

Fixed vs. Variable Home Loans

To fix or not to fix? It's a question that has become increasingly common in the wake of rising interest rates.

Unfortunately there's no simple answer, as your decision to choose a fixed or variable home loan largely depends on your financial situation and personal preference.

The good news is that as your broker we can assess your individual situation and help you make an informed decision that will bring long term benefits. For example, we can advise you whether the advantages of switching to a fixed loan outweigh the fees you will encounter along the way. We can also outline the pros and cons of switching loans based on your income stream, lifestyle needs and financial goals.

Fixed rate loan

Fixed rate loans best suit home owners who are on a tight budget and like the certainty of knowing exactly how much each repayment will be.

On the downside, many fixed loans charge for extra repayments and early payout. This means you will be financially penalised if you want to pay off more than you originally planned.

Also consider that fixed rates are generally higher than the cheapest variable rate, so by locking your loan into a fixed rate for three to five years you are gambling that you will come out ahead. Without a crystal ball no one can know whether interest rates will go up or down over this time!

Variable rate loan

Variable rate loans have more features and greater flexibility than fixed rates but can be risky if you've overcapitalised on your loan.

If you are sticking with a variable loan in this climate of rising interest rates, it's important to plan for the possibility of having to make increased repayments. Should rates rise, you need to feel confident that you will be able to adjust your budget accordingly.

Split rate loan

If you can't make a decision between fixed or variable, a split rate loan is a good option. It allows you to divide your loan between fixed and variable interest rates, which gives you a foot in both camps.

The fixed rate part of your loan is protected against interest rate rises, and the variable part of your loan allows for the flexibility of making additional payments without penalties.

Fixing the interest rates on your home loan is not the only way to protect against rate hikes. Here are a few more strategies worth trying:

- ✓ **Review your budget.** Work out where you can cut spending to free up funds for extra repayments.
- ✓ **Ask for help.** Talk to us as soon as you start having trouble making repayments and we'll work with you to help you keep paying off your loan.
- ✓ **Review your mortgage.** Consider whether you have the best product for your changing financial needs.
- ✓ **Use redraw.** Top up your loan when times are good, giving you readily-available funds to call on when finances are tight.

For further information, please don't hesitate to call AlphaLoan today so we can match your needs against 100's of home loans from our panel of lenders, including all the major banks and many more!

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