



# Interest Only Loans

## What is an interest only loan?

This is a loan where the borrower is only required to pay the interest on the loan rather than principal. These loans tend to be popular mainly with investors who wish to make minimum repayments whilst the property hopefully grows in value or for negative gearing purposes.

Repayment savings do lessen the financial pressure in the short term however there are risks in taking a loan that does not pay off any principal.

One major disadvantage is that even though you are making repayments every month you are not reducing your mortgage. So if the property does not increase in value, it means you are not accumulating equity.

## Advantages of Interest Only Loans -

- Savings on repayments can be utilised for other expenses or investments
- Extra repayments can be made to pay off the principal (fixed loans may be limited)
- Financial flexibility (lesser loan repayments when you need them)
- Lower monthly repayments
- May assist maximising tax deductions (seek advice from your accountant)

## Disadvantages -

- Very few Lenders offer interest only to owner occupiers
- During the interest only period equity is not increasing in the property unless the value increases
- Once the interest only period is complete the loan will revert to principal and interest over the remaining term meaning repayments will become higher
- Clients could be tempted to spend more money than they actually have

Your mortgage professional will discuss your objectives with you to help you to ensure that this type of loan is the right product for you.