

Home Loan Professional Packages aren't for all

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Often a basic home loan with full and free redraw facility will be better for many borrowers rather than a fully featured home loan with a 100% balance offset savings account under a Professional Package.

The main reason is the cost. You can see from the following table that the basic home loan is cheaper in total interest and fee costs than a professional packaged home loan. Even though the interest rate may be the same, nevertheless a basic home loan in most cases has no monthly or annual fees whereas the alternative will have an annual fee of around \$350 depending on the lender. When you multiply this over time, this amounts to a considerable amount. Money that could help you reduce the term of your loan.

The benefits of a Basic Home Loan

- There is generally no monthly fees or annual fees – in fact the loan is fee free.
- You can still employ mortgage reduction strategies.
- Unlimited redraws per month for no fees, no minimum redraw amounts.
- Can make extra payments without penalty.
- Rate about 0.70%pa below standard variable.
- Salary credit available

The disadvantages of a Basic Home Loan

- Require more advanced planning to ensure cash is redrawn in time to cover expenses.
- Less flexible with cash included in the loan – not as easy to see what is extra payments and income available for expenses – so requires a little more discipline.

The benefits of a 100% balance offset with Professional Package

- Can more easily distinguish earnings from advance payments by having cash in separate account but still offsetting loan balance.
- Rate about 0.70%pa below standard variable for loans greater than \$250,000
- More flexible with no planning required to have cash available for expenses.
- If you are wanting to turn property into an investment property at a later stage, this loan type is better to keep the balance at a maximum for tax purposes.

But if lowest cost is your goal, then the basic home loan is the better product.

Contact us for a full appraisal of your loan structures and borrowing goals.

Loan		Loan 1		Loan 2	
Loan Amount		\$350,000		\$350,000	
Lender		Non Major Bank		Major Bank	
Product Type		Basic		Professional	
Product Name		Mortgage Simplifier		Advantage SVR > \$250K 0.70% Disc	
Term		30		30	
Period		10		10	
Initial Rate	Initial Period	5.09%	0	5.09%	0
Monthly Repayment Initial		1898.17		1898.17	
Final Rate		5.09%		5.09%	
Comparison Rate		5.09%		0.00%	
Monthly Repayment Final		1898.17		1898.17	
Monthly Fees		0		0	
Annual Fees		0		395	
Establishment Fees		0		0	
Preparation Fees		220		100	
Other Fees [One Off]		0		0	
Amount for Period		\$228,000		\$231,830	
Total Paid		\$683,561		\$695,291	
Rank		1		2	
Select Split Product					
Total Paid with Split		\$683,561		\$695,291	

The following diagrams demonstrate the mechanics of utilising a mortgage strategy with either type of loan.

