

# Debt Management – Redraw facility

A redraw facility allows you to withdraw any additional home loan repayments you have made when necessary. Paying any extra money you have available into your home loan can be an easier decision when you know you may have the ability to get these additional payments back at a later date. A redraw facility is usually available on most variable rate loans but is not available on fixed rate loans. Please contact your financial institution to find out what they can offer you.

## How it works

Making extra repayments on your loan can help eliminate your debt faster and save on interest costs. Even a small increase in your repayments can provide you with significant savings over the life of your loan. Any lump sums you receive, such as tax refunds or bonuses, could be directed to your loan.

First of all, you need to check with your provider whether your loan account has a redraw facility or is eligible to have one established. Secondly, you need to make loan repayments above the minimum. If you have mortgage repayments of say \$1,000 a fortnight and you pay \$1,500 a fortnight, i.e. an extra \$500 off each time, the extra \$500 can go into the redraw facility and you will be able to access it later if necessary. It will also reduce the balance of your outstanding loan, hence reducing interest charged by the bank. Additional amounts are calculated by the bank and called accrued extra payments available for redraw. You then can apply to draw on these extra payments. You will need to contact your financial institution to organise and check the terms and conditions for the redraw.

## Benefits

Benefits of having a redraw facility may include:

- Putting excess funds into your home loan means you are effectively earning the interest rate of your loan account on these savings. The interest rate on your home loan is likely to be higher than the interest rate you are able to achieve on any cash savings account.
- Even though you are effectively earning a higher interest rate than if your money was in a savings account, you do not have to pay any tax on money in the redraw facility, whereas interest earned in a savings account is considered income and may be taxable.
- Redrawing on your home loan may be cheaper than using your credit card or personal loan as there is generally a lower interest rate.
- A redraw facility gives you the 'peace of mind' of knowing you may have an accessible source of funds sitting in your home loan account for any planned or unexpected events.

## Risks, consequences and other important things to consider

These include:

- Redrawing additional payments you have made will reduce the benefit of making additional repayments.
- There may be a fee for having a redraw facility.
- The number of free redraws and maximum number of redraws per year can be limited.
- There may be a fee per redraw.
- There may be a minimum or maximum redraw limit available.

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