



We had another accountant, but there were always issues and problems they couldn't fix. In the end, we just asked Harvest Accounting to look after everything, and since then we haven't had any problems."

Peter Duncan, Director, Cronulla Sutherland Automatics Pty Ltd

10 BORROWER TIPS TO SAVE MONEY



There are always steps borrowers can take to pay their loan off faster, here are a few ideas that will help you along the way.

1. SKIP THE HONEYMOON RATES

There are two problems with honeymoons. Firstly, the variable rate is often higher than some of the lower basic loans available so you could end up paying more. Secondly, you need to clearly understand that a honeymoon rate applies only for the first year or two of the loan and is a minor consideration compared to the actual variable rate that will determine your repayments over the next 20 or so years.

2. MAKE REPAYMENTS AT A HIGHER RATE

A good way to get ahead of mortgage commitments is to pay it off as if you have a higher rate of interest. Get a loan at the lowest interest rate you can and add 2 or 3 percentage points to your repayment amount. So if you have a loan at about 7 percent and pay it off at 10 per cent, you won't even notice if rates go up. Best of all, you'll be paying off your loan quicker and saving yourself a packet.

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 or regular additional repayments will help you cut many years off the term of your loan.

3. PAY IT OFF QUICKLY

Time is money. There are all sorts of strategies for paying less interest on your loan, but most of them boil down to one thing: Pay your loan off as fast as you can. For example, if you take out a loan of \$300,000 at 7.07 per cent for 25 years, your monthly repayment will be about \$2,134. This equates to a total repayment of \$640,126 over the term of your loan.

If you pay the loan out over 10 years rather than 25, your monthly payment will be \$3,494 a month (ouch!). But the total amount you will repay over the term of the loan will be only \$419,290 - saving you a whopping \$220,836!

4. MAKE MORE FREQUENT PAYMENTS

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.

Using our example from above, by paying monthly, you will need to repay \$640,126 over the term of your loan. By paying fortnightly, you will save \$48,534 in interest and 4.5 years off the loan. Zero pain to you, major benefit to your pocket.

5. GET A PACKAGE

Speak to your lender about the financial packages they have on offer. Common inclusions are discounted home insurance, fee-free credit cards, a free consultation with a financial adviser or even a fee-free transaction account. While these things may seem small compared to what you are paying on your home loan, every little bit counts and so you can use the little savings on other financial services to turn them into big savings on your home loan.

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6. 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 a much lower rate.

As always, any extra repayments or lump sums will benefit you in the long run.

7. SPLIT YOUR LOAN

Many borrowers worry about interest rates and whether they will go up but don't want to be tied down by a fixed loan. A good compromise is a split loan, or combination loan as they are often known, which allows you to take part of your loan as fixed and part as variable. Essentially this allows you to hedge your bets as to whether interest rates are going to rise and by how much.

If interest rates rise you will have the security of knowing part of your loan is safely fixed and won't move. However, if interest rates don't go up (or if they rise only slightly or slowly) then you can use the flexibility of the variable portion of your loan and pay that part off more quickly.

8. FORGO THOSE MINOR LUXURIES

This is the bit you don't want to read. Once you have a mortgage, your life is likely to be luxury-free (or at least pretty close to it). Think of all the weight you will lose by giving up your favourite indulgent snack. For the sake of your health you should quit smoking and drink less anyway. Take your lunch from home and save on bad fast food. Trust us, your body will thank you for it.

If you're still not convinced consider the following example. A typical day may include a pack of smokes (\$10), a coffee and donut (\$5), lunch (\$12) and a couple of beers after work (\$8). That's \$35 a day or \$175 a week or \$750 a month or \$9,100 a year.

Assuming a mortgage of \$300,000 at 7.07 per cent over 25 years, by making \$750 in extra repayments each month, you'd save more than \$175,000 in interest and be mortgage free 11 and a half years sooner.

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.

9. RUN AN OFFSET ACCOUNT

Instead of earning interest, any money you have in your offset account works to offset the interest you are paying on your home loan. Of course, the best sort of offset account pays the same rate as your loan (100 per cent offset).

10. PAY ALL YOUR MORTGAGE FEES AND CHARGES UP FRONT

Some lenders allow you to add to the amount you borrow instead of coming up with cash for your up front costs. While this can seem a blessing, try to avoid doing this.

For more information on how to save money, contact Harvest Accounting Group.