

# THE 3 MINUTE MORTGAGE HERO™ WISDOM SERIES

What is best, Fixed or variable rate?



BROUGHT TO YOU BY THE 3 MINUTE MORTGAGE HERO™

### What is best a Variable or Fixed rate?

This is probably the most frequently asked question in today's lending environment.

Whilst there is no right or wrong answer, there are some important points you need to understand as to the positives and negatives as outlined below and the decision should be based on your known needs, objectives and circumstances.

### What are the benefits of fixing my loan?

The major benefit is if the cost of a fixed rate is lower than the cost of variable rates.

A fixed rate can offer security and knowledge of your ongoing repayment especially in times of economic turbulence or uncertainty.

Depending on when the fixed rate is set up, it can offer you the opportunity to get a significant low rate for a long period.

A fixed rate may potentially suit one type of client over another, ie a long-term Investor may want certainty of repayments and not need to pay any extra into the loan or for First Home Buyers who may be on a tight budget, have limited extra funds to contribute and are looking for the lowest long term rate.

### What are the negatives of fixing my loan?

A fixed rate home loan works in a very different way to a variable rate home loan.

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You lose a lot of the flexibility you have with a variable loan and may face high exit fees if you make changes to your loan or exit the loan during the fixed rate period, this is called a break cost fee, and can be a significant (potentially several thousand dollars) cost depending on when you break the loan.

If you have the need to make large extra repayments or think you may be coming into some extra funds that you want to pay into the loan (ie an inheritance or bonus payment) then fixing may not be suitable.

Most lenders will cap the extra repayments you can make on the loan (typically this is up to \$10,000 pa but varies by lender) so if your aim is to pay off the loan with large extra repayments, then a fixed rate may not be suitable.

If you plan to sell your property or refinance within the fixed term, then you may incur large break costs (as above).

Obviously unforeseen circumstances do occur, but the key is to understand if you will have any reasonably foreseeable events which may make it unsuitable to fix your loan.

### What does it cost to fix my loan?

The costs to fix a loan are similar to the costs to set up a variable loan.

The main difference is that lenders will offer you an optional non refundable Rate Lock Fee, which basically guarantees you receive either the rate you sign for or a lower rate (at the same loan term) if there have been any changes prior to settlement; if the rate increases then you get the lower rate you signed for. This is usually paid at the time of the loan application and the cost will vary between lenders.

## **What is best, Fixed or variable rate?**

It is important to understand that fixed rates may change between loan application and loan settlement and with most lenders the fixed rate on the day of settlement will be what you receive should you choose not to take up the Rate Lock option.

### **How long should I fix my rate for?**

This is a personal choice and should be based on your own personal needs and objectives.

Lenders will offer different rates for different fixed periods, so this should be taken into account with the above.

### **What are the benefits of having a variable loan?**

The main benefit of variable verses fixed is the flexibility offered by the variable loan.

You don't get any of the prohibitive issues (Break Costs etc) on a variable rate and you have access to redraw and an offset facility should you need.

### **Can I have a combination of both variable and fixed?**

Yes, all lenders will allow you to have a Split loan ie part fixed and part variable.

Lenders will have a minimum requirement on each fix, but apart from that you can nominate your own requirements that suit you best.

### **Does an offset account or redraw work with a fixed rate?**

Generally, the answer is no, however there are a few lenders who offer a 100% offset facility and some who offer a partial offset facility with their fixed rates. The same is true of redraw.

## **What is best, Fixed or variable rate?**

Your Mortgage Broker will be able to confirm which lender does what for you.

### **What happens when a fixed rate expires?**

When a fixed rate expires your loan will automatically roll over to the existing variable rate of the lender at that time. Typically, this rate is not as attractive as your fixed rate, so you then have to choose to renegotiate or look at a new lender.

Ideally your Mortgage Broker will be in touch prior to the fixed rate expiring to discuss your options and work on your behalf to check the best rates available at that time.

**ALL INFORMATION PROVIDED AS A GUIDE ONLY,  
IF YOU NEED SPECIFIC HELP WITH YOUR  
LENDING REQUIREMENTS PLEASE CONTACT ME  
BELOW.**



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