

FACT SHEET

Home Loan Repayment Strategies

Strategies to fast track your loan and put yourself ahead of the game.



There's no doubt that buying a home is a big commitment and the thought of paying it off over the next 25 to 30 years can seem like an insurmountable task.

At Moneywise Home Loans our home loan fixers are specialists at showing you how to pay off your loan as quickly as possible. You'll be surprised at how some simple, small changes to the way you repay your loan can make a huge difference to the amount of interest you'll pay and the duration of your loan. So let's take a look at how to fast track your mortgage.

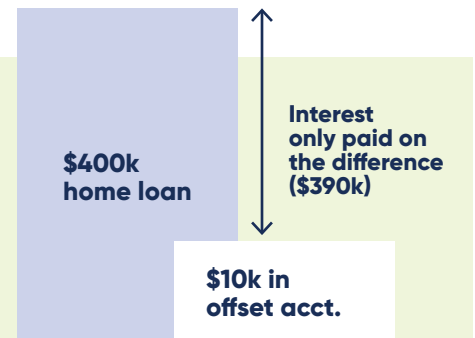
Build a strategy around your goals:

- Don't let your lender dictate how much you should repay each month.
- Set your own repayment goals. When you've got a goal or purpose you'll become more focused and disciplined.
- Now put your home loan on your own terms and let your goals dictate your repayments!

1

The Mortgage Offset Money Maximizer

- A Mortgage Offset account is a transactional account attached to your home loan. The total balance of your offset account is subtracted from the principal remaining on your home loan before the interest is calculated - helping reduce the interest you pay and the overall life of the loan.
- Many lenders offer a 100% offset account as a feature with many home loans. Note that an annual fee will apply with most lenders for an offset account so ask your home loan fixer for more information.
- To maximise the effectiveness of your offset facility, make this account your main transaction account. Have your salary and any other income paid directly into



Example: You have a mortgage of \$400,000 and have \$10,000 in your offset account. In this example you would be only charged interest on \$390,000.

this account and then pay your expenses out over the course of the month. The daily balance of this account will offset the mortgage.

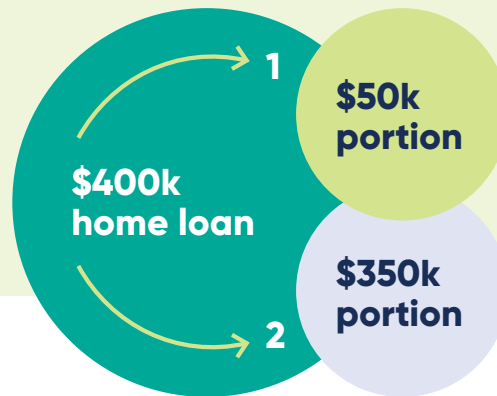
- Even an average balance of a few thousand dollars in your mortgage offset account can trim months off the term of your loan – larger balances could shave years!

2

The Divide and Conquer

- When you're just starting out on your home loan journey the size of your mortgage can seem overwhelming. In the early years the majority of your repayments just cover the interest and very little seems to come off the principal.
- By breaking your overall repayment goals into smaller amounts, you'll find they seem more manageable - and when you achieve those goals you'll feel a greater sense of accomplishment.
- Many loan products do allow you to split your mortgage into multiple portions as per the following example:

Example: You have a total mortgage of \$400,000. After doing your budget and based on your goals you decide you want to pay off \$50,000 over the next 5 years. When you apply for your loan we'll split it into 2 portions for you - \$350,000 and \$50,000. Moving forward you maintain your regular repayments on the \$350,000 portion and then use the repayment calculator on the Moneywise Global website to work out what repayments you need to make on the \$50,000 portion to pay it off in 5 years!



3

The Top Up by 10%

- Instead of paying the bank what they ask you to each month, just top up your loan repayments by 10% and cut years off the life of your loan.
- This is one small, simple repayment strategy that can make a huge difference over the life of your loan.
- By putting this strategy in place you're also protecting yourself from future interest

rate rises and building yourself a healthy mortgage buffer. Even if rates do increase try to keep to the 'top up by 10%' rule in place and if rates happen to drop keep your repayments the same.

Based on a \$400,000 mortgage at 5% interest, adding an extra 10% to the minimum repayments would be just over \$200 a month extra - and that could cut 5yrs off the term of your loan and save over \$60,000 in interest.

4

The Fortnightly Forge Ahead

- It's an industry standard that most lenders ask borrowers to pay their mortgages monthly.
- But if you ask, many lenders will actually allow you to pay fortnightly. And if you do pay half your monthly repayment amount each fortnight then you will actually pay the equivalent of an extra month's repayment each year. By adopting this strategy alone you could slash years from the term of your loan.

Example: If you have a mortgage of \$380,000 at 5% – your monthly mortgage repayment may be approx. \$2000. If you pay monthly over the course of a year you would pay \$24,000 (12 months x \$2,000). If you pay \$1,000 a fortnight then you will actually be paying \$26,000 (26 x \$1000) as there are 26 fortnights in a year. In this example you would pay your loan off approximately 4 years sooner and save thousands of dollars in interest.

Don't let your lender dictate how you pay off your home loan. Explore a whole range of repayment strategies with your Moneywise home loan fixer today.

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The Power of Twelve

- This is a perfect repayment strategy if you've got healthy surplus funds and want to pay off your mortgage as quickly as possible.
- It works on the basis that if you can pay \$12 for every thousand dollars borrowed each month – then you'll pay your mortgage off in approximately 10 years. So if you borrowed \$400,000 – $12 \times 400 = \$4800$ monthly payment.
- If interest rates rise it may add an extra couple of months to this 10 year projection however even at an interest rate of 10% this rule would have you paying your mortgage off in approximately 12 years.



Example: Jane and Mark have just bought their first home and currently have mortgage repayments of \$2000 per month. They plan to start a family in approximately 5 years and would like to take a 6-month break from mortgage repayments at that time. Based on their current repayment levels they would need to build a buffer of \$12,000 (6 months worth of repayments). This means they'll need to pay just an extra \$200 a month in repayments over the next 5 years to allow them to take a 6-month hiatus from their mortgage. To protect against possible interest rate increases it would probably be wise to increase this to \$250 a month, just to be safe.

6

The Take a Break

We appreciate that there's more to life than just paying off your home loan. We're sure you've got plenty of goals that you're working towards in the medium to short term.

Maybe you're planning to start a family or looking to take extended leave to travel? Perhaps you're thinking of taking time off to study or you'd like to save towards your children's education costs?

Whatever your goals for the future, being able to take a break from your mortgage repayments or have a savings buffer in place will make a massive difference to how you achieve those goals.

The key to success is to plan ahead now. First work out how long you would like to take a break from your mortgage repayments and how far away this moment in time might be. Then, adjust your repayments to build that buffer so you're in a position to take the pressure off yourself when the time comes.

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