Make your money work for you while you're abroad

Feature by Cathy Adams Last updated: **Jun 1st, 2011**

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Moneywise helps a reader organise her finances ahead of a temporary move to Australia.

Christine Oakman, 57, lives on her own in Wallington, Surrey. Since being made redundant in April, she has worked as a freelance construction project manager. Before losing her job, she took home around £1,700 each month, but this has dropped off now she isn't earning a regular income.

She owns her own flat, which is worth around £165,000. She pays £619.41 a month into an interest-only fixed-rate mortgage with Northern Rock, with the rate set at 5.79%, running until November 2011. The outstanding balance is currently £134,000.

Christine has £980 in a Santander (formerly Abbey), instant-access account, which currently earns a minimal rate of interest, plus £4,700 in a Cahoot instant-access savings account, paying 0.55% ***AER***.

She also has savings in Australia of around $50,000 (roughly £31,000) in a six-month fixed-rate bank account, but the interest rate deal is due to expire this January.

She doesn't have a private pension and is therefore relying on state help to finance her retirement.

While Christine is originally from Australia, she has lived in the UK for the past 35 years. She plans to move back to Australia to be with her elderly mother and wants to rent out her property for a few years, as well as clearing more of the mortgage.

"I'm unsure which way to proceed now I'm self-employed. I don't know whether to remortgage now, pay an early repayment charge or wait until the term expires," Christine says.

Expert opinion

Christine's priority is to reduce the balance on her mortgage, says Peter Chadborn, independent financial adviser at Plan Money in Colchester, Essex.

As she's moving to Australia for two years, her prime concern is to repay a lump sum into her mortgage to reduce the capital balance. Although she thinks she won't be away for any longer, her return date is not set in stone, so it's important to keep things flexible too.

Her mortgage is a fixed-rate product and, under normal circumstances, at the end of the mortgage's fixed term (November 2011) the rate would revert back to the lender's standard variable rate.

However, Christine's mortgage provider, Northern Rock, has indicated that it will maintain her current fixed-rate mortgage deal until she returns and that it is happy for Christine to rent out her flat during this time.

Chadborn suggests that Christine stays with her existing mortgage provider and uses the rental income to cover her mortgage costs. "It would be prudent to assume that she'll only earn 10 out of every 12 months in rental income, to allow for non-rental periods and maintenance," he says.

As it's an ***interest-only mortgage***, the payments Christine makes each month only go towards paying off the interest, and make no dent in the original capital.

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Reduce the debt

To reduce the debt now, Christine could convert to an interest and capital ***repayment mortgage***. "The mortgage payments should be at a sensible margin below the rental income, to allow for interest rate rises - say, £8,500 a year (£708 a month)," says Chadborn. He calculates that, based on a 5.79% interest rate, this would take 12 years to clear the mortgage.

Christine has access to a loan from some of her friends in Australia of up to $100,000 (around £61,000), which she won't have to pay interest on. Chadborn recommends she uses this as a lump sum payment to clear some capital on the mortgage.

"Although her debt position will not have changed, the debt that is secured on her property will be considerably reduced, which in turn reduces risk," he adds.

Chadborn also points out that the interest-free loan will mean that, pound for pound, her overall cost of financing the debt is much less.

Northern Rock has confirmed that, as it's a fully ***flexible mortgage***, lump sum repayments can be made without incurring an early repayment charge, providing the mortgage still retains a balance of more than £1.

This $100,000 (£61,000) will reduce Christine's mortgage from £134,000 to around £73,000, and will give her peace of mind while she's with her mother in Australia. She can either gradually reduce the loan with disposable income or make an allowance for capital repayment in her will.

To transfer large amounts of money cheaply, Christine should use a currency exchange service such as Moneygram. She should also check sendmoneyhome.org, a comparison website that lists the best ways to transfer money safely.

Christine currently has no savings for retirement. She can check what her state pension forecast is through direct.gov.uk or by calling 0845 3000 168, but Chadborn suggests deferring her entitlements for as long as possible. "Deferment will mean either a greater state pension or a lump sum plus interest in lieu of the years she has deferred," he says.

If she starts working in Australia she should consider taking out a company pension scheme as well, as she will benefit from her employer's contributions.

She should also start saving immediately into a cash ***ISA***, as this will offer tax-free returns. Under UK ISA rules, a UK citizen cannot continue to contribute to an ISA while living abroad.

So while she is still in the UK, Christine should invest the maximum of £5,100 of her savings into a Halifax two-year fixed-rate cash ISA, paying 2.85%. When she returns to the UK after two years down under, she can reassess her options.

Christine should also have extra capital each month from her rental income to invest and should therefore find a savings account to put this disposable income into.

Chadborn suggests that she moves the total balance of her current savings to the Barnsley ***Building Society***'s Online Saver, paying a decent 2.5% in interest. It's a good option as she can make unlimited deposits and withdrawals with no loss of interest, and there's no introductory bonus rate.

This means that while Christine is in Australia she will have the reassurance that the interest rate won't drop after a year. Plus, as the account can be managed online, she can easily transfer the monthly rental payments into it.

Meanwhile, she could be better off saving in Australia - savings accounts there pay much higher interest rates than UK banks. As she's only staying in Australia for two years she could consider a two-year fixed-rate account which pays around 6% a year.

How Christine can prepare to move abroad:

- Use a $100,000 loan from her Australian friends to pay a lump sum into her mortgage, reducing her capital balance to around £73,000.
- Rent out her flat while she is away and use the rental income to pay her mortgage.
- Switch to a repayment mortgage to start reducing the debt.
- Transfer £5,100 from her savings into a Halifax two-year fixed-rate cash ISA and keep it open until she returns to the UK.
- Open a Barnsley Building Society Online Saver and contribute any extra money she may have.

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