

Reduce your current monthly bond payment

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Most homeowners have a bond on their property that generally forms a significant part of their monthly income and, thus, should receive ongoing attention and determination to reduce the outstanding balance as much as possible. For many people, once they have registered a bond and are told what the monthly repayments are, they never again consider trying to reduce the payment.



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It becomes just another monthly expense. Banks offer different interest rates to different clients, and it is up to you to negotiate the best rate possible from your bank. "All the banks have similar structures and policies regarding your bond and so although one may be tempted to move from one bank to another with the promise of a lower monthly payment; do your homework very carefully before making this important decision. It can and will make a huge difference in the total amount that you save in the long term and one of the best investments you will make," stated Craig Hutchison, CEO of Engel & Völkers southern Africa.

Hutchison continued to caution that bond holders need to understand fully the implications of the move between two banks and be aware that it may in fact cost you more at the end of the day. There are certain penalties and cancellation costs that may be applicable as well as costs in registering the new bond at a different bank, thus establish clearly what these costs would be.

Watch and manage your spending habits

"The banks will not consider granting you a lower interest rate if you have any bad debt record and this will obviously thereby negatively affect you financially. In fact, you may not even be granted a home loan at all. Watch and manage your spending habits and ensure that your credit track record is sound, and always pay your current accounts on time every month," added Sandy Reddy, head of EV Financial Services.

However, your goal should be to try to pay off your bond as soon as possible, as your home is probably your biggest investment. If you can achieve a lower interest rate you will have more funds available to pay off on your bond each month. Do not be tempted to use these extra rands from the lower interest to purchase unnecessary household gadgets or electronic devices. Every rand will make a considerable difference in the full amount you eventually pay back to the bank on your home loan.

Just by increasing your bond repayment with a few hundred rand each month will save substantial interest as you will pay your bond off much more quickly. Due to our economic climate, often paying this additional amount is not possible or bond owners do not fully understand the positive financial implications it will have in the long term. If you are not sure of the true value of this additional payment, you should consult a financial planner who will give you sound advice.

Should you be fortunate enough to experience a windfall of extra cash, whether from inheritance, SARS refund, sale of a car, etc., you should seriously consider transferring this money into your bond. As the banks calculate interest on a home loan based on the daily outstanding balance, you will noticeably benefit in the reduction on your bond with any payment made onto this loan account.

Another option is to transfer your monthly budget into this home loan account and withdraw as you need it, but first check the policies and restrictions of your home loan account's access limitations. Generally, an access bond allows you to access your loan account when needed. Any additional payment will reduce the outstanding balance as interest is calculated on a daily basis. This lower daily outstanding balance will reflect directly into repaying your mortgage loan more quickly than the full term. Look after the pennies and the pounds will look after themselves.

The SA Home Loans website points out a number of important steps that a homeowner can take to ensure that his hard-earned money is being put to good use. Two of these are:

- **Increase your bond repayment:** When you borrow money to purchase a home, you are in effect taking out two loans. The first loan is to repay the capital amount (known as the principal sum) and the second loan is to repay the interest charged over the period of the loan. The majority of the money you repay in the first years of having a home loan goes towards paying back this interest, which will only marginally reduce the principal sum.
- **Use your bond as an interest-bearing savings account:** By depositing your savings into your bond, you are in effect receiving the interest rate that the bank charges you on your loan as positive interest on the money you invest. For example, if you have a bond for R1 million, and you deposit an extra R100,000 into your home loan, you are now no longer being charged interest on R1 million, but rather on R900,000. The money you save in interest over the time that you keep the R100,000 in your home loan is the positive interest you are in effect receiving on the money you've deposited.

When you attain your budgetary savings goals, you will enjoy a sense of achievement and accomplishment. Everyone needs to exercise fiscal discipline continuously.

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