10 Tips For Paying Off Your Mortgage Faster

A guide to help property investors pay off their mortgage faster and eliminate bad debt.

CORNERSTONE
WEALTH MANAGEMENT

With interest rates sitting at record lows and looking set to stay that way for the foreseeable future, it's an ideal time to be paying off your mortgage faster and reducing your debt.

When you are deep in debt, you can restrict your ability to build wealth before you've even had the chance to start.

That's why you need an effective debt elimination strategy. This eBook gives you 10 strategies to consider to help you achieve that goal. Please be aware this content is general in nature and does not consider your personal financial situation. Always speak to an appropriately qualified professional before making any investment decisions.

Before we look at some ways you can pay off your mortgage faster, here is an infographic which explains the difference between good and bad debt:

GOOD DEBT VS BAD DEBT

There are two types of debt, good and bad.

The difference between these two types of debt can be distinguished as follows:

Good Debt	Bad Debt
Used to acquire investments	Used to make lifestyle aquisitions
Can be used to generate an income	Does not generate an income stream
Interest is tax deductable	Interest cannot be claimed as a tax deduction
Income generated from investments can be used to pay off the debt	Interest and debt must be repaid from personal 'after-tax' income
Can be paid off over the longer term	Should be eliminated as quickly as possible

Always think in terms of serviceability when it comes to borrowing money.

Being able to service the mortgage repayments is crucial to help to build a successful property portfolio and generate long term wealth, so ask yourself these questions:

1. Can I withstand interest rate rises? If not should I fix in my rate?
2. Is my income secure enough to repay a mortgage?
3. Are my expenses too steep? What can I cut down on?
4. What is my back up plan if the mortgage payments get too much?
5. Do I have the right type of insurance?
6. Am I borrowing this money for the right property, in the right place at the right price?

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1. Make extra repayments

Many home owners will be on a mortgage requiring you to pay principal and interest. On a typical 25 year mortgage, anything extra you can pay off in the first 8 years, (when most of your repayments are primarily paying off the interest) can cut the life of your loan.

Make extra payments as early as you can because these loans are interest-heavy upfront and the faster you repay the better. Consider making repayments on a weekly or fortnightly basis to reduce interest and the term.

The GST Strategy

Just add 10 per cent to your minimum weekly / fortnightly / monthly repayment. It's one of the simplest, most fool proof ways to knock years and dollars off the life of the loan.

2. Use your mortgage as a savings account

A mortgage offset account can save interest on your loan. You use this account to withdraw from to pay bills when these debts become due.

For the period of time your money sits in this account, it is ‘offset’ against your loan and so reduces your interest bill.

3. Repay more often

Switching from monthly to fortnightly payments will help you pay your loan off faster.

Instead of asking your lender to put you on fortnightly payments, you need to take your monthly repayment amount and divide it by two, paying that amount each fortnight.

So if your monthly repayment is $1,000, you'd end up making 26 payments of $500 in the year, rather than 12 payments of $1,000, which is worth one extra monthly repayment per year.

Remember to recalculate your repayment whenever your interest rate changes.

Make an annual lump sum

Use your tax refund or a windfall and apply it directly to your principal.

Check with your lender to find out how often you can prepay and in what amounts.

4. Review your interest rates regularly

Check what the best current fixed and variable rates are and compare them to your current lender's rate. Asking your lender to match the best rate or switching lender could save you thousands per year in interest repayments.

There's no point trying to pay the mortgage off faster if you're unnecessarily throwing extra money at your lender.

Shop around, go beyond the big banks and look at what the smaller lenders are offering. And make sure to weigh up annual account fees as well as interest rates.

5. Every little helps….

Even just forgoing a daily $3.50 coffee and putting that money on the mortgage could save you tens of thousands of dollars over the life of your loan.

Not that you should give up your coffee (are you mad?).

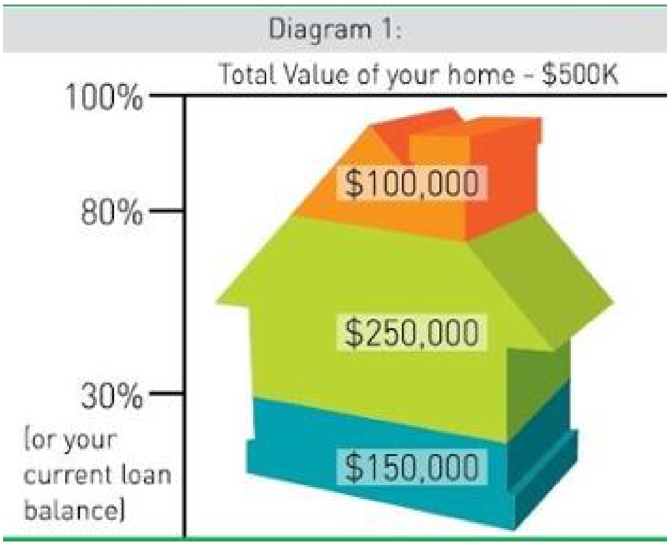
Just remember that every last dollar makes a difference when it comes to saving you interest.

6. Use a redraw facility

A redraw facility allows you to make extra mortgage payments and then withdraw them if you need them.

You can redraw the additional payments you make, and sometimes this type of loan may attract higher costs for this extra benefit.

A redraw facility means you can put all your 'rainy day' money in your mortgage, knowing you can get it out again if you have to.



7. Use your equity

If you have already paid off some of your home loan, you have equity, which is the difference between the current value of your property and the amount you owe the lender.

If your home is valued at $500,000 and there is $150,000 still owing on the mortgage, your total equity is $350,000.

Existing borrowings - represented by the blue section of diagram 1.

If your home is worth $500,000 and you have $150,000 remaining on your loan, your existing borrowings would represent 30% of your home value.

20% equity - Represented by the orange section of your home.

This is the safety net that lending institutions like to have as their safeguard against the borrowings on your home.

Many lending institutions would not let you use this amount unless you want to pay LMI (Lenders Mortgage Insurance). In this example 20% equity of $500,000 is $100,000.

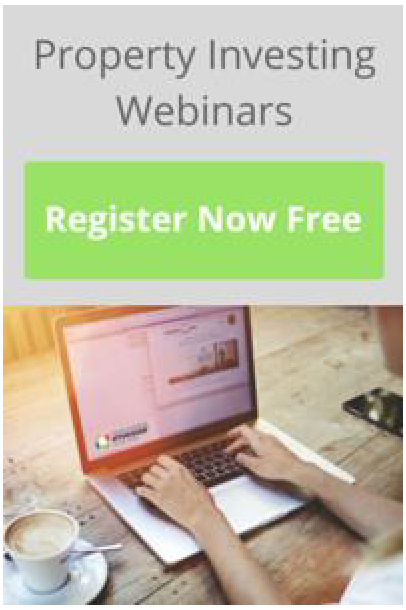
Borrowing against equity in their home is a strategy many property investors use in order to grow a portfolio.

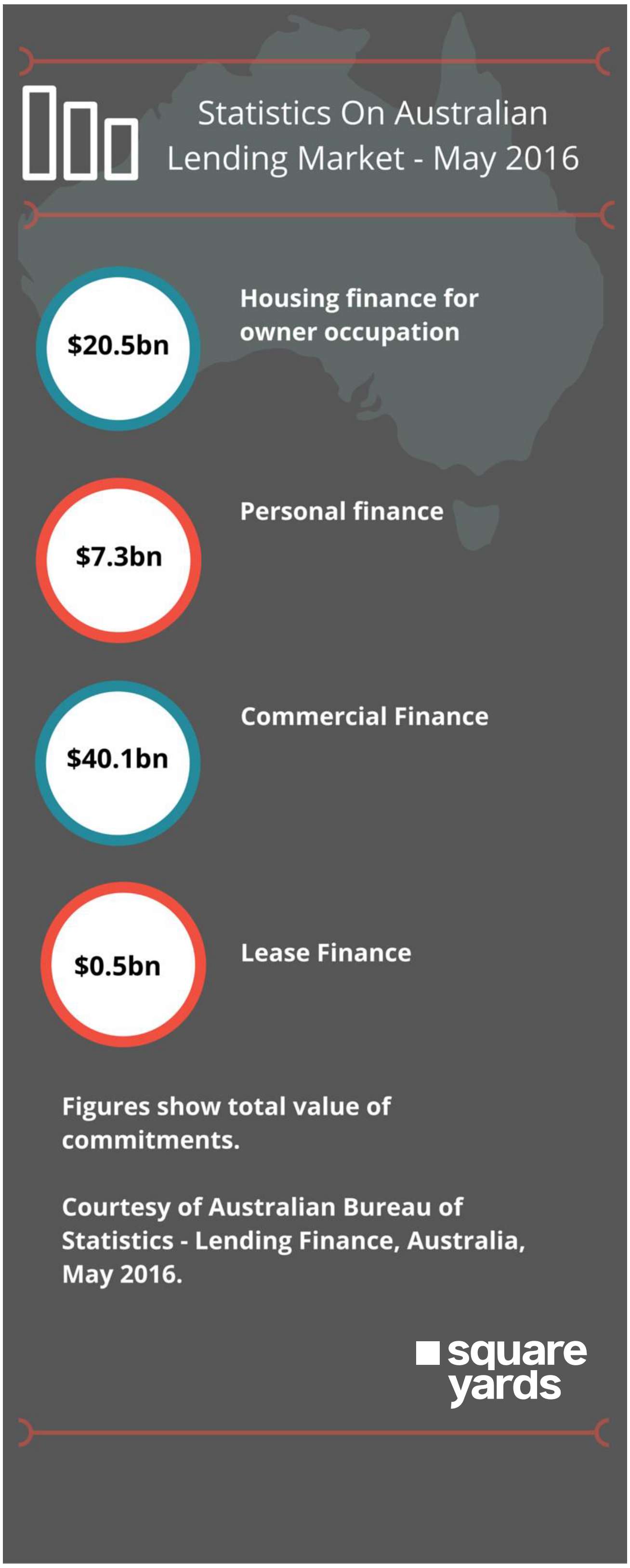
Potential profits can then be used to pay off their mortgage and reduce bad debt.

8. Consolidate your debt

If and when interest rates start to rise, it will not only your home loan that will be affected, any personal, car or credit card rates will also be hiked.

The interest rates on your credit cards and personal loans will be much higher than the interest rate on your home loan.





9. Stay ahead of the game

A mortgage is a long-term commitment, but don't just set and forget.

Keep yourself abreast of what is happening in the marketplace, in terms of products, interest rates, and remember it can be free to speak to a mortgage broker for a financial check-up.

Stay updated on what is happening, and don't be afraid to negotiate with your lender to get a better interest rate.

10. Align your loan repayments with your income cycle

Set up your loan repayments to match the regularity that you get paid.

This will allow you to keep as much money as possible offsetting your loan, reducing your interest.

Thanks for reading and we hope you find this information helpful!

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