# Interest-Only Information Guide

## Your home loan consists of two components:

1. Principal, which is the amount you borrowed
2. Interest, which is charged on the amount you borrowed

A **principal and interest repayment** is when you pay off interest charges and some of the principal over the term of your loan

An **interest-only repayment** is when you only make payments that only cover the interest charge on your loan for an agreed period. During an interest-only period, the principal will not reduce. At the end of the interest-only period, your principal and interest repayment will be higher, because the principal will need to be paid off over the remaining term of the loan.

### Example

If you have a 5 year interest only period over a 30 year loan term, at the end of the 5 years the principal will need to be paid off over the remaining 25 years, instead of the full 30 years.

The guide will assist you in understanding the implications of switching to or extending the interest-only period on your loan.

## Eligibility

Interest-only repayments are available on any owner occupied or investor home loan and approval of your request by our credit team in accordance with our credit policy.

You must be able to evidence that you can afford to make the principal and interest repayments at the end of the interest-only period without any undue hardship. We may request you to provide updated income statements and evidence of income along with an updated application form listing your assets, liabilities and expenses.

The maximum amount of time for an interest-only period on your home loan is 10 years on a cumulative basis. For example, if a home loan has had an interest-only period of 5 years, and then a single year of principal and interest repayments, a request for a further interest-only period would only be able to be approved for a maximum of 5 years.

## Considerations

1. During an interest-only period, your loan will have a higher interest rate.
2. You will pay more interest over the life of the loan (because the principal is not reducing during the interest-only period).
3. Your repayments during the interest-only period will be lower.
4. After the interest-only period, your repayments will be higher because the principal will need to be paid off over the remaining term of the loan.
5. There are potential tax benefits for investors during interest-only periods.

## Calculation of Interest

Interest-only repayments are calculated on the loan balance, the interest rate, and the number of days in the month.

## End of Interest-Only Period

At the end of the interest-only period, Once the IO period has run out, your loan will automatically switch to principal and interest repayments.

## What's the Difference?

These examples assume the interest rate does not vary over the course of the loan. Interest rates can vary and will affect the amount of interest paid over the life of the loan.

### Principal and interest

Alex chooses a principal and interest loan of $500,000 over 30 years. The interest rate is 6%. The minimum repayment is $2,998.79. Over the 30 year term of the loan, the total amount repaid is $1,079,559.92.

### Interest-only

Alex chooses interest-only repayments on a loan of $500,000 for 5 years. The rate is 6.30% on a $500,000 loan. The repayment will vary from month to month based on the number of days in the month. On a 31 day month, the repayment is $2,675.34.

After the 5 year interest-only period, the interest rate changes to 6% and principal and interest repayment is $3,222.46. Over the 30 year term of the loan, the total amount repaid is $1,127,255.23.

In this scenario, Alex is paying an additional $47,695.31 in interest.