

# Compelling Reasons To Fix Your Home Loan



According to one of the country's leading lenders, previously only about 15% of Australians fixed their home loan interest rate, however in recent months as many as 50% or so of people are now fixing their mortgages<sup>1</sup>.

So why such a significant shift towards fixing a proportion of home loans?

There are a few considerations.

Historically, home owners who locked in their loan interest rate were looking for certainty and they wanted a set and forget strategy. For example, a first home buyer may lock in their interest rate as they had stretched their financial position and wanted to protect themselves against an increase in repayments and allow a period to get on top of their finances.

## **So why the change now?**

When fixing your loan there is always the potential that sometime in the future you would either win or lose financially. If variable interest rates increased, your fixed interest loan would provide a benefit offering protection against increased repayments, however if variable interest rates fell you would obviously miss out on the potential savings.

However, given official interest rates are now at a historical low of 0.1% with little room for the RBA to reduce rates further, we're tipping many borrowers feel that interest rates are unlikely to fall further and therefore they're unlikely to miss out on any potential interest savings.

The other financial consideration is the relationship between variable and fixed interest rates. Up until 2016, variable interest rates and average fixed interest rates were relatively similar, except for a window in the late 2000s when fixed interest rates were above variable interest rates. This trend has however been broken in recent years. Since the middle of 2019, the average fixed interest rate has fallen at a proportionally faster rate than variable interest rates.

**As a result, fixed interest rates on average are now lower than variable rates.** This gap is now at its largest with fixed interest rates being 151 bps lower than variable rates<sup>2</sup>.

This means borrowers are likely to be making lower repayments in a fixed interest loan than a variable rate loan.



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While there are several compelling reasons to fix your interest rate for a period of time, there are also a number of other considerations.

Further considerations are explained in our **'Is A Fixed Rate Home Loan Right For You?'** Contact us for a copy.

**When fixing an interest rate, you are generally unable to:**

- use an offset account against the loan balance, meaning any windfall gains that you may come into will not be able to be applied to your mortgage to further reduce interest costs
- use a redraw facility should you urgently require access to additional funds, and
- switch loan products or repay the loan without penalty, therefore reducing your flexibility.

Many borrowers overcome some of these drawbacks by creating split loans, part in a fixed interest loan providing certainty and accessing current low fixed interest rates and part in a variable interest loan to still be able to utilise the features mentioned above.

If fixing at least a proportion of your loan is something that suits your financial circumstances, you will need to consider the timing.

Why? Fixed interest rates are now starting to increase. Since the beginning of March 2021, 24 lenders have increased their four and five year fixed interest rates, with all four major lenders increasing these interest rates by 30 bps<sup>3</sup>.

If you're looking to take advantage of the current fixed interest rate advantage offered by fixed interest rates, contact the office today and we can assist you in identifying a loan suitable for your needs.

<sup>1</sup> <https://www.abc.net.au/news/2021-04-14/fixed-interest-rates-are-at-record-lows/>

<sup>2</sup> ABS Lending Indicators March 2021 <https://www.abs.gov.au/statistics/economy/finance/lending-indicators/latest-release>

<sup>3</sup> <https://www.ratecity.com.au/home-loans/mortgage-news/australia-lowest-four-year-fixed-rate-gone-westpac-hikes-rates>

Contact us for a copy of  
**'Is A Fixed Rate Home  
Loan Right For You?'**





# Is A Fixed Rate Home Loan Right For You?

## Pros and cons of fixed rate home loans

Choosing a fixed interest rate home loan does offer comfort and certainty over your loan repayments. But fixing your rate generally comes at the cost of less features and flexibility.

Here is what you need to know about the pros and cons before you fix your home loan.

### PROS

- Certainty that your repayments won't change over the fixed term period.
- If interest rates rise, you won't have to pay more until your fixed term expires.
- If you fix your interest rate when rates are low, you could end up saving yourself money should interest rates rise.
- Makes budgeting easier as you know exactly how much your repayments will be.
- Fewer loan features could cost you less.
- You can choose the term to suit you — from one to five years.

### CONS

- Fewer home loan features. Fixed interest rates don't usually come with features such as offset accounts or redraw.
- Fixed rate home loans usually attract a cap on extra repayments. This may limit your ability to repay the loan quicker.
- The fixed term will end at expiration and your loan will revert to the standard variable rate. This may go up or down during your fixed loan term.
- It can be difficult and costly (penalty and break fees) to change your loan should you wish to refinance or sell your property during the fixed term period.

Of course, you could have the best of both worlds and split your loan. You could have the security of a fixed rate home loan plus the flexibility of a variable rate.

Your finance specialist can help identify the most suitable loan and features to suit your circumstances and needs.