



FACT SHEET



Interest Only Loans

Interest Only Loans can be useful for property investors or for people looking for a flexible way to minimise the amount of their repayments.

Interest Only Term

As a general rule Banks will allow a maximum of 5 years interest only before they ask the borrower to start making principal and interest payments over the remaining term. Terms of up to 15 years or longer may be available with your lender.

Variable Rate Interest Only Loans

When interest only loans are **VARIABLE** they are extremely flexible, allowing borrowers to payoff as much as they want, reduce their commitments and still have access to the funds.

Risks

Unless you are disciplined with your money you will not payoff any of the loan principal. It is up to the borrower to repay the loan if and when they want.

INTEREST CALCULATION:

The way you are charged interest is a little different to your traditional Principal & Interest loan (P&I). In most cases you will need a Cheque/Deposit account which will be charged / debited each month on the anniversary of the loan settling (ie the 16th of each month). The amount of interest charged is calculated **DAILY** based on the actual balance of the loan outstanding. This means if you repaid some of the loan you will be charged less for that month. See the example below

**\$800,000 Dr
Loan Account
Balance**

**Interest Only
Variable Rate
7.32%**

**\$5,000 Cr
Cheque Account**

Example 1, Interest is calculated daily as follows:

Loan Balance x Rate / 365 Days
ie $\$800,000 \times 7.32\% / 365 = \160.43 per day.

← Direct Debit. Each month the daily interest is added up and directly deducted from your Cheque account.

ie Assuming the balance remains at \$800,000 for one month (say 30 days) your Cheque Account will be automatically debited with:

$\$160.43 \times 30 = \$4,812.90$

Assume you repaid
\$300,000 off
this account

**\$500,000 Dr
Loan Account
Balance**

**Interest Only
Variable Rate
7.32%**

**\$5,000 Cr
Cheque Account**

Example 2, Assume you pay \$300,000 into/off the loan account. The Balance is therefore now \$500,000.

Loan Balance x Rate / 365 Days
ie $\$500,000 \times 7.32\% / 365 = \100.27 per day.

← Direct Debit. Each month the daily interest is added up and directly deducted from your Cheque account.

ie Now assuming the balance remains was at \$800,000 for say 14 days and was then reduced to \$500,00 for 16 days your Cheque Account will be automatically debited with:

$\$160.43 \times 14 = \$2,246.02$
 $\$100.27 \times 16 = \$1,604.32$
Total Charged = \$3,850.34

↑ This represents the \$300,000 you have repaid or placed in an offset account. Assuming the loan is interest only and at a variable rate you will be able to **REDRAW** this money at any time.
↓

HOW MANY DAYS IN A MONTH

Some months are 30 or 31 days so the amount charged may differ. This can also be effected by the day of the week. If the your settlement anniversary (ie 16th) falls on a Saturday or Sunday this may mean you are charge for 32 or 33 days, and then next month 28 days. As the interest is charged in arrears and on a **DAILY** basis it is actually a fairer way of charging interest.