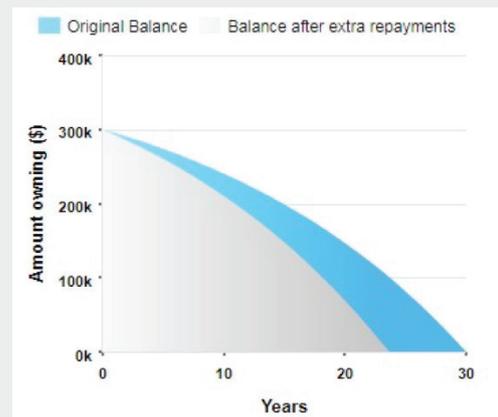
For example: If you have made additional repayments of \$20,000 on your \$300,000 home loan, interest will only be charged on \$280,000. This \$20,000 is available for redraw if you require it down the track.

Features of a redraw facility:

- The redraw funds can usually be easily accessed online or by speaking directly with your lender. Each lender has different options so be sure to check your terms and conditions.
- You can see your home loan balance reducing which can be a mental boost.
- Fees may apply to redraw funds (depending on your loan).

*Calculated on a \$300,000 mortgage with a 30-year loan term and an interest rate of 4.5%. Other costs may apply.
Australian Credit Licence Number 385325

Effects of paying an additional \$200 per month:



Time saved	6 years 4 months
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Interest saved	\$59,436
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Minimum monthly repayments	\$1,520
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Increased monthly repayments	\$1,720
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Need help?

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