



If I was given a dollar for every time someone asked:

“So what’s going to happen to rates?” I’d be giving Trump a run for his money!

Unfortunately the economic future doesn’t appear as I stare down into my mug of Lipton. However, it doesn’t take tea leaves to predict that we’re at the bottom of the current interest rate cycle, and rates only have one way to go...

+ When will the RBA raise rates?

Although the official cash rate is unlikely to increase in the immediate future, Reserve Bank Governor, Philip Lowe, has given many signals, including a recent remark that encouraging more borrowing "is unlikely to be in the public interest", which show he's not planning to make any further cuts either.

+ So why are the banks increasing their rates now?

Simply put, the "Trump effect" has set the expectation that higher inflation is on the horizon, causing bond rates to soar, which increases the banks costs of acquiring funds.

Over the last few weeks there has been a sharp hike in fixed rate loans - with some lenders increasing their fixed rates by as much as 0.65%. Whilst out of rate cycle changes to fixed rates are not that unusual, what isn't as common is lenders increasing their variable rates, which is fuelling media coverage and causing uncertainty amongst borrowers.

Online NAB subsidiary UBank raised their variable rate by 0.10% last week to "achieve a balance between home and deposit customers." Today NAB announced that they will increase the variable rate for all Investment property loans by 0.15% on the 12th of December. Westpac and Bank of Melbourne are raising the variable rate by 0.08% for all customers on interest only loans effective 16 December. Other lenders are expected to follow suit due to increased funding costs, long term outlook and pressure from APRA to tighten policies around investment and interest only lending.

+ What does this mean for me?

Even a small increase to your rate can make a big difference. Let's take an average \$400,000 loan:

0.25% increase = \$83 extra interest per month.

1.00% increase = \$333 extra interest per month - That's \$4,000 of your post tax annual income!



+ Should I fix my rate?

Like Trumps toupee, there is no one size fits all answer to this. There are still competitive fixed rates available promising peace of mind for the next 1-5 years, but before jumping in you must consider whether fixing fits in with your long term plans. There are downsides, including break costs and lack of flexibility. You may find that locking in a better discount off your variable rate loan to counteract the blow of a raise or two suits you better.

+ What if I want certainty without constraints?

A loan made up of a fixed and a variable rate portion may be a good option for you. The fixed amount can tick away at the guaranteed rate, whilst the variable split can still have a great discount applied, an offset account attached, and the ability to make extra repayments without being penalised.

+ How much should I fix, and for how long?

You need to weigh up how long you're likely to own your property, if you're likely to sell without buying again, and your potential to save and/or make extra repayments over that time.

That's it! I'm cancelling Christmas.

"Before panic sets in and you boycott all festivities, have a chat with one of our Lending Specialists. We can help you decide on the best way to structure your loans, compare your current lender's offer to the market, negotiate rates on your behalf, and walk you through your options to ensure you're in the best position to weather imminent rate rises."

Josh Durrant - Senior Lending Specialist.

For more information contact us 03 9686 4976 / info@choicecapital.com.au

[REQUEST A LOAN REVIEW HERE >>](#)