To fix or not to fix? That is a really BIG question!

With historically low interest rates a current topic of conversation, many clients are asking the question: Do we fix our loan or is it better to have a variable rate?

Which loan is right for me?

Well, that all depends on your circumstances. Variable and fixed loans have their advantages and disadvantages so it's imperative to consider these before making a decision. Split loans combine features of both variable and fixed loans allowing you to broaden your options.

VARIABLE LOANS

Advantages

- When the Reserve Bank lowers the cash rate lending institutions may pass these savings on to you in lower interest rates. But not always.
- You can make additional repayments without incurring a penalty then have the option to redraw the additional funds at a later date.
- Provides more flexibility than other types of loans.

Disadvantages

- When the Reserve Bank or lending institutions increase rates, the interest rate on your loan will also increase - meaning you will pay more interest.

FIXED LOANS

Advantages

- If interest rates increase during the fixed period, your loan interest rate and repayments will not rise. Loans can typically be fixed for periods between 1 to 5 years.
- Budgeting is easier by offering the predictability of a set repayment each month and giving you security over your financial situation.

Disadvantages

- When interest rates go down, the rate on your loan will remain the same so you won't have the benefit of potential savings.
- Some fixed loans may limit the flexibility of being able to make extra repayments to repay your loan early. It's also possible you may not be able to redraw the extra repayments during the fixed rate period.
- If you choose to exit or switch your loan, before the end of its term there may be early termination fees.

Features to consider

It is important not to judge a home loan solely on interest rates. Be aware of other fees including up front fees and ongoing monthly fees. We can help you review the costs and benefits of extra features such as an offset account or redraw facility which may save you money.

Other loan features to pay attention to include lenders waiving fees and charges for other accounts held with them (such as monthly transaction account keeping fees). Make sure extra repayments are not penalised. Some loans, such as fixed loans and some no-frills variable loans, may limit the amount by which you can reduce your loan.

How easy is it to switch to another home loan?

Many people end up paying more than they need by staying in an incorrect loan because they think it is 'too hard' to investigate switching to another option. We research alternative products available and if changing products is the right solution for your situation. We help make the process as smooth as possible.

As of 1 July 2011, federal banking reforms came into effect banning exit fees including deferred establishment fees. This ban applies to home loans entered into after 1 July 2011, however many lenders have also extended the removal fees to existing loans. We can advise you on any exit charges for your individual loan. Standard costs such as stamp duty and registration will also apply (although in some states you may be exempt from paying stamp duty).

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