



# The land of confu\$ion

Let's have a look at the past five months to see why there has been such a huge increase in consumers seeking mortgage specialists to help them with their finance selection to find a good and fair home loan interest rate:

- ▶ Cash rate drops (Dec 2011) - most banks (but not all) drop interest rates.
- ▶ Rate remains on hold - banks increase rates independently.
- ▶ Inference on further cash rate drops - cash rates remain on hold.
- ▶ Talk about the best time to fix your loans as rates might start to increase again.
- ▶ Rates remain on hold.
- ▶ Banks complain about the high level of costs of funding.
- ▶ Fixed interest rates start to drop again.

## How confusing is the finance market right now?

We understand that out of cycle rate changes make life difficult when you are seeking finance. When you hear different announcements every single month, we understand that you may very easily lose confidence in seeking finance at all. The inconsistency and mixed messages are frustrating!

When banks and lending institutions create doubt and uncertainty in the minds of our consumers we find we get more calls for help.

When banks make decisions independently of the Reserve Bank and choose not to pass on official rate cuts most people worry that they are being ripped off.

That is not always the case.

## So what is a fair interest rate?

This is still hard to tell in most instances as there are advertised rates and comparison rates.

## What is a comparison rate?

A comparison rate is a tool to help consumers identify the true cost of a loan. It is a rate which includes both the interest rate and the fees and charges relating to a loan, reduced to a single percentage figure

For example, a bank's advertised interest rate may be 5.49% and its comparison rate 6.75%.

The comparison interest rate takes into account the actual cost of the money you borrow including application fees, valuation fees, lender's legal costs, monthly or annual account keeping fees.

## Using a comparison rate

Because it is difficult to compare home loans with different interest rates and fees, credit providers must state a comparison rate on advertised home loans where they also state an interest rate or weekly repayment amount.

This is calculated by adding the interest rate to the main fees and charges on the loan. When using a comparison rate yourself you must make sure the loans you are comparing are for the same amount and term.

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In the example below, home loan A has a lower interest rate than home loan B, but a higher comparison rate because of its higher level of fees and charges.

Home loan	Interest rate	Fees and charges	Comparison rate
<b>A</b>	8.00%	0.5%	8.50%
<b>B</b>	8.25%	0.1%	8.35%

## Important facts to know about a comparison rate:

A comparison rate can be a useful tool for comparing the cost of different loans, but it is important to consider all of a loan's features and not just focus on the comparison rate.

*Remember that the comparison rate does not include government fees and charges or fees and charges which will only be charged in certain circumstances. Therefore the comparison rate may not provide a complete picture of the total cost of a loan.*

**A comparison rate also does not take into account some factors which may make a loan more attractive, such as fee free banking or flexible repayment arrangements.**

We work with you to allow you to give careful consideration to whether these features are important to you and the financial effect they will have on the cost of the loan.

## Do I fix?

In the current environment, many people are looking for the certainty that a fixed rate mortgage provides. However, they want flexibility as well as a great rate.

Our customers can choose to fix their entire home loan rate or split their home loan between fixed and variable rates. This way you are partially shielded from increases in variable rates, by having a portion

locked in, whilst still having some exposure to potential reductions in the variable rate. This provides the best of both worlds.

Sometimes when financial institutions start offering lower longer term fixed rates, it is a sign that there is an expectation that rates are more likely to drop even further, so a variable rate may be the ultimate winner!

## So how do you know what to do?

Our service as your mortgage specialist really comes into its own when the market is complicated and people want it explained. People know they can come to us and find the best finance solution (not necessarily the best rate) available in the market. This allows you to borrow with confidence despite the monthly controversy over rates.

With greater competition in the lending market now, home buyers have more choice and flexibility than ever before making it the perfect time for you to revisit opportunities outside your existing current lender (especially if you haven't done this for at least 12 months).

**Borrowers now recognise there is much more to a good home loan than just the interest rate alone.**

Brokers provide a unique service, matching an appropriate product to the needs of the client at any given time. Our expertise in suggesting products will have a real impact on your ultimate financial position by reducing your loan term and saving you money.



Please call us for our "6 Steps to smarter borrowing" topic sheet to start you on your financial exploration.