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LENDING AND DEBT MANAGEMENT

Top 11 Tips for coping with rising interest rates

Are you feeling the squeeze of those extra few dollars on your mortgage repayments due to rising interest rates? There are a few simple steps that consumers can consider to help manage their home loan in changing interest rate conditions. For those borrowers who are feeling the pinch of rising interest rates or who are concerned as to how they will cope if rates rise further, it may be worth reassessing the current conditions of your mortgage to see if there are ways you can save. If you are looking at taking out a home loan, thoroughly consider all your options before committing to a loan to ensure you have the most suitable product for your needs.

Here are some Top Tips to help you cope with rising interest rates.

1. Consider fixing part, or all, of your loan

If you are working to a tight budget and want peace of mind that you will be able to afford your repayments for a fixed period of time, you may want to consider fixing part, or all, of your loan. You should weigh-up costs associated with fixing your loan, together with the higher interest rate you may pay at a fixed rate.

Keeping part of your loan at a variable rate will also allow you to make extra repayments without penalty.

2. Consolidate your debts

As interest rates rise on mortgages, so too do they on personal loans and credit cards. Consider rolling all your debts into your mortgage, so instead of paying up to 17 per cent on other debts such as cars, credit cards and personal loans, consolidate them all into your home loan, so you are paying only around 7 per cent.

3. Assess your current loan product and possibly refinance

If you currently have a loan that offers features that you are not using (eg. offset, redraw), consider changing to a basic product without the 'bells and whistles' that may offer a cheaper interest rate. For example, on a loan of \$250,000 over 30 years, the change from 7.97 per cent (standard variable) to 7.47 per cent (basic variable) is a saving of approximately \$100 per month.

4. Reduce your loan amount with a lump sum payment

If you have some money sitting in the bank or that is not being used for anything specific, consider investing it into your home loan. The difference between a \$250,000 loan and a \$200,000 loan over 30 years at 7.07 per cent is around \$335 per month.

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5. Refinancing extra repayments out of the loan to reduce loan amount

If you have been making extra repayments on your home loan and you have reduced your loan amount, you can refinance your loan so your repayments reflect what you owe on your loan, not your original loan amount. For example, assuming a loan has 18 years remaining and is scheduled to be at \$250,000, however, through extra repayments the balance has been reduced to \$200,000, refinancing the loan over the same 18 year period at \$200,000 will reduce your repayments by approximately \$410 per month.

6. Contribute a larger deposit to your home loan

It will take you less time to pay off your loan (as you'll be paying less interest) and if you contribute more than 20 per cent of the purchase price of your property, you will also avoid paying Lender's Mortgage Insurance (LMI).

7. Don't be fooled by honeymoon rates

Some borrowers are led into a false sense of security when they take out their loan with very low one-year honeymoon rates. However, often these rates default to a higher than standard variable rate after the one-year period has expired. Check comparison tables for all the associated fees and costs with your product, and if you do choose to take advantage of a honeymoon rate, make your loan repayments at the 'post one-year period rate' from the start - you'll be ahead on your repayments, and avoid a shock when the honeymoon rate is over.

8. Discuss a one-off payment variation, permanent reduced payments or hardship variation with your lender

Each of these options means your loan term will increase but you will feel more comfortable with your repayments. The first two options are self-explanatory, while a hardship variation can be requested if your loan is less than \$125,000 and you cannot cover the repayments due to unemployment, temporary illness or another logical reason. You may even be able to postpone your payments under the Uniform Consumer Credit Code. If you have difficulty getting your lender to agree to new payments terms contact a financial advisor. And make sure you ask your lender about any fees these variations will incur.

9. Take out a loan term of 30 years

If you are looking at taking out a home loan, consider the maximum loan term of 30 years. Based on a \$250,000 loan at 7.07%, extending your loan term by five years will reduce your repayments by \$103 per month compared to a 25 year loan term.

10. Factor into repayments further rate rises

If you are looking at taking out a loan, or are reassessing your current loan, it may be a good idea to factor into your repayments further rises in interest rates, and if possible, start to make your contributions at the higher rate. It will not only ease the stress when your repayments increase, but making extra contributions will also put you ahead of your scheduled loan term.

11. Distinguish between those things you 'need' and 'want'

Work out what things in life are most important to you and distinguish between things you 'need' vs. 'want'. Look at small luxuries you may be able to forego and contribute that extra money to making up the difference in your mortgage repayments. You could even consider selling your property or other assets with a relatively high monetary value.

Need to Know More

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