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How to pay off your mortgage in just 7 years

THE struggle is real for homeowners, but one Brisbane author says you can pay off a mortgage in seven years.

THE struggle is real for all homeowners. But even with the increasing cost of soaring childcare and utility costs, one homeowner believes it is possible to pay off your mortgage in just seven years.

Rachel Smith, author of Underspent, saved more than $50,000 in one year by quitting impulse shopping and embarking on a strict saving program.
The 40-year-old also paid off her mortgage in the United Kingdom in seven years by doing four things — earning, learning, yearning and returning.

While Ms Smith was working full time as an engineering consultant, she was also a part-time scuba diving instructor, a casual literacy tutor and a silver service waitress. “If you’re young and you’re determined — even if you’re old and determined — you can do anything,” she said. Then came the earning part.
“I rented out my driveway, my garage, my spare room, scuba diving and camping equipment,” Ms Smith said.

“Even if you only get $10 for a scuba tank. it’s all those little bits of money that add up. “People think; ‘I’m not going to worry because it’s only five bucks, but if you put all that money in a bank account with compound interest, then it grows and grows.

Here’s the really hard part — getting past the yearning.

Ms Smith said she realised when she got her first mortgage that she would need to spend less than she earned. “You can yearn for smashed avocado and takeaway coffee, but I realised you need to take your own packed lunch, tea bags and coffee to work and have breakfast at home,” she said. “You can still have treats, but maybe only once a week or once a fortnight.”

And finally, returning.

Ms Smith stressed that she was not a financial planner, so did not want to be seen as offering advice

“What I did that worked for me was that I put all my money in a high interest savings account and every 12 months, I was making a lump-sum payment to bring my mortgage down,” she said. “People need to go to a bank or financial adviser to get specific advice unique to them.”

While there is not much you can do about that, one thing you can control is your spending habits. Ms Smith said 86 per cent of Australians had no idea how much they spent on a daily, weekly or even monthly basis. “It’s the impulse shopping that’s the killer for people,” she said.“People say it’s really hard to save money, but if you quit impulse shopping, it’s really easy to save money.”

Ms Smith suggests writing down what you want on a three month waiting list. “If you can’t do three months, do seven days,” she said. “Write it down on the waiting list and if next week you still want that dress at Zara then buy it — if you can afford it. “But if you took that money you would have spent and put it in to your savings account, you’d soon find you’ve actually got quite a lot of money.” Ms Smith now lives in Brisbane, where she bought a townhouse two years ago in Clayfield and plans to pay it off in seven years or less

Omniwealth financial planner Steven Korner said it was “absolutely crazy” not have an offset account if you had a home loan. An offset account is a bank account that does not accrue interest. Instead, it offsets the interest paid on a loan as it considers the money in the account has been paid off the loan.

“This still gives you the freedom to use this cash if needed while paying less interest on your home loan,” Mr Korner said. “It is absolutely crazy not to have at least one of these. “Every account I own is an offset account to my loan (I have five accounts). This has saved me thousands a year.

Mr Korner also recommends having a budget, committing to paying extra money off the mortgage each month and decreasing expenses.

Reviewing your home loan rate can also save thousands of dollars a year.

"You should be reviewing your home loan rates once a year — if you aren't then you are missing out on a truck load of savings," Mr Korner said. "You can do this in one of two ways; Speak with a mortgage broker or call your bank directly and politely explain to them that another bank has offered you a much lower rate (make sure you do your research) and ask what they can do to match this rate.
"For example, if your rate is 4.3 per cent and you review your rate and get one that is 3.8 per cent, then on a $1 million mortgage, you would save $5000 a year."
And this piece of advice might scare you.

"Did you know that for every $1 you pay off your mortgage, you need to earn $4 before tax to do so?" Mr Korner said. "This means that if you have a $1 million mortgage, you have to earn $4 million just to pay off the mortgage."

Calculations by comparison site Mozo.com.au show a borrower making an extra monthly repayment of $43 into their mortgage could save up to $9,915 in interest charges over the life of a typical $350,000, 25-year home loan — wiping one year off loan repayments. "For the average Australian a weekly saving of $10 might seem pretty paltry in the grand scheme of things, but our analysis shows that putting this small windfall to good measure can yield sizeable dividends," Mozo director Kirsty Lamont said.

"The same amount of cash you can blow on a burger and shake or two morning coffees every week can also be used towards paying down your debt earlier and saving you thousands of dollars in interest charges along the way."

4 TIPS FOR PAYING OFF A MORTGAGE IN 7 YEARS
1. Earn: Work as much as you can, even if it means 4 part-time jobs.
2. Learn: Do things differently. Rent out your driveway and spare room. A lodgers rent can cover half the mortgage.
3. Yearn: Yearn for smashed avo on toast, then pack your own lunch and have breakfast at home.
4. Return: Find a high interest savings account and put every spare cent in it. Once a year overpay your mortgage with it.

(Source: Rachel Smith, author of Underspent)