

# FIXED RATE HOME LOANS

Whereas Variable Rates are pegged to the RBA's official cash rate, the key market indicator determining Fixed Rates are bond yields.

A Fixed Rate loan typically allows one the ability to lock in the interest rate for a period of 1 to 10 years on a principal and interest (P&I) basis, or for 1 to 5 years for an interest only facility. The interest only loan is often chosen for investment property purchases as any principal payment on the loan is non tax deductible whereas all interest payments are deductible.

The advantages are:

1. These loans allow you to more accurately plan your finances as you know what your repayments will be for the life of the fixed term; and
2. You are protected from interest rate rises during the life of the fixed term

The disadvantages are:

1. The fixed rate is often (but not always) higher than the Basic Variable rate as you are paying a premium for the protection against a rate rise
2. If official interest rates fall, you will be stuck with paying a significantly higher rate than that which you would under a variable rate
3. You are generally not able to make additional repayments over and above the set repayment without incurring penalties, or if you are, you are limited in the amount of extra payments you can make
4. They typically do not have the flexibility of an offset account or redraw facility as you would with a Standard Variable Rate loan
5. You may incur a substantial penalty if you wish to refinance or sell your property prior to the end of the fixed rate period

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