Thinking of switching your home loan repayments to Interest Only?



Interest Only Switching guide

Your home loan repayment typically consists of two parts:

1. The principal component – which is the amount you borrow (loan balance); and
2. The interest component – the interest we charge on your outstanding loan balance.

By paying Principal and Interest repayments, you pay off interest charges and some of your principal loan over your contracted loan term.

An Interest Only home loan is where you can choose to make minimum payments which only cover interest charges on your loan for an agreed period of time. This means that your home loan balance won't reduce during the Interest Only period since you're not making any principal repayments.

You should read the **Switching Terms and Conditions** together with the **Consumer Mortgage Lending Products Terms and Conditions** and your Loan Contract before requesting to switch your loan repayments to Interest Only. These are available to you on **commbank.com.au/factsheets**

This guide will help you understand the risks and important information to consider before applying.

Key considerations when switching to Interest Only

Eligibility

- An Interest Only period is available for Owner Occupied and Investment Home Loans.
- Switching to Interest Only is only permitted where we are satisfied you can afford the increased Principal and Interest repayments at the expiry of the Interest Only period without undue hardship. An eligibility assessment may be required for new and extension requests.
- This may require you to provide us with evidence of things like your current income, liabilities and expenses. Any request for Interest Only is subject to our Credit Policy and approval at the time of the request (such as, but not limited to, maximum Interest Only periods, funding status, loan to valuation ratio and remaining loan term after the Interest Only period).

Benefits

- Your minimum required repayment will be lower for the Interest Only period, compared to if you were paying Principal and Interest repayments.
- Making lower minimum required payments may give you the flexibility to temporarily reduce your outgoing expenses and manage temporary income reductions (e.g. if you're receiving parental leave income or paying educational costs while you're studying).
- Interest Only payments may better suit customers who have Investment Home Loans as there may be potential tax benefits. We highly recommend you seek independent advice from a financial planner or registered tax agent when considering if this is right for you.

Trade-offs

- You'll have a higher interest rate compared to the interest rate charged on Principal and Interest repayments.
- You'll pay more interest over the life of the loan – this is because you aren't reducing the loan balance (principal component) during an Interest Only period.
- As your Interest Only period is for a set period of time, eventually you'll need to pay off your loan balance. Your minimum required repayment will increase at the expiry of the Interest Only period. It'll be higher than if you'd chosen Principal and Interest repayments for the life of your loan, as the amount you have borrowed will need to be paid back over a shorter timeframe.

Financial

- Your minimum required Interest Only payment is calculated and charged to your home loan each month. It's based on your interest rate, home loan balance and number of days in your repayment month. We'll then debit this amount from your nominated account.



Timeframes

- You can switch between repayment options during the life of your loan, however there are limits on how long you can have an Interest Only period.
- The maximum total Interest Only period over the life of the loan is:
  - 5 years for Owner Occupied home loans; or
  - 15 years for Investment Home Loans (maximum of 5 years at any one time).
  - Maximum Interest Only period is per home loan account number
- Interest Only payments are not available within the last 5 years of your contracted loan term.

Please Note:

- These periods apply when you request a new or extended Interest Only period.
- Interest Only periods for new loans can only be in whole years, and minimum period is 1 year. Monthly Interest Only periods are available via selected switch and extension processes, and minimum period is 1 month. The reference rate applicable for an Interest Only period applied in years and/or months will be the same as the Interest Only reference rate applicable to your loan type. Talk to your Home Lending Specialist or Broker today.
- If you choose to switch to Principal and Interest repayments before your Interest Only period expires then you will forfeit the remaining Interest Only period.

How to apply

- Speak to your Home Lending Specialist, Broker, Relationship Manager or visit your local Comm Bank branch to discuss your options.
- Call us on **1300 057 072** between 8am – 6pm (Sydney/Melbourne time), Monday to Friday.

What happens when my Interest Only period expires?

When your Interest Only period expires, your home loan repayments will automatically switch to Principal and Interest. This usually means your minimum required repayment increases as you start paying off your loan balance.

TIP: To prepare for this change and remain in control of your repayments, make sure you know your Interest Only expiry date. To find the expiry date, log on to **NetBank** and click on> View accounts> Account Information and select your Interest Only home loan from the drop down list.

How does it work?

Here's an example[1] to help explain the difference between Principal and Interest repayments and Interest Only payments.



Meet Tamana

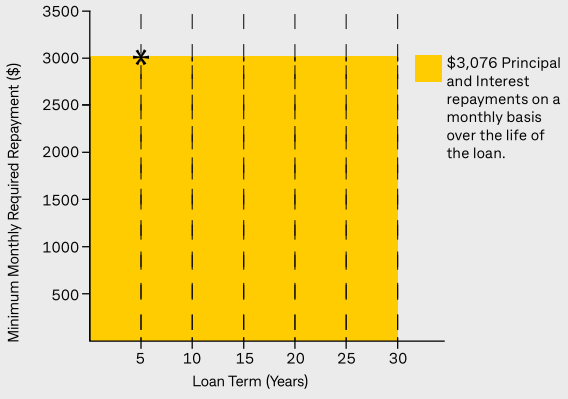
Tamana has taken out a Standard Variable Rate Home Loan of $500,000 for 30 years and is considering her repayment options.

Scenario 1
Principal and Interest repayment

Tamana chooses to make Principal and Interest repayments over the life of her home loan.

Her interest rate is 6.24% p.a. and over the life of her loan her minimum required repayments remain constant at $3,076 per month.

Keep in mind every repayment will pay down the principal loan balance and accrued interest, meaning Tamana could pay less interest over the life of her loan.



* After 5 years of Principal and Interest repayments, Tamana has a remaining home loan balance of $465,981.

Tamana pays in total $1,107,121 over the life of her loan.

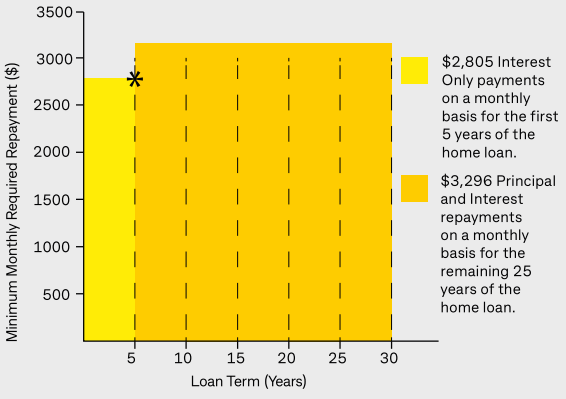
Scenario 2
Interest Only payments

Tamana chooses to make Interest Only payments for the first 5 years of her home loan.

Her interest rate is 6.73% p.a. and her minimum required payments are $2,805 per month for the 5 year Interest Only period.

After her Interest Only period expires, her repayment type switches to Principal and Interest repayments.

Her interest rate reduces to 6.24% p.a. However her minimum required repayments increase to $3,296 per month. This is because Tamana is now paying her principal loan balance over 25 years and not 30.



* After 5 years of Interest Only payments, Tamana has a remaining home loan balance of $500,000. Her home loan balance has not reduced, and she now needs to repay it over 25 years.

Tamana pays in total $1,156,828 over the life of her loan, an **additional $49,707** in interest when compared to Principal and Interest repayments.

[1] The example is for illustrative purposes only. It assumes interest rates don't change over the life of the loan and are calculated on the rate that applies for initial period of the loan. Interest rates may change at any time. The calculations do not take into account fees, charges or other amounts that may be charged to your loan (such as stamp duty). No additional repayments and redraws are made. Standard fees and charges are payable.

Common questions

What if I want to extend my Interest Only period?	If you'd like to extend your Interest Only period, you'll need to contact my Interest Only period? your Home Lending Specialist, Broker, Relationship Manager or visit your local Comm Bank to review your eligibility and submit a new Switching Request. We may need you to provide us with updated evidence of things like your current income, liabilities and expenses. Once your request has been assessed, we'll let you know whether we agree to extend your Interest Only period.
Will I need to provide Comm Bank any documents as part of my request?	Yes, to get your Switching Request underway and provide you with a decision as quickly as possible we'll need to verify your financial situation. Your Home Lending Specialist, Broker or Relationship Manager will let you know what documents you'll need to provide including any consent forms and who needs to sign them.
Can I change my repayments back to Principal and Interest at anytime?	Yes, you can do this by contacting us or on NetBank^. To switch in **NetBank** go to 'Settings' and then select 'Change home loan repayment type'. To switch in the **CommBank app**, tap 'View accounts' then choose your home loan. Tap 'Manage loan' and then 'Change to Principal & Interest/Interest Only'. Remember if you choose to switch to Principal and Interest repayments before your Interest Only period expires then you will forfeit the remaining Interest Only period.
Does it cost anything to switch to Interest Only payments?	For Digi Home Loan: A Switching Fee applies per change when switching your loan purpose, repayment type or product type. Go to **Fees we charge for consumer mortgage lending products** for more information. All other home loan types: No. Keep in mind that you'll pay more interest over the life of the loan if you choose Interest Only payments
What reference rate applies when my Interest Only term is in years and/or months?	The reference rate applicable for an Interest Only period applied in years and/or months will be the same as the Interest Only reference rate applicable to your loan type. For example, if you fix your loan for 3 years but start the fixed rate period with Interest Only payments for 9 months, your reference rates will be as follows: **Applicable reference rate**

Month	Reference rate name
1 to 9 inclusive	3 Year Fixed Interest Only Rate
10 to 36 inclusive	3 Year Fixed Rate

We're here to help.

If you have any questions or want more information:

Book an appointment with a Home Lending Specialist at **commbank.com.au/appointment** or contact your Broker or Relationship Manager

Call us on **1300 057 072** between 8am – 6pm (Sydney/Melbourne time) Monday to Friday

Visit **commbank.com.au/interestonly**



Things you should know: ^If not already registered for NetBank, you should consider whether it is appropriate for you by considering the terms and conditions available at netbank.com.au. You can register on line for NetBank if you have a Comm Bank Keycard, debit MasterCard or Credit Card or you can call us on **13 2221** or visit any of our branches. This guide doesn't consider your individual objectives, financial situation or needs. Before basing any decisions on this information please:

- Consider its appropriateness to your circumstances.
- Consider obtaining professional advice specific to your needs, including financial, taxation and legal advice.

Loan applications are subject to credit approval and any loan offer includes full terms and conditions. Fees and charges apply – see our fees and charges brochure. All examples and scenarios are illustrative only. This guide is subject to change without notice. Commonwealth Bank of Australia ABN 48 123 123 124, AFSL and Australian credit licence number 234945.

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