

## Variable vs. fixed interest rates

### A variable or fixed interest rate?

It is a question every new home buyer must ask themselves at some point in the process.

On the surface, the decision whether to fix your interest rate could appear to simply be a case of guessing whether you expect interest rates to increase or decrease over the next few years.

But there are a lot of other important considerations to take into account when deciding whether to fix. For example, you can fix your loan at what appears to be a good rate, but end up paying more over the long run due to the inability to make extra repayments.

Below are a few things to consider when making this decision.

### Variable rate

#### Flexibility to make extra repayments

A variable rate may be more suitable when you:

- intend to make additional repayments on the loan (often this is not possible with a fixed rate loan or you are limited in the amount you can repay)
- may wish to close the loan prior to the end of a fixed term (break costs may apply to fixed rates)
- can obtain a discount on the variable rate (often lenders are more willing to discount variable rates)
- believe that interest rates will decrease over the coming years below the rates available for fixed terms

### Fixed rate

#### Stability and certainty

A fixed rate may be more suitable when you:

- believe that interest rates may increase over the next few years
- prefer certainty and peace of mind around knowing exactly what your repayments will be
- have no desire to make additional repayments during the fixed rate term
- will not be closing the loan during the fixed rate term. Of course, often there is no necessity to fix the entire home loan, or to leave the entire loan on a variable rate. For many people, splitting the loan can make a lot of sense

### Splitting the loan

Splitting the loan consists of fixing part of it and leaving part of it variable. This means you continue to have the flexibility of a variable rate to make extra repayments, but also have limited your risk to increasing interest rates by fixing part of the loan.

### Need help?

There is no single right or wrong answer, it is all about what you are comfortable with, given your specific circumstances and plans, and then find the right lender and product to meet your needs.

This sheet provides general information only and is correct as at the document date (28/11/2018). Please refer to your Mortgage Adviser for full details.

