Choosing a Fixed Rate Mortgage over a Variable Rate Mortgage by Crowin Smith

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Borrowers in Australia are divided between variable and fixed loans. When choosing between the two, one would have to analyze the market trend in relation to his or her financial goals and needs. The economic climate can change erratically at any given moment. Back during the 1980s, interest rates in Australia jumped by 17%. The Reserve Bank for its part did whatever it can to slow down the economic turmoil by implementing several increases in rates. It was during this particular period when a lot of home owners decided to sell their properties because they no longer have the means to fulfill their monthly mortgage obligations. While the market continued to experience a pile up of properties, their values dropped. A lot of homes were sold for very low prices. In the United States , the result of the property bubble were similar. There was a high rate of foreclosure and the price of properties was very low. After the rates increased, those who took advantage of low-priced properties were no longer able to pay their monthly dues. Nobody had anticipated the jump in interest rates that time. Australia on the other hand is trying to avoid another 17% increase. Todayâ€™s low interest rates, when compared with those of the 1980s, are responsible for a lot of people incurring record high debts. Some predict that should interest rates go below17%, borrowers will have a problem.

One way to avoid the perils of rising mortgage rates is to secure a fixed rate mortgage. This type of loan allows you sit back and relax because you will not be affected by any mortgage rate increase. This makes budgeting easier since you wonâ€™t be anticipating any added payment on your mortgage. Still, the most important benefit of a fixed rate loan is the security they provide against rising mortgage rates, which means the borrower has little to worry about losing his or her property to foreclosure since repayment will not be a problem. As a rule of thumb, it is advisable for most people to lock at least half of their mortgage in a fixed rate while the other half remains as a variable rate. This allows them to enjoy both worlds: security against rising interest rates and low interest payments when official rates go down.

Most of the time, borrowers with fixed mortgages are not allowed to refinance. They will be charged with high exit fees if they decide to switch to another loan.

When figuring out how much your monthly repayment will be for your fixed rate loan, all you need to do is use a fixed rate mortgage calculator, which also allows you to compare fixed mortgage rates with variable mortgage rates.

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