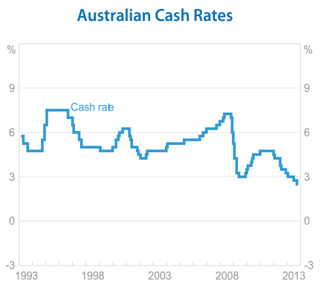
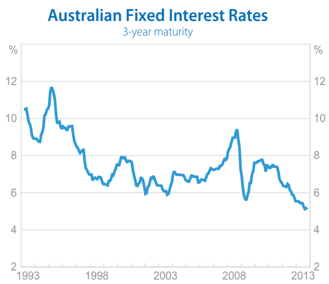
What goes DOWN must go UP!

In the world of finance that is...

We all know that interest rates are cyclical and that when rates go down they will eventually go up.

As a result, lenders have been assessing loan applications on the ability of borrowers to make repayments at interest rates approximately 2% higher than those currently available. While lenders have been assessing your ability to make repayments at a higher interest rate, what is the reality of the financial impact of your regular loan repayments?





Did you know that if you have a remaining loan term of 20 years with a loan balance of $400,000 at a current interest rate of 5.5%, if interest rates were to increase to 7.5% (representing the average variable interest rate over the last decade) your weekly repayments would increase from $637 pw to $745 pw. That's an increase of **$108 PER WEEK!**

If you are concerned about the likely increases in interest rates there are a few options available for you to consider.

Apart from looking for existing opportunities to either make savings in your current expenditure to cover the additional repayments or to find ways to increase your income, the alternatives include:

Move to a more competitive home loan

If you have a home loan that is now more than a few years old it is likely that with renewed competition between the major banks and non-bank lenders you may be able to obtain a lower interest rate. The repayment savings can then be used to partially or fully offset future interest rate rises. You will however also need to factor in the cost of swapping loans.

Lock in a fixed interest rate

If you require greater certainty, fixing your interest rate may provide the protection that you desire. This will give you comfort in knowing that your repayments will not increase during the fixed term. Locking in your home loan however, can place restrictions on you like limiting your ability to make additional repayments. This can be partially overcome by locking in only a portion of your loan balance.

Utilise your re-draw

If you currently have the capacity to pay additional amounts into your mortgage you could increase your current monthly payments to become acclimatised to higher repayments. When interest rates rise you could then 'redraw' the previous additional payments made to assist with your repayments. You will need to ensure that your current loan has a redraw facility before considering this option.

Perhaps this is the last time?

Given the historically low fixed term interest rates currently available it may now be a good time, and perhaps even the last time for a while, to consider whether fixing your interest rate is appropriate to achieve suitable financial objectives for your personal situation.

**If you don't think you and your family could manage a potential interest rate rise, then it is extremely important to call the office today for us to establish your financial security against the possibility of rising interest rates.
Still confused? Contact us for our article 'The land of finance confusion'.**