The pros and cons of mortgage splitting

Variable home loan rates are still at record lows and can be found at or around the 2% mark. For the first time in a long time, they are lower than many of the fixed loan interest rates. One way to read this occurrence is that banks are still trying to recruit new borrowers via their cheap variable home loan rates before the impending interest rate hikes happen.

ANZ recently has slashed its variable home loan interest rates by 40 basis points for owner occupiers under defined terms, following the other three big Australian Bank's lead.

The main difference between fixed and variable home loan is:

- A fixed home loan's interest rates do not change for the period it is fixed; typically between 1 to 10 years.
- A variable home loan's interest rate can change when the bank or lender decides to change it – up or down.
- A benefit of having a fixed rate home loan is that it allows you to budget for the fixed period.
- A drawback of fixed rate home loans is that you are tied to that lender and loan for the fixed period or you will face penalties if you wish to change anything or go to a new loan or lender.
- An advantage and disadvantage of fixed rates is that you will be paying the same amount – eventhough the variable rates may increase or decrease so you may win or lose depending on the situation.
- Variable loans usually come with more features like offset and redraw accounts which assist in paying down or paying off your loan quicker.

What many borrowers don't know is that banks and most lenders offer split mortgages meaning you can choose to take advantage of the lower variable interest rates whilst benefitting from the security of fixing part of your overall mortgage. Splitting your mortgage means repayments on the fixed portion will not change but could on the variable portion.

This means that you can look to pay off the variable split of your loan with additional repayments or effectively using the offset and redraw facilities whilst the fixed portion remains as is.

If you were to consider selling or breaking your loan for any reason, the fixed portion of the mortgage would still incur steep penalty fees so would usually work to anchor the borrower to the loan and lender.

The most appropriate thing to do when deciding on whether to fix all or part of an existing or new mortgage, is to speak to your experienced Chocolate Money mortgage broker for advice on what will best help you achieve your outcomes and best suit your situation.