

Fixed Rate

"A great option for borrowers on a tight budget, or wanting certainty or concerned with rising rates. Fixed loans tend to be less flexible than variable products. However, some lenders are offering fixed rates with benefits usually assigned to variable loans such as 100% offset accounts, redraw and no penalties for additional payments"

Wayne Ormond, MD, Refund Home Loans



Key features

Fixed rate loans are priced according to a pre-determined interest rate, which is independent of fluctuations in the official cash rate. You can fix your entire loan for a period of between one and five years, or you can fix a certain portion and leave the rest variable. When the fixed term expires, the fixed portion will generally revert to the prevailing variable interest rate.

Advantages

If you are worried that interest rates may rise in the next few years, locking in an interest rate by fixing a portion of your loan is an insurance policy against rising repayments. At present, fixed rates are almost on par with variable rates. Although there is normally a fee charged for fixing a loan, the added certainty fixing brings makes fixed rate loans attractive.

Considerations

Besides a fee for setting up a split loan with fixed and variable portions, you will be charged if you choose to leave the fixed term before it expires. Fixed rates have been criticised due to their lack of flexibility: few features, fees charged for transactions such as redraw and lump sum repayments. Fortunately, this is changing but check with prospective lenders to make sure the fixed product contains the features you require. While you will be insulated from rate rises, you won't benefit if rates drop during the fixed term.

Suitable for

Anyone who is concerned that interest rates may rise in the near term. In the current climate of sky-high oil prices pushing up inflation, fixing at least a portion of your loan is a sensible strategy.