

The logo for 'chocolate money' is set against a dark brown background with a subtle circular glow. The word 'chocolate' is in white, 'money' is in green, and the tagline 'the sweetest loans' is in white below it.

## **chocolate money** *the sweetest loans*

### SLASH YEARS OFF YOUR MORTGAGE

Whether you're a seasoned investor or buying your first home, an offset loan can help you reduce interest payments, save on tax and pay off your mortgage years ahead of schedule.

#### **What is an offset loan?**

An offset loan allows an account to be linked to a borrower's mortgage. Any money in this account is offset daily against the loan, lowering the principal owing and therefore the interest payable.

#### **How an offset loan works**

With an offset loan, instead of receiving interest on your savings account each month, the account balance is offset against your home loan, reducing the amount of interest you pay over the life of the loan.

For example, if you have \$20,000 in your offset account and \$400,000 owing on your mortgage, the interest on your home loan is calculated on \$380,000 instead of \$400,000.

While your repayments remain the same, you're paying less interest, which means you will be paying off more of the principal. If you can maintain a significant savings balance you can potentially pay off your mortgage years earlier than with another type of loan.

For home owners, another potential benefit is that the Australian Taxation Office does not always consider an offset account to be an interest-earning vehicle, which means you may not have to pay tax on any interest earned on your savings. Seek advice from an accountant or financial planner on the tax implications of an offset account.

#### **Getting maximum benefit from an offset loan**

Because your mortgage interest is calculated daily, many borrowers have their salary paid into an offset account, immediately reducing the interest payable on the home loan. You can still access the money in your offset account online or with an ATM card, but because every dollar is saving you interest, it makes sense to keep the offset account balance as high as possible.



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Another tactic is to use a credit card to cover monthly expenses so you can maintain the maximum amount in your offset account. At the end of the month, simply pay off your credit card with the money in your offset account. The danger is that if you're not a disciplined spender, you may end up incurring interest charges and cancelling out the savings benefit.

### **What you need to know about offset loans**

An offset account is identical to any other savings account with a bank card and online access, so you can withdraw your money at any time.

- In most cases, the offset is tax free (but do consult your tax accountant)
- Most offset accounts are offered with variable rate loans'; however some lenders offer offset accounts on fixed rate loans, too.

### **The take-out**

You can benefit from having an offset account, particularly if you would like to pay off your loan significantly faster without having to make extra payments or if you would like to save thousands of dollars.

Contact Harry Pontikis directly on [harry@mbafinance.com.au](mailto:harry@mbafinance.com.au) or call Master Builders Finance on 1300 137 539 to discover how to use this feature to your benefit.

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