

# Offset Account

What it is:

- An offset account is a transaction account linked to your home loan. The balance in this account offsets the loan balance, reducing the interest charged on your loan.
- For example, if you have a loan of \$500,000 and \$50,000 in your offset account, you will only be charged interest on \$450,000.

Benefits:

- Reduces Interest Payments: Lowers the overall interest you pay on your mortgage.
- Easy Access: You can freely access and withdraw money from the account without impacting the loan structure.
- Tax Benefits: For investment loans, interest savings from an offset account are not taxable (unlike income earned on savings in a regular bank account).

Pros:

- Flexibility: You can use it like a regular savings or transaction account, withdrawing and depositing funds as needed.
- Interest Savings: Directly reduces the amount of interest paid on the loan without reducing the actual loan balance.
- No Impact on Loan Term: Even though you're paying less interest, the principal and loan term remain unchanged unless you make extra payments.

Cons:

- No Loan Reduction: An offset account does not lower the principal loan amount, only the interest.
- Fees: Some offset accounts may come with higher fees compared to regular savings accounts.
- Limited Benefit with Low Balances: If you don't maintain a high balance in your offset account, the interest-saving benefits are minimal.

# Redraw Account

What it is:

- A redraw facility allows you to access any extra repayments you have made on your mortgage. These extra payments reduce your principal loan amount, which in turn reduces the interest charged.
- You can "redraw" the extra money paid if you need it later.

Benefits:

- Loan Reduction: Extra repayments directly reduce the principal amount of your loan, which reduces the interest charged.
- Interest Savings: As the principal reduces, you save on interest over the life of the loan.
- Flexibility of Funds: You can withdraw extra payments if needed for emergencies or other expenses.

Pros:

- Interest Savings and Loan Reduction: Extra payments immediately reduce the loan balance, leading to long-term interest savings.
- Emergency Fund Access: You can access the extra repayments through the redraw facility, providing flexibility.
- Better for Discipline: You're more likely to leave money in the loan and pay it down faster as accessing the funds is not as easy as an offset account.

Cons:

- Less Accessibility: Unlike an offset account, accessing funds through a redraw facility may take a few days, and there may be withdrawal limits or fees.
- Restrictions: Some loans limit how often or how much you can redraw. Access to extra repayments might also be restricted by the lender in times of financial difficulty.
- Tax Implications for Investors: If you're using the redraw facility for an investment property loan, redrawing funds can impact tax deductions.

## WHICH IS BETTER

It depends on your financial habits and goals:

- If you need frequent access to funds, an offset account may be a better choice because of its flexibility and ease of use.
- If your focus is on paying off the loan faster and you're disciplined with extra repayments, A redraw facility could help reduce your principal faster, resulting in long-term interest savings.



# OFFSET VS REDRAW

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# SUMMARY



Features	Offset account	Redraw Account
Primary Function	Offsets loan balance to reduce interest	Allows access to extra repayments made on the loan
Interest Savings	Reduces interest, but loan balance stays the same	Reduces principal and interest over the loan term
Access To funds	Immediate, as with any bank account	Requires a redraw request, often with restrictions
Tax Implications	No tax on interest saved (for investors)	Can impact tax deductions if redrawn (for investors)
Fees	May have higher fees	Typically no or lower fees for redrawing funds
Flexibility	High, easy access to funds	Limited access, which may promote saving discipline

Both options are useful depending on your financial needs and loan repayment strategy