

THE PERILS OF USING YOUR MORTGAGE AS A CREDIT CARD

Technology now makes it so easy to redraw on your home loan. A new lounge, a car or backyard pool can be purchased “for cash” as simply as getting on the net and transferring funds from one account to another.

Many families are using their home loan as a giant credit card spending big on consumer items at the expense of their retirement net egg. The property boom has meant that people are finding that they have large amounts of equity in their property and are using the increased value as a means of funding additional expenditure on depreciating assets. The result is that the purchase loses value while the debt remains.

The trend in savings is now negative which means that we are spending more than we are earning, and the spending is being funded by the value of our property. The loan that has become popular since the early 1990's, the “revolving line of credit” is responsible for an estimated \$1billion of home equity being drawn each month (ANB Amro). While this seems an easy source of funds, especially if the value of the family home has doubled in recent years, the cost is that additional interest bill that has to be paid.

Commentators are questioning whether Australian families can afford the extra burden they are placing on themselves by extending their home loans. “It appears that some will have to delay their retirement as their current debt is such that they will not be able to repay it during a normal working lifetime.

The line of credit makes it so easy to draw funds for a new car, a wide screen tele or a holiday that, traditionally, people would have paid for from saving their additional cash over a period of time.

Interest rates have been relatively low for a number of years, however, there may be an increase around the corner (whether that is this year or next year) and a small increase in interest rates can significantly effect your repayment position if you have been drawing against your mortgage.

Managing your finances successfully can be difficult when you are being offered any number of “simple” “easy payment” schemes that appear to save you money. Even consolidating your debts into one loan against your mortgage can be dangerous when you consider that you are locking yourself into debt repayments for 15, 20 or 30 years.

Geoffrey has entered into an association with WealthWise financial group to offer a free service to clients where you can discuss your situation and, with the help of WealthWise, set a plan to manage your finances to ensure you don't overcommit yourself and start reducing your debt to a manageable level so that you will be able to retire at the time that you choose and ensure you have enough funds to make that retirement enjoyable and financially secure.