ARE YOU FACING A SIGNIFICANT REPAYMENT SHOCK?

During the pandemic, interest rates dramatically dived and tens of thousands of first home buyers, many with more cash in the bank, realised (for the first time in decades) that it was less expensive, or at least on a par, to repay a mortgage rather than pay rent.

New and existing mortgage holders scrambled to lock in low interest rates as they saw their monthly payments almost halve.

Covid changed everything

During Covid the Reserve Bank provided about $2 billion in loan funds – at 0% interest – to financial institutions to on-lend to their customers.

What followed was a range of highly competitive loan products being issued from the major banks. Other second tier financial institutions followed by offering historically record low fixed interest loans – as low as 1.79% – for between two and four years.

With Covid being considered a 1-in-100-year event and the perception that interest rates would not be this low again, approximately 50% of borrowers fixed their loans to cash in on these never before seen interest rates.

Mortgage holders wanted to protect themselves from any interest rate rises likely to occur when the world came out of Covid restrictions.

If you have been hearing about the 'Mortgage Cliff' about to happen, it is about the phase we are entering this year where thousands of these fixed interest loans will come to the end of their fixed period and revert to the current market standard variable rate.

Some borrowers will be looking at their home loan interest rate rising from about 2% to between 5% and 6%. This could triple their monthly home loan repayments.

To give you an idea of the size of the problem, during 2023 over $100 billion worth of loans will come off their fixed interest period from just one of the major banks alone!

What does this look like?

If, for example, we take the average mortgage in Australia at approximately $590,000, then the interest only repayment amount at 2% is $983.00 per month. Increasing the interest rate to 6% would result in the home loan repayments jumping to $2,950.00 per month in interest alone.

Property owners in these record-low fixed interest rate loans need to start preparing for this significant increase now!

What to consider

When your fixed rate term expires, lenders can start charging you more in a variety of ways and you may not even realise that you are paying more than perhaps necessary.

When your fixed term ends, lenders can raise the cost of your loan in the following ways:

- Rolling your loan to a standard variable rate that will most likely cost you more and may also not be the most competitive rate in the market.
- Should you decide to refix your loan for another fixed interest period, you may not receive the special deals the lender offers to new borrowers. Depending on your portfolio, the chance of a good discount is fairly rare if your loan reverts to the lender's standard variable rate.
- You may not be offered the same benefits that come with refinancing or switching to a new lender.

DON'T ASSUME YOU CAN REFINANCE

With interest rates changing monthly at the moment and, in some cases, property values having declined since purchasing, borrowers may be at risk of not being able to refinance because their borrowing capacity has dropped materially and their LVR may now be over 80%.

Until we determine these key facts, providing advice on options is difficult or theoretical. Brokers are well placed to undertake this analysis and then assess options most likely available.

DO NOT….

Start applying to a range of different lenders yourself as this will affect your credit score and potentially the eventual decision of lenders who may or may not approve your new loan. We have insights and understand the criteria on how the lenders' credit teams assess your application.

THE POWER OF A PHONE CALL

If you are one of the property owners facing a significant interest rate hike, we want to remind you of the power of a phone call to us before you switch lenders.

There are so many incentives for you to switch right now and we want to help you understand the pros and cons of staying and switching.

Being incentivised to get a cashback to gain your business may not actually be a good outcome for you. However, if it is, then we will gladly help you make the switch.

Sometimes we simply renegotiate with your existing lender on your behalf and you may achieve the same or an even better outcome.

For example, If you have a $1 million owner occupier loan rolling into a 5.56% loan, we may manage to negotiate a 0.5% lower rate with your existing or new lender. This would save you $14,921 over three years.

Even a 0.25% rate decrease would still save you $2,500 in the first year and $7,466 over three years.

Potential impact of a rate cut*

Rate reduction (% pts)	Savings after 1yr ($)	Savings after 3yrs ($)
-0.25	2,500	7,466
-0.50	4,998	14,921
-0.75	7,496	22,367
-1.00	9,993	29,801

*$1m loan, 25 years remaining
Table: Financial Review I Source: RateCity

How we may help you

1. Understand your current loan product and rate.
2. Research your existing lender's best deal AND what other lenders are offering.
3. Understand the value of your property and your LVR (Loan to Value Ratio). This may help us identify the opportunity and help with our negotiations.
4. Confirm with you if it is worth your time to consider and go through the switching process.
5. Understand your options to help make the best decision based on your personal circumstances.

All you have to do is...

Pick up the phone!

It is always a good idea to speak with us directly before you make any moves as we may be able to save you a lot of time, stress and hassle.

As your finance specialist, we can request a rate review on your behalf with your current lender and save you the rigmarole. Because we do this every day, we should be able to present a stronger case to a lender as we will have a better understanding of what a borrower like you could obtain elsewhere.

What if my lender doesn't come to the party?

As your mortgage broker we will also be able to help you refinance externally if you meet the criteria required from a new lender.

You may have a good chance of landing a better rate with our help. With a record $19.5 billion already refinanced in November, lenders are keenly aware that their customers aren't afraid to move.

As a result, lenders are in the mood to negotiate, particularly if they think you might be a flight risk. So reach out today if you would like us to help you navigate your roll off and help with an existing variable rate.

Make sure you read our article **'Your loan transition action plan'**


YOUR LOAN TRANSITION ACTION PLAN

ACCELERATE financial solutions

08 8348 1000
info@acceleratefinancial.com.au
acceleratefinancial.com.au