

OFFSET ACCOUNT OR REDRAW FACILITY

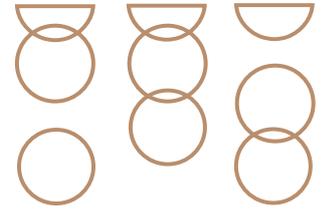
Many home loan accounts offer supplementary features like offset accounts or redraw facilities, which can be quite beneficial.



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However, it's important to be aware that these conveniences might be associated with increased costs, such as higher interest rates or additional product fees.

Offset Account

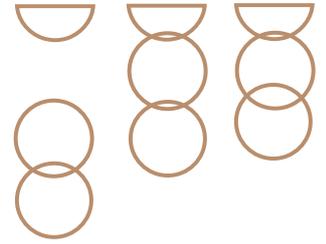
An offset account serves as a savings or transaction account closely connected to your home loan. Typically, the funds deposited in an offset account are easily accessible, akin to a regular transaction account. What makes it advantageous is that the balance in this account generates interest at a rate equivalent to that of your home loan, effectively reducing the amount of interest you owe on your home loan.

To illustrate, suppose you have a home loan of \$500,000 and maintain a balance of \$20,000 in your 100% offset account. In this scenario, you will only be charged interest on the remaining \$480,000 for the period during which the \$20,000 remains in the offset account. This setup allows you to potentially save on interest costs and accelerate your mortgage repayment.

Redraw Facility

A redraw facility is a feature that permits you to make additional payments into your loan, and these extra funds can be withdrawn or "redrawn" at a later time when needed. While the funds in a redraw facility are accessible, it's important to note that they may not be immediately available like same-day at-call accounts. The key benefit of using a redraw facility is that the extra payments you make directly reduce your loan balance, leading to lower overall interest payments. Your regular repayment schedule, as per the loan terms, continues to reduce your loan balance each month.

Loans that offer the ability to deposit your entire pay into the loan account and use methods like EFTPOS for withdrawals are typically equipped with a redraw facility. This setup provides flexibility in managing your finances by allowing you to use the loan account for both saving and spending while effectively reducing your loan balance over time.



Key considerations

- While features like offset or redraw can be valuable, it's essential to consider potential costs. Loans offering these features may have higher interest rates or product fees, so carefully assess which features are truly necessary for your financial situation.
- Keep in mind that the additional expenses associated with these features could outweigh the benefits, especially if the balance in your offset account is low.
- Evaluate whether the balance in your offset account provides a full 100% offset against your home loan. If it falls short of 100%, only a portion of the interest will be offset against the home loan.
- Placing extra savings in an offset account or a home loan with a redraw facility can expedite the reduction of your non-deductible home loan debt, as less interest accrues while the additional savings are held.
- It's worth noting that tax does not apply to interest earned in an offset account or to additional loan repayments.
- Be aware that credit providers may impose conditions or fees for accessing funds through a redraw facility. Make sure to review the specific conditions and charges that apply to your loan.
- Funds in a redraw facility are not immediately accessible. The waiting period before you can access your funds depends on the terms and conditions set by your credit provider, so it's essential to be familiar with these terms.

References

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

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