

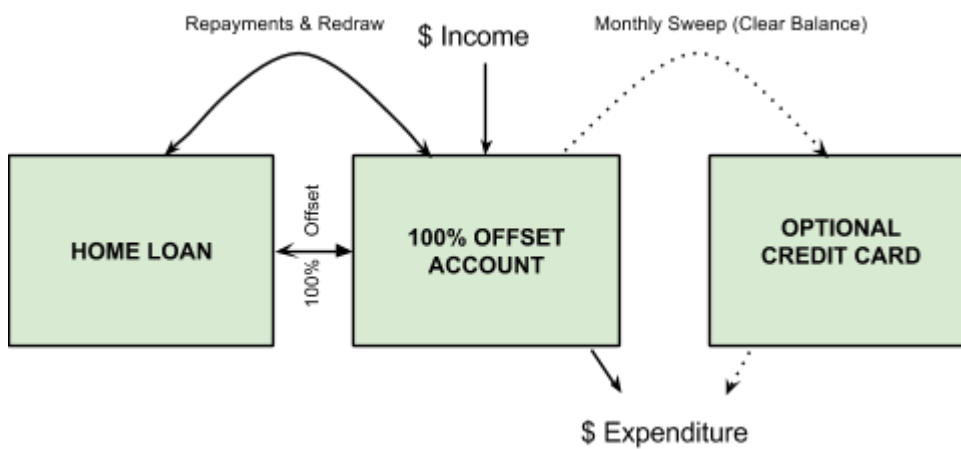
MORTGAGE OFFSET ACCOUNTS

In this White Paper we focus on a popular loan product type – the 100% Offset facility.

For background, there are typically four (4) mortgage products. We will discuss the first two here.

1. Offset Loan Structures.
2. Basic Variables.
3. Fixed Loans.
4. Line of Credit Facilities.

OFFSET LOAN STRUCTURE



Under this option you have a linked transactional savings account (called a "100% Offset Account") attached to your home loan. It is often provided as a "packaged loan" from banks comprising of a Loan Account, Offset Savings Account and Credit Card usually with an annual package fee and the waiver of most establishment & account fees.

Interest is calculated on the balance of the Home Loan, less the balance of the offset account (charged monthly). You don't earn interest on your savings instead it works against your home loan, so you avoid tax on interest earned.

Using a credit card for general living expenses can help maintain more money in the offset account, with the credit card being cleared each bill cycle automatically from the offset account. Effectively you use the bank 44-55 days interest free terms to reduce your own home loan interest.

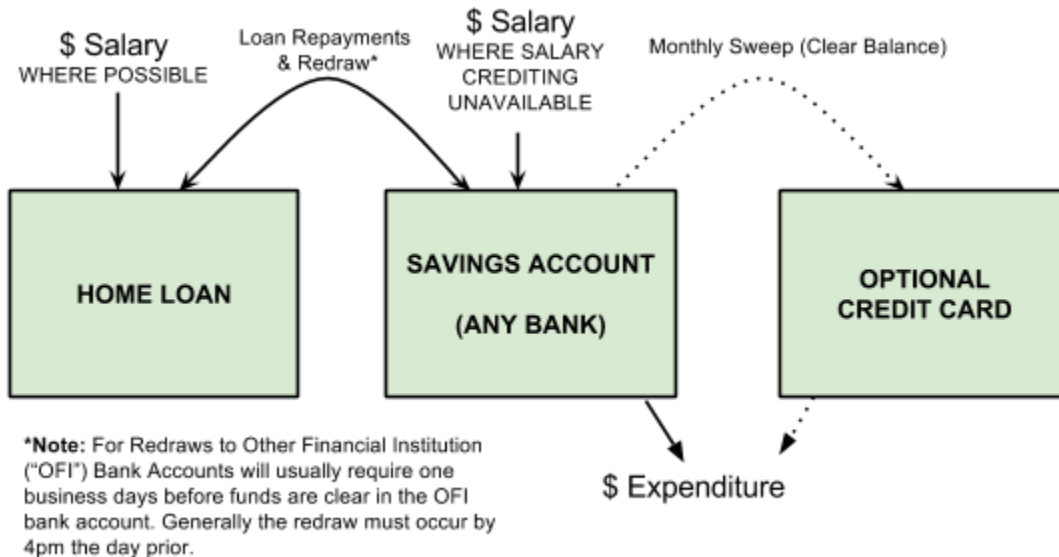
You can still pay direct into the loan without penalty and redraw on the loan at your convenience with minimal restrictions. These products are generally branded "Standard Variable Loans" or "SVR's" and will be discounted accordingly based on the amount you borrow, typically 0.70% p.a. and above.

Why you might select an Offset Loan Structure:

- There may be tax considerations especially if the loan is used to acquire a rental property or you intend to eventually rent the property out.

- You like the convenience of the automated nature of this facility - having all your banking with one lender under a package arrangement.
- You borrow say, \$350,000 or more where it is cost effective to have.

BASIC LOAN STRUCTURE



Under this option you may only get a loan account from the lender but have a linked transactional savings account for loan repayments and redraw. Redraw usually has no or minimal restrictions and should be fee free if done online.

Every day interest is calculated on the balance of the Home Loan and charged monthly.

Where possible you would direct all your salary to the loan (direct salary crediting) and redraw only what you need for living. This ensure you minimise the interest you pay. Not all banks support salary crediting. You can still employ a credit card to pay for living expenses like in the offset product - and to keep extra funds in the loan to help reduce interest.

You can still pay direct into the loan without penalty and redraw on the loan. These products are generally branded "Basic Variable Loans" or "BVR's" and often priced the same or a little above packaged offset loans but without annual fees.

Why you might select a Basic Loan Structure:

- ✓ You do not intend to rent out the property and happy to repay principal.
- ✓ You want flexibility to make extra repayments to reduce your mortgage but seek access to those surplus repayments via redraw.
- ✓ You are borrowing \$350,000 or less where packaged offset structures are less cost effective.

More Information?

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