Interest Rates

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What are interest rates?

Interest rates are the price we pay as consumers to borrow money.

Borrowing money comes in all forms such as mortgages, personal loans, and credit cards just to name a few of them. Generally, when you borrow money from a lender you pay back the amount you have borrowed plus a certain percentage of the loan amount which is known as interest.

The total amount you pay back in interest can vary, depending on the length of your loan and whether interest rates are fixed or subject to change which are known as variable interest rates. A fixed interest rate does not change whereas a variable interest rate is tied to a benchmark interest rate called an index which is regulated by the Reserve Bank of Australia (RBA).

When interest rates are high it is more expensive to borrow money, when interest rates are low it is less expensive to borrow money. It is important you understand how the interest rate will affect the total amount you will owe when deciding to get a loan.

Interest rates in Australia now

As you've probably seen on the news the cash rate in Australia has just raised to 0.35% from 0.10%. So, what does this mean for you as the consumer? It means that your monthly mortgage repayment increases will be relatively modest under the new rate rise of 0.35%. But the RBA governor, Philip Lowe, has warned borrowers should brace themselves for further hikes to bring inflation back into the target band. Under the new rate, the monthly payment on a $600,000 home loan would rise to $2,324, an increase of $74, Finder said. For someone with a $1m loan, repayments would rise by $130 a month.

If the cash rate rises to 2% by may next year as predicted by Westpac, the repayments on a $500 000 home loan will increase by about $511 per month. It is predicted that nationally a 1% increase would cost you $323 extra a month in mortgage repayments, jumping to $668 if the cash rate increased to 2%.

As of the 04 May 2022 the current average interest rates are as follows for a $400,000 loan Owner Occupied Principal and Interest LVR >80%.

Variable rate: 3.02% p.a.
Big 4 variable rate: 3.44% p.a.

1-year fixed rate: 3.09% p.a.
2-year fixed rate: 3.65% p.a.
3-year fixed rate: 4.11% p.a.
4-year fixed rate: 4.52% p.a.
5-year fixed rate: 4.68% p.a.

Source: https://mozo.com.au/home-loans/interest-rates- 05may2022 borro

Fixed vs Variable rates

Fixed rate
A fixed rate home loan allows you to have to same repayment for the period of the fixed term, this could help you with sticking to a budget and give you peace of mind knowing the repayment is the same for that period.

Generally, you choose the period you would like to fix the interest rate for. A fixed interest rate can be fixed for 1-10 years depending on the lender you choose, but once the fixed period is over your home loan will roll over to a variable rate.

While it is convenient and can save you money fixing your interest rate, fixed rates also have their disadvantages. Most fixed rates have less futures such as you may not be able to access redraw during the fixed period, if you exit the fixed period early you might have to pay break costs.

Variable rate
A variable rate home loan is a loan that offers a lot more features and flexibility than a fixed rate loan. Variable rate loans allow you to access redraw on extra payments you might have made extra repayments so you can pay your home loan off sooner, and offset accounts so that you reduce the amount of interest you pay.

Although a variable rate loan has these great features, they also have their disadvantages. With a variable rate loan your interest rate is subject to change at any time, meaning the interest rate can go up and down. Before choosing a variable rate loan you should consider if you can afford higher loan repayment if the interest rate goes up.

Split home loan
If you can't decide between a fixed rate or a variable rate, then you have the option to split you home loan. This mean that you can have a fixed rate on 50% of your loan and have the other 50% variable giving you the best of both worlds having the features of a variable rate loan and the security of a fixed rate loan. You can choose what loan splits you would like to have.

Securing the best rate

With variable rates predicted to increase, now is time to review your home loan and interest rate. Whilst we cannot stop interest rates increasing, you can make sure you have the most competitive interest rate available to you. Even if you received the best interest rate available at the time you applied for finance, this does not mean you are still on the most competitive interest rate available now. Lenders often have better deals available for new customers, and can offer cash back incentives of up to $4000 to refinance to them. You may also now have more equity in your home than originally, so there may be more competitive options available.

Our team of brokers at Borro can help review your loan and see if there is a more competitive interest rate out there. We compare options across a panel of over 30 lenders to help you get a competitive rate and to give you information and interest rates to compare and choose between a fixed loan and a variable loan.

Reach out to the team at Borro today to book in your free home loan review.

Fixed Interest Rates

This is general information regarding fixed rate home loans, specific information will be outlined by the bank of your choice in the loan contract.

Is a fixed interest rate right for you on your home loan? There are important considerations if you are looking to fix your interest rate.

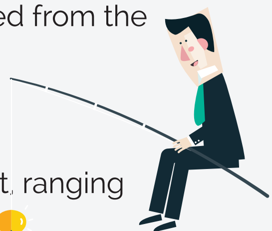
- You may not obtain the full benefit of rate decreases and will still have some exposure to the risk of rate increases
- You will generally not be able to change the ratio of the fixed and variable portions and you will be required to make separate repayments for each portion
- You may have limited or no flexibility in relation to the fixed rate portion concerning making additional repayments, redraws and offset account during the fixed rate period
- There are possibly expensive break costs in relation to the fixed rate portion if during the fixed rate period, you:
    - Repay loan in full;
    - Switch to another product or loan type;
    - Make additional repayments;
    - Sell the property; or
    - Seek further funds.
- Your fixed rate may change between the time of approval and at the time of drawdown if you have not obtained a "Rate Lock" guarantee with your lender

What is Rate Lock?

When you take out a fixed loan, the rate is not guaranteed until your loan settles/is drawn down.

For example, you select a bank's 2-year fixed rate at 2.89%. You sign the loan contracts stating 2 years fixed 'currently at 2.89%'. You are booked in for settlement on Friday. Thursday, the bank can make a decision to increase fixed rates across the whole bank (they don't single individuals out), and effective immediately the fixed rate is now 2.99%. On the next day when your loan settles, it will settle at 2.99%, not the 2.89% you signed up for. They do not guarantee the Fixed Rate until the day of settlement.

Lenders do offer a 'Rate Lock' or 'Guaranteed Rate' feature that you can purchase, which locks in the fixed rate at the time of signing the loan contracts, and protects you from any rate increases between signing the loan contracts and settlement. In the above example, if you had chosen rate lock, then you would have still settled your home loan at 1.89% for 2 years fixed, as you would have been protected from the rate increase.



How can you lock in a guaranteed fixed rate?

Unfortunately, "Rate Lock" does incur a fee from the lender. Usually there is a minimum cost, ranging from $500 - $950 depending on the bank OR 0.15% of the loan amount, whatever is higher.

If you haven't selected rate lock, and would like to discuss this further, please contact your broker today to find out what this would cost for you, and how you can apply it to your home loan application.

Contact Us: 1300 1 borro loans@borro.com.au borro.com.au