HOLM TRUTHS

Down to earth advice for savers and investors from independent investment commentator Mary Holm

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Mortgage moves

You've probably got the message by now, from Holm Truths and the like: It's a great idea to pay off your mortgage as fast as possible.

Paying off an 8% mortgage, for example, is equivalent to making an investment that pays you a guaranteed return of 8% after fees and taxes. And it's risk-free.

But not everyone is in a position to pay extra off their mortgage. There are other ways you can make the big loans work better for you. Here are some FAQs:

Should I add high-interest debt to my mortgage?

In most cases, yes.

For a start, it makes life easier to put all your debts together, so you have just one payment to deal with.

And adding credit card and hire purchase debts to your mortgage is certainly better than taking up other debt consolidation offers that sometimes charge interest as high as – if not higher than – credit cards and so on.

The big advantage of adding your debts to your mortgage is, of course, that you pay lower interest. **But there are two disadvantages:**

1. You may have to pay early-repayment charges on the other debts. Make sure your interest savings will more than make up for that.

2. Unless you take steps to avoid it, you turn short-term debt into long-term debt. By repaying the money over a longer period, you can end up paying more total interest despite the lower rate.

The trick is to continue to pay off the same amount as you would have paid on the high-interest debt, in addition to your regular mortgage payments.

That way, you will get rid of the debt faster and end up with a genuine interest saving.

While we're at it, try not to take on any more high-interest debt. If you save for items before buying them you will end up much better off. ***(CONTINUED PAGE 2)***

TOO INTERESTING?

Some lenders offer interest-only mortgages. Keep in mind, though, that you will never pay off the principal (the amount borrowed).

And you might be surprised at how little extra you would have to pay each month to make inroads into the loan.

On a $200,000 interest-only mortgage at 8%, you would pay $1,333 a month.

But if you were instead repaying principal and interest over 30 years, you would pay $1,468 a month – just 10% more. And after 30 years you would own the house mortgage-free.