

# **BORROWERS BONANZA**

## **- Allistar Walker**

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The Christchurch earthquake has virtually delivered a borrower bonanza. Floating and short term interest rates have taken a dive along with the Official Cash Rate which looks likely to be kept at its low level possibly into next year. A majority of borrowers are opting to float and in most cases pay down more principal off their home loans by keeping repayments at a higher than required level.

The trick is that once you are on a floating rate will be to pick a 'good' fixed rate before they rise. This could happen in advance of a floating rate rise. Many forecasters are predicting a rate tightening in September. In reality there are many factors (from offshore and onshore) that influence the movement of interest rates, making forward guessing about as good as predicting the next Lotto winter.

Our philosophy has always been to fix as long as possible under 7% pa. The real good days for this were a few years ago, when the 5 year rate dropped to below 6% pa for one bank. Alas, I don't see the long term rates dropping to that level again in the near future, short of some unforeseen world wide crisis. For the moment floating your loan seems to be the best strategy. Then you perhaps keep your ear to the ground to listen for rumblings in the financial world about inflationary pressures and more expensive money. Our 'Rate Watch' publication covers and endeavours to anticipate these issues.

### **Why do the banks seem slow to lower rates?**

Existing customers of banks seem to get the short end of the stick, when they are told the new lower rates will kick in later for existing customers, but are available now for new customers. The reasoning for the banks case is a clause in the Credit Contracts and Consumer Finance Act 2003, where borrowers must be given notification in advance of a rate change. Can you see anyone taking a case to court under this act because their interest rate has been decreased? Unfortunately, the long faces of lenders seem to hide behind what suits them – after all there is a few extra bucks to be made, and it is legal!

### **First Time Buyers at Auction**

I find first time buyers view house auctions with some trepidation. Terms such as 'nervous', 'unsure what to do', 'don't want to buy that way', 'frightened we'll pay too much', 'pressured' come to mind from these buyers. Mind you I have also had similar sentiments from some sellers.

Buying your first home is often a daunting task and certainly a new experience. If you are contemplating bidding at auction, it pays to go to one or two auctions beforehand. Perhaps you could even be the first bidder for a property that would sell higher than your price range, but the first bid being within your ability to pay. You just don't get carried away bidding for a value you can't afford. If the hammer fell before someone outbid you, then you have a home that you thought you couldn't afford.

The point is this gives you practise, helps you assimilate the process, and no you don't have to be careful that your eyes don't twitch or keep you hands in your pocket. A previous article on our website talks about auctions.

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