

# A rate that's set in stone

If you need certainty, then it might be time to consider switching to fixed, writes **John Collett**.

It may be too late in the interest rate cycle to take out a fixed rate mortgage. But for property investors and those who would struggle with higher repayments, it could still make sense.

Anyone borrowing more than \$250,000 should be able to negotiate a variable rate of at least 8.5 per cent – 0.5 of a percentage point off the lender's standard variable rate of 9 per cent.

As the accompanying tables from Cannex show, there are non-bank lenders with one-year fixed loans of less than 8 per cent. Powerstate Credit Union has the lowest one-year rate of 7.69 per cent but it has one of the highest initial fees, of just over \$715.

Of the big five banks, Westpac has the lowest one-year rate of 8.49 per cent, with initial fees of \$600 and a monthly fee of \$8.

The lowest three-year fixed mortgage is 8.14 per cent, from the Commonwealth Bank's online brand HomePath. It has \$100 in upfront fees

and no ongoing fees. Non-bank lender Service One has a three-year fixed rate of 8.15 per cent, upfront fees of \$600 and no ongoing fees.

One Direct Home Loans, which is ANZ's online brand, has a three-year fixed mortgage with an interest rate of 8.19 per cent and upfront fees of \$60 with no ongoing fees. Non-bank lenders Meridian Money, Mortgage Ezy and SGE Credit Union also have three-year fixed rates of 8.19 per cent.

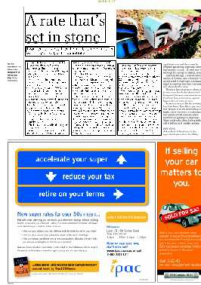
There is not as much room to negotiate fixed rates lower as there is with variable rate mortgages. It is always worth asking the lender for a discount, particularly for borrowing large amounts. A few lenders give small discounts on their fixed interest rates, typically 0.15 per cent, as part of their professional packages. These packages allow borrowers with higher incomes and bigger loans to consolidate their banking business with one institution. Professional packages have a range of discounts but borrowers usually have to pay an annual fee for the privilege.

Most economists believe that interest rates will rise at least once, perhaps twice, this year but may start to come down next year. Rates may have to go higher to contain inflation but with the US economy slowing, dragging global economic activity lower, the Reserve Bank may have to cut rates next year to boost Australian growth.

Two more 0.25 percentage point rate rises would take the standard variable rate to about 9.5 per cent and to 9 per cent for typical borrowers. Under this scenario, a one-year fixed rate of less than 8.5 per cent looks attractive.

Denis Orrock, the general manager of researcher InfoChoice, says one strategy may be to take out a one-year fixed rate loan to avoid the pain of one or two more interest rate rises. Then, in a year, switch to a variable rate loan when interest rates may be on their way down.

But guessing the direction of interest rates is a gamble, Orrock says. And switching between loans can incur



significant costs and these must be weighed up carefully, especially where the loan amount is small. The costs may well outweigh the savings in interest, he says.

Harry Senlitonga, a senior financial analyst at Cannex, says consumers who are attracted to fixed rates want peace of mind in knowing that their repayments will always be the same.

Those on low incomes or where a lift in rates may break already strained household finances may want to use a fixed rate loan as insurance against higher interest rates, he says.

Property investors like the certainty of fixed-rate loans. They like to pay interest-only because of its tax deductibility. Most lenders allow borrowers to make interest-

only payments but some also allow borrowers to pay interest in advance. Many lenders also allow the loan to be split into fixed and variable portions.

#### EXIT FEES

A drawback of fixed rates is that typically they have less flexibility,



Do the numbers ... a fixed rate may carry a hefty exit fee. Photo: Rob Homer

Senlitonga says. There will be a maximum limit for lump sum repayments, which may be as low as \$5000 a year, and with most fixed-rate mortgages the money cannot be redrawn.

Fixed-rate mortgages also have an economic exit or interest-adjustment fee that may be incurred if the borrower repays the loan before its term has expired. If a borrower takes out a three-year fixed rate loan and then repays the loan after two years, the lender will charge the borrower any difference between what the borrower would have paid for the remainder of the loan and what the lender would now receive. For a big loan, the exit costs could be several thousand dollars.

Those considering taking out a fixed-rate loan have to be sure they are going to stick with the loan for the whole term, Senlitonga says.

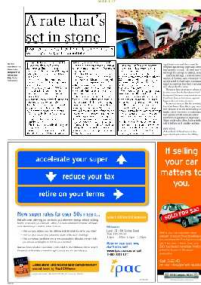
When searching for a fixed rate loan, make sure to ask about any rate guarantee fee. This locks in the fixed rate between the time the loan application is made and settlement of the loan.

Lenders charge rate lock fees of between \$100 and \$300. InfoChoice's Orrock says borrowers will have to tell their lender they want to lock in the fixed rate. It is worth asking the lender to waive this fee.

When the loan term expires and you're switched into the lender's variable rate loan or to another fixed-rate loan, there is a switching fee of up to \$300 but many lenders will automatically waive this.

Also, as with any type of mortgage, there will be a mortgage discharge fee of between \$400 and \$800.

Ask about all fees and do not be shy about trying to get as many waived or discounted as possible.



**TOP FIVE BANKS ONE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
one direct HL	8.19	60	NIL	95	No	\$10,000
Arab Bank Aust	8.35	600	8/mth	95	Yes	No max
AMP Banking	8.44	700	349/a	100	No	\$10,000
ING Direct	8.44	719	NIL	100	No	\$10,000
Bank of Qld ##	8.49	595	8/mth	100	No	\$5000

**TOP FIVE NON BANKS ONE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
Powerstate CU	7.69	715.25	NIL	97	Yes	No max
Memberfirst CU	7.75	600	NIL	95	Yes	N/A
RTA Staff CU	7.99	380	NIL	95	Yes	No max
SGE CU	8.09	790	NIL	90	No	5%
Lifeplan Funds Management	8.14	600	NIL	100	Yes	No max

**TOP FIVE BANKS THREE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
Homepath	8.14	100	NIL	97	No	\$10,000
one direct HL	8.19	60	NIL	95	No	\$10,000
Arab Bank Aust	8.35	600	8/mth	95	Yes	No max
Bendigo Bank	8.39	685	8/mth	97	Yes	20%
ING Direct	8.44	719	NIL	100	No	\$10,000

**TOP FIVE NON BANKS THREE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
Service One#	8.15	600	NIL	97	No	No max
Meridian Money	8.19	654	NIL	100	Yes	N/A
Mortgage Ezy	8.19	810	99/qtr	-	Yes	-
SGE CU	8.19	590	NIL	95	No	5%
Resident HL	8.22	NIL	NIL	95	No	\$10,000

**TOP FIVE BANKS FIVE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
HomePath	8.09	100	NIL	97	No	\$10,000
one direct HL	8.09	60	NIL	95	No	\$10,000
Arab Bank Aust	8.35	600	8/mth	95	Yes	no max
nab	8.35	600	8/mth	100	No	\$2m
Westpac	8.35	600	8/mth	100	Yes	\$15,000

**TOP FIVE NON BANKS FIVE-YEAR FIXED RATE**

Company	Rate (%)	Total upfront fees (\$)	Ongoing fees (\$)	LVR* (%)	Redraw available	Maximum lump sum payment
Resident HL	8.12	NIL	NIL	95	No	\$10,000
Service One#	8.15	600	NIL	97	No	No max
Mortgage Ezy	8.19	810	99/qtr	-	Yes	-
Homestar Fin.	8.25	595	NIL	95	Yes	\$1m
Nationwide Mortgage Corp.	8.28	654.5	NIL	90	No	No max

\*MAXIMUM LOAN TO VALUE RATIO # MEMBERS BANK ## BANKWEST BENDIGO AND WESTPAC HAVE THE SAME RATE WITH HIGHER FEES

SOURCE: CANNEX