pay off your home loan sooner

Pay off your Home Loan Sooner

(Kindly produced in conjunction with BANTACS Julia Hartman B.Bus CPA)

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variable or fixed or both?

Fixing an interest rate has the advantage of surety. You know exactly what your repayments will be for the term. This is helpful fur budgeting and it gives you the peace of mind that you will not be affected by interest rate increases. However, fixed rate products lack flexibility, they generally do not allow you to make extra repayments. They also usually have high early discharge penalties.

It is now possible to have the advantages of both. That is the security offered by a fixed loan the flexibility of a variable loan. This is called a BLENDED home loan part fixed part variable. This allows you to hedge your bets so that if interest rates rise only a portion of the loan is affected.

On the other hand if you wish to make principal reductions then they can he taken off the variable portion of the loan. Many people see this as the best of both worlds.

telemarketing of home loans

Some mortgage brokers have been ringing householders from a mailing list of homeowners with a mortgage and offering to show them how to reduce the term of their loan. The concept of reducing the term of your loan is very sound and it certainly can be done. But you do not need to pay these people $4,000 to find out how. That's right they charge you $4,000 to show you how it's done and you will be committed to the $4,000 before you realise it. Apparently they get the homeowner to sign a letter of commitment before they will apply for the finance. This letter commits the homeowner to paying all the fees due under the loan should they choose not to go ahead. The letter doesn't mention that the fee is $4,000.

The concept of reducing the term of your loan is very simple. Our finance broker can simply explain this to you free of charge. In fact if we have enough interest from clients we will run a short seminar on the subject. This will cost you nothing and our finance broker can also organise your loan free of charge. So please speak to us before signing anything.

beware loan myths and pitfalls

Make sure you know all the costs of entering into the loan and purchasing the property. These costs include conveyance costs, application fees, valuation and legal fees, mortgage insurance (if necessary) and sometimes extra life insurance premiums.

Make sure you know all the costs of early discharge of the loan. These days, very few people actually have a home loan for 25 years.

In fact, due to people upgrading their property, refinancing and early repayment the average home loan now goes for only 4 to 6 years.

The loans to be especially careful with are fixed rate loans and loans that have an initial capped rate or honeymoon rate.

Many people (including bank managers) incorrectly believe that fortnightly repayments save money because they are more regular than monthly repayments. This is not the case. Fortnightly repayments work by dividing your monthly repayment in two (so if you paid $1,000 per month you would pay $500 per fortnight). But as there are 26 fortnights in a year you are now effectively making an extra month's repayment (as you are now paying $13,000 per year instead of $12,000). It is the fact that you are repaying extra that results in you paying more off rather than the frequency of your repayments.

investment property financing

Many people have heard the term "negative gearing" but are unsure what it means. Negative gearing is a tax effective investment strategy where your rental income from your property is more than offset by your interest and property expenses giving you a net tax loss to offset against your other income (e.g. salary income). Given a sufficient time period, your property price will (hopefully) be increasing in value so that in a sense you are making money whilst paying less tax. Investors traditionally prefer fixed interest only loans for budgeting and so that the whole repayment is tax deductible. There are several recent innovative loan products that increase this strategy's effectiveness and appeal.

how to pay off your home loan sooner

Make triple the repayments. This may sound a little extreme but it emphasizes very dramatically the power of accelerating your repayments. For example $100,000 paid off over 25 years at 6.5% results in a monthly repayment of $675.24 which is a total amount repaid of $202,572!! More than double. If the $100,000 was repaid over 5 years at 6.5% the repayments would be less than 3 times as much, $1,957 per month with the total amount repaid over the 5 years reduced to $117,420. The best part of this strategy is the banks only make $17,420 rather than $102,572, fight back and enjoy your $85,152 saving over the next 20 years.

This strategy may sound extreme but if you are a young couple intending to have children and live on one income or a while, why not start now and use the other income to pay off the house. This will make living a lot easier when you have children. With interest rates and deposits so low you could start early and own your own home completely by the time you are 25. This will give you an excellent start in life.

Hit the ground running and win.

minimise your mortgage

By effectively structuring your finances you can significantly reduce your mortgage. Some home loans now enable you to pay your salary directly into the loan and then draw your living costs out via your cash card and credit card. With a sensible personal budget this will enable you to repay your loan more quickly and save you vast amounts of interest.

Note: This should not be done without consulting an accountant if the interest on the loan is tax deductible or will be so in the future.

consolidating your finances

Significant savings are available by consolidating all your finances. The days of having a home loan, personal loan or overdraft, a car loan, a savings account, a cheque account and owing money on credit cards are over. Financially, it is far more effective to consolidate all your loans under the one umbrella. As home loan rates are significantly lower than those for personal loans, overdrafts and credit cards but significantly higher than savings and cheque accounts rates it makes sense to consolidate everything into the home loan account.

understanding home loans

Once understanding loans was easy. You took out a loan for a set term and kept making repayments until it was paid off or you sold your home and moved somewhere else. Now, there are a whole range of loans such as line of credit loans, balloon loans and interest only loans to cater for the growing complexities of daily life.

Recently. Wizard Home Loans introduced a new product that is targeted to the younger end of the market families who wish to have babies. Appropriately styled "pregnant pause" it allows borrowers to put their loan repayments on hold for up to three months if the woman falls pregnant, and also to restructure their loan repayments if the expense of the new born baby necessitates this. Wizard is taking a common sense approach in restricting the loan repayment holiday period to just three months as capitalising interest for much longer could create a debt that could be extremely costly in the long term. Westpac offers a somewhat similar facility whereby borrowers can reduce their repayments by up to 50% while they are maternity leave.

Of course, borrowers who use my $12 a $1000 rule will handle it effortlessly. If a couple had a $150,000 mortgage and could pay it back at $1800 a month the term would be 9.26 years if the interest rate was 6.5%. If the payments were suspended for three months and the interest for that period capitalised the term would increase to 9.73 years. This is another illustration of compounding at work. Pay your loan back quickly and you gain much more flexibility as well as saving a fortune in interest.

Because of the way the mathematics work, there is little to he gained by paying your housing loan back in less than ten years. Once your payments are sufficient to pay off the loan in ten years, any surplus monies should be used for investment and not debt reduction.

the importance of keeping your private loans separate

I've written before about the importance of keeping your private loans separate from your investment loans. The interest on the private loan is not tax deductible and if you mix the loans up, you could inadvertently lose part of the tax deductibility on the investment loans.

The most common way this happens is when you have a line of credit investment loan and "park" money in there for a short time. If you then withdraw the money again and use it for a private purpose, the tax office takes the view that you have repaid part of the investment loan and taken out a new loan for a private purpose. For those people who wish to use a line of credit loan and at the same time reduce their debt quickly, there is an alternative strategy that works perfectly.

Suppose you have an investment loan via a line of credit for $150,000 and you wish to be able to park your salary in there to reduce it quickly. You split the line of credit into two loans — one for $140,000 and the other for $10,000. For tax purposes, you regard the $140,000 loan as an investment loan and the $10,000 loan as a private loan even though its purpose is for investment. You then plough all your money into the tiny loan and you'll find that it will be paid off very quickly. Once the small debt is gone, you re-split the loan into an investment loan of $130,000 and a private loan of $10,000 and repeat the process.

By keeping the accounts separate, you won't run foul of the tax man and you'll also achieve the goal of paying off your debt quickly.

INVESTMENT NETWORKING

FOR YOUR BUSINESS AND YOU

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learn how to drastically advance your financial future through property and personal investment

Australian Property Investors Network (APIN)

www.apin.com.au

What does **APIN** offer ?

Seminars & Workshops

Why is that most people aren't taught how to be rich or happy? We are trained to do most things in our lives, in order to do them well enough to get by. We are taught how to read and write, how to cook, how to drive. We are taught how to do incredibly complex and challenging tasks like designing and building bridges over wide spaces, how to cure diseases, to fly airplanes, yet when it comes to creating personal wealth and happiness, we're left to find out for ourselves.

There's another, more subtle reason why most people don't achieve wealth and happiness. Deep down they don't believe that there is a choice to be made between being rich and being happy. They believe that somehow you can't have both, which is why in the end they don't get either.

The money that slips through your fingers could make you wealthy if spent more wisely.

Our free seminars and information evenings will provide you with leading edge valuable and up to date information. As a bonus you will be able to meet other like minded people who are either starting out on the road to success or are avid investors sharpening their investment knowledge. As a further advantage we encourage you to meet and freely talk with our alliance partners. These hand picked people both male and female are leaders in their own right, they are also licensed, qualified and independent.

These evenings are fun and informative plus you will have access to lots of support material in the form of e-books, books and cd's on a wide range of topics. Come and learn the many strategies used by successful investors NO SECRETS just sensible plain English techniques that really work in any market at any time.

Education

It's true what they say "*the difference between the rich and poor is what they know and what they do*". Property is more than houses and unit investing. Do you know how to buy a property using an option, how about knowing all the ins and outs of being your own "DIY Developer"?

There are many ways to make money in real estate and with the correct tools and strategies you too can play with the best.

TIME x INTENSITY = SUCCESS.

You can't expect to get results in life if you have all the information but fail to apply the principles needed to succeed.

Our programs, e-book, books and home study kits will give you the ability to learn and gather what you need at your own pace in your own time. We encourage you to learn from our expert alliance partners all that you can, so when you are ready to act you will have the education to get into your first investment or do your own JV building renovation makeover.

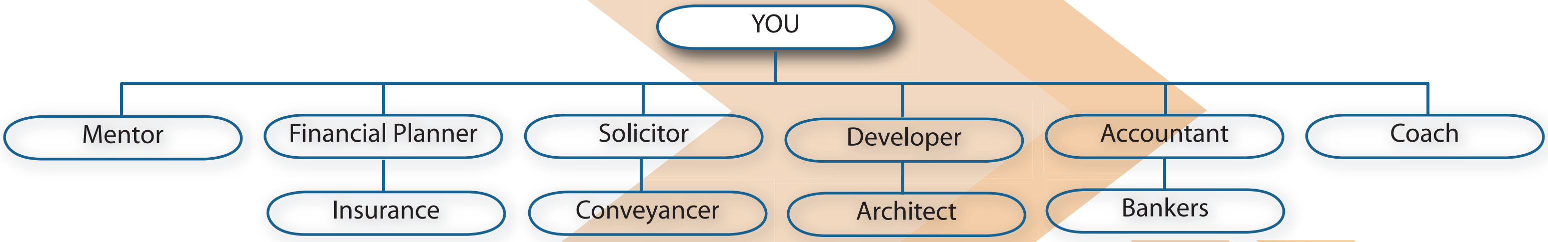
On going Support

Through APIN's Alliance Partners and Discussion Forums you can fortify your ideas and gain strength by exchanging information. Creating alliances generates business opportunities increasing your network and of course - your cashflow.

We have a mentoring service for those that are not quite ready to take those steps without guidance, extra information and some affirmation. Helping you to create a "*safe*" environment for your first steps.

Who is on your team?

When looking at people who are successful, you will notice they have a hand selected group of people to support and advise throughtout the journey to success.



Property Opportunities

Through our Australia wide network we select opportunities that "stack up". We use an independent Research company (Guardian) who are licensed financial planners and real estate agents to use our pre selection due diligence program. From investment properties, development sites, future land subdivisions, building makeovers to even golf course resort projects.

APIN also align ourselves with a select group of builders and developers where we negotiate wholesale purchasing, saving you 10% off the retail price. These opportunities are not available to the public but only members of the APIN site. We can introduce you to the key people who are experts in their fields, saving you thousands of hours of frustration and heartache. Very shortly APIN will also be offering FREE property advertising on our site through resisearch.com who are one of our alliance companies. APIN is fast becoming the most exciting site in Australia.