Fact sheet

Variable vs. fixed interest rates

Whenever you take out a new loan, you will need to decide whether you want a variable, fixed or split interest loan. There are a number of important factors to consider – here is an overview of the pros and cons of each choice.

Variable rate

Your interest rate, and your repayments, can rise and fall with market changes and lender decisions.

Typically, you have:

- The flexibility to make additional repayments at no cost, which can save you in interest and helps you pay off your loan sooner.
- Extra features such as unlimited redraws and an offset account.
- The risk that interest rates will increase making it more difficult to afford repayments.
- Greater power to negotiate your rate.
- The ability to switch loans easily and cheaply if you find a better deal later on.

Fixed rate

Your interest rate is fixed for a term of 1, 2, 3, 5 or 10 years so repayments stay the same for this period.

Typically, you have:

- Peace of mind that your repayments will not increase regardless of market changes.
- Fewer loan features e.g. typically there's a limit on extra repayments and no redraw.
- The inability to make significant additional payments (you may be allowed up to $30k per year).
- A high break fee if you decide to change or close your loan.
- No benefit from any market decrease in interest rates that your lender would otherwise pass on.

Rate lock

Most lenders will not automatically hold their fixed rates between the time when a loan application is made and when the loan is eventually approved. In most cases, the fixed rate applied to your loan is the rate available at approval, even if the rate has increased since the application was made. Therefore, most lenders offer borrowers the option to 'lock in' the rate that is available at the time of application. This is called a rate lock. Depending on your lender, you may have to pay a fee to 'lock in' your rate. It is up to you as to whether you want to get a rate lock.

Split loan

You can always fix a portion of your loan if you want to reduce your exposure to increasing interest rates and still retain some of the flexibility that comes with variable rates.

The type of loan you choose comes down to what will work for your individual circumstances. Your Smartline Adviser can discuss the options available and help you decide what will work best for your situation.

A **variable rate** may be the right option if:

- You think rates will stay the same or decrease in future
- You can afford repayment increases if interest rates increase
- You want the flexibility to make extra repayments or to close or change your loan in future

A **fixed rate** may be the right option if:

- You think rates will increase in future
- You prefer the certainty of fixed repayments so you can budget more easily
- You don't expect your lending needs to change during the term of the loan
- You don't need extra features such as redraw or the ability to make additional repayments

A **split loan** may be the right option if:

- You want to mitigate the risk of increasing rates and still keep some flexibility

Get personalised advice

Everyone's circumstances are unique. Speak with your Smartline Adviser for more information and to get personalised advice that matches your requirements.

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