

CHOOSING A HOME LOAN

When looking for a good deal on a home loan (mortgage), the interest rate matters. A home loan is a long-term debt, so even a small difference in interest adds up over time.

Home loans come with different options and features. These can offer flexibility or let you pay off your loan faster. Some options could cost you more, so make sure they're worth it.

Principal & interest will pay off the loan

PRINCIPAL & INTEREST LOANS

Most people get this type of home loan. You make regular repayments on the amount borrowed (the principal), plus you pay interest on that amount. You pay off the loan over an agreed period of time (loan term), e.g. for 25 or 30 years.

INTEREST ONLY LOANS

For an initial period (e.g. five years), your repayments only cover interest on the amount borrowed. You aren't paying off the principal you borrowed, so your debt isn't reduced. Repayments may be lower during the interest-only period, but they will go up after that. Make sure you can afford them. See interest-only home loans.

Get the shortest loan term you can afford

Your loan term is how long you have to pay off the loan. It impacts the size of your mortgage repayments and how much interest you'll pay. A shorter loan term (e.g. 20 years) means higher repayments, but you'll pay less in interest. A longer loan term (e.g. 30 years) means lower repayments, but you'll pay more in interest.



Lower interest rates

An interest rate even 0.5% lower could save you thousands of dollars over time. Weigh up the pros and cons of fixed and variable interest rates to decide which suits you.

FIXED	<p>A fixed interest rate stays the same for a set period (for example, five years). The rate then goes to a variable interest rate, or you can negotiate another fixed rate.</p> <p>PROS</p> <ul style="list-style-type: none">· Makes budgeting easier as you know what your repayments will be.· Fewer loan features could cost you less. <p>CONS</p> <ul style="list-style-type: none">· You won't get the benefit if interest rates go down.· It may cost more to switch loans later, if you're charged a break fee.
VARIABLE	<p>A variable interest rate can go up or down as the lending market changes (for example when official cash rates change).</p> <p>PROS</p> <ul style="list-style-type: none">· More loan features may offer you greater flexibility.· It's usually easier to switch loans later, if you find a better deal. <p>CONS</p> <ul style="list-style-type: none">· Makes budgeting harder as your repayments could go up or down.· More loan features could cost you more.
PARTIAL	<p>If you're not sure whether a fixed or variable interest rate is right for you, consider a bit of both. With a partially-fixed rate (split loan), a portion of your loan has a fixed rate and the rest has a variable rate. You can decide how to split the loan (for example, 50/50 or 20/80).</p>

Comparing home loans

With the amount you can afford to borrow, compare loans from at least two different lenders. Check the loan interest rates, fees and features to get the best loan for you.

Comparison websites can be useful, but they are businesses and may make money through promoted links. They may not cover all your options. See what to keep in mind when using comparison websites.

Interest Rate Interest rate advertised by a lender

Comparison Rate Loan cost incl. interest rate and fees

Repayment Periodical payments you make on your loan

Application Fee One-off setup fee when starting a loan

Ongoing Fees Monthly or annual loan service fees

Loan Term Length of time a loan lasts

Loan Features e.g. offset account, redraw or line of credit

LOAN FEATURES COST

Home loans with more options or features can come at a higher cost. These could include an offset account, redraw or line of credit facilities. Most are ways of putting extra money into your loan to reduce the amount of interest you pay.

KNOW THEIR WORTH

Suppose that you are considering a \$500,000 loan with an offset account. If you're able to keep \$20,000 of savings in the offset, you'll pay interest on \$480,000. But if your offset balance will always be low (e.g. under \$10,000), it may not be worth paying for this feature.