THE VOLATILE MORTGAGE MARKET

- Allistar Walker

To say these are extremely volatile times is almost an understatement. We have seen five year mortgage rates move up as much as 1% pa in the last three weeks and yet short term rates are staying down. Central Banks overseas are printing more money and investors have decided, if they can't get enough interest return from the banks, they are switching to a still volatile share or bond market. The banks are fighting back to get their share by offering higher interest rates longer term. The mortgage market, of course, pays for this. Then we have the property investors licking their lips at the lower prices, and lower interest rates, but finding that other people feel the same way. This has resulted in the property market up to $500,000 price range hotting up for available properties. It doesn't necessarily mean that prices will rise, not yet anyway..

Out of volatility will come order, but at what cost? We still see the Official Cash Rate dropping further with a substantial margin between short term and long term money costs. This is when peoples' memories need jogging before making decisions on fixing loans. When rates were high over the last few years, many were seduced into taking the lowest rate. This left those people stranded on high rates, as rates went into rapid free fall. Following on from that, the 7.25% pa five year rate may be a better choice, than a 5.80% six month rate.

When Germany printed money before the Second World War, you needed a suitcase of money to buy your groceries. Lessons of course will have been learned. Nevertheless, we are in uncharted territory for our generation and an over-reaction by Central Banks overseas could cause interest rates to go up from whence they came.

What would I do?
Much can be dependent on your own plan for reducing your mortgage quicker. If faced with break fees it makes sense to maximise any advantage by fixing as long as possible. If your desire is to break and fix short, you will probably miss out on any long term advantages.

With longer term rates at higher levels it would probably pay to spread your maturities at three to five years. However, you should consult a Mortgage Planner or Broker to set a plan that is right for you.

For New Home Buyers
Simply, buy now or before next Spring to secure the best bargains from the many properties on sale.

Housing stock is likely to get in shorter supply making it harder for the first time buyer or investment buyer. While some lenders still advertise up to 95% borrowing, the norm is 80% for the better deals. The added advantage for home buyers now is the still relatively low interest rates. The average interest rate for the last 30 years is marginally over 7.5% pa.

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