

Fixed or Variable

One of the most frequently asked questions when choosing the right loan is whether to take out a fixed interest rate loan or a variable interest rate loan. Unfortunately, the answer to this question is not straight forward as your individual circumstances will greatly influence the best way to structure your loan.

The following information will provide 'food for thought' to assist you in making this very important decision.

When deciding which loan type and structure to settle for, the following points should be considered.

Fixed interest rate loan

A fixed interest rate loan should be considered if the following apply to you:

- You are on a tight budget and need certainty of the repayment amount each month;
- You are an investor looking to achieve a fixed return on your investment; and
- You believe interest rates may rise significantly in the future.

Break costs may be applicable if paying out the loan within the fixed rate term, so this must also be considered.

Variable interest rate loan

You should consider a variable interest rate loan when:

- You want ultimate flexibility with your loan;
- You want to be able to make large principal repayments on your loan; and
- You have the capacity to absorb increases in interest rates without undue hardship and conversely, benefit from any rate decreases.

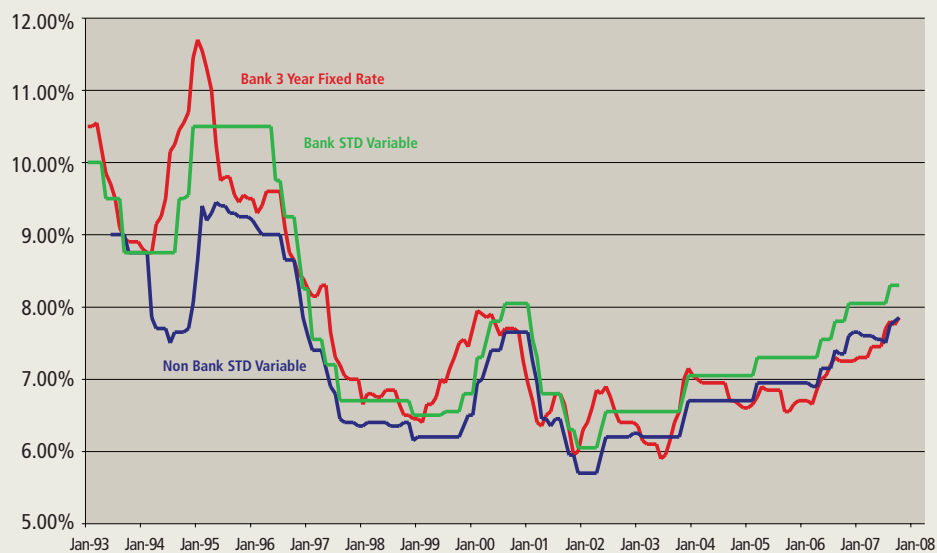
Alternative strategies

If you want to have the best of both worlds then you might consider a split, or combination loan where part of the loan is fixed and the remainder is on a variable interest rate.

Another strategy for those with the capacity to repay more than the minimum is to take out a variable rate loan, and then voluntarily set your repayments as though interest rates were somewhat higher, say 2% higher. That way if rates increase you may not need to adjust your repayments. The advantage of this method is that while the variable rate is below your imaginary fixed rate, you will be paying extra off your loan thereby reducing the loan term and saving interest.

Your Bernie Lewis Home Loans Accredited Mortgage Consultant will happily discuss each of these options with you in more detail and help tailor a loan package that is right for you.

The chart below shows a comparison of the bank 3 year fixed interest rates versus both the bank and non-bank standard variable rates dating back to January 1993. Note that there have only been four periods where the 3 year fixed interest rate has been lower than the non-bank variable rate but in the first instance the variable rate kept decreasing over the following 13 months.



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