Interest rates and how they affect your mortgage

With uncertainty surrounding interest rate movements **there has never been a more compelling reason to consider the impact rates have on your mortgage**

The rate of interest you'll pay on your mortgage depends on a combination of factors. This can include the Reserve Bank of Australia's (RBA) cash rate, your lender and the type of loan you have.

When working through your loan options with your mortgage broker there are a number of issues to keep in mind to ensure you're getting the most appropriate mortgage for your needs.

THE TYPE OF LOAN

Different loan types tend to come with different interest rates. So if your loan has a range of features, such as re-draw, offsets or early repayment facilities, you'll usually pay a little more in interest.

Alternatively while a basic loan doesn't have all the bells and whistles of other products the interest rate is typically lower.

When assessing which loan best suits your needs, ask your broker to explain how the different features work to assess whether they are worth paying a higher rate for.

For example if you're looking to drive your mortgage down quickly or would like flexibility in your repayments it may be worth paying for the features needed to do this most effectively.

THE TYPE OF RATE

With the possibility of movements in interest rates, some borrowers are choosing to fix their home loan rate – or 'lock in' a rate for a set period of time.

If you're considering this option, it's important to remember that a fixed interest rate is usually higher than the current variable rate. However, if rates are on the rise and you're concerned they'll keep going up fixing your rate will ensure consistency in repayments each month.

Alternatively a split loan can give you the best of both a fixed-rate and variable-rate loan. This means that if rates rise a proportion of your loan will be protected, minimising the impact of higher monthly repayments. If on the other hand rates fall your fixed rate will remain higher and the variable part of the loan will fall.

LESSEN THE IMPACT OF A RATE RISE

Should rates rise, there are a number of effective ways to lessen the impact on your finances:

- **FACTOR IN POSSIBLE HIKES** – Leave room for a number of interest rate rises when you assess your borrowing capabilities. This may mean reducing your mortgage amount slightly or purchasing property that's at the lower end of your price range.
- **INTEREST ONLY** – If you're really struggling to keep up with rate hikes, you can consider changing to an interest-only loan. While not an effective long-term strategy for owner-occupiers, it might be an option while you deal with the here and now.
- **REFINANCE** – Your situation may have changed from when you first took out your mortgage – for example you've now only got one person in the household earning a salary. Ask your broker what mortgages are available that better suit your situation.

Lenders Mortgage Insurance – What do I need to know?

LMI can help you **enter the market sooner**

Lenders Mortgage Insurance (LMI) helps Australian homeowners enter the market earlier through allowing you to borrow a higher percentage of a property's value.

For first home buyers, particularly those struggling to save a deposit but more than comfortable to meet their mortgage repayments, it can be a key tool to break free of the rental trap.

Through financing a higher proportion of a property's purchase price, lenders take on a higher level of risk should you fail to meet mortgage repayment, and the property needs to be repossessed and resold.

LMI is therefore payed by you to insure your lender against loss should this happen. It is important to be aware that LMI only covers the lender if you default, not you.

The bigger the percentage of the property's purchase price you have to borrow the greater the amount you're likely to pay on insurance. So if your deposit is less than 20 per cent, and especially if you have no deposit at all, you will need to factor LMI into your home loan. Remember that should you have the required 20 per cent deposit for a mortgage you will not need to pay LMI.

> "LMI only covers the lender if you default, not you"

LMI is usually paid as a one-off lump sum at the time of settlement but it many cases it can also be added into the loan amount and paid off over the life of the loan – a term known as capitalising the LMI. Speak with your broker to assess whether this option is right for you.

Contact me for more information or to receive your free Home Buyers Guide.
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