Borrowers rush to fix loan rates as end of cheap money looms

Duncan Hughes *Reporter*

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Mortgage brokers say borrowers are rushing to fix their loans as lenders increase longer-term fixed rates and tighten lending conditions in response to regulatory pressures and rising bond yields.

Sharp rises in bond yields are increasing borrowing costs, which are getting passed on to borrowers.

Michelle and Simon Hutchison, shown with children Zara and Ezra, split their loan into a mix of fixed and variable. **Louie Douvis**

“Fixed rates might be on the rise but they are still incredibly low in the scheme of things,” said Sally Tindall, research director of RateCity.

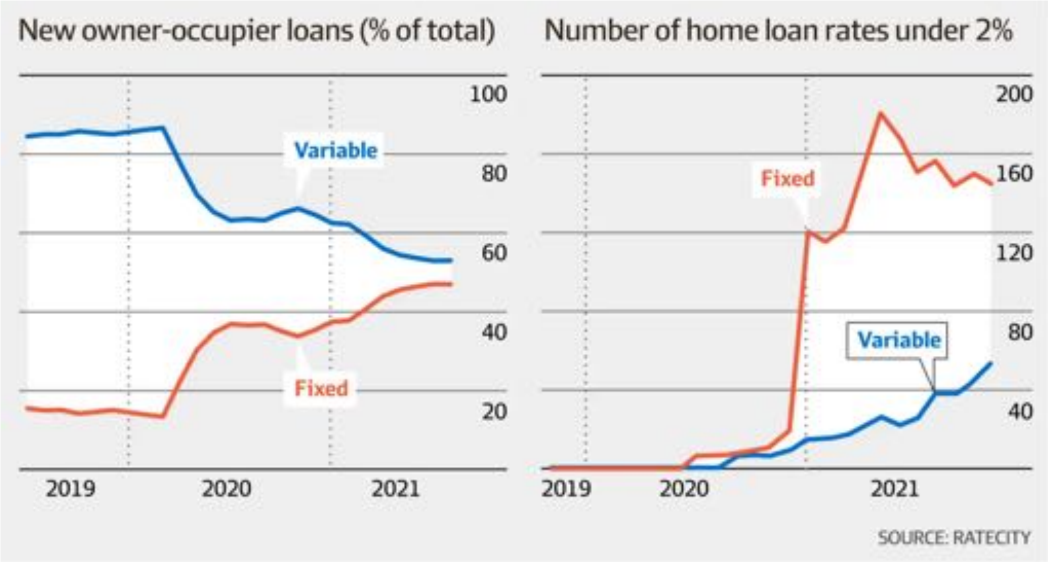
The percentage of residential property buyers fixing their loans has more than trebled in the past 19 months as interest rates fell to record lows, property prices boomed and fears about the financial impact of COVID-19 caused borrowers to seek additional security.

Three cash-rate cuts since the pandemic outbreak in March last year resulted in fixed rates soaring from about 13 per cent to more than 47 per cent of loans as record numbers switched from variable loans, according to RateCity, which monitors rates.

The proportion of new fixed rates typically hovers between 10 per cent and 20 per cent.

One year fixed rates offered by the big four lenders fell from a high of about 2.98 per cent to a uniform 1.99 per cent, with smaller lenders offering ever cheaper loans for attractive borrowers, which typically means someone with a 20 per cent deposit and regular income.

Homeowners such as Michelle Hutchison, chief operating officer of Schebesta Ventures, a consultancy set up by Fred Schebesta, who founded online comparison site Finder, says she chose a fixed rate because of the security and predictability in volatile times.



Hutchison and her husband, Simon, a school assistant principal, are this weekend selling their five-bedroom home in St Ives, which is about 21 kilometres north of Sydney.

The couple, who have two children, Ezra, 10, and Zara, 5, split their loan into a mix of fixed and variable, which means they get a lower rate but can retain variable loan features, such as their offset account and early repayments.

They plan to rent a property while looking for a new home.

Phoebe Blamey, director of Clover Financial Solutions, says borrowers believe rates are on the rise and are rushing to fix their loans, typically for two to three years.

Chris Foster-Ramsay, principal of Foster Ramsay Finance, another mortgage broker, adds: "Borrowers are beginning to realise that rates have hit the bottom."

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Veteran brokers compare the fixed-rate boom to before the global financial crisis (GFC) when borrowers believed interest rates would be increased to calm overheating markets.

"The GFC took hold of our market and the Reserve Bank of Australia took an axe to the cash rate, leaving lots of fixed rate homeowners high and dry because they were stuck on what were suddenly high-rate loans," says Ms Tindall.

Lenders are also starting to roll out tougher lending terms in response to regulatory pressure to cool down property markets.

For example, ANZ will this Saturday increase, from 2.5 per cent to 3 per cent, the lending buffer it uses to ensure borrowers can pay higher rates. Other lenders are expected to follow.

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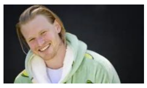

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