Fixed Rate Fact Sheet

When considering that a Home Loan will often be paid off over a long time (often over 30 years), there will be circumstances where you consider fixing your loan for a period. The following will help you understand the benefits of fixing the interest rate, and what you should be careful of.

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What is a fixed rate loan?

Fixed rate loans give you the ability to set your interest rate (and your repayments) for a fixed period of time. Most lenders have fixed rate loans with fixed terms of 1, 2, 3, 4, 5, 7 and 10 years.

The advantages of fixing your interest rate

1. Your rate is locked in – so you have certainty during the fixed period.

2. If rates go up – e.g.: the RBA or your lender decides to increase variable rates – then you may be fixed in at a lower rate than the rate you would have on a variable loan.

3. Especially popular with investors wishing to have certainty over their repayments who are also confident that they will not be wanting features like lump sum payments, redraw and offset with their loans. Owner occupiers tend to want these features more.

4. Vision will never be able to advise you whether variable interest rates are likely to move up or down in the short, medium or long term.

The disadvantages of fixing your interest rate

1. If rates go down – e.g.: the RBA or your lender decides to decrease variable rates – then you may be fixed in at a higher rate than the rate you would have on a variable loan.

2. Inflexible in a number of ways –
A: Generally, you cannot pay large chunks off the loan. e.g.: if you come into a lump sum of money (bonus, inheritance, etc.), you may not be able to use this towards your fixed rate loan without incurring a penalty
B: Usually you do not have the ability to use a 100% offset account and there are generally restrictions on the use of redraw facilities.

3. The potential for break costs and rate lock fees. Read more below.

Break costs

A break cost may be incurred if you pay out or substantially pay down your fixed rate loan during the fixed rate period. Break costs are unique to fixed rate loans. They are sometimes called Early Repayment Adjustment Fees. This is not the same as Exit Fees which have come to prominence recently with ASIC's ban. Break costs have not been banned by ASIC and will continue to potentially apply to borrowers who have a fixed rate loan.

You or Vision have no way of knowing today whether you will incur a break cost if and when you break your fixed rate loan. These fees can be thousands of dollars (even over $10,000).

Rate Lock Fees

If you choose to fix your rate, we will present you with the published fixed rate on the day of your appointment. This fixed rate may change between the time of recommending a fixed rate loan and settlement. Some lenders will apply the fixed rate on the date you are unconditionally approved, others will lock it on the day you send your loan contracts back, others will apply the fixed rate on settlement date.

If you want to lock in the fixed rate that we show you, lenders will do that if you agree to pay a rate lock fee. Some lenders charge a flat fee, others charge 0.1 to 0.2% of the loan you are fixing.

Other comments

We caution against using fixed rate loans to 'beat the market' as you are gambling on future interest rate movements. It may also not be a good idea to fix your interest rate if you think you might sell your property, make large repayments or switch to a variable rate within the fixed rate term. Often we talk about fixed rates being like insurance, being available to protect yourself against rates going up and your repayments becoming unaffordable