

Might a Mortgage Offset Account Work For You?

Here's an idea that's been around for a very long time and that might just be a different way to manage some of your savings. It might also help pay off your loan that much sooner. It's called a mortgage offset account and it may be something that can work for you. These kinds of accounts are readily available with most lenders, though not all have this kind of product.

Basically a mortgage offset account works like this, it's a savings account opened in combination with a mortgage but as two separate accounts. Broadly speaking, when it's time to calculate the interest due on your mortgage for the month, the amount in the savings account is deducted from the balance of the loan. So if your mortgage balance is \$300,000 and there is \$100,000 in the offset savings account you'll pay mortgage interest on \$200,000, not the mortgage balance of \$300,000. This then reduces the interest you have to pay on the loan for that month and so on into the future.

If you then make your normal loan repayment you're paying off more of the principal sum than you would otherwise with the result that next month the total interest charge is less. In the long run, that should mean paying off the loan faster and possibly saving you thousands.

There's an added advantage. If you were to put that same \$100,000 in a term deposit instead, most people would have to declare the interest earned in their tax return and pay tax on it. Using a mortgage offset account means effectively you don't earn any interest on the deposit account, so there's nothing to declare to the tax man.

Some lenders will allow 100% offsets while others are not so generous. Typically you can withdraw from and deposit to this savings account just like any other and usually the monthly loan repayment comes from the offset account by direct debit.

Now this product probably won't suit everyone, and you'll need to have a careful look at the paperwork the lender provides. It's certainly also worth chatting to your tax accountant or qualified adviser about it to make sure a mortgage offset account will fit into your overall financial plan and to suit your individual circumstances and needs.



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