

OFFSET ACCOUNT vs. REDRAW

WHAT IS AN OFFSET ACCOUNT?

This home loan feature is operated in concurrence with your home loan account. They function the same way as a regular savings or transaction account meaning you have immediate access to your funds and on many you can earn interest comparable to a standard savings account. The interest earned is then deposited into your home loan account which reduces the account balance and in effect then reduces the interest you pay. In addition the interest earned is not taxable.

Example: Loan Amount: \$ 200,000
 Interest Rate: 4 %
 Offset Balance: \$ 30,000
 Offset Interest Rate: 2 %

Interest Saving \$ 600 (assuming the \$30k remains in the offset account for a full year)

100% OFFSET ACCOUNTS however are a little different and are often a far more popular option. These accounts earn interest equal to your home loan interest rate.

Using the same example as above except this time with a 100 % Offset Interest Rate of 4 %, the Interest Saving is \$ 1,200 (assuming \$ 30k remains in the offset account for a full year)

WHAT IS A REDRAW FACILITY?

A redraw facility allows you to deposit extra money (above your regular repayments) directly into your home loan account. You can then redraw those extra funds if and when you want to. In respect to saving interest, a redraw facility has a very similar effect to a 100 % offset account.

If you consider the example used earlier, it means that with a redraw you would be paying 4 % interest on \$ 170,000 instead of on \$ 200,000 (because of \$ 30,000 in redraw)

OFFSET vs REDRAW

So if redraw facilities and 100 % offset accounts have very similar savings, which one is best for your needs?

As offset accounts operate in a similar fashion to a savings account your funds are usually easily accessible. Some offsets even come with credit cards, EFTPOS and cheques for ease of use. Depending on the Lender it may not be as easy to access your funds with a redraw account as some lenders will limit the redraws you can have per year, may have a minimum redraw amount and may charge you a redraw fee. However some people may prefer a redraw facility as the excess funds are not necessarily as easy to access.

What is important is to find out exactly how a Lender's offset account or redraw facility operates before you choose a Lender or one of these facilities because they are definitely not all the same.

Talk to your trusted professional and make sure you have all the facts before making a decision!