WHAT IS A RATE-LOCK AGREEMENT?

A rate-lock agreement is a document provided by your bank when you are fixing in your loan (or a portion of your loan). It can be "locked in" up to 60 days in advance of your loan coming to the end of its fixed rate period.

It "reserves" the chosen interest rate for you, whether you fixing in new lending or refixing your current lending. It allows you to arrange your loan amount, the interest rate you will pay and the payments you will make. It gives confidence to you, the home owner, as you know exactly where you stand with your home loan interest rate, therefore being able to budget accordingly.

However, if you change your mind **after** you have signed the rate-lock agreement and it has been processed by your bank (for example, interest rates come down further and you want to take advantage of this), there is likely to be a non-utilisation recovery fee.

WHAT IS THE NON-UTILISATION RECOVERY FEE?

When you sign a reserve rate-lock agreement, there is no cost to you as a client. The agreement confirms the dollar amount, the interest rate and length of time the rate is in place.

This fee is in place because it gives your bank certainty on what kind of payment they can expect from you. It gives your bank the ability to source the funds for your loan from a "wholesale" market, which also gives the bank the ability to keep interest rates as low as possible.

There is also a chance your bank has entered into an agreement to fund this loan. If you change your mind after the rate-lock agreement has been signed and processed, or you do not draw down on the entire loan, your bank will still have to meet its contractual obligations. This fee is in place to compensate the bank for the cost of holding the fixed interest rate for you.

BEFORE YOU SIGN THE RATE-LOCK AGREEMENT, YOU NEED TO ENSURE THAT IT IS THE RIGHT CHOICE FOR YOU AND THAT YOU UNDERSTAND WHEN A NON-UTILISATION FEE MAY APPLY.

IF YOU FEEL LIKE YOU MIGHT CHANGE YOUR MIND, BE UNSURE ON THE STRUCTURE OF YOUR LOAN OR YOU THINK INTEREST RATES MAY DROP, IT MAY BE BEST TO TAKE THE INTEREST RATE ON THE DAY OF ROLLOVER.