

Home loan features

As a borrower, it's wise to become familiar with the different features which may be included in home loan products. That way, you can decide which loan is the most suitable for you. Below we look at some of the most common loan features.

Offset account

An offset account is a separate transaction account associated with your home loan. You can choose to deposit your income into the transaction account and use it for day-to-day expenses, as you can withdraw funds as often as you like. Any money in this account is used to 'offset' against the amount owing on the home loan and interest is calculated on the loan balance less funds held in the offset account.

For example, if the home loan is \$400,000 and the borrower has \$50,000 in their transaction account, they will only pay interest on \$350,000 of the home loan.

An offset account may attract higher monthly fees, and a minimum balance may be required in the account.

For investors, this may be the more effective option for accounting and taxation purposes.

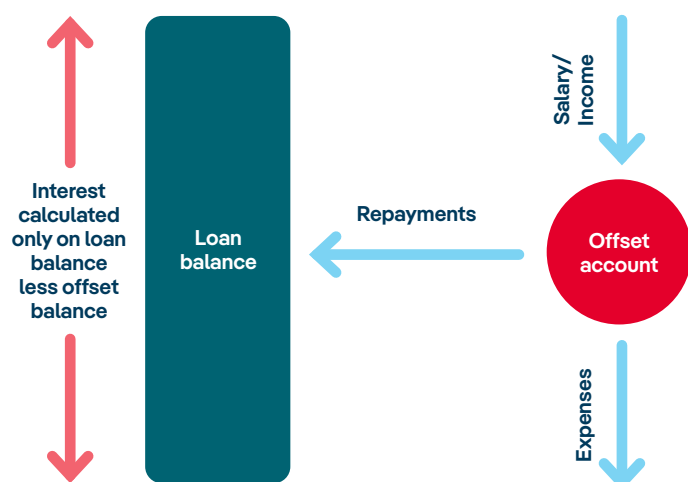


Figure 1: Typical loan with offset account

Redraw facility

A redraw facility allows the borrower to make extra repayments on a loan and access the 'extra' funds later if required. This encourages the borrower to make extra repayments with the security of knowing they can access the money later if necessary. Until the funds are redrawn, they reduce the amount owing on your home loan and the interest charged.

A redraw facility can also be a useful tool to save for larger expenses (e.g. a car or renovations), or to keep as emergency funds. See the 'Extra repayments' section.

Low documentation

Low-documentation (low-doc) loans are useful for borrowers who are unable to substantiate their level of income through the usual documentation required by most lenders, or for borrowers who may have complicated financial circumstances.

Low-doc loans allow borrowers to minimise the time and effort of collating tax records, bank statements and other documents to secure a loan.

Low-doc loans may attract higher interest rates.

Professional package

Professional package or 'Pro Pack' loans offer the borrower a competitive discounted rate as well as a range of popular features. The qualification criteria for a Pro Pack varies from lender to lender, as does the level of discount offered. Despite the name, you do not have to be a doctor, lawyer or accountant to secure a Pro Pack discount.

Most lenders base the criteria on the size of the home loan, but some may also require minimum income levels. The discount is usually a set percentage off the standard variable rate, with only a few lenders offering a discount on fixed-rate products.

Pro Packs normally have an annual fee, but this is generally offset by the discounts received. They can also extend further than a typical home loan, with fee exemptions on related savings accounts, credit cards and other bank services.

Loan portability

This feature allows the borrower to take an existing loan to a different property when the borrower moves. Loan portability means a borrower can avoid break costs, although other fees and charges may apply.

Repayment holiday

Repayment holidays offer the borrower a complete break from repayments, or a period of reduced repayments. This can be useful during career changes or breaks, such as parental leave. Often this feature is only available if the borrower is ahead on their loan repayments.

Extra repayments

Extra repayments can be a way to help pay off your loan faster, but this loan feature is not offered for all loans. Extra repayments are payments the borrower makes above the standard repayment for the loan. Doing this can also reduce the total amount of interest paid, and even reduce your total loan term.

For example: If you have made additional repayments of \$20,000 on your \$300,000 home loan, interest will only be charged on \$280,000. This \$20,000 is available for redraw if you require it down the track. Depending on your loan, fees may apply to redraw funds.

The redraw funds can usually be easily accessed online or by speaking directly with your lender. Each lender has different options so be sure to check the terms and conditions.

**For expert mortgage advice,
talk to your local broker today.**