

For immediate release
FEBRUARY 16, 2009

Avoid a knee-jerk reaction on low interest rates

With the recent drop in interest rates comes huge opportunity for home owners to really save, says Money Advisers Chief Executive Officer, Chris Burns.

But to make the most of the lower rates home owners are being urged to make smart, informed choices and avoid “knee jerk reactions”.

Mr Burns says the key is to seek the right advice first and to act with the long term in mind.

“We’re seeing a lot of enquiries from people about re-financing to a lower rate but in 70-80 per cent of cases we’re actually recommending people stay put,” he said.

“The penalties to get out of the fixed rates can be substantial.

“For example, on a \$750,000, five-year fixed loan the penalties and fees to breakout can amount to \$50,000, so you really need to know that it’s worth it in the long term.

“There’s also a strong possibility of further interest rate falls and some good fixed rate offers to come on to the market over the next six months, so home owners shouldn’t feel pressured to fix rates just yet.

“Before making any decision it’s critical to crunch the numbers, whether with a mortgage broker or an accountant, as well as talking to the bank.

“This will allow you to determine which loan product best suits your individual situation and will save you money. It pays to shop around to get the right loan.”

Mr Burns also recommends home owners consider consolidating separate debts or repayments to make the most of the extra breathing space that a lower interest rate provides.

“Consolidating your debts is a smart option in this current climate,” he said.

“With such low interest rates, merging your credit card debt, car loan and mortgage payment can literally save you hundreds of dollars a month.

“This gives you more freedom to make extra payments into your mortgage.

“By maintaining your current level of higher repayments when rates fall, or paying extra, you are going to be substantially ahead in the future.”

And with the current situation boding well for those who make smart choices, Mr Burns says taking a long term view is vital when making any financial decisions.

“Interest rates inevitably will rise again at some point, so this must be taken into consideration when weighing up the various home loan strategies,” he said.

“When a Money Advisers consultant is working with home owners to evaluate the various loans on offer, we calculate the future repayments based on a rate two per cent higher than the market rate.

“That way you can plan for future financial considerations such as children or other lifestyle events.”

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