EXPLAINER: *Fixed-Rate Loans*

WITH INTEREST RATES AT AN ALL-TIME LOW, TAKING THE OPTION OF LOCKING IN AN INTEREST RATE ON YOUR HOME LOAN TO GUARD AGAINST POSSIBLE FUTURE FLUCTUATION MAY BE ATTRACTIVE. HOWEVER, IT PAYS TO KNOW THE INS AND OUTS OF FIXED-RATE LOANS BEFORE COMMITTING TO ONE.

When purchasing a property, borrowers can decide between fixed-interest loans that maintain the same interest rate over a specific period of time, or variable-rate loans that charge interest according to market rate fluctuations.

Fixed-rate loans usually come with a few provisos: borrowers may be restricted to maximum payments during the fixed term and can face hefty break fees for paying off the loan early.

However, locking in the interest rate on your home loan can offer stability. For those conscious of a budget and who want to take a medium-to-long term position on a fixed rate, they can protect themselves from the volatility of potential rate movement.

Fixed rates are locked in for an amount of time that is prearranged between you and your lender.

There are some lenders that offer seven-year or 10-year fixed terms, but generally one to five years are the most popular terms. The three- or five-year terms are generally the most popular for customers because a lot can change within that amount of time.

Further to this, fixed-rate loans can also be pre-approved. This means that you can apply for the fixed-rate loan before you find the property you want to buy.

When you apply for a fixed rate, at the point of application you can pay a fixed rate lock-in fee which will, depending on the lender, give you between 60 and 90 days from the time of application to settle the loan at that fixed rate.

You pay a fee to protect your interest rate. Alternatively, you can choose to lock the rate in at the time of actual approval.

Pre-approval helps you to discern how much money you are likely to have approved on official application. Knowing that your potential lender will offer a fixed-term interest loan grants further peace of mind for those borrowers looking to budget precisely rather than be susceptible to rate fluctuations.

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