Strategy 5:

Good planning will save you a small fortune on your home loan

As you can see from the preceding four tips, it's possible for you to save a small fortune on your home loan.

The key is to ensure you use the combination of strategies which best suit you and your budget.

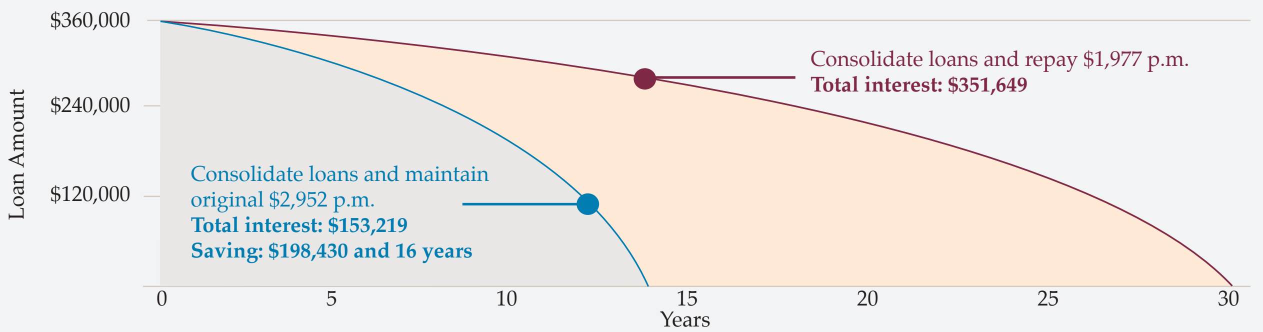
That requires a lot of planning, computer modelling and research. At Australian Unity, we have the experience and resources to advise you on which strategies you should use and when… and also to help you avoid the home loan pitfalls.

In doing so, we will help you to pay off your debt as soon as possible and maximise your interest savings.

Why use Australian Unity? Here are seven reasons:

1. We know the home loan industry back-to-front
2. We help save you money on your home loan repayments
3. We search the market to find the most appropriate loan for you
4. We do all the paperwork & administration for you
5. We can find great loans for almost everyone – whatever your situation
6. We provide expert advice
7. Our service costs you nothing.

Chart 4: You can create large savings by maintaining the higher repayments when consolidating loans



Who is Australian Unity Personal Financial Services?

We specialise in providing professional strategic advice to help you improve your current financial position and ultimately achieve your long term lifestyle goals.

Importantly, our initial advice isn't a 'set and forget' service. Instead we offer you regular financial mentoring and ongoing guidance – in all aspects of your personal finances – to set you, and keep you, on the path to financial wellbeing.

Our team of experienced financial professionals can provide you with a detailed and totally tailored blueprint for financial success in any or all of the following areas:

- Financial advice
- Retirement planning
- Superannuation
- Wealth creation
- Investments
- Home loans
- Commercial loans
- Equipment finance
- Personal estate planning
- Personal risk insurance
- Investment loans
- Car finance
- Business estate planning
- Business risk insurance.

Australian Unity has a proud 170 year heritage of helping Australians create secure financial futures. This pedigree and experience, combined with our corporate strength and leading edge strategic advice capability, means we are uniquely placed to offer you high quality personal financial services… each finely tuned to your particular needs to ensure you achieve your vision of a secure financial future.

After all, your financial wellbeing is at the heart of everything we do.

MoneyInsights®
with Australian Unity Personal Financial Services

Australian Unity Personal Financial Services is committed to providing Australians with a genuine understanding of their investment options. This is achieved via our comprehensive investor education program called Money Insights.

Because knowledge is the first step to creating a secure financial future.

MoneyInsights®

with Australian Unity Personal Financial Services

Fact Sheet

What is the best way to *save money on your home loan?*

There are five proven strategies you can use to pay less interest on your home loan... and pay it off sooner, as we discuss in this Fact Sheet. Please note that these strategies will still be effective even if current interest rates are lower or higher than shown here.

Strategy 1:

Find the cheapest home loan you can – but be sure to take into account both rate and fees

It would be so much easier to decide which home loan you should use if you could easily compare interest rates. And if you could easily compare fees. But it is difficult.

There are all sorts of deals available for all sorts of loans, and it's a big job wading through all of the documentation to find out the real interest rate and to uncover all of the fees.

While one loan may have a cheaper interest rate, it may have higher monthly fees. Another may have penalties if you pay it off early.

Another lender might tempt you with a cheap so-called honeymoon rate, but then charges high rates of interest and high fees after the honeymoon is over.

And then there are other loans which seem to be a little cheaper, until you work out they don't have all of the 'bells & whistles' the other loans offer.

So how do you fight your way through this maze? The best way is to have an expert do it for you.

For example, our Home Loan Consultants spend every day comparing home loans, and using their knowledge, computer modelling and loan comparison expertise to find our clients cheaper loans on a like-with-like basis.

The result is that we are saving our clients a small fortune in fees and interest repayments.

Our Home Loan Consultants are routinely negotiating home loan interest rates which are around 0.7% p.a. cheaper than the banks' standard offers.

A saving of 0.7% p.a. adds up over time, as shown in Table 1 below.

This comparison becomes even more interesting if you can plough that monthly saving back into your home loan. For example, if you have a $500,000 home loan with a 30 year term, you could pay off your loan 5 years sooner and save $168,138 in interest, by finding a 0.7% p.a. cheaper loan and using the $220 monthly savings for extra repayments, as shown in Chart 1.

Chart 1: Save 5 years and $168,138 in interest with a 0.7% p.a. cheaper home loan (and using the $220 monthly savings for extra repayments)

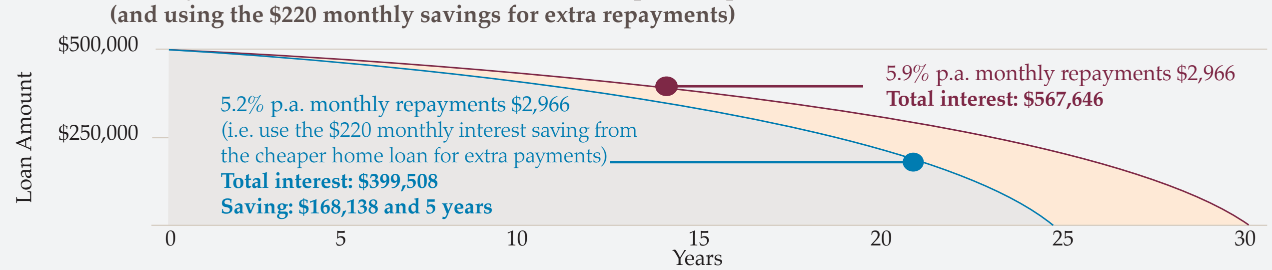


Table 1: A cheaper interest rate can create big savings

Loan amount*	Monthly repayments @ 5.9% p.a.	Monthly repayments @ 5.2% p.a.	Saving per year	Saving over 30 years
$300,000	$1,780	$1,648	$1,584	$47,520
$500,000	$2,966	$2,746	$2,640	$79,200
$1,000,000	$5,932	$5,492	$5,280	$158,400

* Comparison is on a home loan with the same fees and charges

Strategy 2:

Making extra repayments – even small ones – can make a big difference

Paying extra off your home loan – either on a regular basis or with the help of a one-off financial windfall – can save you a small fortune in interest repayments over the long term (especially when combined with finding a cheaper loan).

- **Use surplus income**

Can you afford to pay a little extra off your home loan each month? Even reasonably small amounts can make a big difference because the extra you pay comes straight off the principal – and this will result in ongoing interest savings.

For example, if you have a $400,000 loan over 30 years at 5.2% p.a. interest, your monthly repayments will be $2,197

If you can afford to pay an extra $600 a month, you'll pay the loan off 11 years sooner and save $165,318 in interest, as shown in Chart 2.

- **Take advantage of falls in interest rates**

If interest rates and therefore your required monthly repayments fall, try to maintain the old monthly repayment as a way of making extra repayments.

- **Pay fortnightly rather than monthly**

This is a useful little strategy that works because you effectively pay an extra month's repayment each year.

You simply divide your monthly repayment in two, and pay that amount every fortnight.

And, because there are 26 fortnights in a year, but only 12 months, you end up paying extra off your home loan each year.

For example, if your monthly repayments on a $300,000 loan are $1,648, you'll pay $19,776 a year.

But you'll pay $21,424 a year (i.e. an extra $1,648 if you use the 'pay fortnightly' strategy (i.e. $824 X 26). The interest savings can be significant, as shown in Table 2.

- **Use a one-off windfall to make an extra repayment**

If you are a recipient of a one-off financial windfall (such as a work bonus, lottery win, redundancy payout, or inheritance), it can be a wise strategy to use some or all of that money to repay some of your home loan.

Strategy 3:

An offset account and a credit card can be powerful allies for paying off your home loan sooner

Most home loan providers calculate the interest bill based on your account's outstanding daily balance.

So if you can reduce your daily balance, the interest you will be charged will be reduced.

One way to do that is to use a 100% offset account. This account sits on top of your home loan account, and has direct links to your home loan.

Your home loan provider treats money you have in your offset account as being in your home loan account.

Therefore the daily balance on your home loan account is less, and the interest they charge you is reduced.

But, importantly, you can withdraw your money from the offset account whenever you wish.

Until then, that money is effectively earning an interest rate equivalent to your home loan rate – and this is tax free.

Here are a few ideas on how to use an offset account:

- **Keep your spare cash in your offset account**

Rather than using a cash account which offers an inferior interest rate (compared to the interest rate on your home loan), keep your spare cash in your mortgage offset account to reduce your daily loan balance (and save tax). You can withdraw this spare cash when you need it.

Chart 2: Regular extra repayments can add up to big savings (interest rate 5.2% p.a.)

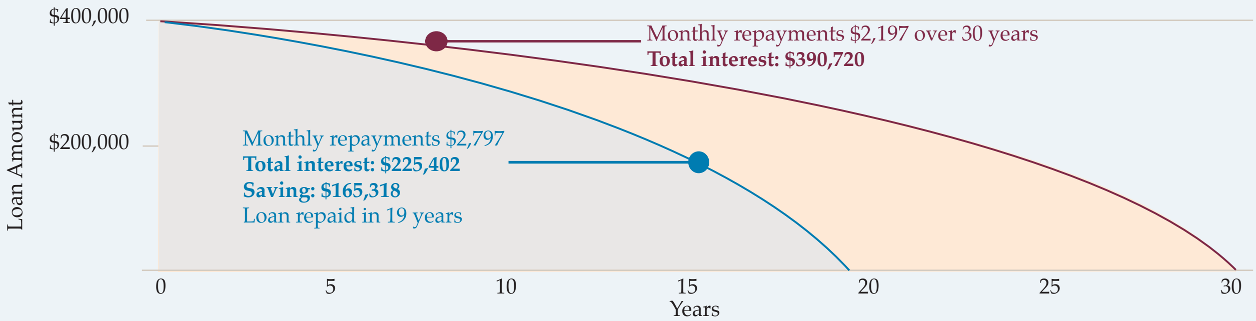
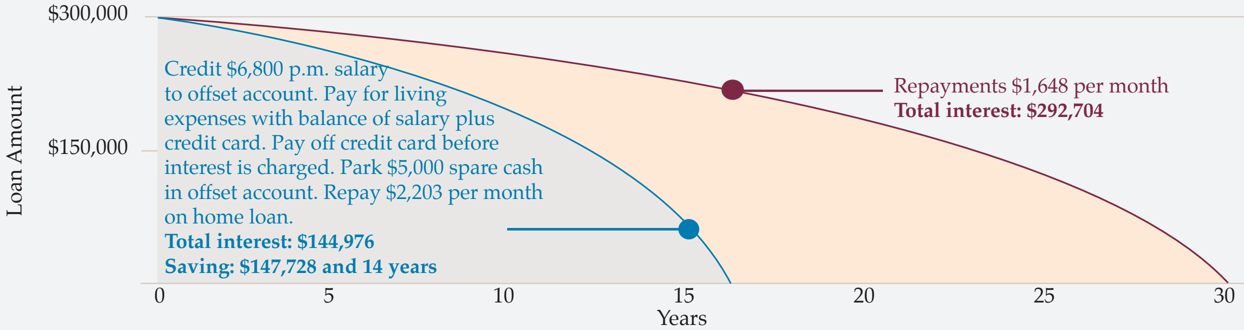


Table 2: The benefit of making repayments fortnightly rather than monthly (Interest rate 5.2% p.a. Term 30 years.)

Loan amount	Monthly repayments	Fortnightly repayments	Extra repayments per year by paying fortnightly	Loan repaid sooner (Years)	Interest saving over term
$300,000	$1,648	$824	$1,648	5	$55,007

Chart 3: Good use of an offset account can create large savings (interest rate 5.2% p.a.)



- **Park any one-off financial windfalls in your offset account before you use them**

If you receive a windfall (like a bonus from work), park it in your offset account (rather than a cash account) until you are ready to use it.

- **Have your salary credited to your offset account**

You may be able to arrange for your salary to be paid to your offset account to reduce your daily balance. You can access this money as you need it to pay for living expenses.

- **Use your credit card to pay for your living expenses**

If you arrange for your salary to be paid to your offset account, you might like to leave all or most of it there for a full month. You can use your credit card to pay for your living expenses. Then, BEFORE interest starts being charged on your credit card, you can pay it off with money in your offset account.

Case study

Let's say David and Jenny have combined salaries of $8,500 per month after tax, and living expenses of $7,945 per month – including repayments on a new $300,000 home loan over 30 years with an interest rate of 5.2% p.a. which Australian Unity found for them (i.e. 0.7% cheaper than the rate some lenders offered them).

Our advice to the couple is to:

- arrange for 80% of their combined after-tax salaries (i.e. $6,800) to be credited to their offset account each month
- use the balance of $1,700 plus a credit card to pay for living expenses
- pay off the credit card at the end of the month before any interest becomes payable
- park their spare cash of $5,000 in the offset account
- use their excess income to pay off an extra $555 per month off their home loan.

The end result is that the couple pay off their home loan 14 years sooner… and save $147,728 in interest, as shown in Chart 3.

Strategy 4:
Consolidating your loans is a good idea… as long as you maintain the higher repayments

Do you have a number of loans with differing terms and interest rate charges? If you do, it might pay to consolidate them all into one loan (usually your mortgage because it usually has the cheapest interest).

Here's an example. Let's say this couple has three loans as follows:

Loan	Amount	Interest & Term	Monthly Repayment
Car Loan	$35,000	13% for 5 years	$797
Credit Card	$25,000	18%	$375
Mortgage	$300,000	5.9% for 30 years	$1,780
Total	**$360,000**		**$2,952**

We would advise and help this person to:

- Find a cheaper home loan
- Borrow the entire $360,000 as a home loan (using equity in their home to borrow against for the extra $60,000)
- Pay off the car loan & credit card.

Their monthly repayments will then be:

Loan	Amount	Interest & Term	Monthly Repayment
Home Loan	$360,000	5.2% for 30 years	$1,977

This is a saving of $975 per month.

How to best use the $975 saving per month

A trap many people fall into is to allow the $975 saving per month to become spending money. As a result, the $60,000 they have borrowed for the car loan and credit card will now be paid off over 30 years and they will pay interest on that of $38,840.

They have turned short term debt into long term debt – and that always ends up being expensive.

The solution is to maintain the repayments of $2,952 a month they had originally.

This strategy ensures they quickly pay off the part of the new loan that relates to the car and credit cards, and then gets them ahead on the rest of the new loan.

If they maintain the extra repayments of $2,952 per month, they will pay off the $360,000 home loan in just 14 years… and save $198,430 in interest repayments, when compared to paying off the loan at the required $1,977 per month, as shown in Chart 4 (next page).