

## Make your Daily Grind Count

### **Your Mortgage - 5 must do's to beat your bank to the finish line**

According to Albert Einstein, "Compound interest is the eighth wonder of the world. He who understands it, earns it... he who doesn't... pays it." So this is what makes the banks so profitable. Time to get on board and play their game too.

Let's take a look at refinancing your loan from 30 years to 15 years. But hey, I can't afford to double my monthly mortgage repayment! Let's take a leaf out of Albert's book and look at the monthly costs of each option on a \$500,000 loan at 4% p.a. interest.

30 year loan – monthly repayment of \$2,388. Accumulated interest of \$359,348 over 30 years

15 year loan – monthly repayment of \$3,698. Accumulated interest of \$165,719 over 15 years

So by *halving* your term, your monthly repayment is only 55% more than on the original 30-year loan repayment (not 100% more, or double, as you may have initially thought). In fact, you manage to *save* \$193,629 on interest payments to the bank. Thanks Albert!

Clearly this is an extreme example as a 55% increase in your mortgage repayment is a very large increase that would likely add large amounts of stress, uncertainty and significantly reduce your ability to meet other living expenses now.

**So here are 5 tips to be on the winning end of Einstein's "most powerful force in the universe"...**

#### **1) Reduce frequency of repayments from monthly to fortnightly**

You will actually make an extra month repayment each year (12 months per year, 26 fortnights).

This is a means of making additional repayments on your mortgage, but spread evenly throughout the year so that you don't need to come up with a lump sum payment along the way.

#### **2) Increase your repayment amount now. Round it up!**

Instead of refinancing to a shorter loan, dictate the term of your loan by paying more each month or fortnight. Taking our first example of a 30 year \$500,000 loan at 4% p.a. you would be paying \$2,388 per month. By paying \$2,500 per month instead, you knock off 2 years and 5 months from the loan term and \$33,706 in interest. Taking this another step further, if you paid \$1,250 per fortnight you would be debt free 6 years and 1 month sooner, and save a massive \$82,088 in interest.



For a complimentary  
financial consultation,  
contact our office [here](#),  
on 02 8065 3776 or  
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### 3) **Make extra repayments when you can**

Maybe its tax time, here comes a refund! Instead of flying away on another holiday or upgrading your 55 inch to a 65 inch, pump an extra \$5,000 into your mortgage today.

\$5,000 less on your initial 30-year loan takes off 7 months and \$16,701 in interest payments.

Attacking your loan in the early years will make a huge difference to how much interest you are forking out to your bank over the life of your loan.

### 4) **Is your bank offering you the best rate?**

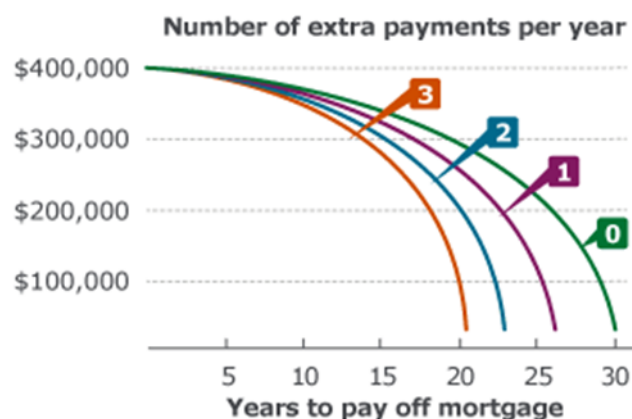
What would a 0.2% p.a. saving in interest rate over 30 years look like on your half a million loan? If you keep your repayments the same as the original loan, the result is a reduction of 1 year and 3 months or \$37,747 in interest savings.

### 5) **Bank the extra cash when interest rates drop or keep paying the same amount?**

The RBA can still drop rates below their current historical lows. So if mortgage rates drop again, keep paying your same monthly or fortnightly amount and drop more years off your home loan!

Bear in mind that we currently have Australia's lowest historical mortgage rates (and highest mortgage balances!) So when rates eventually climb higher, build yourself a buffer so you're not trapped and stressed out.

**"Don't save what is left after spending, but spend what is left after savings" - Warren Buffett**



\*Any advice in this publication is of a general nature only and has not been tailored to your personal circumstances. Please seek personal advice prior to acting on this information.