



# Home loans going up: put your house on it

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THE Reserve Bank is expected to lift interest rates by 0.25 of a percentage point on Wednesday despite another slump on Wall Street and the looming federal election.

On a 25-year mortgage of \$250,000 repayments would rise by \$41.68 a month.

It would be the fifth rise since the last election, when the Government promised to keep rates low. Nor is it likely to be the last rise this year.

"The market thinks the Reserve will do it - the risk for not going up is greater than the risk of staying put," said Roger Bridges, head of bonds at Tyndall.

Reserve Bank board members will be reading their briefing papers today, and only a share-market rout tomorrow and Tuesday will stop a rise.

Wall Street plunged 281 points by its Friday close and CommSec chief equities economist Craig James tipped that the sell-off

would drag the Australian share-market down by 70 to 100 points when it opens tomorrow.

The local market has plunged almost 400 points in less than a fortnight over fears of a global credit crunch caused by the impact of US mortgage defaults on its banks.

"There's a 55 to 60 per cent chance on balance that the Reserve will move this week but it's one of the closest calls we've seen in years," Mr James said.

John Edwards, HSBC chief economist and former economic adviser to Paul Keating, said the Reserve "really has no alternative at all" as it had published a set of inflation figures "which are now clearly too low". Dr Edwards said the Reserve would only step back if there was "a huge freeze in financial markets".

Most economists expect a follow-up rate rise early in the new year, but Westpac chief economist

Bill Evans tips it could be as early as November.

Speculation of a second rise would almost certainly stop the tentative recovery in Sydney's property prices in its track.

Home owners can beat the expected rise by either fixing some or all of their mortgage, or switching to a basic loan. The cheapest fixed rate is 7.09 per cent for three years from Mortgage Ezy, which is 1 per cent below the bank standard variable rate.

Basic rate loans offer few frills, usually confined to a redraw facility, and won't let you pay back at a faster rate.

Most first home buyers are splitting their loans, with the biggest component fixed and a small component taken as variable to allow for extra repayments later, said a spokesman for Mortgage Choice.

## THE BEST DEALS

Rate, lender, repayments on a \$250,000 loan:

■ **Basic loan:** 6.46%, Wizard, \$1682 a month.

■ **1 year fixed:** 7.29%, Home Loans, \$1813.

■ **3 year fixed:** 7.09%, Mortgage Ezy, \$1781.

■ **5 year fixed:** 7.46%, Sapphire, \$1840.

■ **Source:** Cannex.com.au.