

THE 8 STEP PLAN FOR KILLING THE MORTGAGE

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I talk about a plan because often when people take out a mortgage, there is no concrete plan, but rather fuzzy, mentally recorded objectives. The amount of borrowing that you consider should be part of an overall written plan that meets with your ultimate goals and values backed by a robust strategy to achieve these.

Most people who take a mortgage over their own home want to get rid of this 'death-grip' as soon as possible. By adhering to a plan and a few basic principles this can be more easily achieved.

1. **Make regular repayments as large as possible** – For instance our basic philosophy is to make your minimum loan repayments based on an 8% interest rate over 25 years. The loan may well be taken out for 30 years and also at a low rate of 5.75% pa. The higher the repayments the faster the loan is repaid and you can do what really matters in life – LIVE. Say a \$300,000 loan takes 30 years to pay at 6% pa with repayments of \$1,800 pm. For a start over that 30 year period it is unlikely that you will experience 6% pa for any length of time. The same loan scheduled over 25 years at 8% will increase repayments to \$2,316 pm. The average interest rate over the last 30 years is a little above 7.5%. So by setting your repayments higher, you will achieve more principal reduction under our current extended low interest rate regime. When rates do go above 8% you will have 'money in the bank' so to speak and will probably not need to increase your repayments to meet the higher interest rates. Such a strategy as outlined above could take up to 9 years off your mortgage, all for the sake of an extra \$12-\$13 per day or a couple of coffees and a bun.
2. **Make lump sum payment** – We advocate that people create a 'Reserve Fund Buffer', preferably deposited at another bank or safe house. However once this is done, then any windfalls of money should be used to knock off the mortgage, to further enhance the drive to being mortgage free. Already the coffee tastes sweeter. Analytically this makes sense as well. Taking that you pay an average of 7.5% after tax for your mortgage, you would find it difficult to get a guaranteed, risk free 7.5% pa after tax performance on your lump sum investment.
3. **Pay your mortgage when you are paid** – If paid fortnightly, pay the mortgage fortnightly and if paid monthly, pay it monthly as soon as you are paid. There is a lot of misinformation in the market place about fortnightly vs monthly. The simple fact is that the more and quicker you pay, the quicker the mortgage is repaid. There is no magic or benefit for those being paid monthly, to repay the mortgage on a fortnightly basis. The 'magic' is in the numbers ie 12 monthly payments of say \$100 pm is \$1,200 per year. The so-called fortnightly advocates work on the fact that if you halve the monthly amount then pay this fortnightly (\$50 pf) you now pay off \$1,300 pa (26 x \$50). Effectively you are paying more off, but it makes no sense for those on monthly incomes to hold off some repayment for a fortnight.
4. **Use a revolving or reducing credit account** - This facility can be used to pay your salaries into and draw expenses from. Often there is a monthly charge and it is a question of weighing the advantages of not having funds sitting around idly waiting for you to spend them and so reducing your interest bill as against any charges that may apply. This concept could make a separate article.
5. **Check your statements** – Banks do make mistakes. Sometimes they may not change your interest rate when you fix, or strange debits could appear on the account.
6. **Beware of flashy premises** – Mortgage reduction agencies and no-deposit loans are risky. There are fish-hooks and you should talk to a Registered Financial Adviser before paying any money for these offerings.
7. **Keep the mortgage alive** – When the loan is repaid, don't have your mortgage released. This way if you need to borrow in the future, say for alterations, a trip, a car, you already have the documentation in place. Hence no need to go through the expense and rigmarole of re-registering a mortgage.
8. **Consult a Registered or Authorised Financial Adviser** – This will be an accredited mortgage adviser who will analyse your position and provide individually tailored advice for you in line with your goals. DIY is not always the best option when it comes to structuring mortgages, insurances and savings. For little or no cost you can set up your Strategic Plan with someone who understands the numbers and the vast range of products available to achieve what you want to do. In fact it should save you heaps in the long haul.

Care has been taken to ensure that any information is accurate. No liability is accepted for its use. Enquiries are welcome. Allistar Walker is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available free at www.mortgagehelp.co.nz or he can be contacted at 410 6023 and enquiry@mortgagehelp.co.nz.