



Who owns your extra mortgage payments?

We are constantly told to “Make extra payments on your loan. Pay your loan off”. But if you have made extra payments, when times get tough and you need to redraw, could you?

According to a recent Household Financial Comfort Report¹ more Australians are feeling strapped for cash and are being forced to dip into their savings to cover the rising cost of living.

Perhaps you have been making additional mortgage payments to help you manage the ups and downs of life's expenses and drawing on them when life gets tough or your circumstances change.

You may find it surprising that you don't always own your extra mortgage payments!

Although we have no doubt that all borrowers read every detail of their mortgage documents, and while each lender's policy is slightly different, few borrowers realise that some lenders have the discretion to refuse to allow a redraw under certain circumstances. These may include:

- missed loan payments under the contract, or
- if your financial circumstances have significantly changed since the settlement date

Some lenders also have in their mortgage documents that they can, at their discretion, suspend, reduce or cancel the redraw facility at any time.

It is important for you to understand the terms and conditions of your mortgage, particularly at a time when many people are feeling the strain and looking for options to ease their financial burdens.

If you are feeling you are in - or heading towards - financial stress, as your mortgage specialist, it is always better to chat with us first before making any redraw decisions that may result in a worse financial outcome.

Put the control in your own hands

There are a few options to control how you access additional mortgage payments.

Redraw vs offset vs savings accounts

Redraw facilities and offset accounts have many similarities. But there are some important differences too.

Both facilities can help you pay off your home loan sooner and reduce the amount of interest you pay on your home loan.

Redraw facility

This facility is not a separate account but a feature attached to your loan to allow you to make additional payments towards paying off your mortgage.

However, it may not be as flexible as an offset account.

Access from redraw facilities can be limited to minimum amounts and can come with fees.

Some lenders have the ability, right or discretion to freeze a redraw capacity. Each lender's mortgage documents are slightly different with respect to wording on redraw and limitations on access by borrowers.

Offset account

An offset account is a savings or transaction account linked to your home loan. Instead of earning interest (where you would be subject to tax) the account's balance is 'offset' against your home loan balance. As a result you are only charged interest on the difference between the two.

You may have your salary deposited into a savings or transaction account linked as an offset to automatically save you money on your interest payments.

Most people would consider the most financially effective option is the 100% offset savings account. The good news is that lenders cannot restrict your access to these funds as they are your savings, however **offset accounts do not suit all people.**

A solution just for you

Everyone's situation is different. All lenders are different. Assessing the best way to manage your finance and home loan depends on a range of factors according to your personal circumstances, spending and savings habits.

Make sure you call us first before taking any action.

1 ME Household Financial Comfort Report August 2018



Contact us today to receive our 'Turn your financial stress around now' fact sheet.