



Because of the current interest rates is it better to have a fixed rate mortgage rather than a variable one? My mortgage broker doesn't agree but I don't understand why? Can you explain it?

To fix or not fix your interest rates is the \$64,000 question for most borrowers these days, particularly when a lot of economists are divided concerning the future direction of interest rates.

A fixed rate mortgage is where you can fix your interest rate for a certain period of time, usually between 1 to 5 years. Generally for this privilege you have to pay a slightly higher interest rate than the variable rate at time of application, but you are provided with piece of mind with certainty of your repayments. Those that fixed their rate a few years ago are now enjoying smaller repayments than those with variable loans.

A downside to fixed rate mortgages is that you do not have the freedom of making extra lump sum repayments off the loan, in fact sometimes you may be penalised if you make extra repayments.

Whilst most mortgage providers will allow you to switch between fixed and variable, you should be aware that there may be some costs involved in the switch and these may nullify any benefit that you may receive. You need to do your homework prior to switching.

If you are likely to be stressed by further interest rate rises, I suggest you consider fixing part or all of your mortgage to get certainty of your repayments.

I actually prefer to have a mixture of fixed and variable. This will give you the best of both worlds, certainty of paying a set repayment over a chosen period of time for the fixed part, plus the flexibility of being able to vary loan repayment amounts and make lump sum payments off the variable part of the loan. You are effectively hedging your bets with your repayment options.