

Interest Only Repayments

Home loan repayments are generally made up of two components: the principal (your loan balance) and the interest (the amount you're charged on the outstanding loan balance).

'Interest only' means you pay only the interest component on your loan for a selected period of time. During this time, you'll only be paying any accrued interest and won't be paying off any of the principal amount.

WHAT YOU NEED TO KNOW

- You'll have smaller loan repayments during the interest only period, allowing more cash on hand for other purposes
- However, while you may pay less during the interest only period, since you aren't paying off the principal, your repayments will be higher for the remainder of the loan term and you'll typically pay more interest overall
- The interest rate during the interest only term is typically higher than the principal and interest rate, meaning you will likely pay more interest over the life of the loan
- There are typically limits on how long you can have an interest only period – your loan will automatically switch to principal and interest repayments

Let's look at this example

If you take out a \$500,000 loan with a 30 year loan term and have the option to pay principal and interest at 3.85% or interest only for 3 years at 4.25%, this will be the impact on your repayments.

- **Principal and interest.**
 - You'll pay \$2345 per month from the first year (subject to change based on interest rates)
- **Interest Only.**
 - You'll pay approximately \$1771 for the first 3 years, however in year 4 if you start paying principal and interest, your repayments will increase to \$2597.

Need more information?

Interest only requirements may differ between lenders so it's important to understand your chosen lender's requirements.

It should be remembered that this fact sheet is intended to provide general information of an educational nature only. It does not have regard to the financial situation or needs of any individual and must not be relied upon as financial product advice.

As this information has been prepared without considering your objectives, financial situation or needs you should, before acting on this, consider the appropriateness to your circumstances.

As always, if you have any questions, you can contact your broker.