IMC
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Property & Equipment Finance

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Variable Rates Versus Fixed

I wish there was a simple answer. This depends on a lot of factors –

A – Is the property to be owner occupied or for investment?

B – Can you afford higher repayments if interest rates go up?

C – How long to you intend to keep this property?

First home buyers are usually more at risk as they probably had a minimum deposit and never been exposed to such a high monthly servicing commitment. You must remember when buying a property you will have additional expenses such as home insurance, rates, repairs and on-going maintenance.

If you can just afford the variable rate repayments, do not buy. You need a buffer in servicing capabilities as interest rates could continue to rise and this could result in you defaulting on your loan commitments.

Fixed rates are generally 1.5% to 2% higher than variable. The three options to consider are –

1. Take the fixed rate for about 3 years. If rates go down you loose and if they go up you may have a win – this is my least preferred option.
2. Split your loan into two loans – possibly ½ fixed and ½ variable. This will lessen the effect of any interest rate increases and also be good if rates fall during this fixed rate period.
3. Take a variable loan over the 30 year term however make repayments from day one, based upon the higher fixed interest rate. This will place you in advance and you should not have to increase repayments unless / until rates increase by 1.5 to 2%.

Investors are not as affected by rate increases as they can offset extra interest costs with their tax deductions.

Naturally if you intend to sell this property in 12 to 18 months, you would not take out a fixed rate loan for 2, 3 or 4 years. Break costs on fixed rate loans can cost you anything from $1,000 to $30,000 and more.

Remember everyone's circumstances vary. Seek professional advice before you act as this can save you thousands.

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