FINANCE NEWS | VIEWS | CLUES

APRIL 2021

FIXED RATES - THE PREFERENCE FOR BORROWERS

It seems like everywhere I look banks are offering super low fixed rates. For consumers in search of a fixed rate loan and who meet the bank criteria, these rates are a very good deal for borrowers if the rate is your main priority.

WHY ARE FIXED RATES SO CHEAP?

There are a few reasons. To start with, banks (who are primarily the ones offering these rates) have access to some very cheap funding at the moment, through government support in the form of the Term Funding Facility (TFF) at 10 bps. On top of this, we're seeing low rates being paid on deposits, with the RBA cash rate sitting at just 0.10%.

WHY AREN'T VARIABLE RATES AS CHEAP?

Variable rates remain significantly higher than fixed rates (approximately 0.3 - 0.5%) and many argue this is due to two main factors;

- The longer average life of fixed rate loans. Because fixed rate loans generate income for the bank for longer, it makes less sense for banks to reduce the rate on their variable rate loans.
- The shape of the yield curve. This dictates the rate at which a fixed rate loan can be hedged back to a variable rate.

It could also be that banks are smart enough to realise they face less pressure to discount their existing customer rates if they only discount new customer fixed rates. If they also reduced their new customer variable rates, existing customers might expect a discount too having a material impact on book yield.

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WHEN WILL THE CHEAP FIXED RATES END?

The TFF government support programme that allows banks to access cheap funding is due to end in June. At this time we may see fixed rates normalise to be closer to variable. However, it looks like banks have fulfilled much of their funding needs for some time, so cheaper fixed rates may be available for a bit longer.

WILL FIXED RATES GO LOWER?

No one knows the answer to this but the swap market is not currently giving us any reason to believe fixed rates will go lower. With cheap bank funding rolling off soon, it looks less likely there will be further fixed rate reductions.

SHOULD I FIX MY MORTGAGE?

Obviously it depends on your situation but it may make sense if you intend to have your mortgage for longer than the fixed rate period. Remember that if you repay a fixed rate mortgage before the end of the fixed rate period there may be a break cost. The current market would suggest the break costs may not be enough to counteract the benefits - but this could change at any time if swap markets shift.

SEEK EXPERT HELP FROM US

For many borrowers the interest rate they pay is their main priority. Fixed rates have never been lower and now may be the right time to look at fixing a portion of your borrowings. Rates will move higher at some stage and fixed rates will move before the cash rate is adjusted by the RBA as they are forward looking. Here at M Point Finance we outline the process and look at the pros and cons of locking away that interest rate risk.

Reach out to Andrew (**alennon@mpoint.com.au**) and we can assist with your new financing needs.