

## SPECIAL ISSUE

### Interest Rate Rise – Is it time to panic?

The Reserve Bank announced a 0.25 percentage point increase in interest rates (8<sup>th</sup> Aug) taking the new rate to 6.5 per cent. This will put further pressure on Australians with a mortgage.

Banks will waste no time passing on the rate rise to customers, moves that will see the average standard variable mortgage rate jump to 8.32 per cent according to market analyst.

For each \$100,000 you have borrowed you are looking at about an additional \$16 a month. So, on a \$250,000 loan it is about \$41 extra and on a \$500,000 loan it's about \$82 (per month, assuming a 25-year term).

What impact will this have on your loans?

Those on fixed rates for another year or more can count their blessings. Those on a variable rate need to reassess their loans. Clients can now use the IG [Loan Calculator](#) to work out what their repayments will be – see example below.

A	B	C	D	E	F	G	H	I	J	K
1	<b>LOAN RE-PAYMENTS (ESTIMATES) OF FIXED AMOUNTS</b>									
2	The first five loans are P&I Loans using the PMT function that calculates the interest payment for a loan based on constant payments and a constant interest rate.									
3	The next five loans are Interest ONLY Loans based on constant payments and a constant interest rate.									
5	<b>ORIGINAL LOANS</b>			<b>RESTRUCTURED LOANS</b>			<b>DIFFERENCE</b>			
7	Consolidated Loans \$ 500,000			Consolidated Loans \$ 500,000			\$0			
9	Consolidated Weekly Payments \$ 889.93			Consolidated Weekly Payments \$ 908.85			\$18.92			
11	Consolidated Monthly Payments \$ 3,856.36			Consolidated Monthly Payments \$ 3,938.36			\$82.00			
13	Consolidated Annual Payments \$ 46,276.34			Consolidated Annual Payments \$ 47,260.33			\$984.00			
15	<b>LOAN 1A: SUMMARY (P&amp;I Loan)</b>					<b>LOAN 1B: SUMMARY (P&amp;I Loan)</b>				
16	Loan Amount	\$ 500,000	Clear 1A	Loan Amount	\$ 500,000	Clear 1B	Clear ALL	Warning: You cannot "Un-Do" a "Clear" function.		
17	Annual Interest Rate	8.07%		Annual Interest Rate	8.32%					
18	Loan Period in Years	25		Loan Period in Years	25					
20	Number of Payments per Year	12 Monthly	Number of Payments per Year	12 Monthly						
21	Schedule P&I Payment	\$ 3,856.36 Monthly	Schedule P&I Payment	\$ 3,938.36 Monthly						
22	Schedule P&I Payment	\$ 889.93 Equivalent Weekly	Schedule P&I Payment	\$ 908.85 Equivalent Weekly						

Once you have opened the [Loan Calculator](#), hit the “Clear All” button to ensure that there are no previous entries. Enter the current loan amount and loan conditions in the “Loan 1A: Summary” on the left hand side. Do the same on the right hand side (Loan 1B: Summary), but this time add 0.25% to the original interest rate. These are the details of your first loan only and the difference in payment can be seen on the far right hand side under the “Difference” section. If you have additional loans, repeat the exercise. Loans with fixed rates should have the same values in both sections. Note that other than the five P&I loan calculations (in each section), there are another five “Interest Only” loan calculations in the lower half of the spreadsheet.

**WARNING:** These are only estimates that allow you to better appreciate the impact of the interest rate hike. Please consult your Banker for details pertaining to your case.

Assuming you have completed the above exercise and you know where you stand with increased payments, here are some strategies to implement that will soften the blow before it's too late:

- If you are able to get a three-year fixed rate 0.5 percentage points below the variable rate, on a \$250,000 loan you would save more than \$24,000 in total mortgage interest and cut about a year off the life of your loan. With rates still predicted to be on the rise, this is not a bad strategy.
- Re-amortise is a fancy word for spreading your outstanding loan balance over a fresh 25 (or better still 30) years, effectively starting the clock ticking again with lower minimum monthly repayments. It can help your cash flow immensely when you are feeling the pinch and usually incurs only a small fee. But don't forget, the longer the loan period, the more you pay overall. The IG [Loan Calculator](#) can be used to make an estimate of the reduced monthly payments.
- If the loan is over an investment property, speak to your rental agent. When will the current rental lease expire? With rental markets so tight, a \$15 to \$20/week rise (\$65 to \$87/month) is not out of the question and may be just what you need to get you over the hump.

Note that none of the above savings have cost you a dollar extra.

Of course, if you are experiencing genuine hardship, a rate rise may threaten to tip your finances over the edge. This is where the average couple or family could benefit from a detail overall budget analysis using the IG [Budget Calculator](#). Those of you familiar with the calculator know that significant savings can be made by simply identifying those expense categories which are optional (non-essentials) and deciding which to cut back on. Might it simply mean one less bottle of wine a week - hardly appealing, but eminently achievable? Or perhaps cutting back on a couple of packs of cigarettes a week – it may even do your health a world of good!

As you can see, all is not lost. So why panic? It's all about analysing and planning. There is a saying "*Fail to plan and you plan for failure*".

If after reading all of this, you are still finding it difficult to come to terms with the interest rate rise then give IG a call on 02 4962 5800 and ask to speak to one of our advisers.

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### LEGAL DISCLAIMER – LOAN RESTRUCTURING ADVICE WARNING

*The results shown by the various spreadsheet calculators are an approximate guide only and should not be used as exact values for financial planning purposes.*

*Also, the assumptions in the IG Loan & Budget Calculators may not take into account all your circumstances, objectives, financial situation or needs of the Principal.*

*Changes in interest rates, economic conditions e.g. inflation, may not have been taken into account and could have a significant impact on the end result. The formulae used within these calculators may change without notice.*

*You are strongly advised to consult with your own independent financial and/or investment adviser before making a decision regarding the restructuring of your loans.*

*Together we can.....*

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