

Home loans - to fix or not to fix?

It wasn't that long ago when interest rates were skyrocketing that most mortgagees were wondering when was the "right time" to fix their interest rate. With so many unknowns facing the economy, it's now the other way around – with interest rates diving, when will be the "right time" to fix?

Australians now understand more than ever how the Reserve Bank of Australia uses interest rates to manage the economy. So for any mortgage holder the question of fixing your mortgage interest rate is always a very important one.

Regardless of whether rates are going up or down, before you act, carefully consider both sides - the advantages and disadvantages.

The obvious advantage is that when you fix, repayments will not increase with rising interest rates so you know in advance what your repayments will be for a fixed period, and you can usually choose one to five years. This can be helpful if funds are tight.

But what are the disadvantages? Clearly the biggest is what is happening now - borrowers having to repay at the interest rate they fixed at as they watch the variable rate drop to the lowest levels in 40 years. In addition, the fixed rate is generally higher than the standard variable rate and sometimes set-up fees are charged. Alternatively, if you do take the fixed option and then break the loan before the set period has expired, you will be hit with penalties.

Focus on the average

Many borrowers will automatically think it's best to pay a bit extra and tie in to a fixed rate than gamble with potential rate increases. But you should never just compare the fixed rate to the variable rate... it's the average of the variable rates over the coming three years that is your best indicator.

Unfortunately, nobody will know what the variable rates will be over any lengthy timeframe, but to give an indication based on past results, there have only been three periods since 1990 when fixing for longer than two years has been a positive move. This occurred in 1993/94, in 1998 and in the second half of 2001 (following September 11). Who knows if 2009 will be another of those occasions? Nobody.

So if you're thinking of changing to a fixed rate, think carefully, do the sums and talk to your financial adviser about your personal situation. Life is about choices and nobody should make this decision for you. The only suggestion we make is to keep paying your mortgage off regularly and making additional payments when you can afford to.

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Important Information

The information and any advice do not take into account your personal objectives, financial situation or needs and so you should consider its appropriateness having regard to these factors before acting on it.
