How to pay off your mortgage faster

Four of the six biggest companies on the Australian Stock Exchange are banks. These banks make multi-billion dollar profits from their Home Loan customers every year.

BEAT THE BANKS

Hello, I'm Kierin Ryan, the owner of Sydney Home Mortgage. Most of us know the basics of finance – but that's often where it stops. Would you say it's a level playing field, having customers with limited experience of finance, going up against billion-dollar banks to source and negotiate the right mortgage?

Realistically, how often do you think the customer will out-smart the bank?

Is Google the answer to your Mortgage?

If a person spends 2 hours googling "Car Repairs", how do you think they would go repairing cars in the local mechanic's shop? Would you like to drive the car home from that garage? Same goes with your mortgage. Reality Check – Google will not make you a finance expert.

Does it make sense to use a qualified, knowledgeable & experienced finance broker to help you beat the banks? Why would you **RISK** going up against the banks yourself?

Let's get started

22 Tips to Beat the Banks

1 Banks are ultimately responsible to their shareholders

In bank advertisements you see happy & smiling people. Do you think a customer's best interests always align with the shareholder's interests? What do you think happens when these don't align? Will the customer still be smiling?

If a bank increases a fee, the bank makes more profit whilst the client loses money. Some people might describe this as a classic Win / Lose relationship.

If you walk into your local branch, please remember the staff member works for the BANK. If you see a mortgage broker, they work for YOU. It's an important difference. Maybe this is why 55% of mortgages now come via brokers.

2 All home loans are not the same

You can't just walk into a random bank and expect their range of loans to be the best match for your circumstances. Different banks have different niches. Unfortunately, the probability that your local bank has the best deal for you is very slim. Based on the number of lenders in Australia, I would estimate the probability at less than 3%.

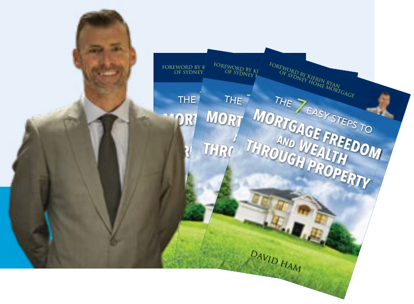
3 Maximum Borrowing Capacity is different with each bank

It's important to understand the amount one bank will lend you, often has little bearing on a different lender's maximum. I regularly see client's maximum borrowing capacity increase by $100,000 based on the lender.

4 Is a 'redraw' just as good as an offset account?

Both allow extra funds to reduce the interest being charged. A redraw allows you to put additional funds into your mortgage and later take these funds out (banks can revoke this). With an offset, you don't put the extra funds into your mortgage. The money sits in a transaction account.

Treating a loan like a transaction account may incur additional fees and restrictions on daily transfers. There may be tax implications using a redraw. Once tax deductable debt has been lowered, its not always possible to reverse. Talk to your accountant for advice.



Contact Kierin Ryan on 0437 437 337 or kierin@sydneyhm.com.au

5 Is the lowest interest rate the best deal?

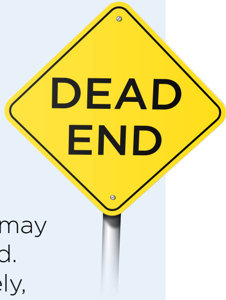
Picking the lowest rate sounds like a logical strategy, but like so many things in life,

what the big print giveth…

the small print taketh away

If the low rate you are chasing is a **"Honeymoon Deal"** I'd suggest you think very carefully. These introductory deals often last 12 – 24 months of the 30 year loan term. It's not uncommon for a bank's variable rate to be 1.5% higher than a honeymoon rate.

I am yet to meet a single person where the **RISKS** of a honeymoon deal were properly explained. Here are a few things to consider:

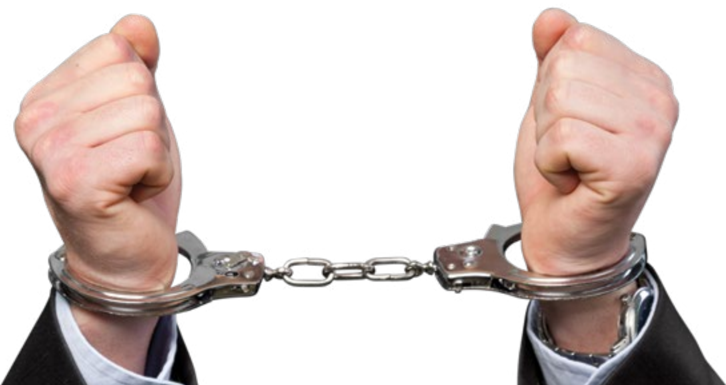


- A high rate after a honeymoon period may force you to refinance. Does this sound like a fun thing to do after only 1-2 years? Plus, there are switching costs to pay.
- A "discounted standard variable" rate may be offered after the honeymoon period. This may sound good, but unfortunately, it's rarely a competitive rate. If you end up paying an extra 1% interest on a $500,000 loan, that's $5,000 gone in the first year alone. Do the maths over 5, 10 or 15 years and you will cry yourself to sleep.
- The best deals are often not available to existing borrowers.
- It's frightening to think you may not qualify to refinance after the honeymoon period. If your circumstances (or bank credit policy) changes, you may be stuck in a very uncompetitive mortgage. Read point 6 on becoming a 'mortgage prisoner'.

6 How to avoid becoming a 'Mortgage Prisoner'

A mortgage prisoner is a person 'trapped' in their mortgage. This can be extremely costly for a customer whilst simultaneously being very profitable for the lender (there's that Win / Lose theme again). Here are some ways it can happen:

- High Loan to Value Ratio (LVR) attracts Lenders Mortgage Insurance (LMI). On a $500,000 loan at 90% LVR this could be $10,000. If you wanted to refinance, how would you feel about paying this again?
- If you borrowed at 80% LVR and avoided LMI, you could be in for a shock if the value of your property has dropped. When refinancing the new lender will conduct a fresh valuation. If you exceed 80%LVR, LMI will apply.



- If your income has dropped or your expenses & liabilities go up, your borrowing capacity reduces, meaning you may fail to qualify for a loan big enough to refinance your mortgage.
- Bank credit policy is always changing. Just because you qualified for a loan a couple of years ago, do not assume you would now.

A mortgage prisoner is essentially trapped in whatever bad deal your lender inflicts on you. With this knowledge, how attractive is the "honeymoon deal" sounding now?

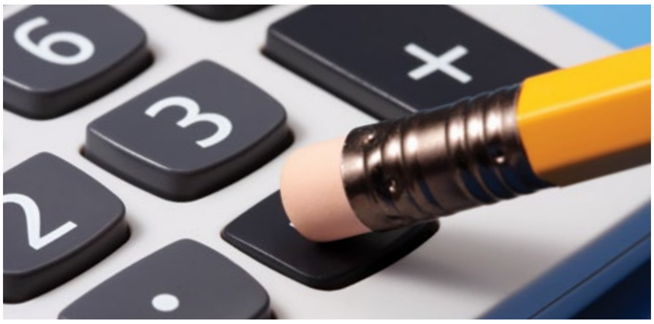
7 What is a monthly or annual fee really costing you?

Understanding the impact of an annual fee may really surprise you.

The monthly interest on a $500,000 loan at:

4.00% = $1,666.67

3.92% = $1,633.33.



If the 3.92% loan had a $395 annual fee, this equates to an extra $32.91 per month. Therefore $1,633.33 + $32.91= $1,666.24. Yes, it's 43 cents difference to the 4% loan. In this example, the fee effectively adds 8 basis points to the loan!

8 Saving Money - Offset Account Tactic #1

Where is your salary going? If you have a loan with an offset account, what would the impact be of having your salary going directly into this account? If you average $10,000 in your offset account, on a 30 year mortgage at 4.5% this will save you over $25,000 in interest.

9 Saving Money - Offset Account Tactic #2

If you have a credit card with an interest free period (sometimes up to 55 days) put as many of your expenses on your credit card whilst maintaining a high offset balance. $6,000 extra in your offset results in an annual $250 saving. Add compound interest to $250 every year, and over the life of the loan it's a big saving.

During your mortgage, how hard do you think your bank will work to keep you in a competitive deal?

At Sydney Home Mortgage, all clients are registered for the "Low Rate Forever" program. There is no cost – just ask Kierin for details

10 Fixed v's Variable – what they might not be telling you

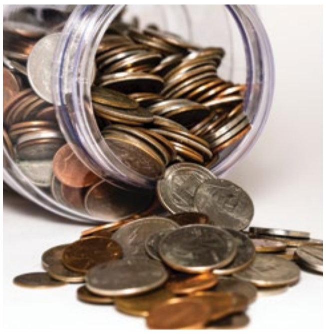
If I had a dollar for every person that told me they regretted fixing their loan, I'd have around $500. If I had a dollar for every person that regretted selecting variable I'd have about $10.

If you're going to sleep better knowing your payment is set in stone for the next 2, 3 or 5 years, maybe fixed is right for you. It's not my place to advise either way.

There are a number of limitations with fixed loans:

- Normally an offset account is not permitted
- Fixed loans usually do not allow or severely limit extra payments, ie $10,000 max per year
- Life has a funny way of not always following the script. If you find you need to sell, or payout the loan then Fixed loans may have high break fees

11 The Power of Extra Payments



This really highlights how small changes make big differences.

If you have a $500,000 30 year loan at 4.5% interest, and you make an extra payment of $20 a week, it results in the loan being paid off 2 years early and a saving of $31,964 in interest – WOW!

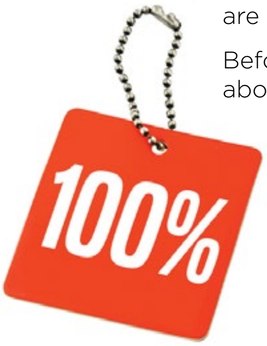
12 Weekly, Fortnightly or Monthly Repayments

Don't over think this one. The impact on the interest you pay is minimal. The logistics are more relevant to most people. Make it easy for yourself. If you get paid weekly, fortnightly or monthly, it makes a lot of sense to have the payment debited 1 or 2 days after your salary deposit is scheduled.

Big savings with weekly payments occur when extra is paid. If you pay 25% of the monthly amount each week, you end up paying an extra 4 weeks payments each year.

13 Should you borrow to your limit?

Banks have already factored in moderate interest rate increases when assessing your ability to service your loan (this is often 2-3% above the rate you are paying).



Before borrowing to your maximum, think about the impact on your lifestyle. Is the highest possible loan repayment congruent with how you want to live? Borrowing as much as possible may secure your dream home, but it will result in a larger slice of your income going to mortgage payments.

14 Lenders have Niches

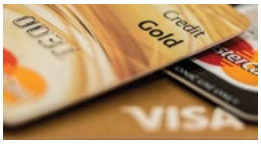
Lenders often have a particular niche. This is an area of the market they have decided to put a special focus on. For some it's self-employed, credit impaired, people with big deposits, FHB, Higher LVR loans, Investor loans, Owner Occupied, or Interest Only. Just because you got a great owner occupied loan from your current lender, it does not mean you should use the same lender for your investment purchase.

15 Share the love to further protect your real estate assets

Spread your debt around to minimise the impact / control that one lender can have on all of your real estate assets.

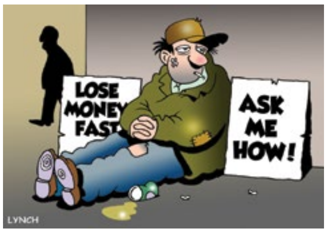
16 Reduce your credit card limit to boost your maximum borrowing capacity

In round numbers, for each $1,000 that you reduce your limit, it's an extra $5,000 you can borrow.



Therefore, dropping your credit card limit from $12,000 to $6,000 means an extra $30,000 added to your borrowing capacity.

17 Set and Forget approach to your mortgage is arguably the single worst thing you could possibly do



This is as close as you can get to a guarantee that you will lose a lot of money throughout your mortgage. Rather than focusing on daily petrol prices, I implore you to regularly review your mortgage.

If you are waiting for your current bank to ring you with the great news that you will save $43,000 by switching your loan to another bank ... you may be waiting a long time.

18 How to avoid Lenders Mortgage Insurance (LMI)

When your loan exceeds 80% of the value of the property the Lender will normally charge LMI. As a guide, an $800,000 loan at 90% LVR would have LMI of approximately $20,000. A parental guarantee can be used to bring the LVR back to 80% and remove the need for LMI. A parental guarantee can be set for a specific amount, and it's often the parent's real estate that is used as security (though some lenders allow a term deposit).

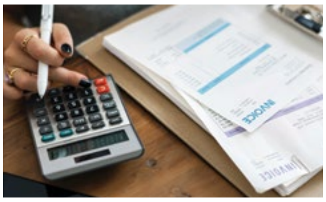
Sydney Home Mortgage
find the right loan

How much could you be saving? Contact Kierin on 0437 437 337 or kierin@sydneyhm.com.au

19 Fix any issue with your credit file before applying for a loan

You can get your credit report from **www.equifax.com.au**. If you are patient you can get it for free, or you can pay a small fee to get it almost immediately. Address any problems.

20 What is a Life Time discount?



Honeymoon rates and fixed terms often switch to a variable rate at some point. These may not be competitive. Some loans offer **'life time' discounts** off the variable rate. If the discount is 2% and the variable is 5.8% you get 3.8%. If in 10 years it was 8.6%, you get 6.6%.

As a professional finance broker, it's my responsibility to identify borrowing solutions that work for you today and into the future. I am a big advocate for 'life time' discount loans.

21 Reduce Living Expenses 3 months before getting your Loan

Lenders have an obligation to verify the accuracy of your self-declared living expenses. Take the opportunity 3 months out from your application to review and cut back on some discretionary spending. This may help you achieve a higher maximum borrowing capacity. There is no point telling a lender you will cut back after you get the loan – do it now.

Reviewing your living expenses helps you understand where savings can be made. Become a better saver – it's really important to wealth creation.

The final tip on how to Beat the Banks

Learn how to fly a plane to London

22 Learn how to fly a plane to London

Imagine you are a pilot, flying from Sydney to London. After taking off, can you point the plane precisely at London and then fall asleep for the next 23 hours and hope to wake up just in time to land at Heathrow? No, because even though the plane started out on course, due to external forces it will gradually drift off-course. If the pilot fell asleep for 23 hours the plane might be landing somewhere in Russia.

Who is going to 'steer' your mortgage and keep it on-track? Hopefully by now, you're thinking *Kierin Ryan* might be a good option! All of my clients are enrolled in the **"low rate forever"** program to help them stay in a competitive mortgage now and in the future.

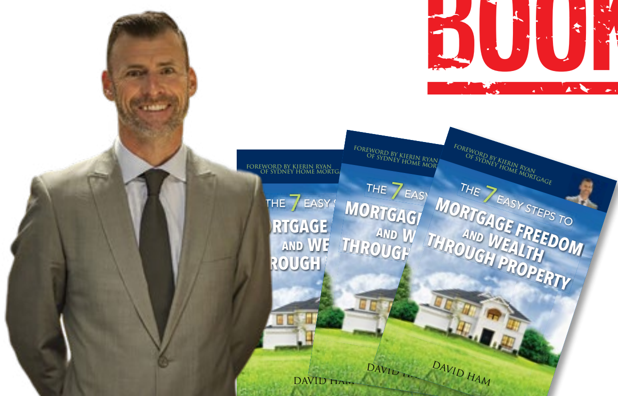
Call or email Kierin on 0437 437 337 kierin@sydneyhm.com.au

Kierin Ryan is accredited to submit loan applications with these Lenders

nab, ANZ, st.george, ING, Westpac, La Trobe financial, bankwest, Newcastle Permanent, Teachers Mutual Bank, citibank, pepper money, MyState, AFG Home Loans, Macquarie, Bank Australia, Homeloans, AdelaideBank, me, Heritage Bank, Bluestone, AMP, UniBank, Virgin money, Liberty, Now Finance, Bank of Sydney, Beyond Bank Australia, Firefighters Mutual Bank, BOQ, Suncorp Bank

Discover the easy 7 steps to pay off your mortgage faster. Download it now.

FREE BOOK



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