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固定利率还是活动利率？
To fix or **NOT to fix**?

This is a question many people consider when taking out a home loan. Below are the essential facts about fixed & variable rates which you need to know before making a decision.

Fixed Rates
A fixed rate is just that: the rate that your loan settles at will stay fixed for the period you have chosen.

Benefits of a fixed rate loan include:

- Having set monthly repayment amounts for the whole fixed period.
- Protection against any possible future variable rate rises.

Drawbacks include:

- Restrictions may apply on any extra repayments you make into the loan.
- Any extra repayments you do make may not be able to be redrawn.
- There may be **penalties** which apply if you **break** your fixed rate term.
- If variable rates decrease lower than your fixed rate, you will be paying more than you otherwise might have been.

After a fixed rate term expires, you have the choice of renewing your loan with another Fixed Rate for a set period generally at no charge, or reverting to a Variable Rate loan.

Remember that the great majority of loan terms are over 30 years. If you chose in the beginning to fix for four years paying interest only, and at the end of that time decided to revert to a variable rate paying principal and interest, your monthly payments would be worked out over a term of twenty-six years. The effect of this is that your monthly payments may increase depending on what variable rate your loan converts to.

Tip:

If choosing a fixed rate loan for 5 years and your financial situation changed and you prepare to sell the house or refinance to other lender during the fixed rate term, this may incur huge penalty – so called “break cost”.

Variable Rates
A variable rate will vary according to various market conditions such as changes made to the official cash rate by the Reserve Bank of Australia, external market forces, availability of funding markets, etc.

Benefits:

- Greater flexibility, such as the ability to make and redraw additional repayments
- If your variable rate falls, you may be making lower repayments than if you had fixed your rate.
- Drawbacks: If the variable rate rises, your monthly payments increase.

Tip:

If choosing a variable rate loan, plan your finances situation and budget for several interest rate increases in future.

Historically, higher interest rates prevail for only short periods of time, from a few months to a couple of years. When the higher rates have achieved the desired result of slowing an economy that is growing too fast, rates will start to come down again.

Should I choose a Fixed Rate or Variable Rate?
Many experts say that fixed rates are a better option in a rising interest rate environment; however, the benefits gained in the short term may not be enough to counter the lack of flexibility associated with these loans.

The key is to examine your financial position closely, paying particular attention to:

- Your work situation
- The length of time you expect to stay in your property
- Whether you plan to have children
- Any prospects of increases in your income

Always remember, it is difficult, even for the experts, to predict which way interest rates will go.