Mortgages – Re-finance And Make Them Work For You

The Global Financial Crisis - hardly a day goes by when we aren't reminded of it. Devastating certainly, but oh so convenient, especially for governments. Now they have the chance to sort out the mess by implementing half-baked policies that wouldn't have got through the Senate in a fit under normal circumstances. And if it all goes belly-up, they'll claim to have done their best in a difficult situation which was none of their making.

Of course it sounds familiar – common folk have been offering the same excuses for mis-management of their own affairs all their lives. Granted, there has always been fall-out from on high; but even when the fat-cats are raining heavily on us, there are still options, changes that can be made closer to home that will help shield the impact and make our lifestyle more comfortable. A few were mentioned in our previous issue, Saving on Credit, and I'd like to tackle the big one here – the mortgage.

One of the most important and effective tools we used to turn our finances and our lives around was actually a cliché – a penny saved is a penny earned. Back in the Australia of the eighties, having a fixed income in times when inflation and interest rates were going through the roof seemed a recipe for disaster. The problem was the same for us as it was for everyone in our situation. We had no way of increasing our income, so cost-cutting to reduce expenses seemed the only way to survive.

The biggest drain on resources was the mortgage, followed closely by credit-card re-payments. Same with the car loan. Staying on top of these was made more difficult by the fact that we were paying back to four separate entities at different times of the month which weren't always convenient for the budget and frequently caused a cash-management nightmare.

The first thing we did was approach various banks with a view to re-financing. We were looking for someone take over our mortgage and give us some extra cash to pay out both credit cards and the car loan, plus a surplus for working capital. Admittedly, this would reduce our equity in the house, but the monthly interest re-payment on the new mortgage promised to be considerably less than the old setup. Happily, we found a bank that was eager for our business and offering a good deal on what was, at the time, a novel concept – a re-draw facility. We went for it.

It worked like this:
First we paid off the car and cleared both credit cards – 3 high-interest loans gone!!!
Next, arrangements were made for salary to be paid directly into the mortgage account. Each payment reduced the debt by the same amount as long as it remained there.
At least two pay cheques went into the account each month and we were able to access that money when needed, as if from any other bank account. We just had to ensure there was sufficient left over to make the minimum monthly mortgage re-payment when it became due.

Immediately, we had less to worry about. The bank was taking care of our cash, paying the mortgage from it and, each month, was allowing us to use any or all of what was left over. Whatever we didn't re-draw simply stayed in the account, reducing both what we owed and the interest payable on it. And that sum was carried over to the next month, and so on. The more we left in, the less it cost us.

Obviously, not every bank is the same and there would seem to be variations in accepted practices in different countries. Even those which are in place at any one time may be changed at the bank's discretion, often without notifying their customers. So, it is essential for individuals to make their own enquiries before committing to a new plan, then check occasionally to ensure it is still going the way it was set up. In the banking world, nothing is forever.

The revised loan-repayment system was immediately saving us money but that was behind the scenes because the bank handled the transactions. The benefit would only become apparent when the quarterly statement came in. As for the household budget, it looked pretty much the same as it had before we performed our amazing paper-juggling act and we had no more cash in our pockets, less in fact. Like most people, what we had really hoped for was some tangible evidence that we were better off. We knew, however, that patience was needed and we would have to wait until the whole plan had been implemented.

Using Credit-Cards to Advantage

With the credit cards paid out, it might have seemed advisable to keep them that way or, at least, use them sparingly in favour of the cash alternative. What we actually did was the reverse. Wherever possible, we carded as much as we could, paying cash only for those items we had to. Everything went onto the card accounts that, not so long ago, had been wiped clean.

It was a nervous time because there was the danger of blowing the cards back up to a level beyond our capability to repay them before any interest was incurred. We did have the surplus for working capital sitting in the bank, but it was still unknown whether it would be a big enough safety-net. Success hinged on achieving one central target - the clearing of any and all accounts when they became due and before interest was added on. If we could pull this off, it would mean no more reminders of overdue accounts, no more robbing Peter to pay Paul.

Determined to make it work, we became misers, watching every cent, trying wherever possible to buy cheap, or not at all unless we could justify the purchase as necessary and not mere extravagance. To avoid phoning up for a balance on the cards every five minutes, we kept a tally on what we bought to ensure the total didn't exceed the monthly income. Just as the end of the month neared and it seemed we could pop the celebratory bottle of champagne, the council rates arrived! If we paid them in full it would tip us over budget and, what was worse, eat into our safety-net. But there was an incentive for the skin-flints we had become – a saving for paying in full rather than instalments.

Taking a deep breath, we stuck to our guns and paid the rates - on the credit card, of course. In a few days time, we paid that off as well. A week or so later, we cleared the other one. By then, however, another pay cheque had gone in, so the mortgage account wasn't as diminished we had feared it might be. In another fortnight the next salary cheque almost replenished the safety-net. Although some purchases had already gone onto the credit cards, we knew we would have more money to deposit before payment on them would be due. Needless to say, we were very relieved. The plan, it seemed, was working.

Other hefty bills continued to force a backward step every so often, but they were paid by card before the due date. Some even earned a bonus discount for early settlement. Following a few months of watching the pennies and never deviating from the plan, the surplus in the account had grown to the point where we were confident of covering all of our expenses immediately and with ease. On top of this, the frequent-flyer points were really starting to mount up thanks to the heavier credit-card purchases.

Around this time, we had an interesting visit from an investment consultant claiming he could save us money. After going through our accounts, he was forced to admit he was unable to help – it seemed we were already doing it right, and doing it on our own!

Next issue: The Perfect Investment – making your money work while avoiding scams

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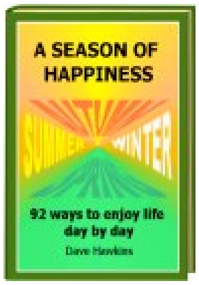

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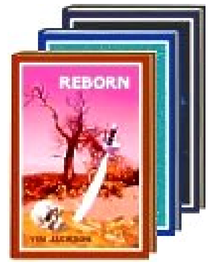

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