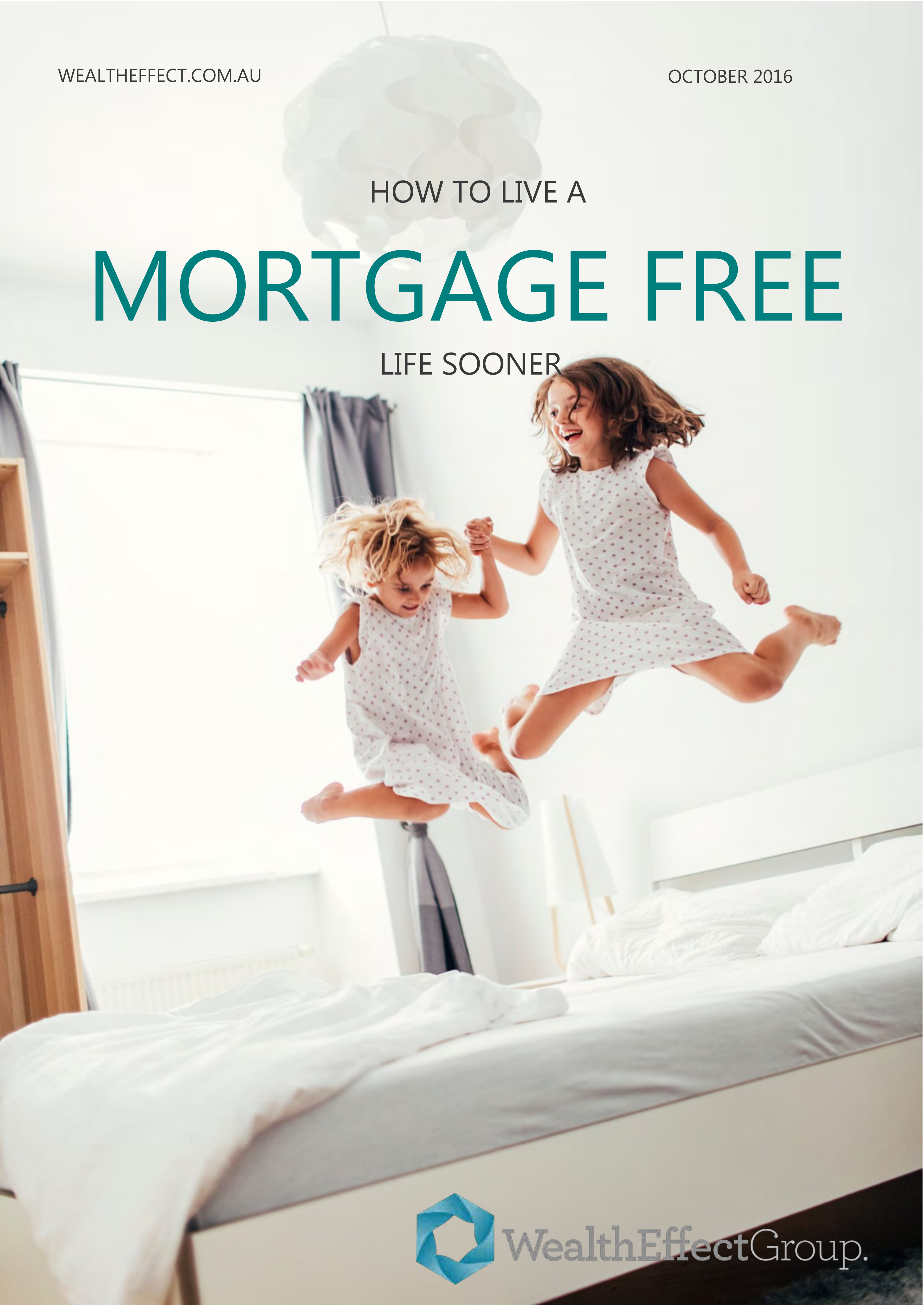
OCTOBER 2016

HOW TO LIVE A

MORTGAGE FREE

LIFE SOONER



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OPTIONS

WHAT TYPES OF LOANS ARE AVAILABLE?

There are a range of home loans available in Australia, so it can be hard to understand their features and whether they are right for you. This guide explains all you need to know.

Variable loans

Variable loans are loans that are subject to interest rate fluctuations. Whenever your bank increases or decreases interest rates, you will end up either paying more or less for your loan, depending on what the bank has decided to do.

A typical owner-occupied mortgage is taken out over 25 or 30 years, although you can reduce the overall term by making higher or more frequent payments. Mortgages are either based on principal (the amount you borrowed from the bank) and interest (the amount you pay back for having borrowed that money) loan repayments, or interest-only repayments (generally available for 1-5 years for owner occupied loans and 1-10 years for investment loans) where none of the principal component of the loan is paid down.

Fixed-rate loan

Fixed loans allow you to lock in a specific interest rate over a set period of time, generally between one and five years. This loan is popular among borrowers who want to ensure their repayments don't rise. The main risk is that if variable rates fall, you are locked in at a higher rate. The cost of breaking a fixed rate loan contract can be substantial, and there can be financial penalties for making additional payments.

Split-rate loans

You can take out a mortgage with one portion of the loan variable, and the other fixed. In many ways, this offers the best of both worlds and you have the flexibility to repay more on the variable loan and reduce risk through the fixed loan.

Low-doc loans

Mortgage lenders require you to provide evidence of your ability to meet loan repayments, but this can be a problem for non-salaried workers such as the self-employed. Low-doc loans require less proof-of-income paperwork, but the interest rate levied is often higher than the standard variable rate.

Professionalor packaged loans

Some lenders offer mortgages that provide 'lifetime' discounted interest rates, fee waivers and linked savings accounts and credit cards. These options are generally offered on high loan amounts.

Non-genuine savings loans

Lenders prefer borrowers to show they have the ability to save funds over time to cover their repayments. If a deposit is accrued quickly due to an inheritance or from other sources, lenders may provide less funding and require lenders mortgage insurance. Lenders mortgage insurance is a one-off insurance payment that covers the bank in case you can't make your repayments. It is usually required for home loans with a loan-to-value ratio (LVR) over 80%.

Construction loans

These loans allow amounts of finance to be drawn down progressively to cover the various stages of a construction project. Repayments (generally only on interest for the first 12 months, then principal and interest thereafter) are only made on the amount of the loan facility that has been drawn down. However, there are line fees on the undrawn amount, or in most cases on the total facility limit.

Line-of-credit facilities

This is a way of tapping into equity in an existing home and drawing down funds as required for different purposes, such as renovations. Similar to a credit card, repayments are only made on the amount drawn down. Line-of-credit loans are often interest-only for a significant period, but can revert to principal and interest repayments down the track. Most lenders charge extra for line of credit accounts, either through a facility fee, undrawn funds fees and/or a higher interest rate.

Bridging loans

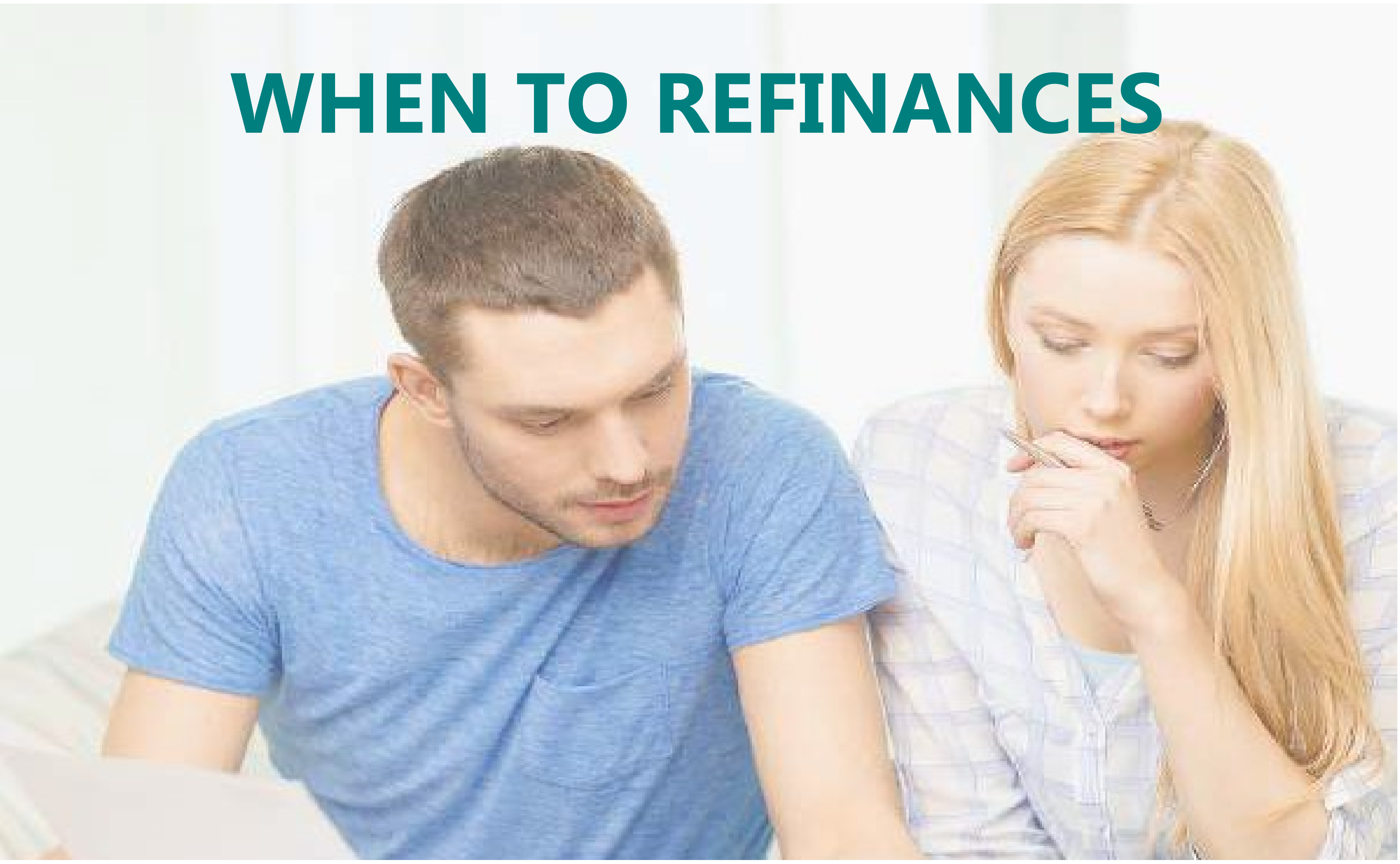
Bridging loans are designed as short-term financing options for borrowers who need funding to buy a new residence before selling their existing home. The interest rates on these loans are higher than the standard variable interest rate.

SMSF loans

The rules around borrowing funds within a self-managed superannuation fund are complex. Borrowings with a SMSF must be undertaken through a limited recourse borrowing arrangement, which limits the recourse of the lender to a single asset.

With mortgage lenders offering so many different products, getting professional advice is a must. A mortgage broker will support you with recommendations about what's best for your personal circumstances.

WHEN TO REFINANCES



WHAT TO CONSIDER WHEN REFINANCING

With so many home loan products on the market, the right features in a home loan can make a big difference when it comes to paying off your mortgage faster.

An offset account allows you to reduce the interest calculated on your loan. If there is no offset feature on your loan, find out if you can make fortnightly repayments, which will help you save money in the long-run.

If you're considering switching banks and have built a substantial amount on equity in your existing property, you would be considered a lower risk to banks and you might be able to work this to your advantage to secure a better mortgage deal. However, it's best to be aware that without a large amount of acquired equity, you may have to pay mortgage insurance on your refinanced loan.

When you’re refinancing, watch out for exit costs and application fees. Try to find a loan from a lender who pays for all refinance costs.

Finally, early repayments on a home loan make a huge difference of the total interest paid

HOW TO PAY IT DOWN

TIPS TO PAY DOWN YOUR MORTGAGE SOONER

Wondering how to pay off your home loan sooner? We look at some things you could do.

Australian home loan interest rates remain at historic lows, and the opportunities for paying off a mortgage early are better than ever. Used in conjunction with low rates, here are some extra steps that can speed up loan repayments and reduce your loan balance.

Make higher repayments

One of the easiest ways to quickly reduce the balance of your mortgage is to make larger loan repayments. The minimum repayments required on a loan are calculated on the amount owing and the prevailing home loan interest rate. Repaying more than the minimum can cut the overall term of the loan and save you thousands of dollars in interest. A mortgage repayments calculator will quickly show what savings can be achieved.

Some lenders may charge you an early payment cost for paying your loan in advance. This is particularly the case with fixed-interest loans, so it’s always best to check up-front. These costs can be large.

Make more frequent repayments

Home loans are often structured so that you make monthly repayments. But making fortnightly repayments instead can reduce the term of a loan and save interest. By making fortnightly repayments, you are paying the equivalent of half of your monthly repayment every two weeks. This allows you to make the equivalent of one extra monthly repayment per year. Extra repayments will ensure the loan balance is lower at the time of the month the interest is calculated.

Use an interest offset account

Most lenders allow you to package a mortgage with an interest offset account. An offset account allows you to reduce the amount of interest paid on your loan by offsetting the amount in the (offset) account against your loan balance. Wages and other income can be deposited into your offset account. Note that you don't earn interest on the funds in the offset account, and that offset is usually only available on variable rate loans.

Seek out lower rates

Although obvious, many borrowers take out a mortgage and then stop following the home loan market. With interest rates constantly changing, it pays to monitor the latest rates. If rates go down, contact your lender or broker and ask if they can reduce the rate on your loan.

Don't take the rate cut

When a lender reduces the interest rate on its home loans, usually in line with a cut in official interest rates, your first thought may be to reduce your loan repayments accordingly. However, by maintaining your loan repayments, you effectively repay more than the minimum loan repayment. If it's possible to do so, this will help you cut the term of the loan and save on interest.

Pay both principal and interest

While you can make lower repayments by choosing an interest-only loan, doing so means the principal component of the loan will not be repaid while you are only paying interest.

Use your home equity

As home prices rise, you build more equity in your property. Redrawing funds from a home loan to pay for renovations and other costs can be a much cheaper source of funds than others.

Set up a split loan

A split loan, sometimes referred to as a combination loan, enables borrowers to divide their mortgage into both variable and fixed components. By doing this, you can not only make extra payments on the variable component, but also lock in a lower fixed rate. Extra payments can often be made on the fixed loan too, up to a limit specified by the lender.

Get a financial package

You can often lock in a discounted loan rate with a financial package and also find special rates on other products and services. Putting those savings into your mortgage is a great way to get the best of both worlds.

With just a few easy steps, borrowers can significantly reduce the length of their mortgage and save thousands of dollars in the process. A mortgage broker can assist you in setting everything up.

TAKE CONTROL TODAY

MAKE SURE THE NEXT STEP IN YOUR FAMILIES JOURNEY IS ON THE RIGHT PATH

Here at Wealth Effect, we offer exclusive financial services to families. We're here to help them get the very best start. That's what we do and that's who we help.

Through an incredibly simple process and at the cost of an even simpler flat fee upfront & ongoing, we'll help you on the right financial path. There are no hidden costs.

Get the understanding you need. For your unique upgrade, call us on 1300 13 59 53 today.