

INTEREST RATES SERIES PART 3:

TO FIX OR NOT TO FIX – THAT IS THE QUESTION!

The Reserve Bank Interest rate is now at an all-time low. Not all banks have passed on the interest rate cut, but we expect interest rates to go lower a bit further.

Several clients are now asking us these particular two questions:

- **Are rates going lower, or are they going to stay that way for some time?** The Reserve Bank has recently indicated that interest rates are likely to be cut lower by them. That doesn't mean that all banks will pass on the interest rate cut, as other things are going on in the background of banks. The Government Regulator, APRA, has been setting higher lending standards. That means it is harder for banks to lend, which in turn means that they may not pass on the whole interest rate cut. Interest rates as a whole are likely to go down, or at least be maintained at these current levels.
- **Should I fix my Home Loan?** As a general rule, we don't like to fix home loans, as it is a gamble as to whether interest rates go up or down. We find that a lot of people try to chase the interest rates because the interest rates are low. When the banks are trying to lock the interest rates away for their profits, sometimes interest rates can fluctuate up or down, and as such, we prefer to have variable rates.

Also, fixed loans generally only allow you to pay an additional \$10,000 per year off the loan without being charged an early payout penalty. You should check your contract and confirm this with your bank before you lock in a fixed interest rate.

Tax Planning & Investment Loans

For investment loans and tax planning, we will consider using an interest in advance strategy. That strategy requires you to pay a whole year's worth of interest in advance, so to calculate the interest rate at the time of funding, you are fixing the interest rate.

Also, by fixing your interest rate for your investment loan, and

leaving your home loan variable, you can work on paying down the home loan debt as there is no tax benefit.

Things to Consider

If you do decide that you want to fix your interest rate we recommend considering the following:

- If you set an interest rate, then consider locking in an interest rate for a period of time (say 2 years or 3 years) and then at the end of that term you fix for the same period again years so that you are not getting in a position where you lock your rates for too long or too short.
- Consider a mix of variable and fixed interest, so that you can blend the benefit of a fixed rate that is not going to go up, with the ability to pay extra money off your home loan, and to take advantage of the interest rates if they do go down.
- Interest-only versus principal and interest so that you can look at the cash flow for fixing your loan, and maybe do that loan as interest only, and pay any additional capital off your variable loan.

We always recommend taking advice before you do anything and consider your overall financial goals, your tax structure, and your cash flow and income to make an informed decision.

If you have any further questions regarding this matter, please contact us on (08) 9227 6300 or email clientservices@austasiagroup.com.

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How can we help you?



AustAsia Group
Business, Finance & Taxation Solutions

AustAsia House, 412 Newcastle Street, West Perth WA 6005

PO Box 332, Leederville WA 6903

T: (08) 9227 6300 **F:** (08) 9227 6400 **E:** clientservices@austasiagroup.com

www.austasiagroup.com

