IDentity Property Buyers

NEWSLETTER #053

How to Protect Yourself Against Interest Rate Rises

Welcome back to the next instalment in the IDentity Property Buyers Newsletter series. Today's chat is surrounding the inevitable changes to interest rates and how you can protect yourself from the effects of rate rises.

First of all I am not expecting the Reserve Bank to make a move on rates any time soon. They have stated that they are not planning on raising interest rates until inflation is consistently between the 2 - 3% mark **AND,** "yes it is a big AND" wage growth is materially higher than it is currently.

With such a disrupted economy over the past couple of years it will be very interesting to see how it levels out over the first half of 2022 in particular. Yes we are expecting a bounce back in the economy post all these lockdowns, which is fantastic news.

But what about wage growth?

In order for wages to be on the move we have to have further reductions in unemployment and a shortage of labour. With more people returning to the labour market post government assistance wage growth is remaining relatively slow for now.

When the international borders are open and there is a flow of skilled workers back into Australia this will also subdue wage growth for some time.

Yes the banks will shuffle rates a little irrespective of the RBA movement but we are expected to have a few more years of very low interest rates. The reality is that now is the perfect time to be protecting yourself against some inevitable rises in the future.

So what can you do?

Firstly you could fix part or all of your loan. However the banks have already started to raise fixed term rates as they have forecast some future rises. At this stage it would mean paying more in the short term to the banks for the **possibility** of paying less in the future.

If you choose to run with the currently lower variable rates and take advantage of the continued savings now, you should put a little extra aside each week/month. These additional funds which should be offsetting your loan could act as a buffer and help protect you when future rises occur.

So to work out what you should be putting aside each month I would suggest looking at what a 1% increase would look like every month.

So let’s take a look at the numbers,

Example Loan: 500k (30 years)

Example Interest Rate: 2.5% up to 3.5%

Repayments P&I: Move from approx. $1975/m —> $2245/m = $270/m increase

So if you can place $270 per month into an offset account to protect yourself against a 1% increase in interest rates, you will be in a very good position moving forward.

Firstly you will have already proven you can make the higher repayments when the 1% rate rise eventually makes its way though (could be 2 or 3 years away). And secondly you will have saved an additional $6480 over a 24 month period which you can use as your emergency buffer.

Now if you can only put $150 extra aside each month to begin with, that is still a very good habit you have created & reasonable buffer you can add to over time.

Build A Habit & A Buffer

Let our professionals at IDentity Property Buyers help you avoid all those costly mistakes and provide you with a fantastic experience and an exceptional end result....

Make contact today and schedule in a Free, No Obligation chat with one of our Buyers Agents & Property Strategists.

Don't get left behind when the market is moving, take control with your very next steps in a professional way today!

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