How to Find Investment Properties thatTakes 10 Years Off Your Home Loan Part 1

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STRATEGIC INVESTORS
Creating Smarter Investors

How to Find Investment Property that Takes 10 Years Off Your Home Loan

Home loans are one of the most significant financial commitments we make in our lives. The average mortgage in Australia is over $300,000 and has a 25 and 30 years repayment term.

That's more than a third of most people's lives, not to mention a significant chunk of income, so it's no wonder we all want to pay off our home loans early. There are, in fact, all kinds of tips and guides designed specifically to help you pay off this debt in a shorter amount of time.

The most common suggestions include

- making additional repayments,
- paying more than the minimum each month,
- changing the repayment schedule from monthly to fortnightly or weekly, and
- shopping around for a better mortgage interest rate.

While all of these strategies can make a difference on their own, they are only little things adding up to minor changes to your home loan term. So here, we outline the Strategic Investors Plan: just three simple steps that make a massive difference to your home loan so that you can save thousands of dollars in interest and take 10 years off your mortgage term.

Pick The Right Lender and The Right Product

Get An Offset Account

Pay Your Bills By Credit Card

Pick The Right Lender and the Right Product

People often focus on getting the best interest rate for their home loan, hoping that it will save them money.

While it's true that a low-interest rate can save you money on repayments, finding the right lender and the right home loan product are actually more important than the advertised interest rate. For starters, the right lender will look at your circumstances and consider different home loan options that suit you. They may make a number of suggestions and offer flexibility when it comes to repayment plans and other loan features.

But more importantly, the right home loan product will offer you a range of ways to save money on interest – and not just through low-interest rates (which can vary with the official cash rate anyway).

The following considerations can help you find the right lender and product when searching for a home loan.

- How much can you borrow?
- What repayment options does the loan offer and/or recommend?
- Does the lender apply additional charges to the loan, such as additional repayments?
- Does the loan offer additional features, such as the option of an offset account?
- Have you already borrowed money from this lender?
- How easy will it be to make changes to your loan repayments in the future if your circumstances change (i.e. through better pay, retirement etc.)?

Consider these different questions, and even asking lenders about them will help you find a mortgage provider and product that actually helps you save time and money on repayments.

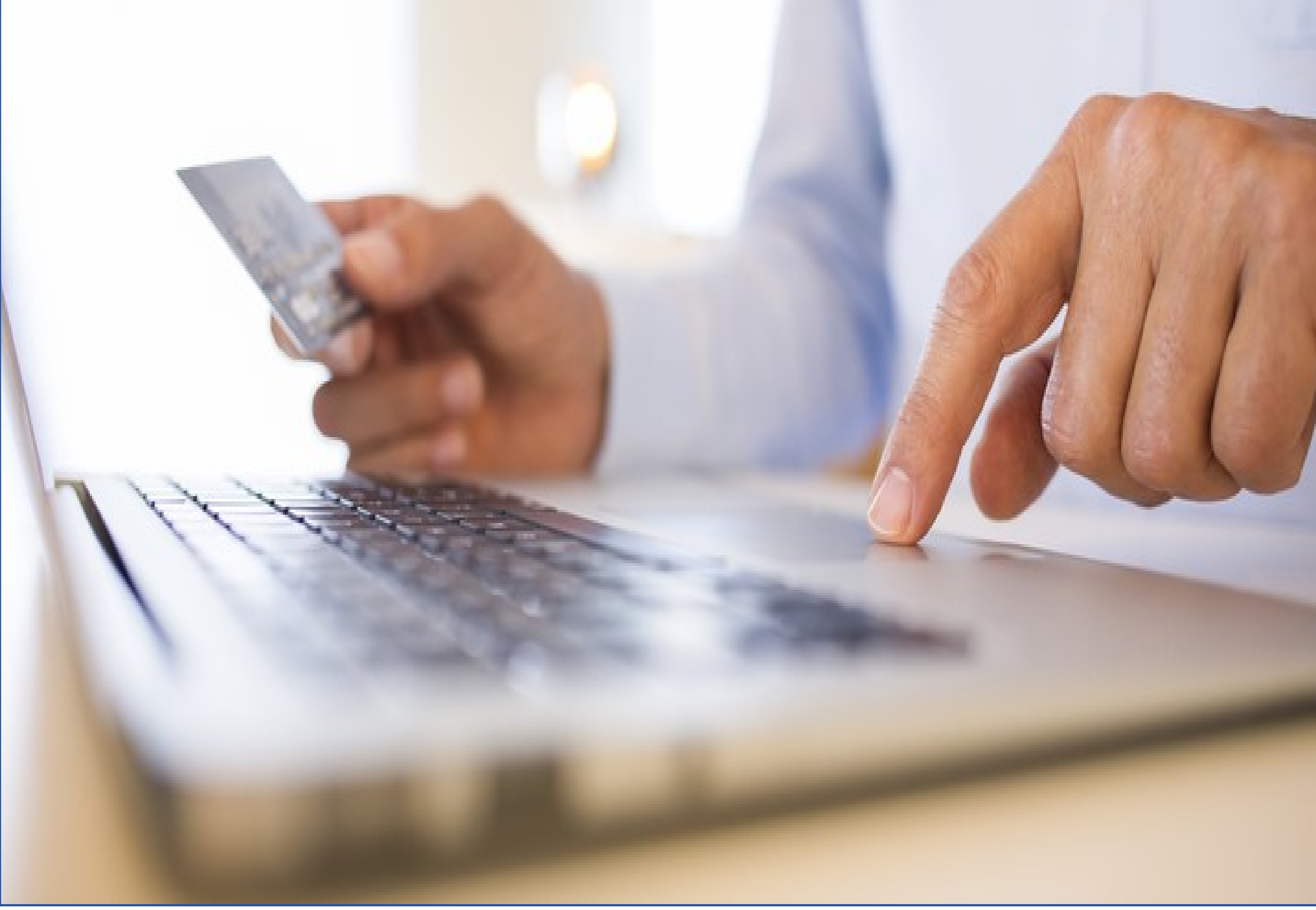
Get An Offset Account

An offset account is a kind of transaction account that is linked to your home loan. It's almost exactly the same as any other transaction account - right down to the debit card you get when you open it - but the real value of this account lies in the balance.

Basically, the money in this account is offset against your loan balance, which means it reduces the amount of interest that you pay each month.

What's even better about offset accounts, though, is that the interest on your home loan is actually charged daily, even if it is charged monthly. So the amount of money you can save by using an offset account is really only limited by how much you can keep in there at any given time.

This setup means you could have your wages paid into the account and use it as you would an everyday account and save money on your home loan interest in the process.



Pay Your Bills By Credit Card

The simple act of opening and using an offset account as your primary transaction account will save you money, but there is also a more thoughtful way to make use of this facility.

Basically, the more money you can leave in your offset account, the more money you will save on your home loan interest every month. SO the goal is to have all of your income going into this account, but no money coming out of it until your home loan repayment is due.

That's where credit cards come into play. If you use a credit card to pay for all your expenses each month, your offset account balance will stay the same (or increase) The amount of interest you pay on your home loan will also be reduced. Then, at the end of the month, you can make your regular repayment, [ay off your credit card balance and start the process again.

The important thing about this strategy is to only spend what you can afford to when using the credit card so that you have access to cash flow and never have to pay interest for it (while also using your own money to save interest on your home loan).

This brings us to the idea of a No Budget Budget. Basically, when you choose your credit card, you want to request a credit limit that is in line with what you can afford to spend each month using your salary and a limit that gives you a buffer against unexpected costs (such as credit card interest).

For example, let's say you earn $5,000 a month and make mortgage repayments of $2000 on a monthly basis. That leaves you with $3000 for everything else, so $3,000 is the maximum amount of money available to you every month.

Now, with the No Budget Budget, you would take 20% off this amount as a buffer. This 20% haircut leaves you with $2500, or half of your monthly salary. By getting a credit card with a $2500 limit.

Following this plan for 12 months would also see you save an extra $6000 from your salary, thanks to the 20% haircut you gave your credit card limit.

With this strategy, every dollar you end up saving goes into that offset account, and every dollar in there is saving you interest on your home loan.

As your wealth increases through pay rises and investments, the balance in your offset account will also increase, meaning you will be able to save more and more money off your home loan and reduce the time you spend paying it off.

So although there are many different ways to try and take 10 years off your home loan, the Mortgage Destroyer Plan is an option that is both simple and effective. Just by finding the right lender and product, getting an offset account and using a credit card wisely, you can have it all without compromising your cash flow or lifestyle in the process.

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