

VARIABLE RATE HOME LOANS

The interest rate on a variable rate loan will vary over the life of the loan in line with the Reserve Bank of Australia's (RBA) official cash rate, albeit that the rate on the loan will be higher than the RBA's official rate.

Most of these loans are principal and interest (P&I) loans with a term of up to 30yrs, however one can get interest only variable rate loans. These loans generally fall into three categories.

1. Honeymoon Rate variable loans are designed for first home buyers. They provide a discounted fixed rate for the first year, maybe 1% less than the Standard Variable rate, but then revert to the standard variable rate after the first year. The disadvantage with this type of loan is that you are generally locked into keeping the loan for a minimum 3yr period and penalties apply if you wish to refinance or payoff the facility before this period. Honeymoon Rate loans can be linked to Interest Saver/Offset accounts for Mortgage Reduction purposes.
2. A Basic Variable home loan has the lowest ongoing rate of interest but has few options compared with a Standard Variable loan.
3. A Standard Variable home loan has a slightly higher interest rate than a Basic Variable, but has more options such as allowing higher repayments to be made with the benefit of a redraw facility should one wish to later draw back out those extra payments, and the flexibility of being able to have a linked Interest Saver/Offset account attached.

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