

There are ways to avoid falling off the variable home loan cliff

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ALL year there have been predictions about June being the month that many Australians would fall off the fixed rate home loan cliff.

The concern was that those who managed to fix their home loan interest rate at less than 2 or 3 per cent during the pandemic would shift to variable.

Given there's been 12 rate rises since May 2022, the shift from a fixed rate to variable could put serious pressure on household budgets.

So, how can you change the course and avoid the cliff?

As a finance and lending expert who's been around for almost 20 years, I have heard the same types of questions from all my clients - What do I do? What happens when the fixed-rate ends? How will it affect our lifestyle?

Loans will always revert to a variable rate, so right now is a good time to consider what can be done to renegotiate the variable rate so that the least effect possible is on the family purse strings.

A popular option at the moment is to

A shift to variable interest doesn't have to be the end of your home ownership journey.

refinance your home loan.

By refinancing to a lower interest rate than the revert rate offered by the lender after the fixed rate expires, home owners can potentially reduce their monthly repayments.

However, several factors can make this option unviable.

Negative equity, for example, the inability to borrow the same loan amount again at a new bank, or even a change in household income, can kill this option.

The trick is to find a broker who works with their client's best interests top of mind, who educates their clients, discusses whether there are any savings to be found in changing from monthly repayments to weekly or fortnightly repayments, and encourages clients to request a better deal from their existing lender first.



Repeated interest rate rises have put home owners under pressure. Picture Shutterstock

Most lenders will want to keep your business and will eventually usually come to the party, especially if you have demonstrated a good repayment history.

Here are our top three tips to avoid

smacking headfirst into the sharp and rock abyss that is the fixed rate mortgage cliff.

1. Understand exactly when your fixed interest rate is due to expire, then work back six to eight weeks to work out your deadline on when you need to decide what to do next.

2. Engage with your broker, banker or lender and ask them to help manage the changeover process from fixed to variable. They will work with you in the background to objectively give you options and recommendations.

3. If you can't refinance for whatever reason, then make sure you speak to your broker, banker or lender about the options available.

Feel free to ask the lender you're with now for a better deal. Also, ask them if you can pay more regularly, such as weekly or fortnightly, and get them to clarify why this may be better for you and your situation.

I've seen firsthand the effects of rising interest rates on Australian families, and I know the extra pressure that is being added to household budgets.

But a shift to variable interest doesn't have to be the end of your home ownership journey.

|| Chris Foster-Ramsay is principal finance broker at Foster Ramsay Finance.