How to pay off your mortgage early and save thousands in interest – money experts share their tips

Clearing your balance quicker can save you thousands of euro, but what's the best strategy?

A few tweaks can shave years off your mortgage repayment term. Photo: Getty

Niamh Hennessy

A mortgage can feel like a never-ending loan, with many facing decades of payments.

However, there could be some tricks to paying off a mortgage faster and saving thousands of euro in the process. We asked five money experts for advice.

Your questions answered: 'Can I exclude my holiday home from Fair Deal by giving it to my daughter?'
Michael Houghton: 'When you have a mortgage on a buy-to-let property, as we do, positive cash flow is rare'
Eoin McGee answers: 'My 20-year-old son has €20k in savings. Should I encourage him to start a workplace pension ahead of auto-enrolment?'

'Regular overpayments can take years off your mortgage'

Nobody likes overpaying for anything but if it means thousands of euro in long-term savings, it might just be worth it.

Making regular overpayments on your mortgage can take years off it and reduce the interest you pay, according to Shane Tobin, CEO of financial advisory firm True Wealth.

However, this may not be possible for everyone as – depending on the lender – many fixed-rate deals may cap or charge for extra payments, while others are more flexible.

First-time buyers may rush to take out a policy with their bank at the last minute — usually at a higher cost. Photo: Getty

"You must weigh up overpaying your mortgage and what that financially, mentally and emotionally will do for you in your life against other items such as investing or saving or pension payments, which may have higher returns over the same period and on paper may seem like the right thing to do but they may not satisfy your personality profile."

Mr Tobin says that balancing other financial commitments can make overpayments feel out of reach, which is why he suggests drafting a simple plan.

"Map what's coming in, what's going out and what you can comfortably set aside each month and then decide where it should go based on the data and your own preferences."

'Review every two years and see if you can switch'

The first step to paying off your mortgage early is to review your home loan every two to three years and ensure you are currently paying the lowest rate, according to Joey Sheahan, head of credit at MyMortgages.ie and author of The Mortgage Coach.

After the review you may find the best option could be to switch to a different lender to get a better deal, meaning you can pay off the mortgage faster.

"Simply ring your bank, confirm your current rate and ask if there's a breakage fee and what other rates are available to you. Then make a call to a mortgage broker and ask them to compare your lender's offer against those of other lenders in the market and that step alone could potentially put you on the road to saving thousands of euro over the lifetime of the mortgage."

'Got a bonus at work? Then make a lump-sum payment'

Making a lump-sum payment on your mortgage if you received a bonus at work or some inheritance can be a good way of paying it off faster.

This is according to Emma Archer of Switcher.ie, who says a lump-sum payment would immediately reduce the balance and the length of the loan, so you pay less interest.

"What to bear in mind is that if you are on a fixed-rate mortgage, there are often limits on how much you can overpay. Many lenders allow you to overpay a percentage of the outstanding balance, for instance 10pc per year or a fixed amount without penalty.

"Always check your mortgage agreement or contact your lender to clarify their rules so you don't get stung by an early repayment charge."

If a financial situation allows for higher monthly payments you could consider changing your mortgage to a shorter term, such as from 25 years to 15 years.

Watch out for early repayment charges. Photo: Getty

"This will significantly reduce the total interest you pay over the mortgage's term and lower the total cost of the loan. A shorter loan might also come with a better interest rate.

"Paying off your mortgage faster is all about short-term pain for long-term gain but before you start the ball rolling, make sure your finances are in good shape.

"Before overpaying your mortgage, it's a good idea to clear any debts you may have, such as credit card balances or personal loans, as the interest on these is likely to be much higher than the rate you're paying on your mortgage."

'Go for a shorter-term loan'

When taking out your first mortgage or even when trading up or moving home, it can often be tempting to opt for the longest possible mortgage term because by doing so your monthly mortgage repayments are usually more affordable.

However, according to Trevor Grant, chairperson of Irish Mortgage Advisors, if you can afford to, opting for a shorter-term mortgage with a cushion of a few years at the outset can save you significant money over the life of your loan, as you ultimately pay less interest on your mortgage in the long run.

For example, if you're a first-time buyer getting a mortgage of €450,000 with a variable interest rate of 4.15pc, the cost of your mortgage interest would add up to €337,487 over 30 years, assuming the interest rate remains the same on your mortgage. However, if you were to repay the same mortgage over 25 years instead, the cost of your mortgage interest would add up to €273,808.

"So while the monthly mortgage repayments on a short-term mortgage will be higher than a long-term mortgage, if you can afford the higher repayments, it would certainly be financially worthwhile and of course, there's the added advantage of clearing your mortgage earlier."

He also advises against topping up your mortgage in middle age or near retirement.

"While there can be myriad reasons to top up your mortgage – such as to fund home renovations or to support a child buying their first home – make sure to think long and hard about doing this, consider all options and make sure it fits your overall financial plan.

"As well as increasing your mortgage bills, this could see you having to work longer than planned unless you have a plan to ensure you do not need to."

Be careful about topping up your mortgage in middle age or near retirement. Photo: Getty

'Get the best rate you can'

Securing the best rate you can get could save you thousands in the long run, according to Mark Coan of moneysherpa.ie.

"To be able to afford a house in the current market, many home buyers have to stretch themselves to the limit, maximising their mortgage repayments and term. This often means handing over thousands in interest to lenders, for example €300,000 borrowed over 30 years on a Bank of Ireland, three-year fixed at 4.2pc could cost you a whopping €228,000 in interest repayments alone.

"If you're able to pay down your mortgage faster, though, less interest builds up and you end up with much more money in your pocket long term. Reducing exactly the same mortgage to 25 years would save you over €43,000 in interest. The snag, though, is you would have to pay €150 more each month to pay off your mortgage five years faster.

"There is potentially a way to have your cake and eat it. If you switch your mortgage to a cheaper rate you can choose to keep your repayments the same but reduce your mortgage term due to the lower rate."

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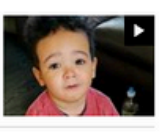

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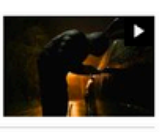

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