RESOURCE GUIDE

10 Strategies To Pay Your Home Loan Down Sooner

Owning your home outright may seem like a distant dream, but with the right strategies, you can reduce the life of your loan and save thousands on interest. Here are some proven methods to help you get there:

1. **Make Additional Repayments**

By paying a little extra each month or making lump-sum payments when possible (e.g. tax refunds, bonuses), you can significantly reduce your loan's principal faster.

Even if these additional funds are only held in an offset account or redraw for a short amount of time, it will still result in lower interest charges for that period, as interest is calculated daily based on the balance outstanding on your loan.

2. **Use an Offset Account**

An offset account is a savings or transaction account linked to your home loan. The balance in this account offsets the loan principal, reducing the interest charged.

Example:
If you have a $400,000 loan and $20,000 in your offset account, you'll only be charged interest on $380,000. This means that more of your set monthly repayment will be contributed towards reducing the principal outstanding on your home loan.

We recommend having multiple offset accounts to maximise this potential. This means that you can have separate accounts for ease of management and control of funds, with every available dollar still offsetting your home loan. Separate offset accounts commonly include an everyday banking account, an account for funds put aside for kids, a rental income/expenses account, savings accounts, etc.

3. **Switch to Fortnightly or Weekly Repayments**

Instead of making monthly repayments, switching to weekly or fortnightly repayments can help you pay off your mortgage faster. By making smaller, more frequent payments, you effectively reduce the loan balance quicker and pay less interest over time.

Fortnightly repayments for example, are calculated by dividing your monthly repayment by two. While the difference may seem small, the more frequent payments result in an additional month's repayment being made each year (13 rather than 12), along with the loan's principal being paid more frequently, leading to thousands of interest savings. Over time, this strategy can shorten your loan term and reduce the total interest paid, helping you become debt-free sooner.

4. **Review Your Loan Regularly & Refinance for a Better Interest Rate**

Schedule a bi-annual review of your home loan and compare it with current market rates. Circumstances and market conditions change, so it's wise to reassess your loan structure, interest rate, and options for making additional payments. Even a small reduction in interest can lead to significant savings.

Refinancing your loan to a lower rate or a product with better features can reduce your repayments or overall loan term to ensure this is paid off sooner.
Check for exit or break fees and ensure the savings outweigh these costs.

5. **Round Up Your Repayments**

Round up your repayments to the nearest $100 or $1,000. For example, instead of paying $1,450 per month, round it up to $1,500.
This small change can add up over time and help reduce your loan faster, saving years' off your loan term.

6. **Use Your Savings Wisely**

Consider directing your savings towards your mortgage instead of a high-interest savings account. The interest saved on your mortgage is often greater than what you'd earn in a savings account. You also don't have to lose access to these funds – keeping funds in an offset account can ensure they are retained for future use or emergencies.

7. **Consider Salary Packaging**

Salary packaging involves an arrangement where you forgo a portion of your pre-tax salary in exchange for non-cash benefits (such as vehicle costs, health insurance or even mortgage payments).

This can reduce your taxable income, which means you pay less tax and effectively increase your take-home pay. The extra disposable income can then be directed toward making additional or larger payments on your home loan, accelerating repayment and reducing overall interest costs, effectively paying your home loan down sooner.

8. **Strategic Debt Recycling & Negative Gearing Benefits**

Convert non-deductible home loan debt into tax-deductible investment debt. By using the equity in your home to borrow and invest in income-producing property, this can generate tax-deductible interest expenses.

Further tax benefits may also be available via depreciation deductions resulting in negative gearing. These additional tax savings can then be used to pay down the principal on your current home loan.

9. **Interest Only Investment Loans**

For investment properties, consider interest-only loans to minimise outflows while maximising cash available for reducing your primary (non-deductible) home loan. This strategy works well in tandem with high capital growth expectations.

10. **Utilise Surplus Investment Income**

This strategy involves applying rental income or tax savings from investment properties to make additional payments onto your home loan. This surplus can significantly reduce the principal balance, lowering overall interest costs and accelerating loan repayments.

Future capital gains from the sale of the investment properties can then be used to further reduce any remaining home loan balance or contribute towards retirement funds.

It is important to define clear goals for your mortgage repayments. Knowing the "why" behind your extra repayments will keep you motivated.

As your circumstances change, so should your mortgage strategy. We are here to help you reassess and adjust your plan to ensure you stay on track.

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