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5 Things to Know Before Locking in Your New Interest Rate

1. Know when your existing fixed rate expires

Before your fixed rate term comes to an end, you'll need to decide whether to refix your home loan at a new interest rate or change to a floating interest rate. If you choose not to re-fix or if you do nothing, your home loan will automatically switch to a floating interest rate the day after your fixed term ends. To plan your next steps, contact your mortgage adviser or lender at least 6 weeks before your fixed rate is due to expire.

2. Know what your plans and goals are

When deciding how long to re-fix, consider your plans and goals. Think about any changes to your current situation that could affect your home loan. For example, if you are planning to sell your home, you will want to have more flexibility, so a shorter fixed term or a floating rate may be preferable.

3. Know what the different rate options are

Understand the difference between fixed interest rates and floating interest rates, and the pros and cons of each.

Floating interest rates:

- More flexibility allowing extra repayments.
- No break fee so you can fix part of your mortgage at any time.
- Repayments fluctuate with interest rate changes making it harder to budget.
- Rates tend to be higher than fixed interest rates.

Fixed interest rates:

- More certainty with set repayments which can simplify budgeting and financial planning.
- Locking in a fixed interest rate ahead of an increase could save you money.
- No benefit if interest rates drop
- Does not allow for any extra repayments or early repayments.

5. Know how your mortgage is structured

Splitting your home loan and spreading your risk over a few loan terms could help minimise the impact of higher mortgage repayments as interest rates continue to rise. At the same time, it is important not to lock yourself into too long a fixed term and potentially miss out on an interest rate downturn. It may be a good idea to keep a portion on a floating rate if you know that you are getting a bonus or some extra funds. This will enable early repayment without penalty.

Before re-fixing your home loan, talk to your mortgage adviser or lender about your current situation and what’s on the horizon for you both over the short and long-term, so you can decide on the right home loan structure for the coming two to three years.

5. Know what other lenders are offering

It pays to check what interest rates and incentives other lenders are offering before you re-fix with your current lender and to compare your fixed interest rates to see how they stack up. Talk to your mortgage adviser about opportunities to renegotiate your fixed interest rates or find out if refinancing is right for you.