

• OFFSET ACCOUNT OR REDRAW FACILITY

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Many home loan accounts also provide additional features such as an offset account or redraw facility. These features are useful but they may come at a higher cost, such as a higher interest rate or product fee.

OFFSET ACCOUNT

An offset account is a savings or transaction account that is linked to your home loan. Funds held in an offset account are usually readily accessible, as they are transaction accounts.

The balance in the offset account earns interest which can be equivalent to the interest rate on your home loan, reducing the amount of interest you pay on your home loan.

For example, if you have a home loan of \$500,000 and a balance of \$20,000 in your 100% offset account, you will only pay interest on \$480,000 for the time period that the \$20,000 is held in the offset account.

REDRAW FACILITY

A redraw facility allows you to pay extra money into your loan that you can take out (or redraw) later if you need it. Funds held in a redraw facility are accessible, but are not same-day at call.

The extra money you pay into the loan directly reduces your loan balance which reduces the interest you pay. Your repayment schedule will still reduce each month according to the terms of your loan.

Loans that allow you to have your whole pay credited to the loan account and pay bills or use EFTPOS to withdraw funds are operating with a redraw facility.

WHAT YOU NEED TO CONSIDER

- Features like offset or redraw can be useful but they may come at a cost. Loans with these features may have a higher interest rate or a product fee, so think carefully about which features you really need.
- The additional costs may outweigh any benefits you receive from holding an offset account or redraw facility. If the balance of your offset account is low, the additional costs may outweigh any benefits you get from having it.
- You should review whether the balance held in the offset account provides a full 100% offset against home loan with your credit provider. If the offset is less than 100%, only part of the interest is offset against the home loan

- Placing additional savings in an offset account or a home loan with a redraw facility can allow you to reduce your non-deductible home loan debt faster as less interest is charged while the additional savings are held.
- Tax does not apply to interest earned in an offset account or to additional loan repayments.
- Credit providers may impose conditions or a fee to redraw funds. You should check what conditions and charges apply to your loan.
- Funds held in a redraw facility are not same day at call. The number of business days you need to wait before you can access your funds depends on the terms and conditions of your credit provider.

REFERENCES



You may wish to refer to the following websites for further information about offset account or redraw facility:

- www.ato.gov.au
- www.moneysmart.gov.au

The information in this document is of a general nature and does not take into account your own financial objectives, circumstances or needs. You should consider your own personal situation and requirements before making a decision.

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