How interest rates affect your mortgage

While rates move up and down you should always consider the impact they will 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

Rates move up and down in line with the economic current cycle. With rates looking certain to continue their upward march for the immediate future, 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.

> *Ultimately the choice is yours – so be careful not to over commit yourself.*

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 is essential, particularly now with rates on the upward climb. You may have to reduce your mortgage amount slightly or purchase property that's at the lower end of your price range as a result.

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. Rates between lenders are also changing dramatically as rates continue to rise. Ask your broker what mortgages are available that better suit your situation.

For more information, or to request your free copy of the Home Buyers Guide, contact: