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Intelligent Investment

3 WAYS TO PAY OFF Your Home Loan Within 10 years

For many generations the great Australian dream has been to own a home.

We watched our parents and grandparents work hard to pay off the four walls around them. We witnessed the sense of security and pride that comes from owning a home. No longer having to answer to a landlord, and the freedom to hammer nails into the walls.

More than 70% of Aussies under the age of 30 consider property ownership to be their ultimate goal. Not starting a family, or travel, or retirement security. We just want a patch of dirt to call our own, and we're set.

We're so preoccupied with property, that research by HSBC bank showed Australians spend twice as much time researching the property market than going to the gym. An average of 2.5 hours per week is spent looking at home listings, even when someone isn't looking to buy.

Our desire to buy a home dictates almost all major life decisions:

- Choosing a job with the highest income
- Pushing back weddings
- Delaying starting a family
- Selecting a location to live not on preference but on affordability

The time-worn path goes a little something like this: save like mad for a deposit, purchase your first home, spend the prime decades of your life revolving everything around your mortgage repayments.

But what if there was a better way?

Have you ever stopped to think about why we're all so OK with committing to a 25-30 year mortgage? The banks set the terms of the loan and we all just accept it. Resigned that this is the norm.

But just because it's normal, doesn't mean we shouldn't question it. Do you really want to hit your 60s and only then be finally released from mortgage repayments? All you're left with is one asset and no income stream.

If we get smart about it, every Australian homeowner can and should pay off their home loan within 10 years or less. Just consider the financial freedom that would bring.

Let's get into weighing up the pros and cons of the 3 strategies you could use to achieve this dream.

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1. Contribute 70% of Your Income

The average Australian couple contributes 25% of their dual income to mortgage repayments each month. Anything over 30% is considered ‘mortgage stress’, meaning the homeowner is at risk of missing payments.

Boosting payments is not for everyone. But if you’re in a position to increase your repayments then don’t just settle for the bank’s terms. When signing up for a mortgage, the bank outlines what the minimum repayments will be and we usually simply follow that lead.

Sometimes banks even make it tricky to make larger repayments, placing a monthly or annual cap to limit the additional money you can repay.

Banks after all are a business and having you paying interest on the life of a 30 year home loan is to their advantage.

But let’s picture for a moment what it would look like to pursue the strategy of paying off your home loan in 10 years by using your income alone. This strategy is not for the faint-hearted, requiring 70% of your income to hit this benchmark.

Tighten the purse strings

If you’ve saved for a home deposit before you probably remember what it is like to stick to a strict budget and cut out unnecessary expenses.

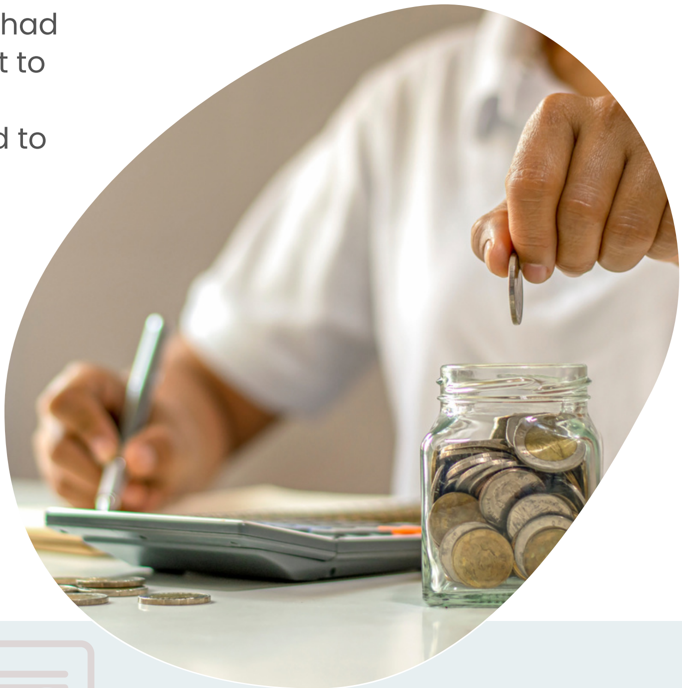
During the savings crunch you kiss goodbye to:

- Expensive holidays
- New cars
- Eating out
- Entertainment
- Leisure activities

It’s challenging but having a clear goal in mind makes knuckling down that little bit easier, many are even willing to move back in with their parents! These sacrifices are worth it when you know it will result in finally entering the property market.

Once home owners have the keys and are settling into their first home, the savings mindset is harder to maintain because the goal has been achieved. New furniture, house upgrades, making up for the skipped holidays. All of these things start to creep into your spending habits.

But what if you could take the attitude you had when saving for your deposit and applied it to paying off your home loan? It would mean making some major sacrifices, so you need to weigh up if that is worth it to you.



The nitty-gritty

In the first 5-8 years of a typical home loan, the majority of the repayment amount is interest. You're making a very slow dent in your overall mortgage at this stage. This is the time where putting in extra payments will help reduce the interest you are paying, and ultimately shorten the life of the loan.

Some ways you could make lump sum payments:

- Tax refunds: Australians get on average $2,800 tax refund each year
- Work bonuses
- Inheritance or gifts

Essentially anything extra is funnelled immediately into your mortgage.

Case study: Are you a saver like J & J?

J & J are a couple with no dependents. Both have solid employment and generate strong incomes. Their goal is to pay off their mortgage fast and have committed a significant portion of their take home pay towards home loan repayments. With a $600,000 home loan they decided to pay double the amount on their home loan repayments in conjunction with any tax returns and other bonuses they receive to this goal. They are well on the way to reaching their goal.

Weighing up the pros and cons

An upside of this strategy is its free from risk. If you're a good saver, with a good income, and ready to make sacrifices then you could achieve this without putting yourself in mortgage stress. Couples on a double income are the most likely to find this strategy possible, while families with children would most likely find it a struggle.

This strategy will be a big stretch for the majority of people. There is a cost to lifestyle which many people aren't willing to make. But if you're looking to pay off your home loan in 10 years using only your income, this is what it will take.

2. Flipping Houses

Buying, renovating and selling houses is a type of property investment strategy that is all about increasing the value of a house and pocketing the profit.

The dozens of TV shows about flipping houses reveals we are fascinated by the concept. Shows like The Block, Selling Houses Australia, or House Rules all take us on a rapid transformation journey, turning run down homes into money making machines.

It just takes a few coats of paint, a montage of sledge hammers and power tools, a truck load of staging furniture, and voilà - house flipped.

Repeat the process. Cha-ching.

But in reality we all know it's not quite that easy. There are a lot of things to consider:

- Finding the right property at the right price
- Financing the renovation costs
- Dealing with contractors
- Possible budget blowouts
- The time and emotional energy involved
- Market fluctuations

Do you have what it takes? Read on to discover if this is the strategy for you.

Quick capital growth

The main advantage of flipping houses is you are speeding up the capital growth process. In the time it takes you to do up a house, you are greatly increasing its value. The average buyer is time poor and willing to pay more for nicely presented homes.

The median Australian home has grown in value by 6.8% per year over the past 25 years. Flipping a house, on the other hand, could see you profit 30% of the sale price of your freshly revamped property. This means that while 'buying and holding' could see you reach 30% capital growth in 4.5 years, you could have flipped up to 4 houses in that same time frame.

Another benefit of speeding up the capital growth process is that you're not as dependent on market growth. If the property market slows, you're still manufacturing equity. Although a slow market does raise concerns around the difficulty of selling a house, which you need to do fast if you're going to move onto another fixer-upper.

If you have some DIY skills and can do a lot of the work yourself, that will be a major way to keep costs down and ensure the project is profitable.

How much money you stand to make

Obviously the aim of flipping a house is to recoup the money you spent on the renovation and more. So it's important you don't overcapitalise.

Avoiding overspending requires a lot of research:

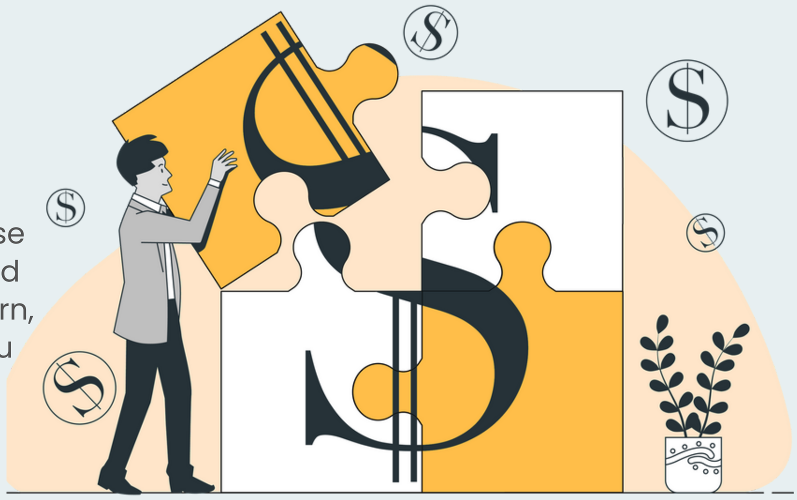
- Will spending X amount on a new roof add value?
- Is removing a bedroom to make another one bigger worth it?
- Does installing a swimming pool make the property more or less appealing?

Some house flippers say that 10% of the property value is the most you should spend on the renovation. For example, if you buy a house for $600,000, the renovation budget should be $60,000.

It's also recommended that properties should only be purchased at a maximum price of 70% what you could make the house worth following renovations. That means the $600,000 house should be sold for $780,000. This leaves you with a big profit, minus the renovation costs.

If your looking to add this value on your Principal Place of Residence (ie. your home) the increase adds directly to your financial position.

Of course it's not quite that simple on investment properties in Australia because of capital gains tax which applies to property investors and house flippers. The profits from your sale need to be included in your income tax return, although discounts are available if you own the asset for 12 months or more.



Case study: Are you good on the tools like DJ?

DJ purchased his first property in 2017. It was run down and in need of plenty of work. In looking to source finance for the purchase, the valuer noted that the property was not liveable and subsequently many lenders would not accept the security. We helped DJ source the finance he needed and still have some cash to do the renovations needed. After completing the renovations, DJ decided to rent that property out as an investment. DJ then released the equity he had created to purchase his second property that has become his Principal Place of Residence.

On moving into his new home, which also needed significant renovations to bring it up to standard, DJ has been working extra hard in getting the works completed. However, not all aspects have gone to plan, with tradies not completing some of the works and disputes and delays eventuating. DJ has recently added to his family having his first child and completing some of the renovations took on a high priority, all while juggling life's other priorities.

Will DJ hold strong to his 10 year plan to renovate and add value to properties to own his home in 10 years? Only time will tell. He is finding out first hand the challenges of adopting this approach, yet every day his skills and abilities are being put to work to grow the profitability of his property.

Pros and cons: 'Safe as houses' or very risky?

The 'flipping houses' strategy would need to be repeated 5-6 times in order to achieve the goal of paying off your home loan in 10 years. The possible profit margins are high, but also filled with risk. The main dangers include, budget blow out, contractor issues, market changes, and interest rate increases.

We can't overlook the personal inconvenience either. If you're renovating your PPR, you will need to be comfortable living in mayhem while the works are in progress. The cost to family life can be high, especially if you are regularly moving and essentially living on construction sites.

This strategy is also very labour-intensive and dependent on your skills. Even if you are handy, there will be a learning curve and it could take you several flips to really get good at it.

Without a doubt, there are some major wins to be had when it comes to flipping houses. The profits for people willing to put in the work are high. But the majority of people will find flipping houses takes too much time and effort, so the pros and cons need to be weighed when deciding if this is the best way for you to pay off your mortgage in 10 years.

3. Put Your Money to Work

If you've owned a home for more than 3 years, there's a good chance you have equity. Home equity is your property's current market value minus your mortgage. This becomes a valuable asset that you can leverage.

Many Australians will happily access their home equity to take a holiday or buy a new car. Home loan interest rates are generally lower than personal loans or car loans, therefore increasing your mortgage for these purposes is widely considered a smart choice.

There is a catch. The moment you drive that new car home, it has already depreciated in value and now your mortgage is bigger and will take even longer to pay off. You'll be paying interest on that car for a long time and now you're even further away from the goal of smashing your home loan in 10 years.

Just because plenty of people do it, doesn't make it a wise decision.

There has got to be a smarter way to use your equity. A way to put it to work to grow your wealth and shorten the life of your loan.

If your aim is to pay off your home loan in 10 years, then the only reason for you to access equity is for putting it to work through investment. Your equity can be invested to grow your wealth and then be channelled back into paying off your home loan faster.

How to get started

The first step you'll need to take is determining your available equity. This can be done by looking at recent comparable house sales to get a feel for the value of your home. It would also be a good idea to get an appraisal done on your property.

Then you'll need to have a conversation with your mortgage broker. There is no guarantee you will be able to access your full equity, as you'll be required to show you can service additional repayments. But in many cases only a small amount of equity put to work is better than it sitting unused.

We must appreciate that lenders will require you to leave some skin in the game and as such will generally allow you to borrow up to 80% of your property value based on you demonstrating your ability to service such a position. Therefore, we generally recommend when you have reached a 70% loan to value ratio is a good time to get started with this strategy.

Putting your equity to work looks a little something like this:

1. Own a home for several years that has increased in value
2. Refinance to free up equity
3. Create an investment plan to put your equity to work
4. Put investment returns towards smashing your mortgage

Case study: Would you like to use equity to buy an investment property like MC?

In 2012, MC purchased an investment property. He had an outstanding balance on his home of $500,000 and figured that if he used his equity to purchase an investment property worth $500,000 and it doubled within 10 years then he could sell it, and own his home outright. Such a simple concept right. There is a general view that all property doubles in 10 years, so selecting a property that could achieve this outcome seemed like no trouble.

MC selected an established townhouse in Brisbane. Now 10 years later the Brisbane market is starting to make some grounds and the value of the property is around $750,000, a great deal short of his expected target. With interest rates reducing over the 10 year period, MC was able to hold the property and have reasonable cashflows. Yet his goal may take a little bit longer.

The upside and downside of retail property investment

There are plenty of options for how to invest your equity. Investing in shares or a managed fund. Buying an investment property and renting it out is a popular choice. In fact, over 2 million Australians are property investors, meaning 20% of households have purchased an investment property.

Most people who are looking to put their equity to work are after safe investments, and the Australian property market has been strong. Buying and holding property can almost guarantee capital growth, in many cases between 10-15 years.

But buying a second house usually means drastically increasing your debt. Many households can crack under the strain of servicing such big loans, particularly if interest rates go up or property prices plummet.

There are a lot of factors outside of your control investing in property: market fluctuations, interest rates, tenant problems, house repairs. So how do you minimise the risk and gain greater control on the outcome?

The better way...

The majority of Australians looking to invest in property haven't even heard of wholesale property investment. This is the strategy of the professional investor, who seeks out property development opportunities to invest in higher quality assets. An option that is usually inaccessible to most everyday investors.

While the capital growth of a retail investment property is dependent on factors out of your control, getting in at the development stage means you are creating value and increasing the returns. A retail property might take 10-15 years to double in value, while wholesale properties can see returns of 80-100% in just 5 years.

At Finnia, we want to see regular investors be empowered to invest in a way that gives them more control over growth.

No more crossing your fingers and hoping your property's value goes up.

That is why we bring together people like you to collectively invest in wholesale property development opportunities. We help determine what the right strategy is and connect you with the right opportunity.

Wholesale development is an established way of making your money work harder to earn more. And when you do it with a wealth creation community like Finnia, you have someone with a lot of experience researching and managing the risk for you.

When weighing up all the different ways you could pay off your home loan in 10 years, such as contributing 70% of your income, flipping houses or buying retail properties, it's important to note that each of those is very dependent on your own skills, time, effort, and luck.

Wholesale investment, on the other hand, allows you to sit back and leverage the knowledge of experts. All while reaping the benefits that are generally reserved for only the wealthiest of investors.

If you would like access to these opportunities, put your money to work, and pay off your home loan in 10 years, book a discovery call

for a complimentary session to assess the best strategy for you.

In 3 simple steps

you could transform your financial future:

1 **Book a Discovery Call**

2 **Design Your Investment Journey**

3 **Pay Off Your Home Loan in 10 Years**

Book a Discovery Call

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