

# Utilising your offset account effectively



## What is an offset account?

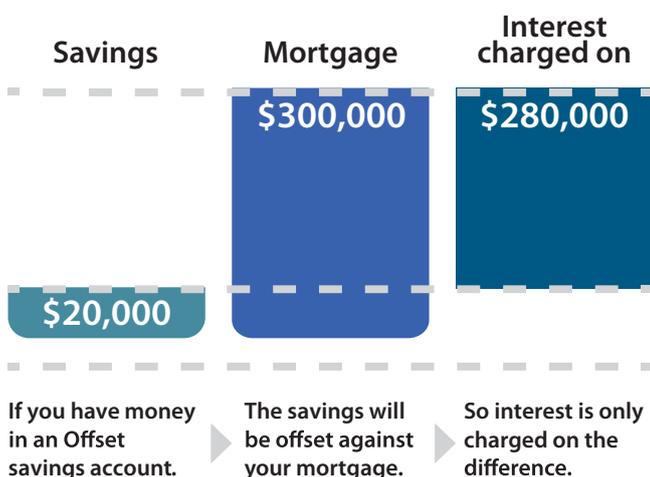
An offset account is a savings or transaction account linked to an eligible home or investment loan.

It should operate the same as any other savings or transaction account, ie with a bank card for electronic transactions/transfers and the ability to withdraw money at ATMs etc.

Offset accounts are usually only available for variable home loan accounts. A small number of lenders allow an offset account to be linked to a fixed rate but there are usually restrictions around them. If you wish to utilise an offset account but like the security of a fixed interest rate your option may be to split your loan with a fixed portion and the balance as variable. Check with us first!

## How does an offset account work?

Money in your account is 'offset' against your loan balance. In essence, it is as if you have paid the balance of the offset amount off your home loan. In return, this will reduce the mortgage interest, eg if you had a \$300,000 loan and \$20,000 in your offset account you will only be charged interest on \$280,000. 100% offset accounts are the most common form of accounts.



## What's better? An offset or savings account?

The interest earned on a savings account will usually be less than lenders charge in interest for home loans, plus tax will be payable on interest earned on your savings. By comparison an offset account could potentially save you thousands over the life of a loan.

Of course an offset account is not the only feature that may be packaged with your home loan – there is no 'one size fits all' solution. Ultimately the features that are included with

YOUR home loan should be those that are suitable for you and your individual circumstances.

## How should an offset account be best used?

Place as much savings/money into your offset account as possible. The best way to do this is to use the offset account as your everyday banking account. Have your salary or wages paid directly into your account to ensure that you have the maximum amount of funds in the account to offset interest charges. You will still have immediate access to your money as with any normal account.

## Use your credit card interest free period

Pay for all your monthly expenses on your credit card within the interest free period and then pay the full balance before the due date. This way you will gain the benefit of free funds from the bank to pay your bills while your money remains in your offset account reducing your interest bill.

This only works if you pay the credit card balance within the interest free period. If you don't, the interest payable on your credit card is significantly higher than the interest saving of funds in your offset account.

## Be disciplined

The idea is that you are also using the account to accumulate your savings.

You need to be disciplined to make sure your savings grow over time. The best way to do this is to establish a budget and monitor your actual expenditure against it. As you see your savings and the balance grow it is often tempting to spend it – so be careful!

If you lack discipline and tend to spend readily available money you may consider:

- using the offset account as a savings account only, and
- not having the offset account linked to your keycard or eftpos card thereby limiting your ability to gain immediate access to the savings, or
- some lenders allow you to set up two offset accounts. You could use one for everyday living and the other for savings.

If using this approach remember to set aside your savings first when you are paid forcing you to be more disciplined with your expenditure.



**Call the office if you would like a chat.**