



Ten Years of Interest Only: When the Right Lending Structure Can Support a Better Financial Plan

For decades, the conventional wisdom around home lending has been relatively straightforward: pay off your mortgage as quickly as possible.

For many Australians, that remains a perfectly sensible objective.

But financial planning is rarely about optimising one part of a client's balance sheet in isolation.

For pre-retirees, retirees, investors and clients with substantial property equity, there can be circumstances where cashflow, liquidity and flexibility are more valuable than accelerating principal repayments.

This is why AMP Bank's introduction of a home loan offering up to 10 years of interest-only repayments without a mid-term credit reassessment is an interesting development for financial planners and mortgage brokers working together.

AMP originally launched the offering in May 2025 for eligible borrowers including owner-occupiers, investors, pre-retirees and retirees. The bank positioned the product around providing borrowers with greater long-term cashflow flexibility and certainty.



Moving the conversation beyond "pay off the mortgage"

Consider a client aged 55 who has:

- a valuable family home;
- a relatively modest mortgage;
- strong income;
- substantial superannuation;
- investments outside super; and
- approximately 10 years until retirement.

The traditional approach may be to direct as much surplus cashflow as possible towards eliminating the home loan. But is that necessarily the best use of every available dollar?

A financial planner may instead identify competing priorities such as maximising concessional super contributions, building retirement assets, maintaining liquidity, investing outside super, assisting children, or preparing for a transition to retirement.

This is where collaboration between the financial planner and mortgage broker becomes valuable. The planner determines where the client's capital should ideally be allocated, while the mortgage broker helps determine how the client's debt can be structured to support that strategy.

At **Lydian**, we believe products like this highlight an important principle: Debt strategy should form part of the client's broader financial strategy.



The potential cashflow difference, part 1

Consider a simple example.

A 55-year-old client has a \$750,000 home loan and intends to retire at 65. Assume, purely for illustration, an interest rate of 6%.

On an interest-only basis, repayments would be approximately: \$45,000 per year, or \$3,750 per month.

A principal-and-interest repayment over a 20-year remaining term at the same illustrative rate would be approximately: \$64,500 per year, or around \$5,370 per month.

That's a cashflow difference of approximately: \$19,500 per year.

Over the client's final decade of employment, that represents significant additional cashflow that could potentially be directed towards other financial objectives.

Importantly, interest-only lending doesn't make the debt disappear. The principal remains outstanding and interest-only rates may also differ from principal-and-interest rates.

The question is therefore not simply: "How much can we reduce the mortgage?" It becomes: "Where does the next dollar of the client's cashflow create the greatest long-term benefit?"

That is fundamentally a financial planning question.



The potential cashflow difference, part 2

1. Maximising superannuation before retirement

For many Australians, their 50s and early 60s represent an important window for building retirement savings.

Reducing compulsory mortgage principal repayments may provide additional cashflow that could potentially support increased superannuation contributions, subject to contribution caps, eligibility requirements and the client's financial advice.

Rather than automatically directing every surplus dollar towards home equity, the planner can assess whether some of that capital could work more effectively within the client's retirement strategy. The mortgage becomes part of the funding architecture supporting the plan.

2. Creating greater liquidity

One of the challenges with aggressively repaying a home loan is that cash is converted into home equity. That can create an unusual situation where a client appears extremely wealthy on paper but has relatively limited accessible capital.

Liquidity becomes increasingly important approaching retirement. Clients may want funds available for travel, helping children, renovations, vehicles, medical expenses, aged-care planning or simply maintaining an appropriate cash reserve.

An interest-only structure can potentially reduce the amount of cashflow automatically committed to principal reduction.



The potential cashflow difference, part 3

3. Managing the transition into retirement

The years immediately before and after retirement can involve significant changes in income. A client might move from full-time employment to consulting, part-time work or retirement. Reducing mandatory loan repayments can provide greater flexibility during this transition.

AMP specifically identified retirees and pre-retirees as potential beneficiaries of its longer interest-only structure, noting the increasing number of Australians carrying mortgage debt towards retirement. That doesn't mean carrying debt into retirement should automatically be encouraged. It means it should be planned.

4. Avoiding a forced reassessment halfway through the strategy

One particularly interesting feature is the ability for eligible borrowers to obtain up to 10 years interest only without a credit reassessment after the first five years. This matters because circumstances can change significantly between age 55 and 60.

Income may reduce. A client may change employment. One spouse may retire. Business owners may reduce working hours. Traditional lending criteria could make refinancing or extending an interest-only period more difficult later. Having the lending structure established while the client can demonstrate serviceability may therefore provide greater strategic certainty.

AMP states that borrowers are assessed at commencement based on their capacity to repay over the remaining principal-and-interest term after the interest-only period. Older borrowers and those approaching retirement must also satisfy the bank's exit-strategy requirements. This makes early collaboration between adviser and broker particularly important.



The potential cashflow difference, part 4

5. Supporting investment strategies

The same principle can apply to investment debt.

Some clients may prefer to preserve cashflow rather than aggressively reduce investment borrowings, particularly where the financial planner has identified other investment or retirement priorities.

AMP has subsequently expanded its long-term interest-only offering for eligible property investors, including its Equity Flex product offering up to a 40-year loan term and up to 10 years interest only without reassessment during the interest-only period.

The appropriate structure will depend on the client's circumstances, tax position, investment strategy and advice from their relevant professional advisers.



The financial planner + mortgage broker model

This is where we believe the relationship between financial planners and specialist mortgage brokers is evolving.

The mortgage broker shouldn't simply receive an instruction saying: "Please refinance this client's mortgage."

A better conversation is: What is the financial plan trying to achieve over the next 5, 10 or 15 years — and how should the lending structure support it?

The planner might be working towards maximising retirement savings, improving liquidity, restructuring investments, preparing for retirement, assisting the next generation or managing estate-planning objectives.

Lydian can then investigate the lending market and determine whether there are appropriate credit solutions capable of supporting that strategy.

Sometimes the right answer will be to repay debt aggressively. Sometimes it may be to refinance. Sometimes it may be to extend the loan term. Sometimes interest-only lending may be appropriate.

And sometimes the best recommendation may be not to borrow at all.

The important point is that the debt strategy and financial plan are considered together.



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A particularly useful conversation for clients aged 50+

We believe debt should become a specific agenda item in financial planning reviews for clients approaching retirement.

Rather than waiting until retirement is imminent, planners and brokers can start asking earlier:

What debt will the client carry into retirement, how will it be serviced, and what is the eventual exit strategy?

A client's 50s can provide an important opportunity to restructure lending while employment income and borrowing capacity remain strong.

AMP's 10-year interest-only offering provides another potential tool for eligible borrowers. Current AMP information continues to show interest-only repayments of up to 10 years on eligible owner-occupied products.





The Lydian approach

At Lydian, we work alongside financial planners to provide specialist debt advice and lending implementation.

Our role isn't to replace financial advice. It's to make sure the client's lending structure works with the financial plan rather than against it.

For planners with clients approaching retirement, carrying substantial home or investment debt, holding significant property equity or considering how best to allocate surplus cashflow, AMP's 10-year interest-only structure creates an opportunity for a broader strategic conversation.

Because ultimately the objective isn't necessarily to retire with the smallest possible mortgage. The objective is to help the client retire with the strongest possible overall financial position, appropriate liquidity and a sustainable strategy for their debt.

If you are a financial planner with clients aged 50+ who still have substantial lending, talk to the Lydian team about completing a strategic debt review alongside their financial plan.

Important: This article is general information only and does not constitute financial, tax or credit advice. Interest-only lending can result in a borrower paying more interest over the life of a loan and the principal does not reduce during the interest-only period. Lending is subject to eligibility, serviceability, lender policy and appropriate exit strategies. Financial planners, mortgage brokers and other professional advisers should consider the client's individual circumstances.

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