

12 Steps To Save On Yr Mortgage

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Buying a home is probably going to be the biggest financial purchase you'll ever make, but it doesn't mean there aren't ways to save on your mortgage!

This 12-Step Mortgage Reduction Plan is designed to help anyone with a mortgage or about to take one out.

It's based on two simple facts.

- First: the faster you pay off your mortgage, the more money you will save in the long term.
- Second: the cheaper your mortgage is to start with, the less it will cost you over time.

1. Make the regular repayments as large as possible

You don't need to live in poverty if you have a mortgage. In fact, it's quite likely you'll be able to increase your repayments without undermining your standard of living much at all. This is because most people spend money they don't need to.

Say you're looking to borrow \$150,000 at 6.7 percent. Over 30 years, the monthly repayment will be \$968, and the total interest bill will be \$198,450.

But if you squeeze another \$168 a month out of the family budget and add it to the mortgage repayment, the mortgage will be paid off in 20 years, saving a massive \$75,788 in interest.

2. Make Lump-sum Payments

Inherited a bit of money? Got a work bonus? Has a term deposit fallen due? Put it on the mortgage.

Say you're five years into a 20-year, \$150,000 mortgage at 6.7 percent, repaying monthly, and you inherit \$5000. Put it on the mortgage and you will reduce the term by around a year and save \$8150 in interest.

Repaying money on a mortgage is no different from investing that money at the mortgage interest rate, after tax. There are very few investments that offer a risk-free, after-tax return of 6.7 percent.

3. Pay Fortnightly

Paying fortnightly instead of monthly is a very smart way to reduce mortgage costs.

As we all know, broadly speaking a month is two fortnights. But there aren't 24 fortnights a year; there are 26. Paying half your monthly repayment every fortnight means, in effect, you will make an extra month's repayment each year. You probably won't even notice.

Again, say you're repaying \$150,000 over 20 years at 6.7 percent. The monthly repayment is \$1136 and the total interest bill is \$122,662. If you pay half the monthly repayment each fortnight, the term drops to around 17 years and you save nearly \$21,000 in interest.

4. Keep The Repayments High

When floating interest rates change, the lender usually adjusts your regular repayment to

keep the term of the mortgage the same. If the rate goes down, you pay less on each repayment. But if you maintain your repayment when the rate falls, you'll save.

That \$150,000 mortgage at 6.7 percent will cost \$1136 per month to repay over 20 years. Assume that five years into the term, the interest rate drops to 5.7 percent. In order to still have the mortgage repaid over 20 years, the lender will drop the monthly repayment to \$1066. But if you kept the repayment at \$1136, the term would drop to 18.5 years and you would save \$6515 in interest.

5. Take Advantage Of The Competition

The days when people had to grovel to their bank manager in order to get a mortgage have long gone. Banks and other lenders are now very keen to sign up mortgage customers and they compete fiercely for your business.

You can take advantage of this competition. Keep an eye on rates and, if you find someone offering a significantly better deal, ask your existing lender to match it. If they won't, consider switching.

Some banks offer a service whereby they'll arrange the switch for you, dealing with your existing bank and sorting out the legal issues.

Before you switch, though, you have to consider:

- The cost of a new mortgage. Will you have to pay an establishment fee to the new lender, plus lawyer's and valuer's fees? Negotiate, to see if you can get the establishment fee waived.
- Any penalties you might face for repaying the old mortgage early. Fixed-rate borrowing often has such a penalty.
- Any other advantages with the old loan that you might lose. If your existing lender is your bank, for example, you may be paying no fees on your day-to-day accounts. Can the new lender match this?

Use our handy [refinancing calculator](#) to find out how much you'll save by switching.

You may find that just lining up a better option will force your existing lender to come to the party. Before you switch, give them a last chance!

One cheap way to keep your mortgage competitive is to take advantage of new options offered by your existing lender. They might, for example, advertise a special fixed-rate deal that's better than your current floating rate. Switching to it could involve little or no cost to you.

6. Check Your Statements

We hear from people all the time whose bank has not processed the loan or loan repayments correctly. Check your statements, and make sure you understand what's happening to your mortgage. If you find a problem, complain.

For instance, we know of several cases where interest rates fell and the bank reduced the borrower's repayments, even though the borrower had told them repeatedly to maintain the repayment level. We've also heard of cases where the bank has charged an interest rate higher than the one it should have been charging!

7. Keep The Mortgage Alive

It may seem contradictory to all our advice about getting rid of the mortgage as quickly as you can - but once you've paid it off, don't discharge the mortgage document.

This way, if you want to borrow against the property again from the same lender, you will avoid the cost and inconvenience of getting new legal documents drawn up.

Some people think they must leave a nominal sum on the mortgage to do this (say \$50). That's not necessary, and incurs interest.

8. Beware Flashy Promises

Mortgage-reduction agencies

You might have seen them in your local shopping mall or been cold-called by them at home - companies selling their supposedly brilliant way to save you money on the mortgage. Beware.

They operate by refinancing your existing mortgage using a revolving-credit facility, and charge quite high fees for the privilege. If you want revolving credit, forget the separate agency and go straight to your bank. They'll set it up for a fraction of the cost. For more information, see [Mortgage reduction agencies](#) and [Revolving credit](#).

No-deposit Loans

You should be cautious of deals offered by people who reckon they can lend you money with no deposit. Some of these are legitimate offers, but others are scams. Get your lawyer to check the paperwork before you sign anything.

9. Borrow As Little As Possible

One of the best ways to repay a mortgage fast is not to borrow too much in the first place.

When you're tossing up between the more expensive house and the cheaper one, think about it this way ...

Say you borrow \$200,000 over 20 years at 7.85 percent pa. Over the 20 years, you'll pay around \$200,000 in interest. But if you borrow only \$150,000 over the same period, you'll pay nearly \$50,000 less in interest.

Home Plus Income

If you buy a house with a flat or a spare room, you can rent it out and use the income to increase your mortgage repayments.

Make sure your house and contents insurer knows about this, as it may affect your cover.

10. Shop Around

Check out our [table of latest rates](#) - it contains an up-to-date list of all the major lenders and their mortgage offers.

Banks and other lenders advertise heavily, and sometimes offer extra incentives and special deals, so keep an eye on the newspapers and TV. Non-mainstream lenders and brokers are also worth investigating. See [Where to get a mortgage](#) for more.

11. Negotiate

Once you know what deals are out there, push the lenders to go one better on each other. But remember to do your haggling before you sign up!

There are many things you can negotiate over. Most are commonly accepted - but you will probably have to ask. For example:

- The establishment fee. Try to get it waived or at least reduced.
- Day-to-day banking fees. Ask for them to be waived.

- A made-to-order mortgage. For example, we know of people who have a fixed-rate mortgage and yet can also make whatever lump-sum payments they like.
- Whatever another lender offers. If another lender has shaved a bit off the interest rate, or is offering other kinds of banking concessions, challenge your own bank to match or better the deal. Banks need mortgage business and they shouldn't want to lose you.

12. Consider a mix of fixed and floating interest rates

Fixed interest is usually offered at a lower rate than floating interest, so it can make good sense to take a fixed-rate mortgage.

Of course, the floating rate will almost certainly change, and if it goes down your gamble may not pay off.

Fixed rates are usually offered for anything up to five-year terms. Because of the risks involved, we think you should fix for no longer than a couple of years.

Fixed-rate mortgages have another potential disadvantage - they can be inflexible. If you want to vary the repayment terms or repay early, you'll usually have to pay a penalty. However, increasingly the banks now allow you to make lump-sum payments in some circumstances (such as up to five percent of the outstanding debt each year) without penalty.

The solution widely used these days is to split the mortgage, putting most of it on a fixed rate and some on a floating rate.

For more details, see [Fixed vs floating](#).

This information is supplied by Consumers' Institute.

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