



AVEGNA

April 2009 Newsletter

When does a \$30,000 vehicle cost you \$52,612.17?

Want to buy a car? Want to put it your mortgage or long term loan to lower the repayments? By extending a mortgage or other long term loan to buy a car you can spread the repayments over 20, 25 or even 30 years. So all of a sudden what was a \$600 approx monthly payment (on a normal five year vehicle loan at say 8%) is now a \$175 Approx monthly payment on a twenty five year loan at 5%). Sounds great doesn't it?

Fantastic for cashflow, but not so cheap when you look at the total cost. What do we mean?

If you borrow, on the above assumptions, the same loan amount of \$30,000 then the difference in total interest paid between the two loans (say 5 years and 25 years), even taking into account the increased interest rate you pay on vehicle financing, is \$16,114.67! Yes that's right, that is the difference between the total interest paid between the two loans. What's more, by the time you have paid the 25 year loan off for the vehicle it will probably have long since gone to the scrap yard in the sky!

Another common stumbling point is only repaying loans as required by the contract. Most mortgages require minimum monthly repayments. Even if you can't pay more than the minimum amount you should split your monthly payment into weekly payments. You will save a significant amount in interest charges over the life of the loan. This is not only because you are "beating" the compounding factor of the monthly repayments but you will also make the equivalent of one month's extra payments over each year if you simply divide the required monthly repayment amount by four and pay that amount each week.

In summary:

Monthly repayments for 25 year loan at 5%

Loan	\$300,000.00
Monthly repayments	\$ 1,753.80
Total Interest Paid	\$226,122.17
Total Cash Paid	\$526,122.17
Total Time taken	25 years

Weekly repayments for 25 year loan at 5%

Loan	\$300,000.00
Weekly Repayments	\$ 438.50 (\$1,753.80 ÷ 4)
Total Interest Paid	\$189,323.47
Total Cash paid	\$489,323.47
Total Time Taken	21 Years & 6 Months

Total interest saved **\$36,798.70** or 16.27% on the original interest cost. And the loan is paid off three and half years earlier!



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Some basic loan fundamentals to save money on loans:

- Match the term of the loan with the expected life of the asset being purchased
- Repay as often as you can. Don't just pay monthly pay weekly you'll save yourself even more as most loans calculate the interest charge on a daily basis.
- Shop around, the best rate may not be the one being advertised by the big banks
- Beware of ongoing fees. They affect the balance owing and thus can cost a lot more than the nominal sum due to the interest factor!

Avegna assists dynamic, fast growing business with financial and commercial management services. For a no obligation free initial consultation on how we can assist your business, please contact us.

Scott Lyall
CEO - Avegna

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