To fix or not to fix?

A fixed rate loan enables you to lock in an interest rate for a pre-determined period of time—usually between 1 and 5 years. Therefore, during that timeframe, your loan payments will not be affected by variable rate changes.

The question of whether a fixed rate is right for you depends on the weigh-up of a few factors:

How clear is your crystal ball?

Certainty...

Most people that elect to fix their loan do so because they would like to know what their repayment is going to be for the next few years. This may be for the following reasons...

- Concern that variable rates will rise in that timeframe and not wanting to constantly worry about the repayments changing.
- Budgeting. If you are expecting a life change (e.g. starting a family) or anticipating financial hurdles in that timeframe, it may help to know for certain what your loan repayments will be. This may also apply in the case where the loan is against an investment property, where making your loan payments a fixed cost will assist in managing your cashflow and giving you greater certainty of your investment return.

Flexibility…

Fixed rate loans are generally quite limited in how much flexibility they allow...

- If you change, pay out or refinance your loan while it is still within its fixed period, you may be charged ‘break’ fees over and above the lender’s ordinary loan payout fees.
- An offset account is usually not available with a fixed rate loan.
- The ability to make extra repayments to the loan is often limited on a fixed rate, along with the ability to redraw those extra repayments.

Therefore, if you are likely to require more flexibility from your loan, a fixed rate is unlikely to suit you. That said, it is always an option to split your loan into fixed and variable portions, allowing you to access greater flexibility from your variable rate portion.

Saving money...

Another reason to fix in an interest rate is if you believe that the fixed rate will cost you less in interest than a variable rate would during the fixed rate timeframe. This is naturally an educated guessing game and can be dangerous particularly if things don’t turn out as expected. However, making a decision to fix based on educated predictions about future variable rate changes is a legitimate strategy so long as the risks are understood.

Fees...

There are certain situations in which a fixed rate loan will incur more fees than a variable rate loan might...

- Some fixed rate loans attract higher application fees.
- Professional Package discounts are less on fixed rates than on variable rate
- Most lenders do not actually fix in your rate until settlement of the loan. To lock your rate in from the moment you apply, lenders will often charge an additional voluntary ’rate lock fee’ which is usually about 0.15% of your loan amount

Please contact us for more information... we’ll be happy to assist!

beyond home loans pty ltd | ABN 30 109 907 628 t 07 3720 9273 info@beyondhomeloans.com.au
1/95 Alderley Ave Alderley QLD 4051 | PO Box 391 Stones Corner QLD 4120 f 07 3056 3025 www.beyondhomeloans.com.au
Beyond Home Loans is an Authorised Corporate Credit Representatives of BLSSA Pty Ltd
(Australian Credit Licence Number: 391237), Authorised Credit Representative Number: 396888.