



IMPROVING YOUR FINANCIAL POSITION WITH INTEREST ONLY LOANS

Do you have a home loan and looking to invest in property?

Have you considered an Interest Only investment loan? You could then use the money that would otherwise be paying down the principal of the investment loan to pay down the principal on your home loan.

Here is an example of the financial impact of adopting this practice.

Neil and Jane purchased their home 8 years ago and have a current loan balance of \$525,000.

They're looking to purchase an investment unit and have found one that will require them to borrow \$475,000.

	Home Loan \$	Investment Loan \$	Total \$
Loan Balance	525,000	475,000	1,000,000
Remaining loan term (years)	22	30	
Interest rate	4.75% pa	5.25% pa	
Interest Only monthly repayments option	n/a	2,078	
Principal and interest options	3,209	2,846	

Position in 5 years if both loans are on principal and interest

	Home Loan \$	Investment Loan \$	Total \$
Monthly loan repayments	3,209	2,846	6,055
Total loan repayments over 5 years	192,543	170,786	363,329
Potential tax deductible interest	—	118,202	118,202
Loan balance at end of year 5	448,579	422,416	870,995

Position in 5 years if investment property loan is Interest Only

	Home Loan \$	Investment Loan \$	Total \$
Loan repayments	3,977	2,078	6,055
Total loan repayments over 5 years	238,641	124,688	363,329
Potential tax deductible interest	—	124,688	124,688
Loan balance at end of year 5	396,661	475,000	871,661

Over the initial 5 year period they would be entitled to an additional \$6,486 in potential interest deductions by having their investment property on an Interest Only loan.

It should be noted that because the principal of the investment loan is higher at the end of year 5, this benefit will continue beyond the initial 5 year period.

Note: Within this example we have assumed the same interest rate of 5.25% for both the Principal and Interest and Interest Only loans to demonstrate the potential financial benefit. It should be noted that interest rates vary between lenders and some lenders tend to charge a slightly higher interest rate on Interest Only loans over Principal and Interest loans.