

## FIXED vs VARIABLE Interest Rates



### What type of loan should I go with – one with variable rates or fixed rates?

This is a very common question that many of our clients ask who are looking to take out a loan.

The best option for you will depend on many personal factors along with various external factors.

**Personal** factors generally are those items that we have **total** control over.

Personal Factors may include:

- Stage of our life; such as whether you are single, married, starting a family or looking to retirement, and
- Purpose of loan; business &/or investment versus personal loan, and
- Forecasting personal changes; such as jobs, your income or perhaps an inheritance.

**External** factors are the ones that you generally **don't** have any control over.

External Factors may include:

- The economy; such as a change in government policy or legislation, and
- Cash rates; for example, an increase in interest rates, and
- Lenders; banks changing their lending requirements.

Both personal and external factors are all quite dynamic, thus knowing how to get the best and perfect result that will last the life of the loan requires someone with the ability to accurately forecast the future - something we all wish we had!

With the ever-changing environment, we all live in, we can only go on what we believe is the best option for us at that point in time. As a result, we must weigh up the advantages and disadvantages of each option.

Please find listed below both the advantages and disadvantages of choosing a loan with either fixed or variable interest rates

	Fixed Rates	Variable Rates
<b>Advantages</b>	<p>Security of knowing your monthly repayments will remain the same for a fixed period.</p> <p>In a rising interest rate market, your rates will remain fixed and thus lower than variable rates.</p>	<p>Are usually more flexible than fixed loans. For example, the ability to pay extra of the principal or possibly redraw any monies paid in advance.</p> <p>Variable loans may offer extra features; some of which could be attractive to your situation. The options will vary with different banks.</p>
<b>Disadvantages</b>	<p>Financial institutions may impose early exit fees if you try to switch from a fixed to variable loan.</p> <p>With some fixed loans, financial institutions may charge on any extra repayments you wish to make. Please check this with your bank.</p>	<p>Repayments are based upon the variable interest rate. Because of this, if interest rates rise, the minimum monthly repayment will most likely rise also.</p>

### Split Loans

Many of our clients have also utilised a third option – split loans have a mixture of both worlds.

For example, Mr. & Mrs. Howard decide to invest in a commercial property and require a loan of \$500,000. The loan of \$500,000 can be split 50/50 - with a \$250,000 fixed rate and \$250,000 on a variable rate. In this case, the borrower is still subject to changes in the interest rates, but the impact is limited to the repayments on the \$250,000 variable part on the loan. This would also allow them to make extra repayments on the variable loan if it suited them.

Now that you have seen the advantages and disadvantages of both variable and fixed loans and understand that there is a chance to split a potential loan, how do you make the right decision? It's important to ensure that the decision you make is in your best interest and suits you both personally and financially.





Our clients use loan brokers every day. Please contact us today to recommend someone suitable to your situation.

**We hope that this summary gives you some guidance on whether fixed or variable rates would benefit you and your situation.**

### **Talk to an Expert**

Our advice would be to talk to the experts, those that know the ins and outs, those that deal with the various financial institutions daily. A loan broker will be able to sit down and discuss your personal circumstances, your requirements, both for today and in the future and then deal with the financial institutions on your behalf. Generally, a loan broker will get paid by the banks only when they bring forward a deal, meaning it's a free service to you as the client.

A great loan broker will consider and analyse the following for you: -

- What are the best variable rates on offer today?
- What are the best fixed rates on offer today?
- How these respective rates will effect your cash flow?

Having such a discussion with a broker will certainly take some time out of your day, but will also help you make the best decision for your personal situation.

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#### **Disclaimer:**

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If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions. It is recommended to seek advice from a qualified Professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).



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