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For most New Zealander's, their home will be the biggest asset they buy, and normally it comes with the pleasure of a 25 or 30 year home loan.

In this strategy guide, we look at some of the common tips and pitfalls, combined with some spending psychology!

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1 Buying a home, not a house.

We believe that buying a home is (and should be!) an emotional decision. Of course, there's always financial elements, including how big your deposit is, and how much you can lend. However, it's somewhere you can see yourself, and your family coming home to every day to relax, and create memories.

This, of course, is very different to buying an investment property where it should be all focussed on rental returns, capital gains, and the ability to sell in the future.

Remember, when you're buying, it can be stressful, but you're buying somewhere to create memories, so try and keep it fun!

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2 Revolving (revolting?) credit

A New Zealand staple, use one bank account for all transactions and save on interest costs as the money in the account offsets the daily interest calculation.

Sounds great…..if it wasn't for human behaviour. Yes, we agree, revolving credit can work really well for extremely disciplined people, and is a great way to knock down interest costs. Unfortunately, a lot of people fall into the trap of consistently bouncing back up to the available limit, not actually repaying anything. The banks know this, and quite like it.

If you go down the path of a Revolving Credit loan, make sure it is a reducing limit facility, meaning that each month the total available credit will go down by the minimum monthly repayment. Meaning you're paying back at least something.

3

Hedging your bets

As much as the lowest six month rate is attractive, we believe for most people, splitting the fixed rate periods works well.

The big advantage is that it removes "Rate Shock".

Imagine your $400,000 mortgage was on a one year fixed rate and rates have gone up 1% in the previous 12 months. Your interest costs have gone up by $333/month – quite a bit of money to find each month!

If you had this evenly split over 1, 2, 3 years then the interest costs would have only gone up $111/month. Giving you another year to see what happens to rates, or adjust your lifestyle before the next lot of your mortgage is up for fixed rate renewal.

4

Simple is best

By using Cash Flow strategies, and creating a small bit of extra cash each month that you can repay on to your mortgage each week / fortnight / month the number of years that you will knock off your mortgage is incredible.

Focus on this, not on getting the perfect structure in place (see below). Life changes, and as that changes, the way that you can repay your loan will also change.

5

The perfect structure

Doesn't exist. This will be different for everyone depending on your objectives. For many cash constrained buyers, a fixed rate will be appropriate just to make sure they can continue to make repayments into the future. But, what if they're in a job that may have significant income growth, they don't want to be locked into a five year fixed rate when they may have doubled their income in this time and want to be able to make additional payments.

Or if they know they are going to move in two years, there would be no reason to fix for longer than this date and run the risk of break fees from their bank.

6

Certainty can be best, no regrets

We always hear "we fixed at 5.99%, if we had waiting 12 months, we would have got 4.99%". We usually ask, but what if rates had gone to 6.99%? None of us can see into the future, there is so much that dictates why interest rates go up and down. If you read the media, you'll know that it'll say they're going up, then 3 months later they're going down.

You have to look at the reasons why people take a fixed rate in the first place. It's to provide you cash flow certainty, so you know what your outflows will be over the next 1,2,3 years. If this is the case, then you have to maintain it was the right decision at the time, and don't beat yourself up over the 0.5% decrease in rates.

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