Chan & Naylor
Our People. Your Advantage.

Mortgage
Offset Account

'Mortgage offset account', 'offset home loan', 'interest offset account' - they are all names used for a similar facility provided by financial institutions. In simple terms, it is generally a savings account that offsets against a loan account.

An offset facility will generally contain two different bank accounts:

(1) a transaction account (meaning you have access to the funds) which is linked to,

(2) a loan account.

Simply put, the transaction account (account 1) offsets the interest that is charged to the loan account (account 2). Therefore, the use of the term 'offset' is commonly used.

As the transaction account is linked to the loan account it works like a regular savings account. Any notional interest earned on the transaction account will be earned at the same rate as the linked loan account. This will generally be greater than the interest earned on a regular savings account. It will also provide the ability to utilise the monies saved in the transaction account at your convenience in the future.

Interest savings in your offset account will help reduce the loan principal over time, allowing you to pay off your loan sooner and build equity quicker.

As an example, Mr. & Mrs. Howard are a couple with a $500,000 mortgage on their investment property and $100,000 in a linked offset account.

	No Offset	With Offset
Loan Account	$500,000	$400,000
Savings Account	$100,000	$ Nil

In this example, the following will result:

1. The principal on the $500,000 loan is reduced by the $100,000 offset account, and

2. Interest only accumulates on the $400,000 balance of the loan, not the full $500,000. This will result in an interest saving, and

3. Repayments will continue to be made on the entire loan balance of $500,000.

Being Financially Sorted

With an offset facility in place, the savings in the transaction account are actively working to reduce the loan, while repayments are working more effectively to reduce the loan principal at a greater rate.

Potential Strategies

Previously, the best advice many of you may have received would be to pay off your loan as soon as possible. By having an interest offset facility in place, this may no longer be the best strategy.

A couple of potential strategies could be as follows: -

1. **An all-in-one strategy** - if you have an investment loan, you could direct your salary into the offset facility which is linked to your investment loan. This will give you the advantage of having your salary (plus any other income) contributing to offsetting interest on your investment loan. When making your regular loan repayments, more of it can go towards paying off the principal as you will have saved a bit of interest.

2. **Credit Card strategy** – imagine putting all your monthly living expenses on your credit card, thereby being able to leave aside as much money as possible in an offset facility for most of the month. Please be aware that this strategy should only be used by the financially disciplined.

The major benefit of utilising either of these strategies comes from the fact that most loans have interest calculated daily. Over a period of a time, by having the extra funds sitting in the offset facility, it is actively working to reduce your overall interest liability.

Potential Pitfalls

The major pitfall is that not all loans are offered with an offset facility. Generally, very basic loans do not.

Having an offset facility may require you to set up a more fully featured loan account. The problem here is that banks may impose a higher interest rate. Please also review the fees charged.

Being Financially Sorted

In summary, before deciding to go for a loan featuring an offset facility, you will need to consider both your financial and personal situation. If you don't expect to have much money placed in the offset account, a cheaper home loan may be the better option for you.

Our advice would be to talk to the experts; those that know the ins and outs, those that deal with the various financial institutions daily. A loan broker will be able to sit down and discuss your personal circumstances, your requirements, both for today and in the future and then deal with the financial institutions on your behalf. Generally, a loan broker will get paid by the banks only when they bring forward a deal; thus, meaning it's a free service to you as the client.

Having such a discussion with a broker will certainly take some time out of your day, but should also help you to make the best possible decision.

Our clients use loan brokers every day; please contact us today to recommend someone suitable to your situation.

We hope that this summary gives you some guidance on how an offset facility would benefit you and your situation.

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