

# Fact Sheet - Loan Products

## An informative ProSolution Fact Sheet on Loan Product Pros & Cons.

**Discount Variable/Honeymoon.** Best used where the loan is only expected to be required for the short term. However, they normally have early repayment fees so be careful. There are a small number of lenders without these fees and these products are good for short term finance (say less than 2 years). These products are generally not very good for long term loans because after the honeymoon period the interest rate reverts to the standard variable rate.

**Basic Variable.** This is a no frills product that is offered by most lenders. Normally, there aren't many other features to speak of. Most basic variables offer redraw but at a higher cost. Again, many of these products have break costs. The interest rate for these products is generally in the range of 0.50 per cent to 0.60 per cent below the standard variable rate. These loan products are best used to finance investment property loans. They suit "set and forget" style arrangements. That is, most investors set up an interest only loan and arrange for the interest only repayments to be automatically debited from their transaction account. They hardly touch the loan account or need any other features. These products are perfect for small home loans.

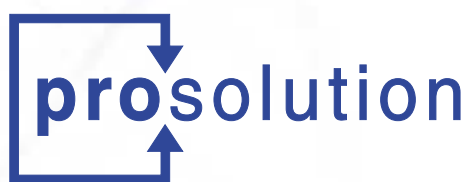
**Standard Variable.** Standard variable loans offer borrowers the most features. The only time we would recommend people use a standard variable product is within a professional package and thereby the interest rate would be discounted to be comparable with basic variable loans (i.e. approximately half a per cent below the standard variable rate).

**Professional Package.** Offset accounts are normal loan accounts linked to a transaction account. Interest is calculated on the net balance between the loan account and the transaction account. That is, the transaction account balance is offset against the loan balance. For example, if your loan balance was \$100,000 and your transaction account balance is \$10,000, then you would be charged loan interest on a net balance of \$90,000. These products are best used for owner-occupier (or home loan) debt. The reason for this is that you are better off to offset non-deductible debt with any free cash rather than deductible debt. The only time I would recommend using an offset account is within a professional package.

**Line of Credit.** A lot of borrowers ask for lines of credit, but often they don't really need them. They are the most flexible products available, but they are also generally the most expensive. The minimum repayment for lines of credit is interest only. Some line of credit products don't even require a minimum repayment and interest is just added to the loan balance similar to credit card (up to your approved limit). Line of credit products are essentially a transaction account and a loan account rolled into one. These products are perfect for borrowers who need to undertake regular small transactions. A perfect example is anyone who is renovating or investors who trade shares.

**Fixed Rate.** This is a pretty simple product. The interest rate is fixed for a specific period of time. In Australia you have the option to choose between a fixed rate period from one to five years, seven year, ten years and even 15 years. Normally fixed rate loans limit the amount of extra repayments you can make (normally limited to approximately \$10,000 per year). These products suit borrowers that are concerned with interest rate increases. History tells us the fixed rate borrowers are not likely to be better off. Therefore, realise that you will probably pay a premium for this interest rate protection. A split loan (fixed and variable) can give you the best of both worlds.

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