



# FINANCE NEWS | VIEWS | CLUES

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### RE-FINANCING IS THE OPPORTUNITY

With Covid-19 placing pressure on consumer cash flow there has been a change in borrower behaviours when it comes to mortgages. With fewer purchases in the market clients have had the opportunity to review their financial positions with many looking at the attractive deals being offered by banks for re-finances.

In addition to the significantly lower rates for new business many of the financiers are offering cash rebates to customers for moving their loans to them. In some case's these rebates have been up to \$4,000 which is deposited into the borrower's transaction account within six weeks after settlement. In a cash flow constrained environment this rebate significantly assists clients to help meet their financial obligations and is an unexpected boost to cash flow.

Analysis of average rates offered by lenders shows the difference between fixed and variable interest rates has grown significantly as COVID-19 support measures kicked in. A wide gap has formed between interest rates for fixed and variable home loans, but borrowers may have a limited window of opportunity to take advantage of it.

Average fixed interest rates have been lower than variable rates by about 30 basis points for the past five years. That difference stretched to 57 basis points over the second half of last year before suddenly growing to 84 basis points throughout April and May, according to analysis by Canstar.

Lenders, spurred on by measures to dramatically decrease banks' funding costs to shore up the economy against the effects of the coronavirus pandemic, are offering record low fixed rates, the cheapest nearing 2 per cent. A borrower with a \$400,000 loan would pay approximately \$175 less per month, or \$2100 per year, if they opted for a fixed rate loan over variable.

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The RBA's latest statement on monetary policy stated recent reductions in fixed rates could be explained by the cheap credit provided to banks through the Term Funding Facility, one of the economic support measures announced by the RBA in March.

#### So what does that mean for borrowers?

With interest rates at record lows and banks given dirt cheap funding, it's no surprise that rates for three-year fixed rate loans are a hair above 2 per cent. The question remains do they continue at these lower levels and will the government look to extend the stimulus past September. With the RBA governor outlining that the cash rate will not be moving lower it is hard to see the banks offering any more cuts to the variable rate.

#### What to remember before fixing your home loan

It's important to remember that fixed rate loans may provide certainty in repayments and cash flow, but less flexibility than variable loans. Fixed loans typically don't include an offset account or redraw facilities and have caps on extra repayments. There may be significant break costs, which could outweigh any savings if the need to change arises.

#### SEEK EXPERT HELP FROM US

M Point Finance is here to provide advice and assistance to our customers. A fixed rate loan may not provide the flexibility you need to manage your finances. They do however are providing historically the lowest interest rates we have ever seen in the market. Reach out to Andrew ([alennon@mpoint.com.au](mailto:alennon@mpoint.com.au)) and we can book a video or phone call to discuss your personal situation and what we can do to improve it.