Mortgage breaking tips and strategies

GENESYS WEALTH ADVISERS

We see creating and looking after your wealth as a lifelong commitment. That's why we offer regular financial advice and guidance throughout the different stages in your life. Together, we can build the financial wealth that lets you enjoy the truly important things in your life.

There are a few tips and strategies that will reduce the interest you pay on your mortgage, or help you pay off your mortgage faster.

For example, you probably already know that making fortnightly rather than monthly mortgage repayments can slice years from your mortgage because you effectively make 13 months worth of repayments every year instead of 12.

Genesys would like to give you a few more tips that could have a significant impact on your mortgage over the next few years. Find the strategy that suits you!

Shop around

If you're about to obtain a new loan or refinance an existing one, don't just call your bank and ask if they can give you a good deal! Make sure you call other lenders to find out what rates and features they have on offer, and make sure your lender knows that you have done so!

When comparing alternative loan options, knowing exactly what you want will save you a lot of time and effort. List what features are important to you and compare potential loans to your list (a scoring or ranking system can be used to eliminate some of the options). Choosing a loan with features you don't really need will end up costing you more money.

Beware the honeymoon rate

Special rates for the first 12 months are a powerful marketing tool for lenders but watch out for any catches that may apply, such as exit penalties during the first few years. After the honeymoon period, the loan usually reverts to the standard variable rate – not a bad thing, but it may not be the lowest rate available.

Pay mortgage fees up front

It's very simple to have any initial fees and charges added to your loan balance, and think that it won't make much difference. However, $1,000 in fees added to a $100,000 loan over 25 years at 7% will cost you an additional $1,100 in interest, so your up front fees and charges will have effectively doubled because you didn't pay them with cash at the start!

What is wealth advice?

Wealth advice is support and guidance on the best way to manage all your finances. Whether it's adjusting your debts to minimise repayments, saving for a home or a holiday, investing money, planning for your retirement, maximising pension entitlements or ensuring your family are protected if something happens to you, the right advice from the right people will help you achieve your goals faster and more effectively.

Don’t lock in to fixed rates if you can accept a 1%–2% rise in interest rates

It is certainly more expensive to lock in a fixed rate, and the rate can usually only be fixed for up to five years – so assuming interest rates don’t increase to 1980s levels again (around 18%) during the next few years, why pay more now in the hope that you will save later on? You may like to consider an each way bet (just in case) and fix a portion of your repayments, but generally the simplest strategy is to stick to a variable interest rate (and pay back more if you can). If you fix your interest rates you may also find that exit penalties apply, which reduce the flexibility of your loan.

Ask for a discount

As in any buyer/seller relationship, the lender may be open to negotiation on price (in some form or another). Some lenders offer specific discounts to organisations and professional groups. You may qualify for a discount automatically, and even if you don’t, you should still ask!

Set your own interest rate and repay more

While rates are low, you should definitely be repaying more than the standard variable rate. What about making repayments at say 10% or 12% now?

There are three major benefits of setting your own rate:

1. Your mortgage will be repaid significantly faster.
2. If interest rates rise, your expenditure won’t be affected.
3. You can reduce your repayment amount for brief periods if necessary.

Attack the principal

Pay off additional amounts whenever possible. Although it doesn’t seem like much, an extra $100 here and $50 there is a quick way to make a very substantial difference to your overall repayments over the loan term.

Can you afford $100 right now?

Increase your repayments

How long is it since you reviewed your repayment rate to see if it might be increased? Increasing your repayments will make an enormous difference over the term of your loan.

Change providers – look for a better deal

Most of us tend to set our mortgage to autopilot once we’ve set it up. But this means you could be missing out on a better deal. Look at any new, discount product options or special offers being advertised just down the road and consider non-traditional lenders too. Don’t be afraid to consider lenders outside the big household names. For example, loan providers on the internet have become popular recently because of their extremely low rates.

Treat your mortgage as another bill

When reviewing or preparing a budget, treat your mortgage repayments like you would any other fixed expense (such as your annual insurance or car registration costs) but set and stick to a higher fortnightly repayment rate than is actually necessary.

Take advantage of offset accounts

Consider an offset account by linking credit card, savings and cheque accounts to your mortgage. For example, why have savings earning around 4% when you could have the money in your mortgage, decreasing your home loan interest?

In addition, interest within the offset account is tax-free as it is saved (not earned) so the effective benefit is nearly double for someone on a high marginal tax rate.

Have your salary paid directly into your mortgage account

Offset accounts generally include having your salary paid directly into your mortgage.

Let’s say you’re paid $2,000 per month, after tax. If this money is paid into an ordinary bank account, it will earn minimal interest. If it goes in your mortgage account instead, it will save you interest at your current variable rate since your mortgage has effectively been repaid an additional $2,000 while your salary sits in this account. This becomes more effective as your mortgage balance decreases since your salary becomes proportionally greater.

At the end of each month, you transfer out as much of your salary as you need to cover your living expenses and to pay bills such as your credit card. Soon after, your next pay will be deposited into your mortgage so that there is always this running credit of around $2,000 in your mortgage account, saving you interest and helping you repay your mortgage sooner.

Invest in your mortgage

If you are on the highest marginal tax rate of 45% (plus Medicare levy) and are looking for a secure short-term investment, your mortgage could be a great option. Money 'invested' in your mortgage would need to earn greater than 13% p.a. elsewhere to give you a similar after-tax return (assuming mortgage interest rate of 7%). However, if you have a long-term horizon or are approaching retirement, there may be far better investment options (such as gearing, or topping up your super).

Your wealth adviser can explain your options and make a suitable recommendation.

Use the equity in your home to invest

The difference between the value of your home and your outstanding loan is your equity. If you are considering gearing into an investment portfolio, the cheapest way to do this is to use a home equity loan or equity line of credit. Assuming your investments perform well, you should be able to use the investment growth to pay off your mortgage faster. Of course, great caution must be used when borrowing against your home, and we recommend you discuss your options with a wealth adviser first.

Some considerations are:

1. Gearing can magnify returns but it can also magnify losses.
2. Reliable income is required to make interest payments.
3. Your house is on the line.

Switch to a very basic mortgage and invest the difference

Get rid of all the frills and just have your mortgage ticking over in the background with the lowest interest rate you can find. Concentrate on investing the interest you save and later using your investment to repay a large portion of your loan.

Consolidate other debts

If you are repaying a personal loan, your credit card, or perhaps a store credit account (with interest rates around 15% or more) you may be able to consolidate these into your mortgage (with a much lower rate) and increase your mortgage repayments to compensate. You should maintain your overall repayments even though you no longer have these other debts.

Get 'travel' insurance

It's highly likely that you will move at least once during your mortgage period, so make sure your loan is portable and that there are no high fees to transfer it to your new home. Make sure the loan is flexible in case you wish to change it in the future, even though it may cost a little more to maintain that flexibility.

Your wealth adviser is the best person to discuss your options in greater detail. We can provide an analysis of any changes you're considering and can help you to decide which is the most appropriate strategy for your personal situation.

At Genesys, we want you to get the most out of life so you can take advantage of any opportunity and be prepared for any challenge – that's what wealth advice is all about.

Genesys Strategic Finance
Genesys can help you source the right loan for your needs. We act as loan and mortgage brokers on your behalf, doing all the research and applying our experience and knowledge to your benefit.

For more information or to arrange an initial no-cost, no-obligation consultation, please contact:
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