# WHEN SHOULD I FIX MY MORTGAGE?
# - Allistar Walker

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The question now is when will be the optimal time to fix my mortgage? Never in our Official Cash Rate lifetime have floating interest rates been so low for so long. While it may seem like nirvana for borrowers, fixed rate depositors haven't fared so well.

Depositors will be anxiously awaiting interest rates to rise (also a sign of a strengthening economy) and seeking short term options, hoping to ride the wave up. Borrowers are also sitting around, some nervously looking over their shoulders, wondering when to jump into fixed rates or just ride the same waves, by staying on floating rates.

The bad news is that no one adviser, economist or person really knows when the optimum time to fix a mortgage rate will be on us. It is akin to predicting the weather, and we all have had our parade rained on when a sunny day was predicted. The good news is that short term fixed rates are reasonably low at the moment for New Zealand. That of course raises the dilemma whether to gain certainty by fixing for say up to 3 years just under 7% or taking a punt and stay floating at under 6% and hope you don't miss the fixed rate boat.

At present there seems little threat that either fixed or floating rates will rise any time soon. Governor Bollard indicated a likely rise in the Official Cash Rate between December this year and March next year, with many commentators leaning toward a rise of 0.25% closer to December. OK, so you could say you've got 5-6 months before you need to worry. The problem here is that the fixed rate boat could have left the dock, waving goodbye to all the spectators who didn't notice it fuelling up, while savvy borrowers boarded it.

Short term fixed rates are more likely to move upward before the floating rates move and possibly before an announcement of an OCR rise. The warning signs can be subtle. Once the shorter term outlook looks brighter and an increased public demand for fixed rates becomes evident, upward pressure on these rates is likely. NZ fixed rates are closely aligned to the US Bond market by being more dependent on global economic conditions while the floating rate is more aligned to NZ economic conditions.

**Should I go, or should I stay?**
There is no reason to feel pressured to fix at present but at some stage this option should probably be considered by borrowers. Those of the more conservative bent may want to alleviate some potential risk by fixing some of their borrowing over the next few weeks. Various forecasts are made as to where floating rates will go, but a general expectation is that they will be up around 7.4% in 3 years time. I would probably take a punt by floating a little while longer, paying down more principal off my mortgage by making higher repayments, and watch the recovery signs, NZ and globally, before committing to fixed rates. But, I would wait to fix for two and/or three year periods before these rates rise, because if I get it right, I would be on a winner as against staying on the forecasted rises in floating rates.

**What about elsewhere?**
In the UK at the moment they talk about fixing for 2 years at 2.89% with a £995 fee and if you can get a 5 year rate under 4% to go for it. In Aussie the 2 year rate is around 7.2% and 5 year rate at 7.7%. Little old NZ sits in the upper middle with 2 year rate of around 6.3% and 5 year rate of 7.6%.

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