

## *Fixed vs Variable – Which Way Should I Go?*

***There is no easy solution when deciding between a fixed or variable rate. But careful consideration and an understanding of your financial goals are key to making an informed decision.***

Rate movements always prompt debate over the benefits of a fixed vs. variable rate home loan. It is difficult to predict what will happen over the coming year, but if you think a hike is likely to hurt, now may be a good time to consider fixing.

While a rate rise looks likely at some point there may still find some good value in fixed-rate loans – some of the best 3-year fixed rates, for instance, range from 6.79% to 6.99%. These figures are comparative to the banks standard variable rate of 7.07% and the market-average rate of 6.85%.

With competition between lenders in the fixed-rate market, there are some good deals if you are looking for certainty in monthly payments. Make sure you look at a variety of fixed rate products however as rates can vary substantially from lender to lender. The good news is that competition between lenders has also driven fixed and variable rates closer together.

The main difference between fixed and variable rate loans lies in how they are structured and how interest is calculated.

**Fixed rate products** secure a rate for a set period generally between one to ten years. The fixed rate reverts to a variable rate at the end, or depending on the terms of the loan, you may have scope to renegotiate at that point.

### **Pros**

- ✓ Protects you against increases in interest rates
- ✓ Useful for forward planning when budgeting to achieve financial goals

### **Cons**

- ✓ Have fewer features and more restrictions than variable rate loans
- ✓ Are generally expensive to break and have other payment restrictions
- ✓ You may end up paying more interest if rates fall

**Variable rate loans** can appeal if you are willing to speculate on rate movements. If you want flexibility in your repayments, and can deal with rate increases, then a variable product may be for you.

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Variable rate products can include various features, including accelerated payment options, offset, redraw, variable payment schedules and split loan facilities.

### Pros

- ✓ Flexibility
- ✓ If rates remain steady or fall over the term you can pay less interest

### Cons

- ✓ Sensitive to economic conditions and you may pay more interest if rates rise

**Split loans** offer a half way point between fixed and variable. If you are concerned with the uncertainty of a variable rate you may want to consider a split loan. Split loans allow you to fix part of your loan while having the freedom of a variable rate.

### Pros

- ✓ Allow for early repayment, offset and redraw facilities without gambling your whole loan of rate fluctuations

### Cons

- ✓ Still have fees attached if the fixed section of the loan is payed out early

It's wise to review your position regularly. Please give us a call if you have any questions or are reviewing your current position.

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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