

Interest Only Repayment Option

Customer Information Sheet



Bankwest, a division of Commonwealth Bank of Australia
ABN 48 123 123 124 AFSL/Australian credit licence 234945

i Important Information

This Customer Information Sheet is intended to help you understand some of the features of the Interest Only Repayment Option and advise you about some of the risks involved. You should not rely on this Customer Information Sheet as a substitute for your own independent legal and financial advice. You are strongly urged to seek such advice to fully understand your repayment options. For product specific information about Bankwest's Interest Only Repayment Options call 13 17 19 or contact your lender.

Section 1 – Frequently Asked Questions (FAQ)

What are the Repayment options?

There are two payment methods commonly used for making repayments to your home loan:

1. Principal and Interest Repayments - This is where you make a regular repayment which comprises of the accrued interest during the month plus a portion of the amount you borrowed (the Principal) to repay the loan over the loan term.
2. Interest only Repayments - This is where your regular repayment comprises only the amount of accrued interest during the month. The amount you borrowed (The Principal) remains the same during the interest only period of the loan.

Why Interest Only?

There are many reasons for choosing interest only repayments and this option should be carefully considered with your financial adviser before deciding to choose this option.

In general, interest only repayments are more popular with property investors than owner occupiers. This is because they are usually more focused on achieving capital growth and rental income.

Interest only terms are sometimes used by owner occupiers to manage cash flow for shorter periods. It should be noted that repayments may be higher at the end of the Interest Only Period when the repayments revert back to Principal and Interest.

What are the main advantages of Interest Only Repayments?

The main advantage is that the regular monthly repayments are lower than Principal and Interest during the interest only period of the loan.

For some investors who are relying on the capital growth (Equity) of their asset it may allow them to direct this extra cash to other investments for a period of time.

For Owner Occupiers this extra cash may be used to manage expenses during times of Parental leave or Education requirements.

What are the main risks of Interest Only Repayments?

When you are making Interest only repayments the Principal amount of the loan remains the same unless you choose to also make extra repayments. This will result in more interest being paid over the life of the loan. You will also need to make higher Principal and Interest repayments at the end of the Interest Only period to repay your loan.

There is also a risk that you may end up owing more than the principal of the loan if the value of your asset decreases. When considering Interest only repayments you should always seek financial advice and consider how the loan amount will be repaid.

How long can my Interest only repayments run?

Interest only repayment terms of 1, 3 and 5 years are available on application. This is to ensure the Principal and Interest repayments required for the remainder of the loan term are affordable. In instances where you are considering extending the interest only period, if less than 5 years remain on the loan term after the requested interest only period, this option may not be suitable for you.

Are there any other restrictions on changing my repayments?

If your loan is guaranteed by someone else, you will need to seek their approval before you make any changes to the loan repayments. A new contract may be required to be signed.

Are any Fees applicable?

There are no extra fees when applying for a new loan with interest only repayments. If you already have a loan with Bankwest, there is also no fee payable to change to interest only payments. However, a home loan transfer fee may be payable if other changes to your home loan are required. You should consult with your lender before making any changes to your loan.

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