

Your financial health check on: HOME LOANS

Having **trouble deciding** on the right home loan? Is it about time you gave your current loan an overhaul? If you're asking yourself these questions, then read on....



WHEN IT COMES TO HOME LOANS it's important to find an arrangement that is the right fit for you. Westpac Financial Planning financial adviser, David Simon says the two most common loans available are:

1. **Principal and interest home loan** where you make regular repayments, which covers the interest cost and reduces the principal over the term of the loan. It's the lowest cost loan and interest can be set as variable, fixed for a specified period or a combination of the two.
2. **Interest-only loan** which is the same as the above, except it doesn't require the borrower to reduce the principal of the loan. Repayments are lower than the above arrangement, and do not reduce the balance of the principal. Investment loans are typically interest-only due to them usually being tax deductible.

Alex Kostava from Life Plan Lending Services (www.life-plan.com.au) suggests:

- Make additional repayments when you can. If you have a \$400,000 loan on a six per cent interest rate over a 30 year term, by making an extra repayment of \$100 per month you will pay it off three years faster and save \$55,759 in interest over the life of the loan. Making repayments fortnightly or weekly will also help reduce your mortgage faster.
- Use an offset account (account linked to the loan), as funds deposited in the account reduces the interest you pay. If you have a mortgage of \$200,000 and have saved \$30,000 in your offset account you will only be paying interest on \$170,000 (\$200,000 minus \$30,000) rather than the \$200,000.

The key to saving thousands of dollars is to do your homework. All loans have their advantages and disadvantages and are designed to suit different situations. Request a key fact sheet from your loan provider as it provides all the important information to be considered and allows you to easily compare one loan from another.

- Alex Kostava: Life Plan Lending Services (Credit Representative 431168) is authorised under Australian Credit Licence Number 389328
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NOTE

This article does not constitute financial advice. You should see a qualified financial adviser to discuss your personal situation before embarking on any changes.

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