



Redraw vs Offset Account

If you're interested in saving more interest on your loans, it would be wise to consider the use of an offset or redraw account. While many think they are virtually the same, there are key differences so you must choose wisely.

If you've got a home loan as well as a chunk of spare cash sitting in your everyday bank account, you're losing hundreds if not thousands of dollars every year. While you may earn interest on these savings, it's often meagre and is also taxable. Instead, put your savings to much better use by utilising an offset account or redraw facility with your home loan which will save you more and also save you tax.

What is a redraw facility?

This facility allows you to pay extra onto your home loan to reduce your loan balance and the amount of interest you owe, while still being able to redraw this excess when you need it.

What is an offset account?

An offset account is a separate savings or transaction account that is linked to your home loan. The money you deposit in this account is offset against the loan limit, meaning the interest on your home loan is calculated based on the adjusted balance. Most lenders offer 100% offset accounts. It is important to understand that repayments are still calculated on the loan limit, not the adjusted balance.

What are the key points of difference between them?

- Essentially, both alternatives offer the same outcomes in terms of interest savings (assuming a 100% offset account).
- The redraw is more direct in that the money goes straight onto the loan reducing both the loan balance and interest owing, while the offset is indirect. Having said that, if paying principal and interest, your repayments will stay the same meaning more money goes towards the principal each time so the loan balance will also be effectively reduced with an offset account.
- Offset accounts are more flexible and convenient in that they act like a regular savings or transaction account, allowing you to withdraw as often and as much as you please including at ATM's. Redraw facilities are usually more restrictive allowing only a limited number of redraws or a minimum amount for redrawing, take longer to transfer the funds and often there are fees applied for each withdrawal. These drawbacks can be beneficial, however, for those who like to eliminate the temptation of withdrawing the excess funds.
- Some lenders loan products may have a higher interest rate if you want an offset account linked or may only offer a partially offset account. With these lenders, you will need to do the sums to work out if the additional cost is worth it as you may need to have a large sum of cash regularly offsetting the loan to make it worthwhile.

As an investor, is one better than the other?

It depends on your circumstances however many would say an offset account is better suited for investors. The reason for this is the tax implications. If you were to place a sum of money onto an investment loan and then redraw it later on for personal purposes (e.g. buying a car), you will reduce your ability to claim the full interest expenses on that loan as a tax deduction for the life of the loan. You will also encounter a similar problem if you have a redraw sum available on your principal place of residence, redraw the funds as a deposit for another family home down the track, and then turn your old home into an investment. You therefore need to consider if, and how, you may use any excess funds in future to determine which option is right for you.

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