Different ways to repay.

Deciding the best way to repay your home loan

You could have the flexibility to choose

With ING Home Loans most customers choose to pay 'principal and interest' repayments from the get-go. But this doesn't work for everyone.

If you're an owner-occupier, you have the option to apply to pay 'interest only' repayments for up to five years over the life of your loan, or up to 10 years if you borrow to invest in property. After the interest-only period, your loan will revert to principal and interest repayments.

Your repayment option depends on what you want to achieve as well as your eligibility for Interest Only. So here are some things to consider when deciding which way you'd like to repay your loan.

Understanding the difference

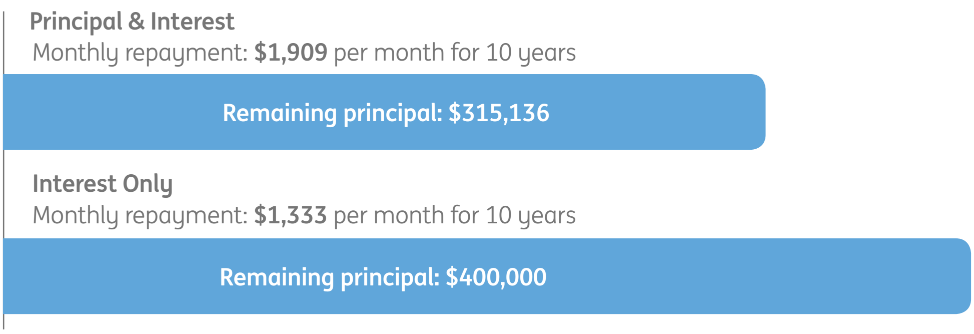
Here's a quick summary of principal and interest versus interest only.

Principal and interest	Interest only
With principal and interest, your repayments include a combination of the monthly interest plus a portion of the original loan amount, called the principal. Paying principal and interest will put you on track to fully repay your home loan within the agreed loan term.	With interest only, your repayments only cover the monthly interest, not any of the original loan amount. That means there'll be no reduction in the principal, so the balance of your loan will remain outstanding at the end of the agreed interest-only period.

It's important to remember: when you're assessed for an interest-only loan, it's based on your ability to pay the higher principal and interest payments in the future. Because your loan term remains the same (30 years, for example), the longer you go for interest only, the higher the principal and interest repayments will be at the expiry of your interest-only period, as you'll still need to pay the original principal in your agreed loan term.

Example: seeing what's still owed after 10 years

Here's the impact of paying principal and interest compared to interest only after the first 10 years of an investor home loan. We've based our comparison on a $400,000 loan over 30 years at a 4% p.a. interest rate with an initial interest-only period of 10 years and no fees.



Weighing up your options

Here are some things to consider when you're weighing up the options.

Principal and interest	Interest only
▪ People often choose principal and interest so they can own their home sooner and this option is designed to ensure you pay off the loan by the end of your loan term. ▪ While paying the principal as well as interest may mean higher repayments in the short term compared to paying interest only, the total cost will be less over time – see the example below for just how much. ▪ Paying principal and interest can also help create equity in your home as you steadily reduce the amount owing compared to the value of your property. ▪ Having equity in your home not only helps provide peace of mind, it could provide greater financial flexibility in the future if you want to access your equity to pay for other things	▪ People have the option to choose interest only to lower their initial repayments or tax bill BUT it will mean higher repayments after the expiry of the interest only period. ▪ If you're investing in property you have the option to choose interest only to receive a tax deduction on the exact interest you pay, or to free up money for other things. ▪ Repayments are lower during the interest-free period, which might be suitable if you're planning to renovate and need cash, or you need a short-term lower repayment due to a change in your circumstances. ▪ It is possible to build equity in your property with Interest Only repayments, but you are relying on the increasing market value of your property. ▪ **Be aware:** you must fully financially qualify for interest only, and it is important to understand that your repayments will be higher than your previous principal-and-interest payments once the interest only period ends. So it's important you plan ahead.

Example: comparing the cost long term

Building on the previous example, here's the difference in total repayments between paying principal and interest and interest only over the full term for an owner-occupier home loan. This example's also based on a $400,000 loan over 30 years at a 4% p.a. interest rate, with no fees.

Principal & Interest
Monthly repayment: **$1,909** per month over 30 years

Total repayment cost: $687,478

Interest Only
Monthly repayment: **$1,333** per month first 5 years
then... **$2,111** per month remaining 25 years

Total repayment cost: $713,404

Getting independent advice

Because you have to live with your home loan for a long time, we want you to be comfortable with your choice of repayment type.

If you're unsure which option is best for you, we recommend speaking to your tax adviser or an independent financial planner. You can find licensed planners in your area at **fpa.com.au**

Any questions, we're here to help on **133 464**, 8am – 8pm, 7 days (AEST/AEDT) or visit **ing.com.au**