



## **Borrowers face ongoing rates dilemma - to fix or not ?**

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### **MORTGAGES By Kim Christian**

SYDNEY, Nov 6 AAP - Seminal rock band The Clash once asked the question: Should I stay, or should I go? Today's dilemma for home borrowers is should I fix, or should I float?

If only the British rockers could have enlightened us about settling down with bricks and mortar instead of whinging about their love lives.

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Just months ago fixed rates were all the rage as Australians experienced the lowest interest rates in 50 years in the midst of the global financial crisis.

But betting on the next rate movement has again cemented itself as a national pastime after the Reserve Bank of Australia (RBA) moved rates north for the second time in two months on Melbourne cup day.

Home buyers and those considering refinancing their mortgages are weighing up the merits of either giving themselves certainty, keeping things flexible or adopting a combination of both.

CommSec economist Savanth Sebastian said it was unlikely consumer price index inflation would break through the top end of the Reserve Bank's target band of two to three per cent over the medium term.

"Certainly, if you're fixing rates, you'd be fixing for a longer term than a short term period," Mr Sebastian said.

"Fixing for five years plus would probably be better than fixing for two years, at which point when you come off the rate you'd think that the environment would be conducive to higher interest rates."

Rather than trying to beat the bank, it was better to build up a plan and work out an overall household budget.

"Rates will rise. We're expecting them to get up to between four or five per cent in the next year, but it's really 2011 that's going to be the questionable year when you next start to see the oil price start to track higher."

He said variable borrowers should factor in at least a 2.5 per cent rate hike into their calculations over the next year and a half.

Some lenders such as BankWest have reintroduced capped rate variable products to give borrowers more certainty.

Canstar Cannex market analyst Mitchell Watson said borrowers could expect a 50 basis point jump in the mid-term, but they should consider carefully the extra money they could be repaying on a fixed rate.

There was now a 1.6 per cent margin between the average three year fixed rate and standard variable rates.

"That can equate to quite a large amount in repayments," he said.

"For someone on a \$250,000 loan, the difference between a standard variable product and that three year fixed rate at the present moment is around \$257 per month, so it's quite a considerable amount.

"The variable rate is still going to give borrowers a saving for an extended period or at least up until the point at which both the fixed rate and the standard variable meet."

There was, however, still the potential for banks and other lenders to move outside the Reserve Bank's lead, he said.

The decision on whether to fix or go with a variable loan has been a dilemma for home buyers since fixed rates began to increase in April and May, he said.

Perhaps unsurprisingly, many lenders say variable loans are usually the best option in the long-term.

"The key advantage of a variable loan flexibility is the ability to make and redraw additional repayments without fees, penalties or break costs," managing director of **MyRate** Kevin Sherman said.

"As a result, variable loans can seriously cut your interest costs."