FIXED RATE

Pros and Cons

When choosing the structure of a home loan, the topic of variable or fixed rates is one which is very important. Clients will ask us, should we fix? Or should we keep the loan variable?

The answer is... it depends! There are many factors that influence the answer to this question. Here we are going to discuss the pros and cons of using a fixed rate over a variable rate:

STABILITY

Pro: For the duration of the fixed rate period, you can be certain of the repayments. This can be good for general budgeting needs or if you found a repayment level that is comfortable for your lifestyle.

Con: Have some spare cash that you want to add to your loan payments? Some fixed rate products have limits on how much you can pay on top of the repayments. If you get salary bonuses for example, you may find the extra repayment limit inconvenient.

RATES

Pro: You may take advantage of the cheapest and most competitive fixed rates that have been available in years.

Con: During the fixed period, a variable rate may reduce to below the rate that your loan was fixed in. You could pick a fixed rate and watch as other rates fall around you!

FUTURE PLANS

Pro: The best thing about fixed rates is that you have certainty of repayments which allows you to manage your budget for the future.

Con: During the fixed rate period which usually ranges from 1- 5 years, making alterations to the loan can be costly. For example, if the property is sold and the loan needs to be paid out, the exit fees could be quite large.

Other Things To Consider

Aside from the pros and cons, it's important to consider the loan purpose (e.g. property owner-occupied or investment), your future plans, and the features of a fixed rate product, and how it may affect your decision. We'll also explain how you can get "the best of both worlds" with a "Blend".

PURPOSE

Is the property owner occupied or an investment? If it is an investment and you're building a portfolio, there may be a future need to change lenders to take advantage of a new valuation or for policy/affordability reasons. A fixed rate would restrict you from doing so without a potential break cost. Also, if selling the property is part of your short term plans, then maybe a fixed rate isn't for you.

FEATURES

With some lenders, the features available for a fixed rate product are limited compared to a variable option. For example, most lenders do not have an offset account with their fixed rates, whilst a small number of lenders allow an offset account without fully offsetting the loan. There are only a handful of lenders who do allow a 100% offset account on a fixed rate loan, although their rates tend to not always be the most competitive.

BLEND

There is an option to use a blend of variable and fixed rates for your loan. For example, you could choose a 50/50 split of fixed and variable. This way the fixed portion provides stability and other features mentioned above, but the variable portion allows for extra repayments, and the use of an offset account. It also means you are not as impacted should rates increase or decrease. By choosing a 50:50 option, this would generally be away of "hedging your bets".

If you want to lock in as much as possible whilst keeping part of the loan variable to take advantage of the features, then you may consider keeping a portion of the loan variable that coincides with how much you may be able to pay off or offset your loan over the fixed period. E.g., Let's say you have a $500k loan that you want to fix for 3years, although you think you can pay off $10k per year, you may want to choose $30k of the loan to be variable.

Have Other Questions?

1800-3-PEASY

customerservice@peasy.com.au

4-174 Pacific Highway North Sydney, NSW, Australia 2060.

This document is to be used as a guide only and does not constitute advice. Hefty penalties can be incurred if you choose a fixed rate and repay more than the allowable amount during the fixed term so careful consideration should be taken before proceeding.