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## Offset Accounts - How Do They Really Work?

An offset account:

- is a transactional account, or 'day-to-day account with special features.
- only acts as an offset account when linked to a loan facility and only acts as an offset account when there is a corresponding loan account.

MAIN ADVANTAGE: the ability to reduce the interest accrued on the loan amount:

- \$300,000 loan balance
- \$50,000 linked offset account
- interest only charged on \$250,000 (not \$300,000)
- genuine savings are possible

Key Points:

1. normally only linked to variable, not fixed rate, loans
2. check is it's a 100% offset or only a partial offset
3. usually comes at a cost - take the time to weigh the benefits against the expense
4. assess suitability in light of tax considerations and investment strategies
5. the balance of an offset account can exceed the loan account limit it is linked to, but the excess offset account balance cannot be used to offset the debt in any other loan account, nor does it earn interest.

## Offset Accounts - How they IMPACT YOUR loan repayments:

Whether an offset account is linked to a principal and interest loan or an interest only loan, the offsetting principal is the same. But let's look at how an offset account can impact your loan repayments.

❖ Variable INTEREST ONLY (I/O) loan:

- \$500,000 loan @ 5% per annum (pa), 5-year term, \$2,083 per/month
- linked to 100% offset account with a balance of \$100,000
- monthly loan repayment drops from \$2,083 to \$1,667, a reduction of \$416
- loan balance remains at \$500,000, as the repayments are only meeting loan interest commitment
- after an initial I/O period, I/O loan often reverts to P/I loan with 25-year term

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\*\*\*\*As with any financial decisions, it is important that you speak to a financial professional. The information presented here is not financial advice and is for general education purposes only. \*\*\*\*

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❖ Variable PRINCIPAL & INTEREST (P/I) loan:

- \$500,000 loan @ 5%pa, 30-year loan term, \$2,684 per/month
- linked to 100% offset account with a balance of \$100,000
- monthly loan repayments remain the same - the effect of the offset account is to reduce the loan TERM, paying off the loan more rapidly, saving interest, but not reducing monthly repayments.

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