

What do low interest rates mean for you?

With interest rates in Australia at historical lows there has never been a better time to review your debts. It is also a good time to think about new loans and ensuring you structure them properly.

There is many articles talking about 'locking' or 'fixing' your loans, and whilst this is may be a good strategy for new loans or loans requiring refinance, it is not always a good option for existing loans as changes can incur high fees.

What is a Fixed Interest Rate Loan?

A Fixed Interest Rate Loan is a loan where the interest rate is set and stays the same for the agreed period. This enables a borrower to lock in a rate and the certainty of knowing their repayments for a fixed period.

Fixed rates are popular when interest rates are low, as borrowers attempt to lock in 'rock bottom' loans and enjoy lower repayments as rates may start to increase.

A main disadvantage or reason that a Fixed Rate Loan is not chosen in times of low interest, is the inability to pay a greater amount towards your debt during the agreed period. If however, you are not expecting an inheritance or sudden windfall, a fixed rate can lock in the certainty and peace of mind.

Should you consider locking in a rate?

Of course, every situation is different, and it is impossible to accurately predict future interest rates. However, we do know the cash rate is at an all-time low and many economists predict that it is unlikely to further reduce. Given this, we would always recommend considering a fixed rate for any new loans or those being refinanced.

In a recent news.com article, HSBC economist Paul Bloxham stated that 'if the average discounted variable rate remained unchanged, a household which had \$300,000 would pay nearly \$8000 more in interest over three years than a family that fixed at 4.99 per cent.' This calculation does not take into account fees, however still represents a significant saving.

What to do next?

We recommend regular reviews of all debts and mortgages to ensure that they are structured correctly and are working for you, not against you! The ultimate



goal is to reduce debt quickly and ensure that unnecessary interest is not being paid.

Regardless of the age of your loan, who it is with and what it is for, we would like to work with you to see if there are opportunities to improve your debt situation and take advantage of these historically low rates. To find out more, please contact the office.