

## Mortgage Minimisation

### Use this fact sheet if:

- You are being offered a program or strategy to cut years off your home loan;
- You want to plan to pay off your mortgage (or other debts) faster.

### What is “mortgage minimisation” or “debt reduction”?

Also called “interest minimization” or “mortgage acceleration”, these plans or strategies are offered by some mortgage brokers and other businesses, and they claim they can cut years (or thousands of dollars) off your mortgage without you making extra payments – or as some say “without changing your lifestyle”. Generally the claims are misleading, and some businesses charge thousands of dollars for these plans.

Mortgage minimization programs usually involve the combination of a budget plan with refinancing of your home loan (and sometimes refinancing of other debts). Most borrowers would be better off keeping their current home loan and simply increasing their repayments if they want to pay their loan off sooner and save interest.

### How do mortgage minimisation plans work?

Usually these plans involve one or more of the following deceptions – but there may be some others we are unaware of:

1. Suggesting that using a line of credit or an offset account (sometimes called “transactional” loans) can be used in a particular way to cut years off your mortgage, when the savings are actually due to making larger payments on the mortgage;
2. Comparing new monthly payments on a proposed debt consolidation against your current payments without taking into account that your total current debt payments are likely to reduce over time as each debt is repaid;
3. Increasing your mortgage to invest in property or other investments with the expectation that the return on your investment will pay down your mortgage.

1. Using a transactional loan

These plans are based on creating a budget for you (or using an example budget) and setting up a mortgage that allows you to put all your income and spare funds into the mortgage so that you reduce interest on your mortgage. So that you can keep funds in your mortgage even longer, it may be suggested that you pay all your living expenses by credit card and only take funds out of the mortgage when the credit card payment is due.

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The problem is that most of the savings come from making extra payments – not leaving your spending money in your mortgage. Leaving funds in your mortgage can, in theory, save small amounts. For example, if you keep between \$1,000 and \$7,000 aside for living expenses, this amount could save you about \$280 per year if it was in your mortgage. However, it is likely that any fees charged for the service or costs involved in refinancing, or additional fees and interest paid on the new loan, could well exceed the slight savings. Line of credit loans are, on average, more expensive than other loans, and businesses offering these plans have sometimes charged thousands of dollars for arranging the budget and the loan.

Even if you could save a few dollars, there may be easier ways of doing this. Having all your money in the one account can be hard to manage, and even with a budget plan and special software, this can be difficult. The fact that the budget is often unrealistic can cause problems too.

### 2. Debt Consolidation

Sometimes a plan may include refinancing other debts as well as the mortgage. You may be shown that with the new loan you pay the same, or even less, per month than you do on your current loans – and that you'll repay your mortgage or debts sooner. While this claim may be correct in relation to your current payments, the payments on your new loan are unlikely to reduce over the period of the loan, whereas your current debt payments will reduce over time as each debt is repaid. In many cases you will find that a plan to stay with your current loans and simply apply the same monthly amount to all debts until they are all repaid will be a cheaper option than obtaining a consolidation. See “debt snowballing” below, and Fact Sheet #9 for more about debt consolidation.

### 3. Borrowing to Invest

Claiming that you can pay your mortgage off sooner can be a way of selling you an investment loan – and even the investment itself. Borrowing money for investments can be very risky. If you want information about investing, seek advice from a licensed financial planner.

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### Analysing a mortgage minimisation plan

The plan may include other confusing factors that have not been mentioned above, for example the plan may include assumptions about increases in your income over the years. Some will be too confusing to assess, and in general we suggest that you ignore offers of these plans and focus on the tips given below for repaying your mortgage faster. However, the following will help if you want to check out a proposal that is presented to you.

#### *If your home loan is the only debt to be refinanced:*

Identify the monthly amount allocated in the plan to pay the home loan (and any other loan they suggest you take out). Most plans don't specify this payment, but you'll need to calculate it by deducting the estimated expenses from your stated income.

Using this amount as the home loan payment, calculate the time in which your current home loan will be paid if you paid this amount to your current loan. You can do this with many web home loan calculators that help you calculate making additional payments.

Compare the results to the savings offered in the plan.

#### *If the plan includes refinancing (consolidating) other debts as well as the home loan:*

Identify the monthly amount allocated in the plan to pay the new loan (see above). If this is less than your currently monthly payments, you will need to use your current monthly debt payment. The latter won't give you an accurate comparison, but will show you how quickly you can pay your debts off without a consolidation.

Work out a plan to pay off your current debts, allocating any additional funds to one debt, then as that debt is paid out, allocating the additional funds to another debt. The term "debt snowballing" has been used to describe this strategy. You will need to use an excel spreadsheet to see how long it will take to pay debts off this way, or use this "debt snowballing" calculator:

<http://www.whatsthecost.com/snowball.aspx?country=us>

ASIC's multi-loan calculator can also help you decide if a consolidation is the best option:

<http://www.asic.gov.au/fido/fido.nsf/byheadline/Multi-loan+calculator?openDocument>

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### **How can I reduce my mortgage faster?**

If you don't already have a home loan, it is usually best to get the cheapest home loan possible, making sure that you can make additional payments without any penalty. Don't just consider the interest rate, but other fees and charges. The "comparison rate" will give you a better idea of the true cost than the interest rate, as it includes most fees and charges.

Avoid paying a higher interest rate or higher fees for features that you don't use. The cheapest loans usually don't have many features. However, unless you know you will need to redraw funds, or you are sure that you will get significant benefits from extra loan features (such as redraw or offset), the cheapest loan might be your best option – as long as it allows additional repayments.

Increase your regular payments and, where possible, make additional lump sum payments to your mortgage. Use one of the web calculators to find out how quickly you can pay off your home loan by making extra repayments.

Pay off higher interest rate debts first, and when they are repaid, use the excess funds to increase your mortgage payment. (see debt snowball above).

### **Further information and assistance**

#### **Credit Helpline**

Ph: (03) 9602 3800, or 1800 803 800 for country callers.  
Mon – Fri 10am – 4pm

#### **Financial and Consumer Rights Council**

Ph: (03) 9663 2000, or 1800 134 139 for country callers  
To find your local financial counsellor who can give free advice and assistance with credit and debt problems, negotiating with creditors and budgeting.  
[www.vicnet.net.au/~fcrc](http://www.vicnet.net.au/~fcrc)

#### **Consumer Affairs Victoria**

Ph: 1300 55 81 81 Mon – Fri  
Consumer Affairs can help you resolve a dispute with a trader by informing you of your rights or by conciliating with the trader.  
[www.consumer.vic.gov.au](http://www.consumer.vic.gov.au)

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### **Victoria Legal Aid:**

Ph: (03) 9269 0234, or 1800 677 402 for country callers.

Mon – Fri 9am – 5pm.

VLA publishes a useful series of pamphlets on credit & debt issues that it will send to consumers free of charge.

[www.legalaid.vic.gov.au](http://www.legalaid.vic.gov.au)

### **Federation of Community Legal Centres:**

Ph: 9654 2204

To find your local community legal centre.

[www.communitylaw.org.au](http://www.communitylaw.org.au)

### **Insolvency and Trustee Service of Australia**

Ph: 1300 364 785

ITSA is not an advice service but it can send information about bankruptcy and forms.

[www.itsa.gov.au](http://www.itsa.gov.au)

### **Dispute Resolution**

#### **Victorian Civil & Administrative Tribunal (VCAT)**

General ph: 9628 9700,

country callers: 1800 133 055

Credit List ph: 9628 9790

Civil List ph: 9628 9830

[www.vcat.vic.gov.au](http://www.vcat.vic.gov.au)

#### **Federal Privacy Commissioner**

Ph: 1300 363 992 (Privacy Hotline)

To complain about credit reporting or other breaches of privacy.

[www.privacy.gov.au](http://www.privacy.gov.au)

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### **Industry Dispute Resolution Schemes**

#### **Banking, Insurance and Investment Assistance**

Ph: 1300 78 08 08.

A central telephone number to the appropriate scheme, for disputes with:

- banks
- insurance companies (claims disputes)
- credit unions
- finance brokers
- investment advisors

### **Water, gas and electricity disputes**

#### **Energy & Water Ombudsman (Victoria) EWOV**

Tel: 1800 500 509

[www.ewov.com.au](http://www.ewov.com.au)

### **Telecommunication disputes**

#### **Telecommunications Industry Ombudsman (TIO)**

Ph: 1800 062 058

[www.tio.com.au](http://www.tio.com.au)

### **Regulators**

They investigate industry conduct & are unlikely to assist with individual complaints.

#### **Australian Securities & Investment Commission (ASIC)**

Complaints about conduct of financial services, including debt collection of consumer credit.

Ph: 1300 300 630

[www.asic.gov.au](http://www.asic.gov.au)

#### **Australian Competition & Consumer Commission (ACCC)**

Complaints about conduct of businesses including debt collection complaints. (Not complaints about credit or financial services).

Ph: 1300 302 502

[www.accc.gov.au](http://www.accc.gov.au)

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### **Telephone interpreter service:**

Free to callers. Available 24 hours, Ph: 13 14 50.

### **Hearing & Speech Impaired Access:**

National Relay Service  
All free calls (within Australia)  
133 677

### **Speech to Speech Relay**

All local and chargeable calls (within Australia): 1300 555 727

All free calls (within Australia): 1800 555 727

You can obtain more information about the National Relay Service on their website at [www.aceinfo.net.au](http://www.aceinfo.net.au).

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