



# Secret Money Business *for mums*

## LESSON 4 - CASE STUDY

How to reduce your mortgage faster with  
surplus cashflow

## Mortgage Debt strategies

If you are currently spending less than you earn, you could use your surplus cashflow to save on mortgage interest and reduce your debt faster.

### How does this strategy work?

Home loan interest is usually calculated on the daily balance, even though it may be charged against the loan less frequently (e.g. monthly). You can therefore reduce the average daily loan balance and save on interest by:

- (1) Increasing the payment frequency
- (2) Increasing the repayment amount
- (3) Crediting your entire salary either into your home loan or 100% offset account

### Case Study

Jessica & James have a home loan of \$400,000 and are making repayments of \$3,153 per month.

Jessica receives a fortnightly salary of \$2,700 after tax and James earns \$1,800 after tax. Their combined living expenses are \$5,000 per month (excluding loan repayments).

The following table shows the results from three different strategies. These include:

- Increasing the repayment frequency from monthly to fortnightly (by paying \$1,455 each fortnight rather than \$3,153 per month)
- Increasing the repayment amount by \$20 per fortnight to \$1,475
- Crediting their entire salary into a 100% offset account and withdrawing money as required to meet their living expenses. By doing this, their entire surplus cashflow will be used to accelerate the repayment of their debt.

Strategy	Loan Term	Total Interest Payments
Current Scenario	20 years	\$355,988
Change in frequency	19 years & 2 months	\$327,721
Increasing repayments	18 years & 8 months	\$317,021
Salary crediting	9 years & 10 months	\$157,113



By using the salary crediting strategy, Jessica and James could reduce their home loan term by over 5 years and save up to \$198,875 in interest.

Also, by paying off their home quicker, they'll build a considerable amount of equity in the family home each year.

Assuming they then wish to build their wealth further, they could use this equity as security for an investment loan.

Assumptions:

- The home loan interest rate is 7.5% pa
- The home loan term is 20 years.
- Jessica and James earn annual pre-tax salaries of \$94,850 and \$58,550 respectively.
- Salaries and combined living expenses are increased by 3% pa.

To do your own calculations using your own mortgage details - use the calculator [here](#).

