

# MORTGAGE RATE WATCH

- Allistar Walker

Every six weeks, the Official Cash Rate hits the headlines and every six weeks we look into a somewhat cloudy crystal ball. I talk to many people in the finance and economist world, getting as many different answers about where rates are going to go. Some observations:

- The OCR is expected to go down to 2.5% and some forecasters say 2%. Currently it is 3% - after the drop of 0.5% on 12/3/09.
- OCR movements reflect more in the floating rate than in fixed rates, particularly those of a longer term.
- There is currently upward pressure on the four and five year fixed rates. The question is will market conditions force these lower?
- Many corporate borrowers are fixing long now, rather than risk missing out.
- We won't know where the bottom mark will be, for any individual fixed rates, until the bottom has passed.
- Better to fix long, when rates under 7% and short when over 8%.
- Rates at their lowest since the mid 1970's.

Now that may or may not confuse, but, it is hard to make decisions if you don't have some knowledge.

## **What choices if floating or fixing rate coming due**

Personally I would be focussing on the five year fixed rate. This may not be the sharpest rate, on the rate cards, for the moment, but long term it should prove most beneficial. Ask yourself – how often have you seen rates under 7%?

If you are risk averse, you should probably fix for five years now. Then it is sealed in and you can congratulate yourself that you are probably about 0.75% better off than the 30 year average (before the high rates).

For those who like to take a punt, you could sit a little longer and wait to see if the five year rate drops below 6%. That may possibly mean waiting until after next OCR announcements on 23 April and 4 June. Of course they may not drop.

No one can say with absolute certainty which is the right way to go. Perhaps though, I have given you a few tips to do what is right for you.

## **Break fixed rates now or hold on?**

If you break from a higher rate to a lower rate, you will face a break fee roughly equivalent to the interest the banks miss out on. To gain the most advantage from this, you could fix long but keep your repayments the same as now. This has the effect of reducing the principal much more quickly thus clearing the loan earlier.

If you want ongoing up dates, email to [enquiry@mortgagehelp.co.nz](mailto:enquiry@mortgagehelp.co.nz).

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