Accelerate your home ownership with 5 simple changes

Presented by Bankwest

We all dream of owning our homes outright, but when we sign up for a 20 or 30 year home loan, it can seem like that day will never come.

Louise Tovey, Bankwest's General Manager of Stores and Lending, sat down with us to offer insights into how simple changes in paying your mortgage can help you achieve that zero home loan balance sooner rather than later.

"The good news is that in most cases even small changes to your home loan payment strategy can help you pay off your loan faster and potentially save you thousands of dollars in the process," says Tovey.

"Simple changes don't have to disrupt the flow of your finances," she says. "In many cases you won't even notice you're making them at all."

5 tips to try

These five tips might help you pay off your home loan sooner.

1. Paying weekly or fortnightly instead of monthly

One simple and powerful strategy you can use to shed your home loan faster is to pay half your monthly installment fortnightly. By making fortnightly payments, you're effectively adding the equivalent of one extra monthly payment towards your mortgage every year.

While it doesn't sound like much, Tovey says that extra payment does add up. "For example, with a $350,000 loan at 4.50% per annum for 30 years, fortnightly payments could save you $49,058.94 and reduce your loan term by four and half years. Weekly payments could save you even more."

While it doesn't sound like much extra payments do add up.

2. Increasing your minimum mortgage repayments

Increasing your minimum mortgage payment is another easy way to pay off your loan faster. Even an extra $50 or $100 towards your repayment every month could save you thousands in interest and, in most cases, take years off your loan.

If your loan has a redraw facility, additional payments made above and beyond your minimum mortgage outgoings would be available for you to withdraw if needed.

Even an extra $50 every month can save you thousands.

3. Offsetting your loan

An offset account is a loan feature that could help you save on interest by allowing you to 'offset' the balance owing on your loan with savings you may have.

For example, if you have a $250,000 loan at 4.50% per annum for 30 years and keep a balance of $25,000 in your offset account, you would only pay interest on $225,000. This could save you more than $59,000 in interest and reduce the length of your home loan by almost four years.

Most mortgages have a higher interest rate than what can be earned in a savings account, so Tovey says using an offset account to reduce your loan's interest can be "a great, tax-free option for those who want to maximise the return on their money while paying off their loan faster".

4. Refinancing

If you've been on the same mortgage plan for a while, you may want to consider switching.

"Interest rates have dropped [2.75%] since February 2012^ and 57% of Australians don't even know their home loan rate*, which means you might not have an up-to-date rate and might be paying too much," Tovey says. Most fixed-rate loans don't allow you to make extra payments or pay off your loan early without incurring penalties.

However, if you have an existing variable-rate loan and refinance, you could take advantage of a lower rate, offset accounts, redraw facilities and more flexible loan features. Speak to your mortgage broker or lender to find the best option.

Making regular and one-off lump sum payments is a strategy that could help you cut down your mortgage faster.

5. Making additional lump sum payments

Making regular and one-off lump sum payments is another simple strategy that could help you cut down your mortgage faster.

For example, a one-time $10,000 payment at the beginning of a $300,000, 30-year mortgage at 4.50% per annum could save you over $26,000 in interest over the life of the loan.

By making use of one, or a mixture, of the above strategies, you could shave years off your mortgage, repay your home loan faster and save on interest. As always, be sure to talk to your financial planner to work out the best long-term and short-term strategies for your particular financial and taxation situation.