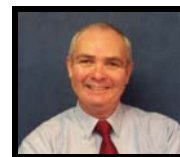


HOW TO SAVE THOUSANDS ON YOUR HOME LOAN

- Allistar Walker



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Your home loan probably has a life span of 25 years to 30 years. Do you really want to be saddled with it for the period? It's easy to dream; it's a different matter to plan and then put that plan into action. Just imagine if you could clear your loan in 10 years or, better still, 5 years.

Just how much extra would you need to pay each month?

Take the Auckland home loan of \$400,000 at an interest rate of 7% - yes, I know you can borrow at less, but that won't last much beyond this year. The average interest rate taken over the last 30 years is a tad over 7.5% pa. You have elected to take a term of 30 years. Your first monthly instalment will attract interest of \$2,333.

The required repayment to clear \$400,000 in 30 years at 7% pa is \$2,646 per month. Add an extra \$930 per month and you will halve the time period to 15 years. This \$930 is 0.23% of the capital debt of \$400,000. That's the percentage you have to pay over and above the interest rate due on the total debt to clear any home loan in fifteen years. See the table for other loan terms.

What if the Interest Rate changes?

It will. One thing that is never constant in a long term bank loan is the interest rate. That is why the Banks often prove your borrowing capacity using a higher 'assessment rate' than the interest rate you'll actually pay. Just because you can afford a loan when interest rates are low, doesn't mean that you will be able to afford the same loan later, as interest rates rise. The banks try to safeguard themselves (and you) against such a scenario by using that 'assessment rate'. Low interest rates mean the ideal time to reduce the loan with higher repayments than required, thus maximising your efforts to clear the loan earlier. Obviously this is easier to cope with if you have already adjusted to a higher repayment regime from higher rates.

Fact File

You can settle your Mortgage within Five Years.
A mortgage of \$400,000 at 7%. Repayments per month \$2,646.
Term 30 years.

Add \$165 pm	=	\$2,811 pm	=	25 years	saves \$109,200
" \$440 pm	=	\$3,086 pm	=	20 years	" \$211,900
" \$930 pm	=	\$3,576 pm	=	15 years	" \$308,800
" \$1,970 pm	=	\$4,616 pm	=	10 years	" \$398,600
" \$5,230 pm	=	\$7,876 pm	=	5 years	" \$480,000

"It'll require a lot of self-discipline, and may mean a change in lifestyle and sacrificing luxury items. But it's worth it"

Note: We recommend that loans be scheduled over 30 years, but repayments be initially set for a 25 year term or less. This gives you more room to manoeuvre with the banks, later.

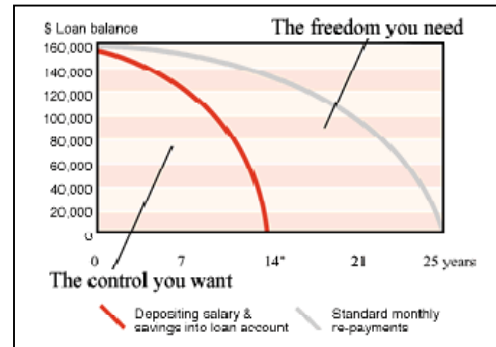
There is another way

Love 'em or hate 'em, the reducing revolving credit can be your friend. A portion of your loan is taken on this basis so that it acts as your every day transactional account. You then have your wages paid into this account, which drops the debit balance and hence less interest is charged. By utilising the free credit period on your credit card you pay all your monthly bills and groceries through the credit card. To avoid any debt trap, you completely clear the credit card each month. This of course raises the debt balance on your revolving credit, but overall chargeable interest is less because of the lower daily debt balance in this facility during the month.

The motivation to own a mortgage-free home

If you are determined to clear your home loan, follow these principals and watch it disappear. It will require a lot of self-discipline, and may mean a change in lifestyle and sacrificing luxury items, but it's worth it – boy is it worth it.

Arrange a meeting with an advisor/broker like ourselves and share your plan or perhaps ask the advisor/broker to help you formulate a plan. This of course needs to be aligned with a firm budget. The advisor/broker will be able to show you your massive savings, before and after the plan is implemented. Do it now.



Allistar Walker is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available at www.mortgagehelp.co.nz or he can be contacted at 410 6023 and enquiry@mortgagehelp.co.nz.