



CHALLINOR

Home Loan Financing

Financing your 4WD on your home loan. Why it's not such a good idea

Are you one of the many Aussies that focus shop solely on interest rates? Hopefully, this article will convince you to look beyond that sole interest rate figure that is drilled into us by the media. There is no doubt that people sitting around a BBQ or dinner will discuss interest rates on their home loan. One says 'well I'm getting x' and the other says 'I'm getting y' and all the long while 'y' might be cheaper, there are excessive monthly fees that make 'x' cheaper. (This is where you should ask what their comparative rate is if you really want to get the the grass roots of what their bank is charging them).

Anyway, back to the task at hand. Financing your 4WD on your home loan – Don't do it. And here's why...

Banks love having home loans and will encourage you to put everything you wish for on your home loan. Why? Because they make more interest from you for their shareholders. The reason is simple. Your home loan goes for a maximum of 30 years. Car loans typically go for around five years – ie, the longer you owe the bank money, the more interest you pay.

Let's look at an example, a new Range Rover SE Sport. Depending upon where you go, you could be charged \$110K. If you were to finance this on your home loan, with a current interest rate at 6.5%, your monthly payments would be \$695.27 per month. Over 360 payments (30 years), you

will repay \$250,298.94. That's \$140,298.94 in interest.

Now, on a 4WD loan for \$110,000.00 over five years at 7.85%, your monthly payments would be \$2222.52 per month. Over 60 payments (five years) you would repay \$133,350.01. That's \$22,350.91 in interest. Which option would you prefer?

I'm not going to elaborate on the above. The figures speak for themselves. Sure, the home loan payments appear attractive, but you really aren't getting ahead. (ie, increasing your net worth). If you can't afford the vehicle without financing it on your home loan, you really have to ask yourself 'should I really be getting this vehicle?'

For those of us that like to turn over a vehicle every three to four years, should you choose the home loan method of financing, you may not know it but when 10 years go by, you're onto your fourth vehicle and you still haven't paid off the first.

If you've got a financial planner on



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the case, he/she definitely won't like you using your property equity to purchase a depreciating item.

The essence of this is: use the correct finance product for the asset you wish to purchase.

Dave Challinor

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With over 20 years of banking and finance experience, Dave has been exposed to and witnessed every possible change in the financial environment. From bank policy shifts to continually increasing governmental legislation, there is really no form of lending that Dave has dealt with. Being the owner of Fortified Finance & Leasing in Brisbane's North, Dave stays abreast of any changes in lending requirements that affects any consumer.