

The Repayment Tipping Point

How Little Changes Make a Big Difference

Most Australian homeowners are quietly paying far more than they need to. This free guide shows you the simple, practical things you can do right now to save thousands of dollars and pay off your home loan years earlier.

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Free Report — For Australian Home Owners

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Quit Rate Chasing!

Here is a question most people cannot answer: what is your current home loan interest rate? If you had to stop and think about it, you are not alone. Research consistently shows that a large number of Australian homeowners have no idea what rate they are actually paying — and that is a costly problem.

Rate chasing is when a homeowner keeps refinancing their home loan every couple of years, chasing a slightly lower interest rate each time. On the surface, it sounds like smart money management. But in reality, it can quietly cost you tens — or even hundreds — of thousands of dollars over the life of your loan.

Here is why. Every time you refinance, your loan term is typically reset back to 30 years. So if you took out a 30-year loan five years ago, refinanced, and your new loan is set to another 30 years, you have just extended your total loan journey to 35 years. Do this again in another few years and you are looking at a 40-year loan. The small saving you made on the interest rate is quickly swallowed up by the extra years of repayments you have added on.

The numbers can be shocking. On a \$600,000 loan at 6%, saving 0.15% by refinancing saves you roughly \$900 per year in interest. But if that refinance resets your loan back to 30 years and you had already paid it down by 5 years, you could be paying an extra 5 years of repayments — adding close to \$100,000 in total interest back onto your loan. The 0.15% saving looks a lot less attractive when you look at it that way.

The smarter move is to focus on your overall loan strategy rather than just the interest rate. Ask yourself:

- **How many years do I have left on my loan?** If you are 10 years into a 30-year loan and you refinance back to 30 years, you have added 10 years of repayments. Always try to refinance to a loan term that matches how many years you have remaining — not a fresh 30-year term.
- **What are the true costs of refinancing?** Refinancing is not free. Costs can include discharge fees from your current lender (typically \$150–\$400), application fees with the new lender, government registration fees, and sometimes valuation fees. These can easily add up to \$1,000–\$2,000 or more. Make sure the savings from the new rate outweigh these costs.
- **Is the rate difference actually meaningful?** Moving from 6.20% to 6.05% on a \$500,000 loan saves you around \$750 per year. After fees, you might not break even for 2–3 years. If you are likely to move, sell, or refinance again before that, you are losing money.
- **Check your rate regularly — but act wisely.** It is smart to review your rate at least once a year. But rather than automatically refinancing, first try negotiating with your current lender. Banks would rather give you a better rate than lose your business entirely. More on this in Tip 7.

TIP: Before you refinance, ask your broker to calculate the true break-even point — the exact month when your interest savings will have covered all the costs of switching. If you are not planning to stay in the loan past that point, refinancing may not be worth it.

An offset account sounds like a brilliant idea — and it can be. But for many Australians, their offset account is quietly costing them more than it is saving them. Before you assume your offset account is working hard for you, it is worth doing the numbers.

Here is the thing most people do not realise: offset accounts come with a cost. Some lenders charge a monthly fee of around \$10 just to have the offset feature. Others bundle it into an annual package fee that can range from \$250 to \$400 per year. Over the life of a 30-year loan, an annual package fee of \$395 adds up to \$11,850 in fees alone — before you have saved a single dollar in interest.

Now here is where it gets important. How much money do you actually keep in your offset account? If the answer is not much, the maths may not work in your favour. Let us look at a real example:

- **The scenario:** You have a \$500,000 home loan at 6% interest with an annual package fee of \$395. You keep \$1,000 in your offset account consistently over the full 30-year life of the loan.
- **The interest saving:** \$1,000 in your offset account on a 6% loan saves you approximately \$60 per year in interest, or close to \$5,000 over 30 years. That sounds great on its own.
- **The true cost:** But you are paying \$395 per year in package fees to have that offset account. Over 30 years that is \$11,850 in fees. Subtract your \$5,000 in interest savings and you are actually out of pocket by \$6,850 just to have the offset account sitting there with \$1,000 in it.
- **The lesson:** The offset account only starts to work in your favour when you keep a meaningful balance in it. As a rough guide, the higher your loan balance and interest rate, the more money you need to park in the offset to justify the fees. If you are not consistently keeping a large balance in there, a basic no-frills loan with a redraw facility and lower fees may actually save you more money over the long run.

TIP: Ask your broker to calculate the minimum offset balance you would need to maintain to break even on the package fees. This number gives you a clear target — if you cannot consistently keep that amount in the offset, a cheaper loan product with a redraw facility may be the smarter choice.

So when does an offset account actually make sense? The answer comes down to how much money you can consistently park in it — and what you would otherwise do with that money.

Offset accounts are powerful tools when used correctly. The key is understanding how they compare to the alternatives — particularly high-interest savings accounts.

Many Australians think that putting spare money into a savings account that earns interest is a smart move. And it can be — but there is a catch. The interest you earn in a savings account is considered taxable income by the Australian Taxation Office (ATO). Depending on your tax bracket, you could be handing back 30%, 37%, or even 45% of your earned interest to the government.

Compare that to an offset account. When you put money in an offset account, you are not earning interest — you are reducing the interest you are being charged on your home loan. And because you are not earning income, there is no tax to pay. This makes an offset account significantly more effective than a savings account for most homeowners in Australia.

- **The tax comparison:** Say you have \$50,000 sitting in a savings account earning 4.5% interest. That is \$2,250 per year in interest earned. If you are in the 37% tax bracket, you keep only \$1,418 after tax. But if that same \$50,000 sits in an offset account against a 6% home loan, you save \$3,000 per year in interest — tax free. The offset account wins by over \$1,500 per year in this example.
- **Day-to-day money in the offset:** The offset account works especially well if you use it as your everyday transaction account. Your salary going in, your bills going out — even the few days between payday and paying your bills reduces your interest for that period. Over a year, this adds up.
- **The spending trap:** One downside of an offset account is that because the money is so accessible, some people tend to spend it more freely. If you find that having easy access to money leads to higher spending, a redraw facility (covered in the next tip) may work better for you — it provides slightly less immediate access, which can help with discipline.
- **Do the calculation for your situation:** Everyone's tax rate, loan balance, and savings habits are different. It is worth sitting down with your broker or a financial adviser to work out which option — offset, redraw, or savings account — makes the most sense for your specific circumstances.

TIP: If you receive a salary, try having it deposited directly into your offset account instead of a regular bank account. Even having your pay sitting in the offset for a week or two before your bills come out can save you a surprising amount in interest over the years.

One of the best-kept secrets in home lending is the redraw facility. For many borrowers — especially those who do not want to pay high package fees for an offset account — a home loan with a free unlimited redraw facility can be a smarter and cheaper way to get ahead on your mortgage.

Here is how it works. When you make extra repayments on top of your minimum monthly repayment, that extra money reduces your principal — the amount you originally borrowed. A lower principal means you are charged less interest each month. Over time, this can save you a significant amount of money and cut years off your loan term.

The redraw part means that if you ever need that money back — for an emergency, a renovation, a new car, or anything else — you can redraw it out of your loan account. When you do, your loan balance goes back up by the amount you withdrew, which means your interest charges increase again. But while that money was sitting in the loan, you were saving on interest every single day.

The key is finding a home loan with low fees and a free, unlimited redraw facility. These types of loans often have:

- **Lower interest rates:** Basic variable rate loans with redraw tend to have lower interest rates than packaged loans with offset accounts, because they come with fewer features and therefore lower costs for the lender to offer.
- **No or minimal ongoing fees:** Unlike package loans that charge \$250–\$400 per year, many basic loans charge little to nothing in ongoing fees. Over 30 years, saving \$350 per year in fees adds up to \$10,500 — money that would be far better put toward your loan principal.
- **Free unlimited redraw:** Some loans charge a fee every time you redraw funds, or limit the number of redraws per year. Look for a loan that allows unlimited redraws at no cost, so you have full flexibility to access your extra repayments whenever you need them.
- **A practical example:** Say you have a \$500,000 loan and you make an extra \$500 per month in repayments. Over a year that is \$6,000 sitting in your loan reducing your interest. At 6%, that saves you roughly \$360 in interest in the first year — and more each year as the balance grows. If an emergency comes up, you simply redraw the \$6,000 and it is available within a day or two.

TIP: When comparing a basic redraw loan versus a package loan with offset, ask your broker to model both options side by side using your actual numbers — your loan balance, the amount you plan to keep in the offset or pay as extra repayments, and the fee difference. The results often surprise people.

Redraw and offset accounts are often talked about together, and many people assume they do the same thing. They are similar in some ways — both can reduce the interest you pay on your home loan — but they work quite differently, and understanding the distinction can help you choose the right option for your situation.

Let us break down each one clearly.

- **Redraw — how it works:** With a redraw facility, you make extra repayments directly into your home loan account on top of your minimum monthly repayment. This money reduces your loan principal — the amount you owe the bank. Because your loan balance is lower, the bank charges you less interest each month. If you need the money back at any point, you can redraw it from the loan, which brings your loan balance back up. The key point is that extra repayments go into the loan itself.
- **Offset — how it works:** An offset account is a separate bank account that is linked to your home loan. Money sits in this account independently of your loan. The balance in your offset account is subtracted from your loan balance when the bank calculates your interest. For example, if you have a \$500,000 loan and \$50,000 in your offset account, you only pay interest on \$450,000. The money in the offset account stays yours — it is not actually paid into the loan — and you can access it any time you like.
- **Access and flexibility:** Both options allow you to access your extra money when you need it. The offset account gives you instant access, just like a regular bank account with a debit card. Redraw typically takes a day or two to process and may require you to log in to your online banking to initiate a redraw request. Some lenders have minimum redraw amounts.
- **The spending factor:** Because offset accounts function like everyday bank accounts, they are easier to spend from. If you have \$30,000 in your offset account and you can see it sitting there, it can be tempting to dip into it. Redraw is slightly less accessible, which can naturally encourage better saving habits for some people.
- **Tax considerations:** Both redraw and offset accounts have no tax implications in the same way a savings account does, because you are reducing interest rather than earning income. This is one of the key advantages both options have over keeping spare money in a savings account.
- **Which is better?** There is no universal answer. If you are disciplined with money and want to maximise your tax efficiency, an offset account with a healthy balance can be very powerful. If you want lower fees and a simpler structure, a basic loan with a free redraw facility often delivers great results at a lower cost. Ask your broker to compare both options using your actual loan balance and spending habits.

TIP: Think about your own money habits honestly. If you know you tend to spend money when you can see it, redraw gives you a small but useful barrier that can help you stay on track. If you are disciplined and want maximum flexibility, an offset account is a great tool.

Of all the strategies covered in this guide, this one has the single biggest impact on how quickly you pay off your home loan and how much interest you pay over its lifetime. It is also one of the simplest: make extra repayments.

Most homeowners just pay the minimum required each month and leave it at that. But even small additional payments — made consistently — can dramatically change the outcome of your loan. Here is what the numbers look like:

- **One extra repayment per year:** If you make one additional repayment each year equal to your normal monthly repayment, you can knock approximately four years off a standard 30-year home loan. That means owning your home outright four years earlier — and saving potentially tens of thousands of dollars in interest that you simply never have to pay.
- **Two extra repayments per year:** Double that effort to two extra repayments per year and you can cut up to eight years off your loan term. On a \$600,000 loan at 6%, eight fewer years of repayments could save you well over \$100,000 in total interest. That is a life-changing saving for what amounts to two extra payments a year.
- **Fortnightly repayments instead of monthly:** Switching from monthly to fortnightly repayments is one of the easiest tricks in the book. Pay half your monthly repayment every two weeks. Because there are 26 fortnights in a year — not 24 half-months — you end up making the equivalent of one extra monthly repayment every year without even thinking about it.
- **Lump sum payments:** Any large sum of money that comes your way is money well spent on your home loan. A tax refund, a work bonus, an inheritance, or the proceeds from selling something — putting even part of these windfalls directly onto your loan principal can save you thousands to hundreds of thousands of dollars in interest over the life of the loan, depending on the size of the payment and how early it is made.
- **Why early payments matter most:** In Australia, home loan interest is calculated daily on the outstanding loan balance. This means extra repayments made in the early years of your loan have a much greater impact than the same payments made later. Every dollar you pay down early reduces the balance that interest is charged on for the remaining life of the loan — the savings compound over time.
- **Round up your repayments:** If your minimum monthly repayment is \$2,150, consider rounding it up to \$2,300 or \$2,500. Over the life of a 30-year loan it can save you years of repayments and tens of thousands in interest.

TIP: Set up an automatic extra repayment the day after your salary hits your account. Even \$200 extra per month — \$2,400 per year — makes a meaningful dent over time. Automating it means you never have to think about it, and you quickly adjust your spending to what is left.

What if you are happy with your current bank but you suspect you could be getting a better interest rate? There is a little-known trick that many Australians use to get a better deal on their home loan — without going through the time, cost, and hassle of a full refinance.

The trick is to request a **discharge authority** from your bank.

A discharge authority is the paperwork you fill in when you want to close your home loan and move it to another lender. When you request one, it sends a signal to your bank that you are seriously considering leaving. Most major Australian banks have an internal customer retention team — a dedicated group whose entire job is to keep borrowers from switching to a competitor.

When your bank's retention team sees that you have requested a discharge authority, they will typically call you and offer you a better deal to keep your business. This might look like:

- **A rate reduction:** The retention team can often authorise an interest rate discount that your regular bank manager cannot. Banks would rather cut your rate by 0.25%–0.50% than lose your \$500,000 loan to a competitor. Even a 0.30% rate cut on a \$500,000 loan saves you \$1,500 per year in interest.
- **Fee waivers:** The bank may offer to waive annual package fees or other charges as an incentive to stay. Over the life of a loan, fee waivers can add up to thousands of dollars in savings.
- **A loyalty cashback:** Some lenders offer a cashback payment as a retention incentive. This is less common than a rate reduction but worth asking about.
- **What to do if they offer you a deal:** If the bank comes back with an offer you are happy with, great — you have saved yourself the time and cost of refinancing and secured a better rate with zero switching costs. If their offer is not good enough, you now have genuine leverage to shop around with another lender.
- **Use a broker for extra leverage:** Having a mortgage broker call your lender on your behalf can be even more effective. Brokers send large volumes of business to lenders, and a broker threatening to move your loan carries significant weight. Many brokers offer this as a free service for existing clients — it is always worth asking.

TIP: Do this review once a year. Set a reminder on your phone or calendar. Call your bank or ask your broker to negotiate on your behalf every 12 months. It takes less than an hour and could save you thousands.

If you are juggling multiple debts — a car loan, credit card balances, a personal loan, or buy-now-pay-later accounts — keeping up with different repayments, interest rates, and due dates can become overwhelming. Debt consolidation through a home loan refinance is a common solution, and in the right circumstances it can provide significant relief.

Debt consolidation means rolling all your existing debts into your home loan. Instead of paying 20% interest on a credit card, 12% on a personal loan, and 7% on a car loan — plus your home loan repayment — you consolidate everything into a single loan at your home loan interest rate, which is typically much lower. This reduces your total monthly repayments and simplifies your finances down to one payment.

There is absolutely no shame in doing a debt consolidation if it helps you get back on your feet. Reducing the burden of high-interest debt is a legitimate and smart financial move for many Australians. However, it is important to go in with your eyes open about the trade-offs:

- **The interest rate is lower, but the term is much longer:** A personal loan at 12% over 5 years costs less in total interest than consolidating that same debt into a 30-year home loan at 6%. Even though the rate is lower, you are paying it for far longer. The total interest paid over 30 years can be significantly more than if you had just paid off the shorter loan on its own.
- **Use loan splits to manage this:** One of the smartest ways to handle a debt consolidation is to ask your broker to structure the loan into separate loan splits. For example, your original home loan balance stays as one split, and the consolidated debt becomes a second split. You then focus any extra repayments entirely on the consolidated split to pay it off as fast as possible — ideally within the original timeframe of those debts. This way you get the benefit of the lower interest rate without dragging the debt out over 30 years.
- **Stop adding to the problem:** The biggest risk with debt consolidation is that once your credit cards are paid off and your personal loans are gone, it can be tempting to start using them again. If that happens, you end up with your new consolidated debt still sitting in the home loan plus fresh high-interest debt on top. Before consolidating, it is worth addressing the spending habits that led to the debt in the first place.
- **When it makes the most sense:** Debt consolidation is most effective when the monthly cash flow relief is significant — when combining your debts into the home loan meaningfully reduces your total monthly outgoings and gives you breathing room. It also makes sense when the high-interest debt is large and the interest saving from consolidation is substantial.
- **Talk to a broker first:** A good mortgage broker will model the numbers for your specific situation — showing you the total interest cost of consolidating versus keeping the debts separate, and helping you structure the loan in the most cost-effective way possible. Do not make this decision without getting those numbers in front of you first.

TIP: If you do consolidate, treat the consolidated portion of your loan like it still has the original short loan term. Set up a repayment schedule that pays it off in 3–5 years, not 30. This captures all the benefits of the lower interest rate while avoiding the trap of paying it off over decades.