



# FACT SHEET



## Fixed Rate Loans

A FIXED RATE loan occurs when the interest rate is fixed at a predetermined rate for an agreed term. Whilst they protect the borrower from interest rate rises they do not reduce in times of interest rate falls. The standard fixed terms offered by most lenders are 1,2,3,4, and 5 years, although some lenders have offered fixed rates for periods of 10 or 15 years.

### Benefits of Fixed Rates

#### 1. Certainty of Rate.

During the agreed term, the interest will not change regardless of what happens to variable interest rates. It therefore provides the borrower with its major benefit - certainty of rate.

#### 2. Certainty of Repayment.

As the interest rate is fixed, the monthly repayments will remain exactly the same for the fixed rate period.

#### 3. Choice of Repayments

Fixed rates are usually offered on a choice of Principle and Interest, Interest Only, or Interest In Advance terms.

### Risks of Fixed Rates

#### 1. Limited Flexibility

Most Fixed Rate Loans have strict restrictions and DO NOT ALLOW additional repayments. A few lenders will allow some additional repayments however these are usually limited, such as allowing one months repayment in advance or a maximum of \$10,000 per annum. These restrictions can be avoided by Split the loan into two loans part fixed and part variable.

#### 2. Break Fees

The borrower are unable to vary the repayment amount during the fixed term without cost. Most lenders penalise the borrower if additional repayments are made or if the Fixed Rate Period is broken. This penalties are known as “**Economic Costs**” “**Early Termination Interest Adjustments**” “**Break Fees**” or “**Early Repayment Fees**”.

**CARE - Economic costs can be very expensive and breaking a fixed term should be avoid where possible**

#### 3. Automatic Rollover

If you do not advise the lender otherwise the Fixed Rate will automatically rollover to the lenders Standard Variable Rate which may be at an uncompetitive rate.

### What is a Rate Lock?

Up until the loan has settled the “quoted” Fixed Rate is indicative. This means the actual rate you get may change between the time you applied for the loan and settlement. Some lenders may offer you the chance to **lock in the rate** at the time of application. This is known as a “Rate Lock”. To do this you will normally need to sign a Rate Lock Form and/or pay a Rate Lock Fee .

### What happens at the end of the Fixed Term?

At the end of a fixed term the borrower usually has the option of reverting to the lenders standard variable rate or they can apply to fix for another term. A Switch Fee may be applicable at this point. If you do not notify the Bank of your intention the Bank will automatically revert the Bank’s Standard Variable Rate which may be uncompetitive.