



SMART TIPS:

For paying off your home loan sooner



strength in numbers

Wondering how to pay off your home loan sooner? We look at some things you could do.

Australian home loan interest rates remain at historic lows, and the opportunities for paying off a mortgage early are better than ever. Used in conjunction with low rates, here are some extra steps that can speed up loan repayments and reduce your loan balance.

Make higher repayments

One of the easiest ways to quickly reduce the balance of your mortgage is to make larger loan repayments. The minimum repayments required on a loan are calculated on the amount owing and the prevailing home loan interest rate. Repaying more than the minimum can cut the overall term of the loan and save you thousands of dollars in interest. A mortgage repayments calculator will quickly show what savings can be achieved.

Some lenders may charge you an early payment cost for paying your loan in advance. This is particularly the case with fixed-interest loans, so it's always best to check up-front. These costs can be large.

Make more frequent repayments

Home loans are often structured so that you make monthly repayments. But making fortnightly repayments instead can reduce the term of a loan and save interest. By making fortnightly repayments, you are paying the equivalent of half of your monthly repayment every two weeks. This allows you to make the equivalent of one extra monthly repayment per year. Extra repayments will ensure the loan balance is lower at the time of the month the interest is calculated.

Use an interest offset account

Most lenders allow you to package a mortgage with an interest offset account. An offset account allows you to reduce the amount of interest paid on your loan by offsetting the amount in the (offset) account against your loan balance. Wages and other income can be deposited into your offset account. Note that you don't earn interest on the funds in the offset account, and that offset is usually only available on variable rate loans.

Seek out lower rates

Although obvious, many borrowers take out a mortgage and then stop following the home loan market. With interest rates constantly changing, it pays to monitor the latest rates. If rates go down, contact your lender or broker and ask if they can reduce the rate on your loan.

Don't take the rate cut

When a lender reduces the interest rate on its home loans, usually in line with a cut in official interest rates, your first thought may be to reduce your loan repayments accordingly. However, by maintaining your loan repayments, you effectively repay more than the minimum loan repayment. If it's possible to do so, this will help you cut the term of the loan and save on interest.

Pay both principal and interest

While you can make lower repayments by choosing an interest-only loan, doing so means the principal component of the loan will not be repaid while you are only paying interest.

Pay fees upfront

When initially taking out a mortgage, lenders will often roll the establishment costs and charges into the loan. While this may help the short-term budget, it's worth paying these costs separately to lower the overall balance of the loan from the start.

Use your home equity

As home prices rise, you build more equity in your property. Redrawing funds from a home loan to pay for renovations and other costs can be a much cheaper source of funds than others.

Set up a split loan

A split loan, sometimes referred to as a combination loan, enables borrowers to divide their mortgage into both variable and fixed components. By doing this, you can not only make extra payments on the variable component, but also lock in a lower fixed rate. Extra payments can often be made on the fixed loan too, up to a limit specified by the lender.

Get a financial package

You can often lock in a discounted loan rate with a financial package and also find special rates on other products and services. Putting those savings into your mortgage is a great way to get the best of both worlds.

With just a few easy steps, borrowers can significantly reduce the length of their mortgage and save thousands of dollars in the process. A mortgage broker can assist you in setting everything up.

For more information on how you can pay off your home loan sooner, contact your mortgage broker.

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