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PLEASE NOTE THAT THIS DOCUMENT IS INTENDED TO BE READ AND UNDERSTOOD BY YOU, THE CLIENT. THIS DOCUMENT PROVIDES INFORMATION TO DO WITH YOUR LOAN AND OPTIONS YOU MAY CHOOSE WHEN STRUCTURING IT.

To determine whether you want to fix or float your mortgage, you must consider your personal circumstances and priorities.

LOAN STRUCTURE

When deciding your loan structure, you must determine your priorities. For example, these could be:

- Certainty of repayment (fixed loan);
- Flexibility of repayment with ability to draw from the loan when needed (floating loan);
- Combining certainty with flexibility (split loan);
- Minimising repayments (interest only);
- Maximising repayments and paying it down quickly (a shorter term loan);
- Weekly, fortnightly or monthly repayments.

Loan Terms + Repayments

Loan Term

A variable rate loan can be repaid at whatever rate is preferred(either at the minimum rate according to the chosen loan term or in full in one or more lump sum payments) without penalty and a fixed rate loan can be repaid at a faster rate than the minimum with some restrictions as specified below.

Fixed Rate Loan

A fixed rate loan is a rate which is locked in for a specific time, depending on your preference and the interest rate at the time of the request.
Fixed rate loans are great for those who want to make the most of low interest rates but do not want to actively monitor them. It means certainty for the fixed term as the rate is locked.

With this type of loan, you cannot make extra repayments or pay it down faster as you wish, without there being a penalty (you can pay a certain amount down per year without risk however, more on that below). This is called an Early Repayment Adjustment (ERA) – the amount is calculated by the bank and they take into consideration the loan amount, time left on the fixed interest rate and the time remaining on your term.

You can increase your repayments without penalty or the ERA coming into play. It is a specified amount, set by the particular bank. For example:

- ANZ allows you to pay an extra 5% of your loan balance each year without penalty.
- Westpac allows you to increase your repayments up to 20%.
- ASB allows you to add an extra $500 per fortnight in repayments.

You can also make extra repayments at the end of your fixed term without penalty.

There is also a risk that the rates drop lower than your chosen interest rate. While you can break and refix in this instance, there is a break fee put in place by the bank and it is seldom you will benefit from the lower interest rate, as opposed to waiting our your fixed term period.

Fixed Rate Lock Agreements

A rate-lock agreement can be signed to ensure the negotiated fixed interest rate is guaranteed.
We have a pdf available with more information for you upon request.

Floating Rate Loan

A floating rate loan is great for those who want the flexibility and are willing to monitor interest rates.

The floating loan can be paid off at whatever speed you see fit, either the minimum loan repayment calculated by the loan term, or in lump sum payments (one or more).

If interest rates drop in the market, the bank can reduce your interest rate in line with this, thus reducing loan repayments. You can choose to remain paying the same repayment however, which means you will pay your loan down sooner.

Revolving Credit Facility

A revolving credit works like an overdraft facility with a credit limit that does not change. Your particular bank will charge a fee (anywhere from $2.00 - $6.00) for this, depending on who your loan is with.

This type of loan facility is great for those who want flexibility and are good money managers. The revolving credit means you can draw from the funds like a credit card. When funds are drawn, interest is charged. The interest rate changes daily so the lower the daily balance, the less interest charged.

The balance of the loan can be repaid at any speed (if, at all) without penalty and funds can be redrawn to the credit limit at any time if required.

If this revolving credit facility is not managed correctly, it can work in your detriment, as by drawing down and not making repayments, can mean the loan sits there static or increasing, meaning your interest repayments increase.

This is a type of floating loan, so where rates increase, the bank can change your interest rate (with notice) to fall in line with the increased rate. This will increase your loan repayments. This needs to be closely monitored; as you do not want payments to increase to a rate you cannot afford to pay.

Split Loan

This involves merging both a fixed loan and a floating loan, or multiple portions of each. It breaks your lending into parts, meaning you can choose what parts you would like to fix and what part you would like to float.

By splitting your lending into portions, it means you can be equipped to soften the blow of changes in the market and also means your entire loan does not mature at the same time.

This structure can give you both certainty (fixed) and flexibility (floating), however it will have to be actively managed the same way you would manage a fully floating loan. It can also make it more difficult and expensive if you refinance.

Interest Only Repayments

With loans with an 80% LVR or less, an interest only repayment schedule is an option. These are offered on a case by case basis by the bank. This allows the loan repayments to be reduced for a specified period of time, in situations where paying the loan principal is not a priority; such as-

- Those who are constructing a home and paying for rent or another home loan;
- Those who are waiting on their house to sell;
- Property investors who want to minimise repayments on their investment properties, especially where they are also paying for personal lending.

It is important to note that interest only repayments are for a short period of time (one to five years) and ongoing approval from a bank is not certain. Where the interest only request is not approved or the interest only period is complete, the loan repayments will rise. When this happens and your loan repayments rise, it is a two-fold rise:

1. You will be paying both principal and interest on your lending, as opposed to interest only; and
2. Your loan term has decreased and you are paying principal and interest on a shorter overall loan term (e.g. 30 year loan term with a 2 year interest only period becomes a 28 year loan term paying principal and interest).

BREAK EVEN ANALYSIS

A break even analysis is the tool used to aid you in deciding the structure of your loan – fix or float? If you fix, how long should you fix for?
This analysis is a calculation of a set future mortgage rate which is mathematically implied by the set of current interest rates.
For more information on Break Even Analysis, please ask one of our team.

NEXT STEPS

From here, we need to know:

- Your preferred loan structure (Fixing/Floating/Revolving Credit/Splitting/Interest Only)
- Your preferred interest rate and term (if fixing any or all of your lending).
- Completion of a Rate Lock Agreement (if applicable).

We will contact you to discuss these options as well, but it is important that you understand your lending and make an informed decision.