HOW TO
PAY OFF YOUR MORTGAGE FASTER

AND FREE YOURSELF FROM DEBT

5 STEPS *in five easy steps*

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by Simon Carkeek - *DFS*
& Sean McNeill - *BSc, ADFP*

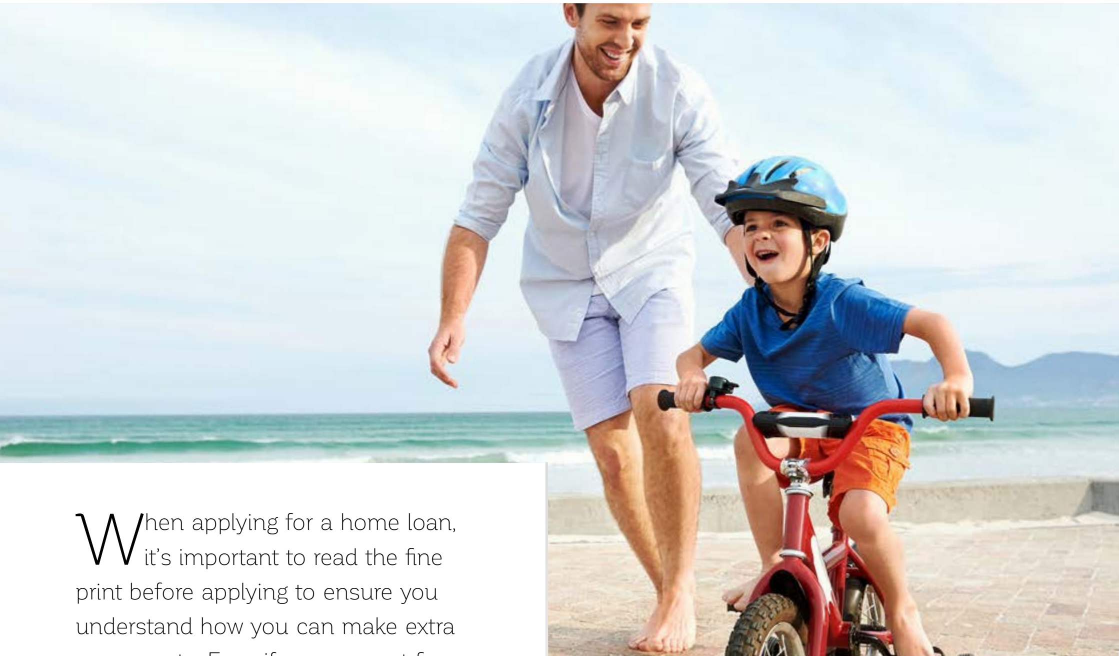
5 EASY STEPS TO paying off your mortgage faster

Many of us travel through our working life allocating large proportions of our salaries towards our mortgages, car loans, children's education, credit cards, groceries and pay for the occasional holiday. Life can be extremely busy and we may never make a conscious effort to pause, step back and take stock to see whether we are really making the most of our hard earned money.

Of course, an integral part of making the most of our money is the way in which we structure and manage our debts - and it is this theme that is basis of this book.

This book has been written in an easily digestible format, divided in two parts and aims to provide practical and tested strategies for paying down your mortgage faster as well as looking at strategies for managing personal debt. We hope you find it useful!

STEP 1 extra repayments



When applying for a home loan, it's important to read the fine print before applying to ensure you understand how you can make extra repayments. Even if your current finances make extra repayments seem impossible, it's important to understand this feature and include it in your home loan package for when you are in a position to make extra repayments possible.

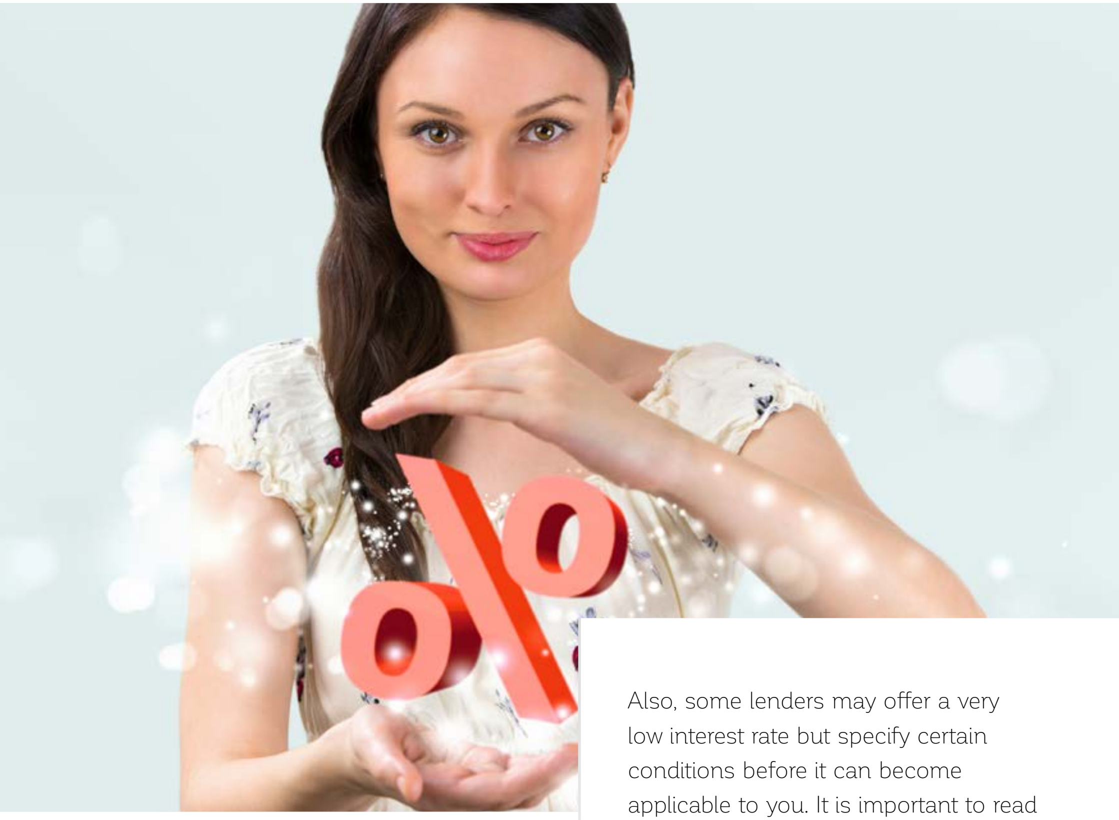
For example, most home loans are on a term of about 30 years. If you come into some unexpected money, such as a tax refund, work bonus or inheritance; it's important to understand how extra repayments may impact your loan. Also, be aware that some fixed-rate home loans do not permit extra repayments.

Making bigger or more frequent repayments to your home loan is the quickest way to pay off the debt. However, when doing this, you need to be aware that there may be possible fees involved. Some lenders place certain restrictions on how much you are able to repay in excess of your loan repayments over the term of the loan. They may also specify certain periods where you can or cannot make extra repayments; for example, only once a year or to a certain value.

If you can't make an extra repayment without penalty, you may still be able to put extra money to good use by utilising offset account linked to your loan.

(see Point 5).

STEP 2 cheaper interest rates



A lower interest rate means there will be less interest to pay in addition to the amount of your home loan, so your overall cost will be cheaper. It's important not to go with the first interest rate you see, but to look at all lenders to see who has the lowest rate available to you.

Also, some lenders may offer a very low interest rate but specify certain conditions before it can become applicable to you. It is important to read all the fine print relating to interest rates, to ensure you fully understand what you are entering into.

STEP 3 discount loans

Discount Loans, otherwise known as ‘Professional Packages’

If you work in a certain profession (for example, as a doctor, accountant or lawyer), you may be eligible for a discount loan. Some lenders refer to this as a ‘Professional Package’ (or similar). Banks and lenders monitor the default rate of certain professions, and sometimes offer discounts to those identified as ‘low risk’.

For example, in recent years it has been found that doctors almost never default on loans, so that places them at the top of the list.

If you work in one of these professions, a discounted loan could be highly beneficial.

So when applying for a home loan it’s a good idea to see if your lender offers a discount; as each lender may have slightly different criteria for these loans.

In some cases, it might be more than just a discounted interest rate available – you may also be able to waive Lenders Mortgage Insurance (LMI) completely. So it’s important to do your research and see which options are more suitable to your needs.

STEP 4 offset accounts

Offset is a feature that you can link to a variable rate home loan. There are two types of offset accounts: 100% offset and partial offset account.

100% OFFSET

This allows you to use the account as an everyday banking or savings account. When the lender is calculating interest, the balance in your offset account is taken off the amount owing on your home loan, and interest is only payable on the difference. This reduces the amount of interest payable on your home loan.

PARTIAL OFFSET

Most offset accounts available in Australia offer a 100% offset, however you also have the option to have a partial offset account that is linked to your fixed home loan. A partial offset gives you a reduced interest rate on the part of the home loan that is equal to the balance of your offset account.

The more money you have in your linked offset account, the less interest you pay on your home loan. So by having your wages paid into your offset account, this money will contribute to offsetting your home loan.

If you have an investment home loan, you can also direct your rental income into the offset account. This gives you the benefit of having both your wages and rental income offsetting your home loan.

There are other advantages of having an offset account. Because you don't earn any compound interest on the money sitting in your offset account, the Tax Office does not include the money in your offset account as taxable income. Therefore, this money is tax-free.

Most financial providers will provide you with a linked debit or credit card for access to your money as you would a regular transaction account, making everyday banking simple. However, it's important to note that some lenders may charge an ongoing fee of up to $15 per month for holding an offset account.

STEP 5

mortgage health checks

A mortgage health check is recommended every 2-3 years to compare your current home loan structure and interest rate with available loan products on the market. Future Assist Home Loans can compare your current home loan with over 28 lenders to analyse which products are best suited to your financial needs.

If you have any personal debt, such as personal loans, car loans, credit cards, or leases, and you have enough equity, we can help you to consolidate some or all of your personal debt so you only have the one loan repayment. Consolidation is a good way to reduce your monthly expenses.

How to free yourself from debt

At some stage of our lives, most of us will be faced with debts. No matter how wealthy you are, debt management is a skill you need to review and focus on continually. There's talk about 'good' debt and 'bad' debt, but it's all still debt – and the better we manage it, the less interest we'll pay to banks and lenders. For some it's just a question of being more efficient but for others debt is (or can become) an overwhelming problem.

However, it doesn't have to be this way; there's always a better option that can mean you:

- Pay less money to the banks
- Improve your cash flow
- Have a better chance of being able to do the things you really want to do in life.

Wouldn't you rather be spending money on your family, holidays or future rather than giving it to banks and credit providers?

How to free yourself from debt
continued...

1 SEEK HELP

Your first step always is to seek help. Never feel embarrassed about your situation or that people will think badly of you. Never feel that your case is beyond help or that no one will be interested in your situation. If you need more help, ask someone. A family member, a friend, a bank, a financial adviser can all help you make a difference and pay down your debt more quickly.

I can assure you that everyone has been or will go through a debt crisis at some stage and the person you speak to will be able to relate to your circumstances rather than passing judgement. In 9 out of 10 cases your situation isn't as bad as you think. Once you start the process of sorting it out, you're halfway towards finding a solution.

I meet so many people who say, "I wish I'd done this weeks/months/years ago"

2 ACT NOW

If you have any concerns about your debt position, do something about it now. Even if you're coping well, but feel you could be more efficient, act now. Every day you delay is an extra day you pay more interest than you need to and another day away from achieving the important goals you have in life. I meet so many people who say, "I wish I'd done this weeks/months/years ago". The sooner you act, the more options you have to improve your finances.

Sometimes the answer is as simple as taking a proper look at your debts and being honest with yourself and your partner about your financial position. Don't sweat the small stuff; that is, don't waste time analysing how you got into that position or whose fault it is. What's important is to:

- **Take responsibility for the debt**
- **Understand clearly the level and type of debt**
- **Create a plan to reduce it**

If you can make a simple plan yourself, then great – start it today. Call the bank, change your payments, adjust the budget – whatever it is, start doing it today.

③ MAKE A PLAN

Start by writing down:

- **Your debts (all of them)**
- **Interest rates you're paying**
- **Repayments you're making**

Think about why you're doing this. It may seem obvious but we're much more likely to stick to a plan that will help us get to Disneyland next year or retire at 60 than a plan to pay down our debt. Keep those goals that are important to you at the forefront of your mind.

The plan you create will depend on the type of debt and whether you can action it yourself or need professional help. You can start by seeing if any of the following could help:

MULTIPLE CREDIT CARD DEBTS

Keep paying the minimum payments but focus on making extra repayments to the card with the smallest debt. Soon you'll have eliminated one of your payments. This in turn will help you keep on top of the others, and will provide motivation for you to do the same with the next smallest debt. Once a card is paid off, cut it up and close down the account.

Pay down the card with the higher interest rate first. This alternative strategy ensures that you pay less interest overall by the time all your cards have been paid off.

DEBT ON INVESTMENTS

Not all debt is necessarily bad. Having debt on investments can have tax advantages so if you're faced with the choice of paying of one debt before another, consider paying off the non-tax deductible debt first.

LOANS

Set up a direct debit to make regular payments to the loan. If the money's gone before we see it, often we don't miss it. A direct debit also ensures that all repayments are made on time and you won't incur late payment fees.

Make weekly payments rather than monthly. Instead of waiting until next month to make the next payment, start paying one quarter of the payment this week and every week. It's probably going to be easier to manage the smaller payments – and getting the money into your account sooner can make a big difference to how much interest you pay. Banks calculate interest each day based on the balance owing that day. So the lower the balance is today, the less interest you pay.

PERSONAL LOAN INSTEAD OF CREDIT CARDS

It's very easy to pay down credit cards only to find that, as soon as a large bill comes in, we've used the card and we're at our limit again. With a personal loan, you can't redraw and the balance continues to fall until you've paid it off. You also have the certainty of knowing when it will be paid off.

PERSONAL ASSETS

Do you have any assets you could use to pay down debt? I see many people with $10,000 in the bank and $10,000 of credit card debt. Whist we all like the feeling of having "cash in the bank", if the cash is only earning $200 a year in bank interest, but could be saving you $2,000 a year in credit card interest, you'll feel much better if you pay off your debt. If you're concerned about emergency funds, keep the credit card with a zero balance as the emergency funds. The $1,800 you've saved in interest can also be allowed to build up in your savings account as an emergency buffer.

BALANCE TRANSFERS

Many banks offer attractive balance transfer options where you can transfer your existing debt to their card with an initial period, usually 6-12 months, where you have very low or 0% interest. You need to be wary of any fees and what rate the debt will revert to at the end of the term, but if you transfer $10,000 of credit card debt from a 20% interest rate to a 0% interest rate for a year, that's $2,000 less interest to the bank that you can use to pay down your debt.

YOUR LENDER'S HELP

In some cases your lender may be willing to reduce the interest rate on your card. There's no harm in asking and you'll be surprised at how often this can work. Ultimately they want to keep your business and will do something to help.

REFINANCE AND CONSOLIDATION

We discuss this in more detail elsewhere but let's just say it can have a huge benefit on your cash flow.

MORTGAGE OFFSET ACCOUNT

If you have a mortgage, you can use your offset account to your advantage. Offset accounts don't pay interest but, rather, reduce the amount interest is calculated on by the amount in the account, thus reducing your overall debt.

4 SET A BUDGET

Yes, budgeting sounds boring and tedious and that's because it generally is. However, think about what you're trying to achieve. Is it more important to you to have take-away food twice a week – or to take the kids on holiday next year? Is it more important to you to buy the latest top-brand shoes – or to take that higher education course? No one should ever tell you how to spend your money but if you look at your own spending habits you'll probably find areas where you think, "I'd rather spend that money on getting rid of my debt so that I can afford to do something much more important in the future."

Regular reviews are key

Review what you spend on regular bills such as electricity, insurances, club fees, entertainment and so on. If you shop around, you can nearly always find a lower-cost provider and then direct the savings to paying down debt.

Also, if you have to replace goods such as white goods, cars or electricals, you can usually negotiate a lower price, especially if you can pay cash. Again, it doesn't hurt to ask. Remember that all goods and services in Australia are covered by statutory warranty in Australia. If your dishwasher breaks down just after the one-year warranty expires, then don't accept that you have to pay to have it repaired or to replace it. By law, all goods and services should do what they are reasonably expected to do and you would reasonably expect a dishwasher, for example, to last more than a year. Whilst some companies may try to tell you that you're out of warranty and bad luck, as soon as you mention your rights under statutory warranty they quickly fall into line and pay for repairs or replacement.

5 AVOID PITFALLS

DODGY 'DEBT SOLUTION' SERVICES

There are lots of companies who offer debt solution services and, in particular, suggest bankruptcy or debt agreements. This is short-term gain for long-term pain; a bankruptcy sits on your credit history file and can affect your ability to get finance in the future. Whilst this may not be a concern now, it may have an adverse impact on your ability to achieve some of the bigger goals you have such as owning your own home. These options may be suitable for some, but always look at alternatives first. Remember, bankruptcy can even restrict your ability to travel overseas.

DEBT CONSOLIDATION

Consolidating debts will usually free up cash flow. However, if all you're doing is converting a 3-year debt to a 30-year debt, it's going to cost you a lot more in the long run. Make the effort to apply any cash flow savings to paying down the debt to make sure you have the consolidated amount paid off in less time and pay less interest in both the short term and the long term.

ALTERNATIVES

There are always other options. Don't believe anyone who says, "This is your only option." If you don't understand what they're recommending or can't see how it will help you, then don't do it until you do understand it. That doesn't mean you procrastinate unduly but, at the very least, ask for more clarification or get advice from a third party.

CREDIT SCORING

Banks assess creditworthiness in many ways but a more recent development is credit scoring. They now look closely at how you pay your bills, operate accounts, how often you apply for credit and your general attitude to money. If you have late payments, overdue balances or too many credit enquiries, they may refuse you credit. So always do your best to pay all bills on time, stay within your credit limits and don't make credit enquiries without considering the possible consequences. Even if you don't actually apply for a loan, it can still appear as a credit enquiry.

INTEREST-FREE LOANS

These are very attractive and can make sense. But remember – you still have to pay the money back. Also, the minimum repayments are usually structured so that you don't pay off the loan amount within the interest-free period.

Take the following example:

- You have a $2,000 loan at 0% for 12 months.
- Your minimum repayment is $100 per month.
- At the end of 12 months, you'll still owe $2,000 – (12x$100) = $800. At this point the interest will kick in and could be as high as 25% p.a.

The best way to deal with these loans is to calculate how much you need to pay each month to pay off the debt within the interest-free period. In this example, that would mean paying $2,000 / 12 = $167.67 per month.

SHORT-TERM PAYDAY LOANS

Avoid them! The interest rates and terms are usually very harsh and make reducing your debts harder rather than easier.

USING DEBT TO PAY DEBTS

This is not a good strategy. Trying to rob Peter to pay Paul usually ends with both Peter and Paul not being paid and more stress for you. Better to talk to the lender and arrange a plan with them.

6 STAY MOTIVATED

There is a famous saying: "Discipline starts at the point where motivation ends". While this is true, brute force discipline isn't the only thing you need to get out of debt. If you are living as a couple or in a family unit, you'll need to capture the hearts and minds of those around you to ensure everyone is working towards the same end.

Getting out of debt is a team effort – and like most teams, all members need to share a common goal. There are several things you can do to promote family cooperation. For example:

- Get your partner involved in setting goals and budgeting.
- Share the plan with your children – make sure everyone understands what you are doing and why, by focusing on the benefits. For example, "Mum and Dad are doing a budget because we would like to be able to afford a good school for you, and to go on holidays during the Christmas break".
- Pin the budget on the fridge – make your budget and goals visible.
- Celebrate wins as a team. Every time you pay off a debt or reach a milestone, go to dinner as a family to celebrate.

There is a famous saying:

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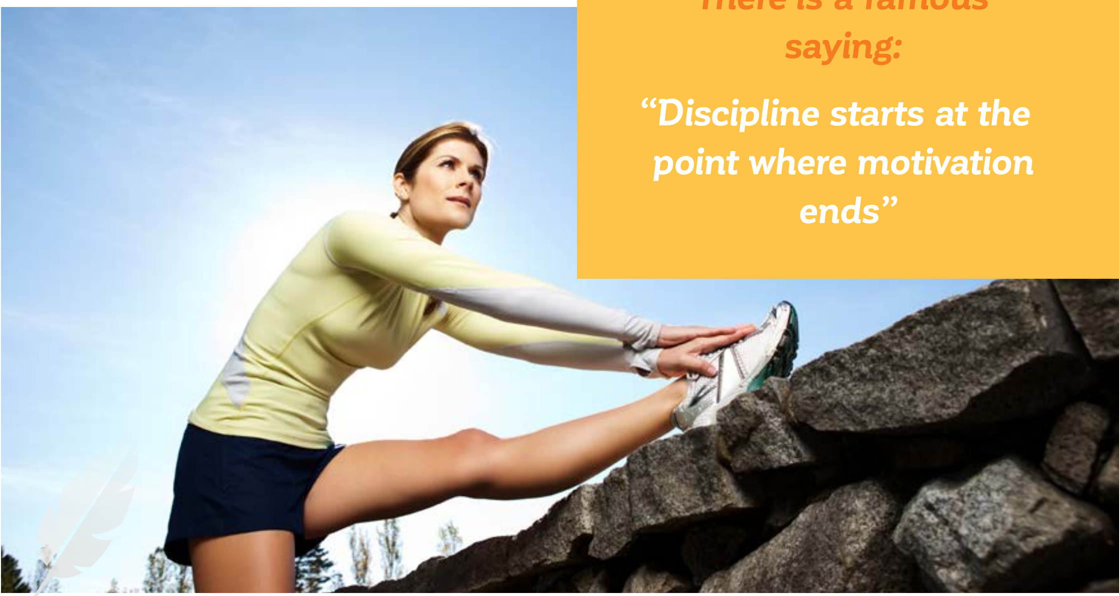

how we can help

Future Assist provides holistic financial planning, budgeting, investment, accounting, debt consolidation and other financial services to customers throughout Australia. We are a privately owned specialist financial planning firm, employing approximately 100 staff and encompassing 7 specialist teams. We are committed to providing 'whole of life' wealth management expertise to motivated Australians.

How are we different from your average financial planner?

Future Assist is independently owned and as such has no institutional shareholders and no investors such as banks or investment groups. This means we are able to offer a wider solution which focuses purely on your strategy rather than a handful of products. We have offices located in all eastern seaboard states in Australia and provide flexible consolations either at one of our offices, at your home or via tele-consult. Our main objective is to educate, explore and provide strategic advice, not sell financial plans as a means of distributing products.

We are motivated to help you find the right strategy for you based on your goals, your needs and your objectives. Your goals are our focus.

All strategies developed for our clients is reviewed by a panel of experts with over 60+ years of collective industry experience between them, some of these panel members are external to future assist and sit on our panel to promote greater balance of advice.

We take into consideration all aspects of your life and develop a plan that will help you achieve your goals. We are help thousands of Australians each year keep on track to reach their financial and retirement goals and provide a better lifestyle for their family.

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