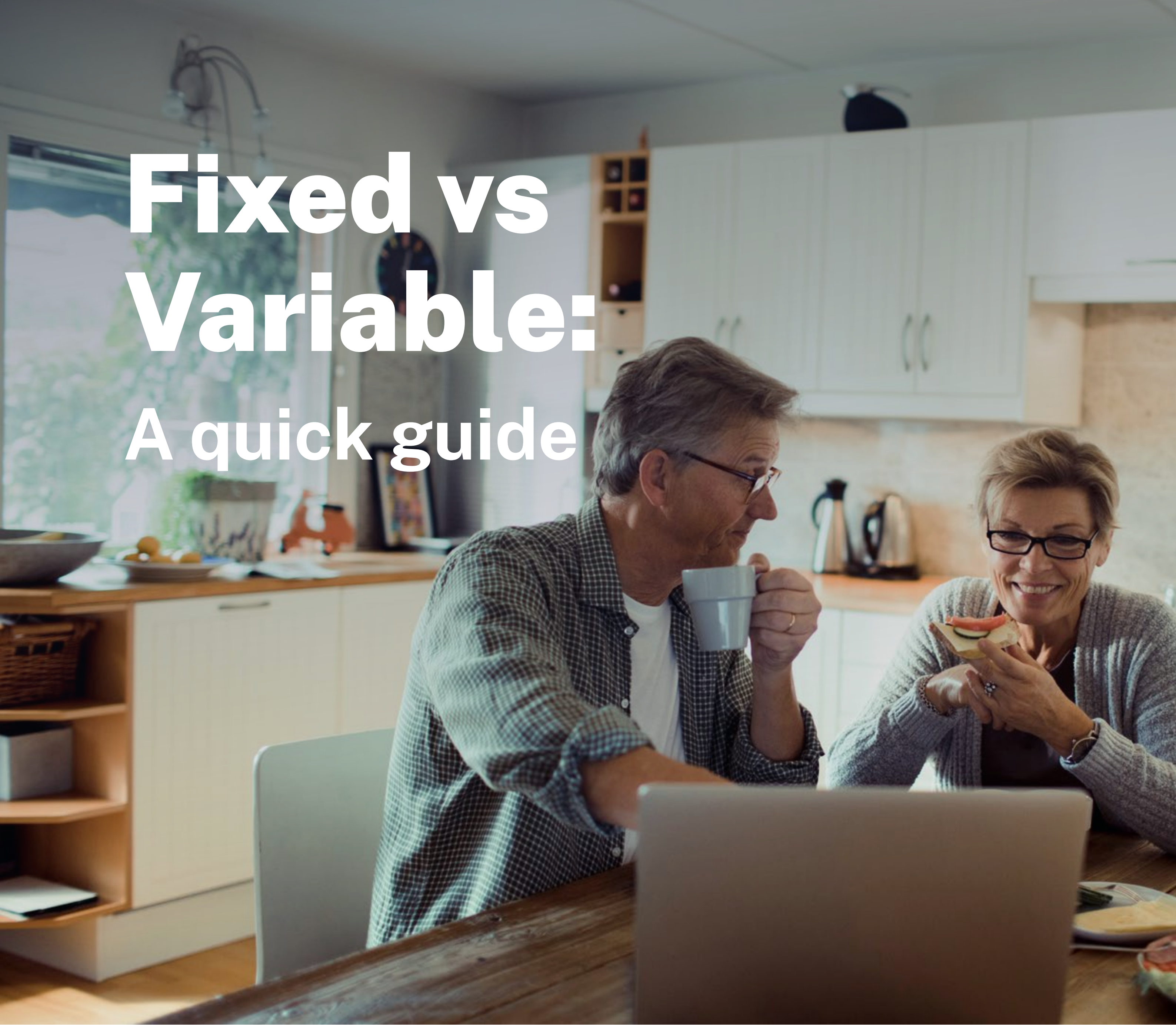
Fixed vs Variable:

A quick guide



Remember – there is a lot more to your home loan than fees and rates.

In this guide is some information explaining the different types of loans and their features to help you make an informed decision on what you are looking for from your home loan.

Variable Rate

Interest rates will move up and down depending on factors such as the official cash rate, market conditions and each lender's decisioning. When interest rates go down, so will your minimum repayments. But when the rates go up, that means your payments will too.

The pros of a variable rate are:

- **Repayment flexibility:** Variable rate loans allow for a wider range of repayment options, including the ability to pay off your loan faster without typically incurring any break costs. Some variable rate loans also offer features like offset accounts or redraw facilities that work to reduce the loan balance you pay interest on, while still allowing you to access surplus funds.
- **Easier to refinance:** If you find a better deal elsewhere, it's normally easier to switch to a different lender or home loan product if you're on a variable rate, without attracting break costs.
- **You stand to pay less if rates fall:** Lenders may cut rates for a variety of reasons, mainly in response to reduced funding costs. If you're on a variable rate, this means you'll reap the benefits of lower repayments.

The cons of a variable rate are:

- **You stand to pay more if rates rise:** Lenders can change a variable interest rate at any time. For borrowers, this means their rate is likely to fluctuate over the life of their loan. If your bank raises rates, your repayments will also rise.
- **Cash flow uncertainty:** Because rates can change at any time, it is not as easy for you to predict your mortgage repayments over the long term with a variable rate. This inevitably means a variable loan requires more flexibility from the borrower. Making use of loan features including offsets and redraw facilities can help smooth out cash flow concerns, should unexpected events arise.

Fixed Rate

Interest rates can typically be fixed for one to five years.

This means that even if rates change, your repayments stay the same over the fixed period.

This will help you to manage your budget by knowing exactly what you'll have to pay.

A fixed interest rate can be useful to help protect you against potential interest rate rises, however it can mean that you're stuck with the fixed rate even if variable interest rates decrease during the fixed period.

Another thing to consider is there may be significant break costs to change the loan before the end of your fixed term.

The pros of a fixed rate are:

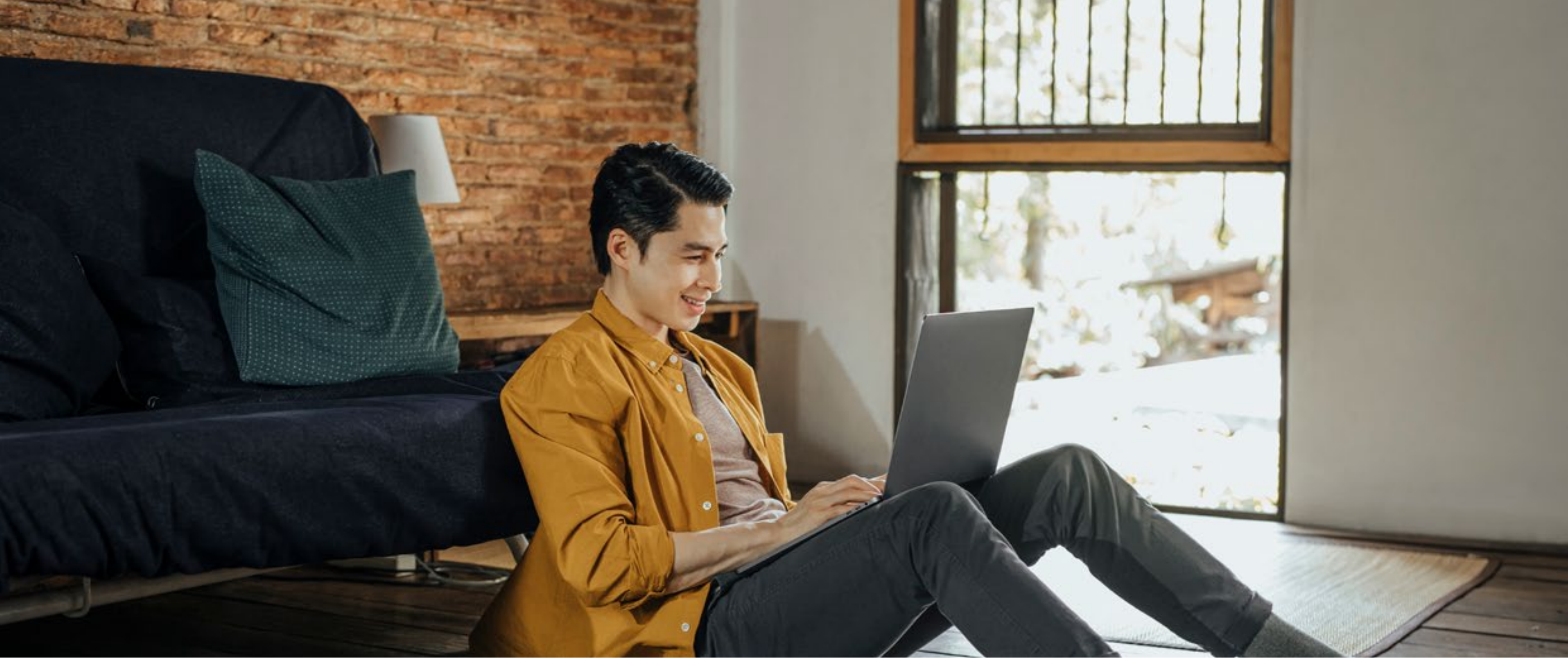
Rate rises won't impact you: If you want predictability and stability in your repayments over the next 1 to 5 years, locking in a fixed rate could be the way to go. Some lenders will guarantee a certain fixed rate before settlement but a "rate lock fee" may apply.

Set and forget: Locking in a fixed interest rate means your repayments stay the same throughout the fixed period (typically between 1 to 5 years). Knowing your loan repayments will make it easier to budget and manage your cash flow – giving you more peace of mind.

The cons of a fixed rate are:

Less flexibility: Fixed rate loans limit a borrower's ability to pay off their loan faster by restricting additional repayments or capping them at a certain amount a year. Significant break fees can apply if you want to refinance, sell your property or pay off your loan in full before the fixed term has ended.

Rate cuts won't benefit you: If you've signed up for a fixed rate, you won't benefit from any cuts your lender makes to their home loan rates over the fixed term.



Split Loan

A split loan is where you divide your loan into multiple parts: one part of the loan is variable, and the other is fixed.

For example, if you were to split your $500,000 home loan, and you decide on a 60:40 split. Your home loan would then be divided into two loans - a fixed interest rate would be charged on $300,000 and the remaining $200,000 would have a variable interest rate.

While a portion of your home loan is fixed, you will always know what your repayments will be on that portion, meaning that you will benefit from rate stability for that portion of your loan.

With the variable part of your home loan, you have the flexibility to make unlimited additional repayments, which could mean paying off that portion of your home loan faster, as well as potential access to benefits such as redraw and an offset account depending on the type of variable rate home loan you choose.

It is worth noting, however, that not all lenders offer this type of loan.

Glossary of terms

Break cost: a fee that represents a lender's loss if you repay your loan early or switch your product, interest rate or payment type during a fixed rate period.

Offset account: an account linked to your home loan that operates like a transaction or savings account. It offsets the balance in that account against the balance of your home loan, so you'll only be charged interest on the difference.

Rate lock: this is a one time fee that can be charged by lenders when customers lock in a fixed interest rate on offer (typically up to 0.20% of the loan amount).

Redraw facility: lets you access additional repayments you've made on your home loan over and above the minimum required repayments.