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HOW TO SAVE THOUSANDS AND PAY YOUR HOME LOAN OFF YEARS EARLY

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Your home loan is probably the biggest investment you will make in your life, and a debt that most people would like to pay off as quickly as possible. Working with them every day and backed with my training in both financial planning and mortgage broking, here are my strategies on how to pay off your mortgage faster. Some of them are easy, some are for more advanced investors but put any of them to work and you WILL see a reduction in your home loan term! The more you put to work the faster you will pay your home loan off, the more money you will have in your pocket and the less money you will give to the bank!

Be sure to look out for the “STRATEGY IN ACTION” sections. Here we will run the technique on our imaginary home lenders James and Sarah. James and Sarah have a 30 year loan term of $400,000 against their owner-occupied property.

So, let’s get started...

1. Make more frequent payments

The simple things in life are often the best. One of the simplest and best strategies for reducing the term and cost of your loan (and thus your exposure should interest rates rise) is to make your repayment on a fortnightly rather than monthly basis. How can this make a difference I hear you ask? It works like this:

Split your monthly payment in two and pay every fortnight. You’ll hardly feel the difference in terms of your disposable income, but it could make thousands of dollars and years difference over the term of your loan. The reason for this is that there are 26 fortnights in a year, but only 12 months. Paying fortnightly means that you will be effectively making 13 monthly payments every year. And this can make a big difference.

STRATEGY IN ACTION

So just how much could this simple technique save James and Sarah on their $400,000 loan? $86,842 in interest and 5 years and 6 months.

	Monthly repayments	1/2 Monthly paid Fortnightly
Repayments	$2,098.43	$1,049.21
Interest Saved	$0.00	$86,842.24
Total	$755,433.66	$668,591.42
Time Saved	0 years	5 years & 6 months

2. Pay more than your minimum requirement

A good way to get ahead of your mortgage commitments is to pay it off as if you have a higher rate of interest. Get a loan at the lowest interest rate and then pay an additional amount each repayment. By first sourcing the lowest interest rate available to you you’re ensuring that anything extra you pay, is working hard on the principle.

An added bonus of this technique is that if interest rates do go up in the future, you won't even notice it as you've already been paying more!

STRATEGY IN ACTION

Back to James and Sarah's loan at 4%. See the below graph that shows you how it would look with an additional $30, $40 and $50 per month.

Extra Repayment	Time Saved	Interest Saved
$30	10 months	$8,921
$40	1 year, 1 month	$11,758
$50	1 year, 4 months	$14,529

3. Better rate BUT keep the repayments the same

Work with your broker to make sure you're always on the best rate available. Every time you're able to reduce your interest rate, keep paying the loan back as if you were still on the higher interest rate.

By doing this you'll pay less interest overall AND be mortgage-free sooner.

STRATEGY IN ACTION

James and Sarah are on 4%. They've qualified for a lower interest rate of 3.59% and switch. Their current repayments at 4% are $1,910. Their new minimum repayments will be $1,816. This is a saving of $94/month. By continuing to pay the $1910 each month they were able to save:

Extra Repayment	Time Saved	Interest Saved
$94/month	2 years, 5 months	$26,013

4. Make Lump Sum Payments

Every dollar you put into your mortgage above your repayment amount attacks the capital, which means down the track you'll be paying interest on a smaller amount. Extra lump sums repayments will help you cut many years off the term of your loan. A great one for this is your annual tax return.

STRATEGY IN ACTION

James and Sarah are willing to put $2,000 per year of their tax returns toward their home loan.

Extra Repayment	Time Saved	Interest Saved
$2000/year	4 years, 3 months	$46,721

5. Consolidate your debts

One of the best ways of ensuring you continue to pay off your loan quickly is to protect yourself against interest rate rises. If your home loan rate starts to rise, you can be absolutely positive about one thing - your personal loan rate will rise and so will your credit card rate and any hire purchase rate you may happen to have.

This is not a good thing as the interest rates on your credit cards and personal loans are much higher than the interest rate on your home loan. Many lenders will allow you to consolidate - re-finance - all of your debt under the umbrella of your home loan. This means that instead of paying 15 to 20 per cent on your credit card or personal loan, you can transfer these debts to your home loan and pay it off at your home loan interest rate. By doing this you will be reducing your monthly outgoings, sometimes considerably. The key to this strategy is to keep paying the same monthly repayments that you were before consolidating and using these funds to pay off your home loan sooner.

STRATEGY IN ACTION

James and Sarah have two credit cards and a car loan totalling $35,000 at a cost of $1,000/ month. By increasing their mortgage to $435,000 they are able to pay out those debts at a small cost of $167/month. This gives them an extra $833/month. Below you will see how much of a saving they would see if they were to put the whole amount to work and then underneath that is if they were to use just half of the savings.

Extra Repayment	Time Saved	Interest Saved
$833/month	12 years, 9 months	$129,435
$416/month	8 years, 3 months	$85,682

6. Make your mortgage your key financial product

Mortgage products known as all-in-one loans or 100 percent offset loans allow you to use your mortgage as your key financial product. This means you have one account into which you can pay all of your income and draw from for your living expenses, as well as making your mortgage repayments.

These types of accounts can make a huge difference to the speed at which you pay off your loan but require real diligence with spending if you are to maximise the offset savings available. Because your whole pay goes into your mortgage account you are reducing the principal on which interest is charged. You then use a 55 day interest free credit card for all your day to day living expenses, clearing it once a month before any interest is charged from the funds in your offset account.

You can see from this that you do need to be good with your money to make this technique work because you are utilising a credit card. This is certainly not for everyone but for those that are dedicated to their budget it's not unusual to cut the term of a 25 year-old loan to less than ten.

10. Use your equity for car loans but do it smartly!

If you have already paid off some of your home, you are said to have equity. Equity is the difference between the current value of your property and the amount you owe the lender. For example, if you have a property worth

$500,000 on which you owe $150,000, you are said to have home equity of $350,000, which you can re-borrow providing you meet the banks lending criteria.

Many lenders will allow you to borrow using your equity as collateral. Most lenders will allow you to borrow up to about 80 per cent of the loan-to-value ratio (LVR) of your available equity. If you are careful, you can use this equity to your advantage and help to pay off your home loan sooner.

Using an equity loan to improve your property could be a good way to ensure that your home increases in value over time. But larger expenses such as cars and holidays that would have been paid by credit card are more affordable on the lower rate of your home loan.

STRATEGY IN ACTION

So how can you use this to pay off your home loan sooner? Let's imagine James and Sarah need a new car. They go to the car yard and get pre-approval for a $30,000 5 year car loan. They're quoted $599.71/month which they're comfortable paying. If they were to instead access the available equity in their home loan they could put a 5 year split at 4% and this would only cost them $552/month. This means they could still pay the $599 they were quoted from the car yard paying off an additional $50/month for the next 5 years.

11. Switch to a no frills loan with a lower rate

It may sound like a simple idea but switching out of your current loan and taking out a loan at a lower rate can mean the difference of years and thousands of dollars. If you have a loan that is tricked up with all the features, or even if you have a standard variable loan, you might find that you could get a no frills rate that is as much as a percentage point cheaper than your current loan. This is really important for the people that an offset account doesn't work for as there is no point paying an annual fee and usually a slightly higher interest rate for a loan with features that are not being used.

STRATEGY IN ACTION

James and Sarah don't trust themselves with a credit card and would prefer to just keep their income in a separate account and simply pay their home loan on a monthly basis. They therefore switch from a packaged loan that has an offset account and credit card to a basic no frills loan. This saved them not only .15% but also $395 per annum in annual fees. They chose to instead put this $395 per year toward their home loan.

Extra Repayment	Time Saved	Interest Saved
$395/year	11 months	$10,994

12. Forgo those minor luxuries

You can see from the above savings that it really is the little things that add up. You don't need to be adding thousands a month to see real savings in both time and money on your home loan. Let's see if we can find some more ways to free up some extra money that you can put toward your loan.

Consider the following example. A typical day may include, a coffee ($5), lunch ($12) and a drink after work ($8). That's $25 a day or $175 a week or $750 a month or $9,100 a year.

No one is saying you should live a convict existence but just cutting down a little on your expenses will see you reap huge financial benefits if you commit to putting the savings on your loan.

STARTEGY IN ACTION

James and Sarah decided to start small with this strategy. They enjoy going out and weren't overly keen on changing their lifestyle too dramatically. Their compromise was to forgo their Friday night drinks once a month (they were still young and had a life ☺).This saved their livers and their wallets $80 per month which they put straight on their loan.

Extra Repayment	Time Saved	Interest Saved
$80/month	2 years, 1 months	$22,479

15. Run an offset account

If you happen to have a lump sum or large amount of savings but you don't want to put in on your loan, consider putting in your offset. Instead of earning interest (which might be 2% if you're lucky), any money you have in your offset account works to offset the interest you are paying on your home loan. It's tax free too, as the savings you make through reducing the amount of interest you pay on your loan are not classified as income.

STRATEGY IN ACTION

James and Sarah have a mortgage of $400,000 at 4.00 percent and a lump sum of $50,000 in their offset account which they left in their account for the life of their loan.

Extra Repayment	Time Saved	Interest Saved
$50,000	4 years, 2 months	$95,764

16. Take advantage of getting older!!

As we get older, oftentimes our family unit will start to change. These changes will very often see more income in your pocket than when you had a young family or were just a junior in your job. This is a prime time to start making headway on your home loan. Think of the following ways that you could start reallocating funds that you have already been budgeting for.

1. School Fees
2. Sport tuition
3. Music lessons
4. Basic living expenses of children

Other changes that you may see and if you're diligent could put straight toward your home loan include:

1. Pay rises
2. Rental increases on any investment properties you own. Why not put it to work on your "bad debt" while maximising your "good debt".

STRATEGY IN ACTION

James and Sarah are 15 years into their mortgage and their eldest child has finished year 12, moved out and has started her apprenticeship. James and Sarah decide to put the school fees that were $625/month + the monthly sporting tuition of $100 per month toward their home loan instead.

Extra Repayment from year 15	Time Saved	Interest Saved
$725	5 years, 1 months	$30,642

Hopefully you have found at least one strategy that you can put to work today and start seeing the savings immediately. It is good to know that as little as $7/week ($30/month) can shave 10 months off the term of your loan and save you nearly $9,000. Imagine if you were to put two of these strategies to work and were to pay fortnightly + make additional repayments of $30/month!

You can really start to see just how powerful these techniques can become.

I look forward to hearing from you with what changes you made to your loan and the time and money you will save from those savings.

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