Quick GUIDES

Five things to ask yourself before fixing your loan

A fixed rate home loan allows you to set your interest rate for a period of time, such as one, three or five years. It could be a good option for you if you want to know exactly how much your repayments will be during the fixed term. Hello easier budgeting!

Plus, during times of very low interest rates, it could mean you get to retain a low rate (for the fixed term) even if rates start to go back up. Depending on your lender and rate, this could lower your repayments and the total interest you pay over the loan term.

But there are some risks and potential hiccups that come with fixing your loan. Asking yourself the following questions will help determine whether a fixed rate is right for you.

Are you happy to pay a higher interest rate today?

It is often the case that fixed rate loans have higher interest rates than current variable loans. Plus, the longer the fixed term, the higher the rate is likely to be. For example, a five-year fixed loan will usually have a higher rate than a three-year fixed loan.

Will you feel disappointed if rates drop during your fixed term?

There is always the possibility that interest rates could drop (or not rise) during the time you're locked into your fixed contract, which means you will pay more by being in a fixed rate loan.

Do you want to make extra repayments or redraw funds?

Fixed rate loans usually aren't as flexible as variable rate loans. For example, you may not be able to make extra repayments and redraw them, or you might be restricted on the size or frequency of your extra repayments.

Do you need an offset account?

Most lenders don't allow you to have an offset account with a fixed rate loan so there is no opportunity to save on interest. Where offset facilities are available, they will usually only be on a partial basis. Only a handful of lenders offer a 100% offset account on fixed loans.

Are you aware of the break costs?

If you exit your fixed rate loan before the expiry date, you may have to pay significant penalties. Break costs vary and can extend to thousands of dollars. Your reason for wanting to end the loan is not considered, and break costs also apply if you want to end the loan as part of selling the property.

WATCH OUT!

You could be hit with hefty fees if you break your fixed loan early.

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A final tip

Rate locks

Did you know that the fixed rate you agree with the lender when you sign your loan documents may not be the rate you get?

Lenders advertise their current fixed rates, but if those rates change before your property settles, you will likely get the new rate (unless the lender's policy states otherwise).

This may or may not work in your favour. If rates go down in that time, you'll get a lower rate. But if they go up, you'll be paying more.

If you want certainty over your rate, some lenders will let you 'lock it in' using a rate lock, which involves paying a rate lock fee. This fee can be a small amount or it can be significant, and some lenders will waive it all together, so you need to understand the lender's specific policy before going ahead.

Choosing to lock in your rate allows you to proceed with peace of mind that your interest rate will not move between when you send in your application and when you settle.

Finally, make sure you take note of the rate lock expiry date, as it will usually be in place for 90 days. If your settlement still hasn't occurred when it expires, it will need to be renewed (including paying another fee) for it to remain in place. This can be an important consideration if you have negotiated a long settlement.

GOT A QUESTION?
Let's chat.

Got a question? Need some help? The team at Nook is here to help. Go on, get in touch.

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