



How to Choose a Home Loan Term

Some people pay off their home loan in record time, while others take 30 years. Which is better?

Deciding on the length of your home loan term is an important decision because it can significantly affect the amount of interest you pay, as well as have implications for equity and cash flow. With a shorter-term loan you'll build equity more quickly, which gives you the

opportunity to generate a larger profit when you sell. With a longer home loan term you will pay significantly more interest over the life of the loan, but on the flipside, there is more flexibility and less financial risk.

For example, a 15 year loan of \$430,000 at 4% interest, will cost you \$142,518 in total interest paid and \$3,181 in monthly repayments. A similar loan over 25 years will nearly double your interest to \$250,909 and drop your monthly repayments to \$2,270.

When making a decision about the loan term, think first about your financial plan and how

much you can afford to spend on mortgage repayments. What level of payment can you sustain into the future? Do you have any other high-cost forms of debt? What emergency savings can you fall back on if required?

An option we sometimes suggest is to choose a loan that allows additional repayments at no fee. This allows you to select a loan with a longer term but if you are disciplined you can pay it off as if you had a shorter term. Give us a call to find out what options are available for your individual situation.



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