



# FAST TRACK YOUR HOME OWNERSHIP

When times are tough, ensuring your finances are under control will minimise uncertainty and stress. But that is not always possible.

Household finances have never been more stress tested than over the past 12 months.

Add to this our already high household debt levels (the second largest in the world<sup>1</sup>), and you can see why many Australians' pockets are feeling the strain.

Although savings have increased during the pandemic<sup>2</sup>, Australians have also experienced higher unemployment, decreased job security and have been playing 'catch up' in terms of building up their cash reserves.

Economic uncertainty aside, it always makes good financial sense to have a cash buffer.

On the other hand, having cash sitting in the bank does not always provide an acceptable return, especially in a low interest environment. Not only do you pay tax on the small amount of interest you earn, it also does not save you thousands of dollars on your mortgage or reduce the term of your home loan!

## **Making your savings work for you!**

A couple of ways to make your savings account cash buffer work better for you is by either shifting it to an offset account or setting up a redraw facility linked to your mortgage.

## **How do offset accounts work?**

An offset account is a daily transaction account linked to your home loan that allows you to withdraw money or use a debit card as needed.

The main feature of an offset account is having your spare cash sit in a transaction account that is 'offset' daily against the balance of your home loan.

Interest is charged against the reduced amount of your loan instead of the full outstanding balance. The money you save in your offset account can help you reduce the loan size, pay less interest and repay the mortgage faster.

*Only 45% of total residential mortgage debt in Australia is benefitting from this money-saving facility<sup>3</sup>!*

## **What is a redraw facility?**

This facility is designed to allow you to make additional payments towards your home loan without penalty (usually up to an agreed limit).

The best feature is that it allows you to withdraw any additional repayments you have made towards your home loan when you need that cash boost.



You are only able to redraw the additional money that you have made above your minimum repayments, but having the flexibility to withdraw money when needed can prove to be very handy.

Offset accounts and redraw facilities are both common home loan features.

#### Similarities:

- can help pay off your home loan quicker
- can help reduce the amount of interest charged on your home loan
- are generally available on many variable rate loans
- may attract a fee for the feature

#### Differences:

- the degree of accessibility
- the effect of withdrawals on home equity
- the difference between the value of your property and the amount you still owe on your home loan

#### Accessibility and flexibility:

The money sitting in an **offset account** is readily available for withdrawal at any time for purchasing goods and services or in case of an emergency. No bank approval is required.

A withdrawal from this account does not affect the principal balance of the loan.

The additional payments sitting in a **redraw facility**, while accessible, are not generally available for the same day, at call, withdrawal. Some lenders may impose minimum and maximum redraw amounts.

A withdrawal from this facility also increases the principal and hence reduces equity in the home.

*Every day your savings sit in an offset account or redraw facility, you are potentially saving thousands in the interest you are paying on your home loan over the life of the loan.*

Before taking any action, it is important to consider your own financial goals, strengths and weaknesses.

#### Dangers!

Some borrowers may find that having access to this type of facility makes it too convenient to access their funds and end up not achieving their overall goal of paying down their home loan sooner.

Others will be successful with their goal to reduce their loan by having the discipline to only access it in times of emergency – if at all.

**If you do not have one of these facilities, call the office to discuss your options.**



**Chase Finance Pty Ltd**

Kent Town SA 5067 Toorak VIC 3142

**1300 137 045**

[finance@chasefinance.com.au](mailto:finance@chasefinance.com.au)

[www.chasefinance.com.au](http://www.chasefinance.com.au)

**Source:** 1 ABC News/Reserve Bank research: [abc.net.au/news/2019-10-18/household-debt-leaves-australians-working-longer-spending-less/11608016](http://abc.net.au/news/2019-10-18/household-debt-leaves-australians-working-longer-spending-less/11608016)

2 Grattan Institute, As the COVID-19 crisis deepens, few Australians have much cash in the bank: [blog.grattan.edu.au/2020/03/as-the-covid-19-crisis-deepens-few-australians-have-much-cash-in-the-bank/](http://blog.grattan.edu.au/2020/03/as-the-covid-19-crisis-deepens-few-australians-have-much-cash-in-the-bank/)

3 Reserve Bank of Australia, Institutional Features of the Australian Mortgage Market: [rba.gov.au/publications/rdp/2019/2019-06/appendix-b.html](http://rba.gov.au/publications/rdp/2019/2019-06/appendix-b.html)