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Working Your Way around Rising Home Loan Rates by Crowin Smith

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The interest rate is one of the major considerations for anyone who is planning to take out a home loan. As a rule of thumb, mortgage brokers advice home buyers to perform mortgage comparisons using mortgage calculators to find the most affordable and suitable home loans for their circumstances. However, the volatile nature of the home loan market means interest rates rise and fall periodically. So if youâ€™re taking out a home loan, you have to factor in the future value of interest rates and be prepared for possible increases.

Seek the help of a mortgage broker to be able to develop strategies on how to overcome any future increase in home loan rates. Below are some of the possible methods you can use to avoid overshooting your budget and negate the effects of high interest rates.

Go with a fixed rate home loan â€“ Since you have already been expecting future interest rate hikes, why not settle for a fixed rate home loan? By having your home loan on a fixed interest, you will not be affected by any interest hike until the end of your mortgage term. If possible, try to get a fixed rate interest thatâ€™s 2% higher than the current interest rate so as to be able to pay off your mortgage faster. Youâ€™ll also be able to save money in the long run because as you pay more, the principal amount decreases.

Split your mortgage â€“ If you want to avoid the pitfalls of increasing mortgage rates but want to keep your loanâ€™s flexibility, try a split mortgage. Designate a portion of your home loan as a fixed rate while keeping another as a variable rate. Doing this allows you to reap the benefits of declining rates while at the same time protecting yourself against the effects of rising mortgage rates.

Refinance your existing mortgage â€“ If youâ€™ve been paying your mortgage for more or less five years now, it might be the perfect time to search the market for new and better deals. By getting a mortgage health check, youâ€™ll be able to determine whether or not your mortgage is still living up to your expectations.

Borrow within your means â€“ Common sense dictates that biting off more than you can chew is dangerous and basically ill-advised. Instead, stay within your budget range. You have to give yourself the room for adjustment when it comes to the effects of rising interest rates. Try to consider a 2%-3% rate increase when deciding how much you can comfortably borrow. Use a borrowing power mortgage calculator as to get the figures you need.

The best way to be prepared is to talk to your mortgage broker. Theyâ€™ll be able to give you sound advice regarding the options you have in countering the effects of rising home loan rates.

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