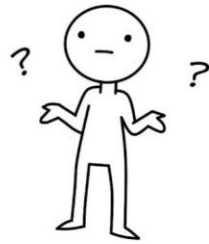


Redraw



VS Offset

Offset accounts and redraw facilities work in similar ways; they both allow you to reduce the balance of your home loan, and therefore the interest charged, by applying extra money to your debt. This saves you money.

Redraw facilities allow you to deposit spare income into your home loan account, allowing you to redraw a sum equal to the extra repayment amounts in future. The extra money paid will lower the amount of interest charged while still giving you access to your money. However, there may be restrictions on how much money can be withdrawn and when.

“For redraw, it depends on whether the facility applies to a fixed-rate or variable loan,” Tony Imbruglia from My Mortgage Professionals says. “Most institutions only allow redraw from a variable-rate loan, or fixed-rate loan but with limited access.” It is important to find out how a loan’s redraw facility works before taking it on, as the fees and restriction attached might outweigh the benefits of interest savings.

Offset accounts are like savings accounts that function alongside your home loan. You may earn interest on the money in the savings account. “Let’s say that you are paying 3% interest on your home loan and earning 1% interest on your savings account,” explains Tony. “By converting the savings account to an offset account, you reduce the amount of interest you pay on your home loan by the amount held in the offset account”.

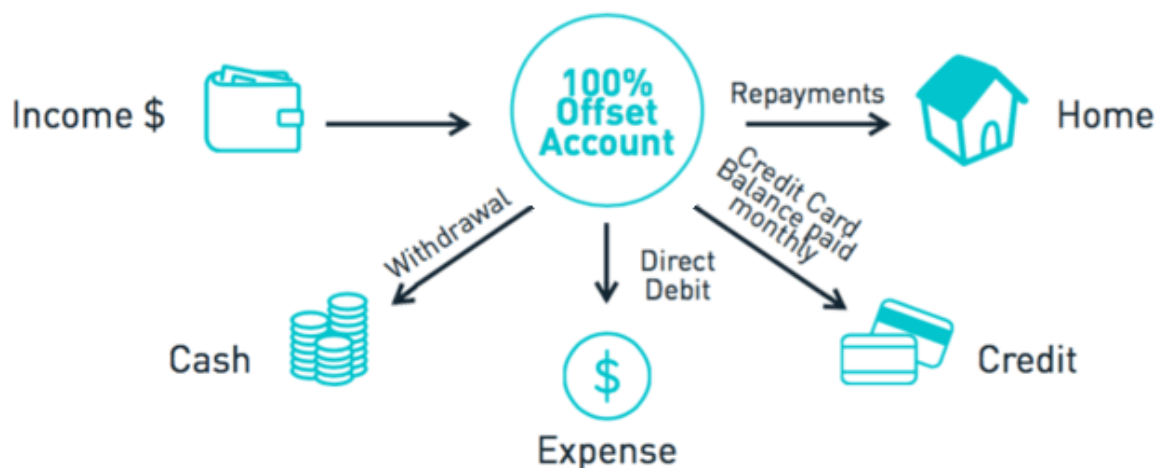
“Let’s say you have \$10,000 in your offset account. Instead of paying interest on your \$100,000 loan, you are only paying interest on the difference of \$90,000,” Tony says. “You also don’t pay income tax on the interest that you would normally earn on the money sitting in a savings account.”

Offset accounts often come with account fees, but the fee may be worth the interest savings and the added flexibility compared to redraw facilities.

“There are less restrictions attached to offset accounts, they’re very flexible.” Tony says.

All of your income should go into your Offset Account. That way you maximise the net interest effect and you can therefore . . .

Pay your house off sooner



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