

THE 3 MINUTE MORTGAGE HERO™ WISDOM SERIES

Offset Accounts Explained



BROUGHT TO YOU BY THE 3 MINUTE MORTGAGE HERO™

What is an offset account?

An offset account is an everyday bank account that's linked to your home loan.

Note some lenders offer a partial offset, this is not the same as a 100% offset and does not have the same benefits as outlined below.

How does a 100% offset account work?

It works by utilising the balance of funds in your transaction account to offset the corresponding amount of interest on your home loan, as a result, you're only charged interest on the difference between the total loan balance and the amount offset.

By simply depositing your salary/savings into this offset account, it can be used for all your daily expenses, just like a normal cheque account, and the amount of interest that you pay for your loan will be decreased.

Basically, the more money that you have in your offset account, the lower your interest expense will be. You should consider to have your salary deposited into your offset account so that the amount of interest you pay will be less and ensure you're making the most out of your 100% offset account.

Interest on loans is charged on a daily basis, so it's important to maintain as much funds as possible in the offset facility for the longest period possible to maximise the benefits.

Ideally you would use your offset account for transactions with your debit card including ATM, EFTPOS, internet banking etc and you can redraw from your home loan account to offset account if need be.

Repayments are typically made to the home loan account from the 100% offset account, so care should be taken to ensure there was always sufficient funds available in the account.

Basic loan vs 100% offset loan

It should be noted that in some cases a basic home loan will actually beat a 100% offset account, it

depends on how much you have in your offset account and today's current interest rates.

As a general rule, if you tend to not have much money in your offset account then you may not receive much of a benefit. Your Mortgage Broker can work with you on the best option for you.

Should I put my extra funds in the loan or offset account?

Technically, there is no difference between putting your additional funds in the home loan account

or in the 100% offset account, both will allow you to pay less interest on the loan.

Any extra funds put into the loan will be available as redraw, but will be subject to any lender restrictions on this facility.

What is the difference between funds in an offset or funds in redraw?

Whilst there is technically no difference as noted, there are benefits to using an offset account over a redraw facility.

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A major benefit is that they're completely tax-free. Where you would have to pay income tax on the interest paid on a regular savings account, offset accounts carry no such penalties.

There are also tax benefits to using an offset facility with an investment property (specific advice should be sought on this to ensure it meets your individual circumstances).

An offset account offers instant access to your funds, a redraw facility may not offer same-day withdrawal. Depending on lender, it may take one or two business days for the redraw to be processed, and your lender may also charge a fee on its redraw facilities. Some lenders may also have minimum redraw amounts, or limit how often you can make a withdrawal.

There also have been recent examples of lenders taking funds from a redraw account to pay down the loan without the client's knowledge, placing your extra funds in offset takes this option away from the lender.

Can I have more than 1 offset account?

Yes, many lenders do offer multiple offset accounts all linked to the home loan, check with your Mortgage Broker as every lender is different.

What does an offset facility cost?

Typically, a lender will charge a fee for having an offset facility. This offset facility is usually bundled as part of a professional loan package option.

Most lenders charge an annual fee for this, which will be communicated by your Mortgage Broker.

**ALL INFORMATION PROVIDED AS A GUIDE ONLY, IF
YOU NEED SPECIFIC HELP WITH YOUR LENDING
REQUIREMENTS PLEASE CONTACT ME BELOW.**



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