

Paying Interest only

You may have heard of an interest-only loan and wondered if it is as good as it sounds.

As its name suggests, an interest-only loan is a type of loan in which you pay only the interest on the principle balance. This doesn't mean you will never pay the principle, it simply means that for a set term - usually 5, 10 or 15 years - you can make interest-only payments.

As you are only repaying the interest component, these loans have lower repayments than principle and interest loans. They offer most of the same features as standard loans and their interest rate is dependant on whether your loan is fixed or variable.

Interest-only loans are suitable for any number of applications - from buying a new home or refinancing an existing loan to paying for home renovations or obtaining bridging finance.

Reducing your loan commitments has the advantage of generating cash flow and freeing up your disposable income for other family commitments or alternative investment opportunities.

If you are looking at maximising the tax benefits of property investment you may want to consider taking an interest-only loan, as only the interest portion of your payment is tax deductible.

This type of loan also allows you to buy investment properties with a lower loan commitment. However, you need to consider the risk that the property could decrease in value over the interest only term.

During the interest-only years of the loan, the loan balance will not decrease unless you make additional payments towards the principle. This means at the end of the interest-only period you must repay the principle in full or refinance to another loan.

Keep in mind that interest-only loans require careful management, so are best suited to investors and borrowers with a good head for money. They should only ever be considered a short term option that can be used to your financial advantage.

Contact us if you wish to talk through the pros and cons to work out whether it's the right loan type for your situation.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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