

MINDING YOUR MORTGAGE



The Hills Community Aid and Information Service Inc. is a not for profit, non-government, non-sectarian community organisation based at Baulkham Hills near the local Centrelink office and transport for the convenience and easy access for the local community.

The Hills Community Aid and Information Service Inc. has been providing services in the Baulkham Hills and surrounding local government areas since 1969. Currently The Hills Community Aid and Information Service Inc. provides an information & referral service, an emergency relief program, administers the North West No Interest Loans Scheme, Tax Assistance for low income earners, home visiting and phone contact programs for people who are housebound, an adult education facility – Learning in the Hills, provides training for volunteers, has a community bus for hire and coordinates a range of community development projects.

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ABOUT THE AUTHOR

Darren Murphy began his career as a member of the NSW Police Force.

He specialised as a detective in criminal investigations and worked on many complex and protracted investigations. He spent three years attached to the Fraud Squad investigating financial crime.

At this time, Darren decided to pursue a career in the finance industry where he studied and trained to become an accredited mortgage consultant. Darren now owns and operates a successful Mortgage Planning business in Sydney where he educates and assists his clients in creating wealth by managing their loan portfolios effectively.



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Produced by

Hills Community Aid and Information Service Inc.
390 Windsor Road
Baulkham Hills NSW 2153
02 9639 8620

The Loan Management Centre
Greenway Offices
Horwood Place
Parramatta NSW 2150
02 9687 6288



a project of
MTC Work Solutions
17-21 Macquarie Street
Parramatta NSW 2150
02 8844 8013

5 Steps to Debt Elimination

Example

1	Find extra funds from your budget to apply to your bad debts.	<i>For this example we will make it \$50 per month.</i>
2	Pick the debt with the lowest outstanding balance and apply the extra money to the repayment. You must keep paying the minimum repayments on the other outstanding debts.	<i>The store card of \$3000. This increases the repayment to \$140 (\$90 + extra \$50) per month. By doing this the store card will be paid off in under 3 years, instead of 5 years and 9 months and will save you close to \$2000 in interest.</i>
3	Once paid off ensure the bad debt is removed completely by cancelling your credit or store card or closing your loan account.	<i>Cancel the store card to ensure no additional debt is incurred.</i>
4	Add the entire repayment amount allocated to the debt you have just paid off to your next bad debt with the lowest outstanding balance.	<i>The credit card of \$2323 (this will be the outstanding balance). This increases the repayment to \$290 (\$150 + extra \$140) per month. By doing this both the store card and the credit card will be paid off in less than 3 years and 4 months rather than 5 years and 9 months.</i>
5	Repeat the process until all debts are repaid.	<i>Once the same process is applied to the personal loan all debts will be eliminated in 4 years and 3 months and saved approximately \$2,500 in interest.</i>

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PAYING OFF YOUR HOME LOAN FASTER

For most people your home loan is the biggest, and most expensive financial commitment you will ever take on.

Paying off your home loan faster could save you tens of thousands of dollars in interest repayments!

Here are some great tips on how to pay your home loan off faster.

- ▶ Allocate Additional Funds to your Mortgage Repayments
- ▶ Use an Offset Account
- ▶ Make Fortnightly Repayments
- ▶ Make Additional Lump Sum Repayments
- ▶ Set up Automated Repayments
- ▶ Absorb Interest Rate Cuts



The key to successfully eliminating your ‘bad debts’ in this manner is to ensure that you do not continue to use the credit or store cards throughout the elimination period – to be safe you may even want to go to the extent of cutting up both cards.

There are a few ways to tackle your bad debts; the following example is designed to give you some ‘quick wins’ which are vital for helping you stick to the plan.

Example

The following table shows a typical person’s outstanding bad debts which will be used to demonstrate how to implement a Debt Elimination Plan™.

Bad Debt	Outstanding Balance	Interest Rate	Minimum Monthly Repayment
Store Card	\$3000	29%	\$90
Credit Card	\$5,000	20%	\$150
Personal Loan	\$15,000	14%	\$349

ELIMINATING 'BAD DEBT'

What is 'bad debt'?

Bad debt' refers to debt relating to items that are not 'assets' – that is they do not appreciate in value or produce any income such as clothing and electronics purchased on credit or store cards.

Most credit cards and store cards carry excessive interest rates that range between 10%-30% after the interest free period expires. These cards can greatly reduce your ability to manage your home loan effectively and over time can lead to you using valuable equity in your property to eliminate them.

Debt Elimination Plan™

If you are currently experiencing difficulty in paying off this 'bad debt' then its time to put in place a Debt Elimination Plan™.

A Debt Elimination Plan™ is a great way to eliminate your bad debts in a dedicated and manageable way rather than struggling to maintain minimum repayments on all bad debts indefinitely.

1. Prepare a family budget and allocate additional funds to your mortgage repayments

The first and step in paying your loan off faster is to establish a family budget. This will help you effectively manage your finances and will hopefully give you the opportunity to allocate additional funds towards your home loan.

For tips on preparing a family budget, visit the Government site www.understandingmoney.gov.au



Look for ways to find some additional funds to contribute towards your home loan. You will be surprised at the effect that paying as little as an extra \$50 per month will have. You could save tens of thousands of dollars and drastically reduce the term of your loan.

2. Use an offset account

Offset accounts can be a terrific way to reduce your loan faster but they do require a degree of financial discipline. An offset account is a savings account that is linked to your home loan account where the balance in the account is used to offset what you owe on your mortgage.

One of the great features of an offset account is that the funds are fully available to you for withdrawing if the need arises.

3. Make fortnightly repayments

Another small but effective strategy to pay your home loan off faster is to switch your repayments from monthly to fortnightly. As there are 26 fortnights per annum, this will have the effect of you making 13 monthly repayments in the year. By making more frequent repayments you will pay your home loan off faster.



4. Make additional lump sum repayments

Look for ways throughout the year to make additional lump sum repayments on your loan. For example:

- ▶ Tax Refunds
- ▶ Annual Bonus
- ▶ Monetary Gifts

Another benefit of meeting with a professional mortgage planner early on is that both parties involved will be able to assess their suitability in taking over the family home and mortgage repayments. In the event that neither party are able to service the home loan, it will provide you with ample time to work with the family law specialists and to put the family home on the market for sale.

Seek professional advice from an accredited mortgage planner and family law specialist to give yourself as many options as possible during this difficult period.



SEPARATION

Getting a divorce is a stressful experience and can place enormous emotional and financial pressure on those involved and their family.

What To Do!

- ▶ Seek advice from a professional Mortgage Planner
- ▶ Seek advice from a family law specialist

What Not To Do!

- ▶ Ignore your existing financial commitments

It is not uncommon for the family finances such as the mortgage, credit card and other ongoing bills to be neglected and not repaid during a separation or divorce. Unfortunately, by neglecting these financial commitments it can drastically reduce your options when it comes to settling the property and financial affairs of the marriage and potentially impair your future credit worthiness.

5. Automated payments

Establish automated repayments of your debts such as your home loan, credit card and store cards and allocate money to specific accounts for specific purposes. This will reduce the likelihood of you missing debt payments and ensure you have money when it is needed.

6. Maintain repayments if interest rates drop

Use interest rate decreases to your advantage to pay your home loan off faster. Where possible maintain the same level of repayments as this will accelerate your loan repayments saving you potentially tens of thousands of dollars and several years off your home loan.



MORTGAGE STRESS

What is Mortgage Stress?

With household debt levels at an all time high, more and more families are suffering from what is called Mortgage stress.

Mortgage stress is where a household spends over 40% of their disposable income in repaying debt. This includes a home loan as well as other debts such as credit cards, personal loans and store cards.

Tips to avoiding Mortgage Stress

- ▶ Set up & follow a family budget
- ▶ Pay extra on your home loan from the very beginning
- ▶ Reduce the number of credit cards you have and the credit limits available on each card
- ▶ Set up automatic monthly payments to clear the debt on your credit and store cards
- ▶ Ensure you have adequate Income and Life Protection in place in the event of injury, illness or death.

Do not consider refinancing when:

- ▶ Early exit or break fees are high and outweigh any potential savings
- ▶ You may sell the property in the next 3 to 4 years
- ▶ You have just changed jobs or your income may be unstable
- ▶ You have encountered problems on your credit file due to outstanding debts
- ▶ Your loan balance is low and you don't need to re draw available equity

A Common Mistake

Don't get caught up in a lender's low introductory interest rate offer. What may appear to be a cheap loan in the first year may be offset with interest rate rises in year 2 and ongoing fees and charges.

A good Mortgage Planner will help you navigate such offers and calculate all of the ongoing fees and charges to see if the loan is right for you.



Should you consider refinancing?

Before refinancing your loan you should consider your circumstances for the next three to four years to see if it fits in with your family goals.

Consider refinancing when:

- ▶ Your current interest rate isn't competitive
- ▶ You can switch to a fixed or variable rate at the right time
- ▶ You are struggling to manage multiple credit card and store card debts
- ▶ You require additional funds to pay for significant items such as home renovations, an investment property, a child's education etc.
- ▶ A major change occurs in your financial situation such as a pay rise, lump sum payment etc.

Two key signs of Mortgage Stress

1. Cutting back on regular monthly expenses. Expenses such as private health care, council rates, and electricity and water bills are usually the first to be cut or become overdue when times are tough.
2. Using your credit card to cover general living expenses.

These include groceries, school fees, petrol etc. The issue arises when you are not repaying the balance at the end of each month.

Identify the signs of mortgage stress as early as possible and seek help!

Experiencing Mortgage Stress?

Seek help and talk to your Mortgage Planner!

As soon as you start experiencing any form of mortgage stress you should seek the assistance of a professional mortgage planner. Alternative areas of assistance are your accountant, financial planner or an experienced family friend.



HOW CAN A MORTGAGE PLANNER HELP?

A professional Mortgage Planner can assist by doing the following:

- ▶ Conduct a Home Loan Review to see if you can refinance your existing loan to a cheaper loan.
- ▶ Convert your home loan to interest only repayments for a limited period of time until you get your finances under control.
- ▶ Put in place a Debt Elimination Plan™ to pay off any 'bad debt' as quickly as possible
- ▶ If money is very tight, negotiate on your behalf with your mortgage lender to put a 3 month hold on your repayments
- ▶ In extreme circumstances, refinance and use existing equity in your home to eliminate bad debt so that you have one manageable monthly repayment

Experiencing financial hardship can be a stressful and sometimes embarrassing time however it is vital to seek professional help as early as possible. The earlier you seek assistance, the more options you will give yourself to deal with the hardship and stress.



REFINANCING

Home loans are always changing as lenders launch new products, new features or introduce special deals. It is a good idea to visit your Mortgage Planner every 12 months for a Home Loan Health Check just as you service your car regularly to make sure it runs smoothly.

Get a Home Loan Health Check every 12 months

A professional Mortgage Planner will assess your current loan against what is currently available in the market and outline whether there are savings to be made in refinancing.

Apart from making savings, there are other reasons to consider refinancing your loan including:

- ▶ You are getting married and combining your finances with your new partner
- ▶ You have recently received a significant pay rise
- ▶ You are planning on upgrading your home & moving
- ▶ You are planning some overseas travel.

No matter what the reason, it is very important to consider all of the facts before refinancing your loan. For some people, refinancing can seem a daunting task.

By utilising the services of a Mortgage Planner who has extensive knowledge of the home loan market, you can minimise the risks and costs associated with refinancing and make an informed choice.