



# How a home loan can work for you

Once you have a home loan, it is worthwhile to improve your understanding of how you can use your home loan responsibly to get the most out of the low-cost borrowing that it offers.

Home loan interest rates are almost without exception the lowest cost form of finance that any consumer can access, this provides an opportunity to use your home loan as a flexible money management tool. Here's how you can achieve this:

- **Further lending:** Is a particularly underused tool which can give you access to the equity available in your home to use for other pressing needs. Equity is the difference between the value of your property and what you owe on the property, and you can use further lending to access this equity through your home loan. This means you can have access to low-cost credit to use for home renovations, education costs, large hospital bills and other important costs, instead of going for a high-cost short-term loan. The different forms of further lending are:
  - Accessing any portion of the total capital amount that you have pre-paid on your home loan.
  - Accessing funds that exceeds the current registered home loan amount but is lower than the value of your home. It must be noted that this type of access funding may require a higher bond amount to be registered at the Deeds office before the funds are paid.
- **Paying extra:** With home loans being structured in such a way that you only pay interest on the outstanding balance, any extra funds paid into your home loan will effectively earn you a return on the interest rate you will ultimately pay. By paying a little extra monthly or periodic lump-sum payments, you can reduce the interest payable as well as the repayment period of your home loan. Here are some smart and easy ways that you can paying extra into your bond without tearing your wallet – remember every little bit helps:
  - Allocating additional income received from your annual salary to increase into your home loan repayments.
  - Put a portion of your bonus received into your home loan account.
  - When interest rates decrease, contact your home loan provider, and ask them to maintain the instalment you were paying prior to interest rate drop.
- **Consolidating your debt:** With the interest rates on home loans being lower than the rates you will pay for vehicle finance, credit cards and store accounts, it makes financial sense to consolidate these debts into your home loan. However, the home loan term is much longer than these other short-term loans, so it is imperative that you maintain the instalment you were making on the other debts, prior to moving the debt across to your home loan in order to pay it off over the same time period. Paying a short-term loan balance off over the full life of the home loan can end up costing you a lot more in interest.
- **Switching your home loan:** Contrary to popular belief, you do not have to stay with the same home loan provider until the home loan is paid off. Your home loan can be switched from one home loan provider to another so that you can get a lower interest rate or to access equity from your home. Switching your home loan to a different home loan provider doesn't have to be a costly or complicated exercise. In fact, a switch can save you money. Even a small reduction of 0.5% in interest rate could save you thousands of Rands over the term of the home loan. However, when switching you do need to keep an eye out for any hidden costs and any possible penalties, so make sure you are comparing apples with apples by using home loan switching calculators.