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Media Statement

INTEREST RATES: TO LOCK OR NOT TO LOCK?

Homeowners and investors are being urged not to panic in the wake of the recent interest rate rise.

Image Financial Group director Maria Amos said the Reserve Bank's recent decision to lift interest rates by a quarter of a per cent had created a lot of confusion among property owners.

"Many people are now worrying about whether or not to switch to a fixed interest rate home loan, but the key point is not to feel pressured into a decision based on future rate predictions," said Ms Amos.

"While some analysts are forecasting interest rates of up to 9 or 10 per cent by 2008, further rises are not necessarily guaranteed.

"Anything can happen, and traditionally variable rate loans are the better option about 80 per cent of the time, so home owners shouldn't feel pushed to jump in and fix their rate."

Ms Amos said the decision to lock in a fixed rate loan should always be made after careful consideration of your personal situation.

"If you know that your budget definitely can not withstand any further rises, it may be a good option to lock in your rate, but this strategy is not the best option for everyone as it can prove costly and reduce your flexibility," she said.

Ms Amos recommended keeping a cool head and considering the following before making a final decision:

- Can your budget handle a further increase in interest rates? If so, you may not wish to move too hastily.
- A superior option can often be to fix only a portion of your loan, while keeping the other portion variable.
- Locking in to a fixed rate may affect your ability to make additional repayments.
- If you do wish to move to a fixed rate loan, consider locking in for a shorter term.
- Fixed term loans can be subject to heavy 'break' costs if you wish to get out of the loan before the end of the fixed period (such as when changing banks).
- For a new loan, consider if it's best to lock in your interest rate at the time of application or at the time of settlement.

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