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Variable, Fixed and Split

This document contains useful information on your 3 main loan types.

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Fixed Rates:

The rate is fixed for a specified term (typically 1, 2, 3 or 5 years) giving you certainty of interest and repayments for that term.

Fixed rate benefits:

1. Avoiding risk of increasing variable interest rate during fixed interest period.

2. Make budgeting easier.

Fixed rate risks:

1. Rate is fixed at a point in time and applicant(s) will not benefit from subsequent market interest rate reductions during fixed rate period.

2. Rate may change between the time of approval and the time of drawdown if a rate guarantee/lock has not been obtained.

3. Limited or no ability to make additional repayments while the interest rate is fixed.

4. You may not have the ability to redraw or utilise an offset account to reduce interest. Few lenders offer fixed rates with an offset account.

5. Possibility of expensive break costs if, during the fixed interest rate period, you:
   - Repay the loan in full.
   - Switch to another product or loan type.
   - Make additional repayments over and above any prescribed limit.
   - Sell the property.
   - Seek further funds.

Variable Rates:

Interest charged and repayments will change to reflect interest rate movements.

Variable rate benefits:

1. Take advantage of potential future decreases in the interest rate.
2. Flexibility with respect to repayment, redraw and/or early repayment of loan.
3. Typically the option to add a linked offset account (if opting for a Standard Variable).
4. No break costs.

Variable rate risks:

1. Interest rate and repayment amount may increase while the loan is on a variable rate.

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A Mix of Variable & Fixed Rates (Split loan):

Where you may want a loan split between fixed and variable portions (could be 50%/50%, 80%/20% etc...). On the fixed portion, the rate is fixed for a specified term giving you certainty of interest and repayments for that term. On the variable portion the interest charged and repayments will change to reflect interest rate movements.

Split (fixed/variable) benefits:

1. Limiting risk of increasing variable interest rate to obtain some benefit from potential future decreases in the interest rate.
2. Retaining a degree of flexibility in relation to increased repayments, redraws and/or early repayment on part of the loan.
3. Make budgeting easier than if the entire loan were variable.

Split risks:

1. You will not obtain the full benefit of rate decreases and will still have some exposure to the risk of rate increases.
2. You will generally not be able to change the ratio of the fixed and variable portions.
3. You will be required to make separate repayments for each portion.
4. The fixed rate may change between the time of approval and the time of drawdown if a rate guarantee/lock has not been obtained.
5. Limited or no flexibility in relation to the fixed rate portion concerning making additional repayments, redraws and offset accounts during the fixed rate period.
6. Possibility of expensive break costs in relation to the fixed rate portion if during the fixed rate period, you:
    - Repay the loan in full.
    - Switch to another product or loan type.
    - Make additional repayments.
    - Sell the property.
    - Seek further funds.

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Summary (Key differences)

	Basic Variable Rate (non-packaged)	Standard Variable Rate (packaged)	Fixed Rate (non-packaged)	Fixed Rate (packaged)
Rate Type	Variable	Variable	Fixed (typically 1, 2, 3, 4 or 5 years)	Fixed (typically 1, 2, 3, 4 or 5 years)
Interest Rate	Typically lower than the SVR	Typically higher than the BVR for loan amounts less than $1m	Typically higher than the packaged fixed rate	Typically lower than the packaged fixed rate
Eligible for Pricing/Rate Discounts	Typically carded/advertised rates	Typically can be priced	Typically carded/advertised rates	Typically carded/advertised rates
Extra Repayments	Yes - unlimited	Yes - unlimited	Typically yes - but limited	Typically yes - but limited
Redraw	Yes - potential for limitations	Yes	Typically no or limited by the extra repayments	Typically no or limited by the extra repayments
100% Offset Account	No	Yes	No (only a handful of lenders offer an offset account on a fixed rate)	No (only a handful of lenders offer an offset account on a fixed rate)
Credit Card included for Free	No	Typically Yes	No	Typically Yes
Application Fees	Typically yes	No	Typically yes	No
Annual Fee	No	Yes (typically $120 - $395)	No	Yes (typically $120 - $395)
Early Repayment/Break Fees	No	No	Yes	Yes