

## MEDIA RELEASE

# Historically, fixing your interest rate has cost Australians more, particularly for those fixing around official rate rises

**Analysis of Reserve Bank of Australia (RBA) data since 1990 shows in the vast majority of cases borrowers would have paid less interest sticking with a basic variable loan than trying to pick the best times to fix mortgage rates**

**Embargo: 5 November 2007** – With the threat of upcoming interest rate rises and an uncertain election result Australians are often scared into making the wrong financial decision in regards to fixing their home loans – which in turn puts more financial pressure on Australian families.

QuickDirect online mortgages founder and managing director Hamish Carlisle, formerly head of the bank's research team with Merrill Lynch said "Our analysis of Reserve Bank of Australia (RBA) data since 1990 shows that **83% of the time borrowers would have been better off in basic variable** rate products than 3 year fixed rate products. **96% of the time borrowers would have been better off with QuickDirect's** variable rate product when compared to traditional banks 3 year fixed rate products<sup>1</sup>.

Carlisle continued, "**Borrowers have not been particularly good at picking the best time to fix** their rates with peaks in fixed rate approvals often occurring at the worst possible times. This could well reflect 'scaremongering' from lenders and brokers in the lead up to and around official interest rate rises."

"The fact is that the odds of paying less interest in the future when you fix your mortgage rate are against you. To actually save money by taking out a fixed rate loan you either need to be better than average at predicting the future path of interest rates or just plain lucky," Carlisle said.

As a rule, a fixed rate mortgage will usually cost you more than a variable rate mortgage, however the flipside is that a fixed rate mortgage offers certainty of repayments which is comforting when interest rates are rising.

QuickDirect online mortgages ([www.quickdirect.com.au](http://www.quickdirect.com.au)) offers both variable and fixed rate home loans. Both aim to deliver the lowest possible interest rates over the life of the loan no matter how much is borrowed. QuickDirect's variable home loan offers an interest rate of 7.39% with no fees or charges. Therefore the comparison rate and the interest rate are identical.

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<sup>1</sup> This does not take into account the potential interest savings associated with the potential for early repayments and free redraw on the QuickDirect product. These features are generally not available on fixed rate mortgage products.

As a responsible lender QuickDirect encourages its customers not to stretch themselves too far. Carlisle said “At QuickDirect we suggest our customers do their budgeting and make sure they leave enough buffer to deal with any unforeseen rise in interest rates. This is the case whether you take out a fixed or variable rate loan - remember that fixed terms eventually run out.”

Having a buffer gives Australians the peace of mind that if interest rates do go up they’ll be able to cope. The Reserve Bank of Australia data shows over the last 20 years the most interest rates have risen is 2.75%. This was between 1994 and 1995. More recently, interest rates have risen 2.25% but this time over a much longer period – between 2001 and 2007.

As to how much buffer is required, Carlisle said “Unfortunately there is no easy answer to this question. As a guide, if you’re taking out a variable rate loan QuickDirect Online Mortgages would suggest you allow for a 2-3% interest rate rise in your budgeting. If you’re taking out a fixed rate you need to allow for the fact that when your fixed term expires your interest rate will change, so 1.5-2% buffer is sensible. If you take out a fixed rate loan with a big bank, you should ensure that your loan doesn’t revert to ‘standard variable’ as this is highly uncompetitive and place unnecessary pressure on you down the track. You can use the QuickDirect repayment calculators ([www.quickdirect.com.au](http://www.quickdirect.com.au)) to assist with your budgeting.”

Of course, there’s no right answer for everyone, Australians should do their own research and consider their own situation. If you need a hand, our dedicated Customer Care Consultants at QuickDirect are available to help out with your mortgage enquiries call 1300 79 69 80.

QuickDirect was founded in February 2007 and is a member of the Mortgage & Finance Association of Australia and the Credit Ombudsman Service Limited. It is important to note that all QuickDirect loans are funded by one of the largest financial institutions in the world.

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## NOTES TO EDITORS:

### About QuickDirect:

QuickDirect is a new online mortgage provider ([www.quickdirect.com.au](http://www.quickdirect.com.au)) that has refreshed the home loan environment, saving Australians money, as well as providing a clear, simple five step process that is both convenient as well as personal thanks to dedicated consultants who work with customers from the time they apply online right through to loan settlement.

QuickDirect offers clear and simple products that aim to deliver the lowest possible interest rates. QuickDirect's variable home loan offers an interest rate of 7.39% - a rate far below that of many banks or lenders – with no upfront or ongoing fees and the ability to make early repayments or redraw funds over the internet or telephone at no cost. For full product details visit: [www.quickdirect.com.au/Content/Products](http://www.quickdirect.com.au/Content/Products)

QuickDirect is a member of the Mortgage & Finance Association of Australia and the Credit Ombudsman Service Limited and all loans are funded by one of the largest financial institutions in the world.

### How does a QuickDirect home loan compare?

	Variable Rate	Comparison Rate <sup>^</sup>	Monthly Repayments <sup>^</sup>	Monthly Savings with QuickDirect	Annual Repayments	Annual Savings with QuickDirect
<b>QuickDirect's Variable</b>	<b>7.39</b>	<b>7.39</b>	<b>\$1,829.63</b>		<b>\$21,955.56</b>	
ANZ Bank's Variable Loan	8.32	8.37	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
Aussie's Aussie Standard Variable	8.20	8.25	\$1,962.78	\$133.15	\$23,553.36	\$1,597.80
BankWest's Mortgage Shredder	8.32	8.50	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
Commonwealth Bank's Complete Home Loan	8.32	8.44	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
NAB's NAB Tailored Home Loan - Variable Rate with 100% offset	8.32	8.47	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
RAMS Home Loans's Standard Variable	8.42	8.56	\$1,999.61	\$169.98	\$23,995.32	\$2,039.76
St. George Bank's Variable Loan	8.32	8.47	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
Westpac Banking Corporation's Rocket Repay Home Loan	8.32	8.53	\$1,982.83	\$153.20	\$23,793.96	\$1,838.40
Wizard Home Loans's Smart Choice Loan	7.97	8.03	\$1,924.57	\$94.94	\$23,094.84	\$1,139.28

<sup>^</sup> Other fees and charges are payable. Comparison rate is based on a \$250,000 loan over 25 years. Monthly repayments are calculated using the variable rate listed on a \$250,000 loan over 25 years. Information is provided by InfoChoice and correct as of 15 August 2007. InfoChoice is an independent company providing unbiased and up-to-date information about the Australian finance industry, specifically for Australian consumers. They do not endorse any particular products, services or providers, and their directors have no financial interest in the businesses listed on their websites. Comparison Rate Schedule available at [www.quickdirect.com.au](http://www.quickdirect.com.au). WARNING: This Comparison Rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison rate.

	Application Fee	Valuation Fee	Legal Fee	Settlement Fee	Switch Fee	Service Fee
<b>QuickDirect's Variable</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>	<b>NO</b>
ANZ Bank's Variable Loan	\$500	NO	NO	NO	\$200	NO
Aussie's Aussie Standard Variable	\$500	NO	NO	\$100	NO	NO
BankWest's Mortgage Shredder	\$700	NO	NO	NO	\$350	\$12/mth
Commonwealth Bank's Complete Home Loan	\$450	NO	NO	NO	\$300	\$8/mth
NAB's NAB Tailored Home Loan - Variable Rate with 100% offset	\$600	NO	NO	NO	\$300	\$10/mth
RAMS Home Loans's Standard Variable	\$395	\$200	NO	\$250	NO	\$96/yr
St. George Bank's Variable Loan	\$600	NO	NO	\$100	\$350	\$10/mth
Westpac Banking Corporation's Rocket Repay Home Loan	\$600	NO	NO	NO	\$300	\$199/yr
Wizard Home Loans's Smart Choice Loan	\$100	NO	NO	\$660	NO	NO

Fees comparison provided by InfoChoice and is correct as of 15 August 2007. InfoChoice is an independent company providing unbiased and up-to-date information about the Australian finance industry, specifically for Australian consumers. They do not endorse any particular products, services or providers, and their directors have no financial interest in the businesses listed on their websites.

## Methodology

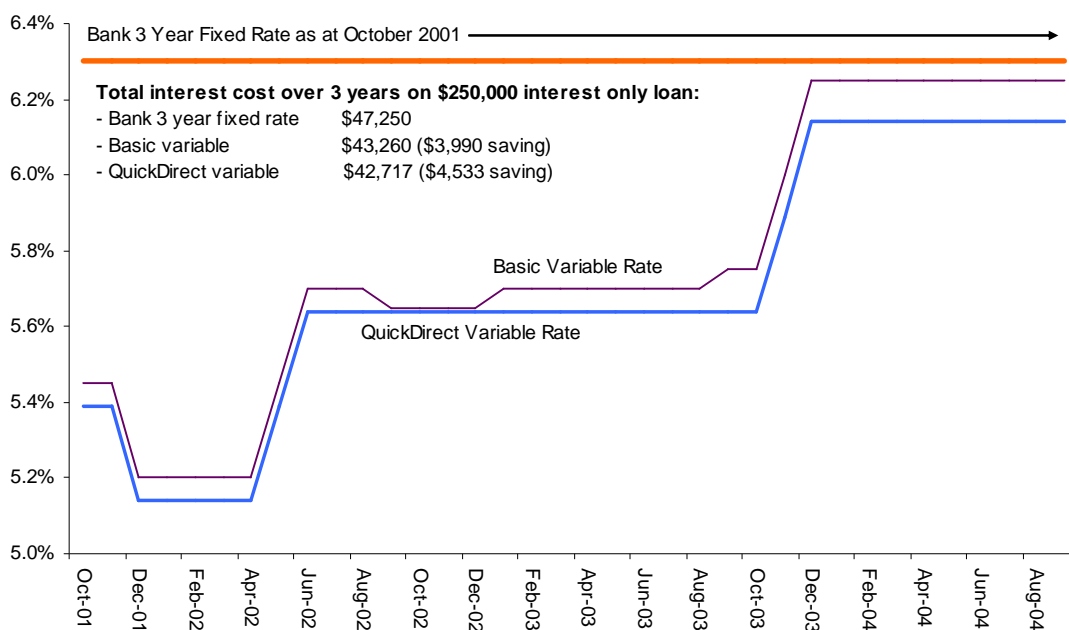
In this article, we use Reserve Bank of Australia (RBA) data to go back through time and compare the cost of fixed and variable mortgages.

To do this, we take the total interest payable on the banks' 3 year fixed rate and compare this to the interest that would have been payable on a basic variable rate loan over the same period. We do this for each month from September 1990 to July 2004 (the latest month for which three years subsequent data is available).

As an example, consider October 2000. This was a point in time when the big banks were heavily promoting fixed rate mortgages in the wake of the September 11 terrorist attacks. At the end of October 2000 according to the RBA, the banks average 3 year fixed rate mortgage would have cost you 6.30%. At the same time, a basic variable rate loan would have cost you 5.45% and a QuickDirect loan would have cost you 5.39% (had we been up and running).

Over the next 3 years, the 6.30% fixed rate loan would have cost you \$47,250 in interest on a \$250,000 interest only loan. Taking into account the actual path of interest rates, the basic variable rate loan would have cost you \$43,260 and the QuickDirect loan \$42,717 over the same period. In other words, customers would have been better off in the variable rate products.

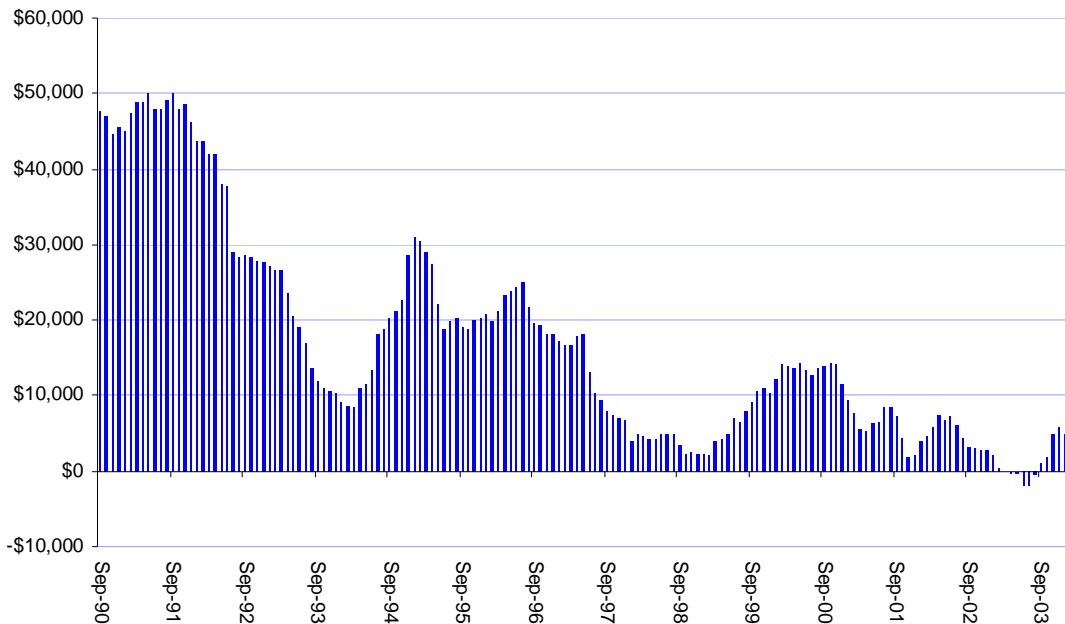
**Mortgage Rates from October 2001 to September 2004**



Source: RBA

We conducted this analysis every month from September 1990 (when data first became available) and July 2004 (three years ago). What we found was that in 83% of cases basic variable mortgages would have been cheaper than fixed rate bank mortgages and in 96% of cases the QuickDirect Variable mortgage would have been cheaper than bank fixed rate mortgages.

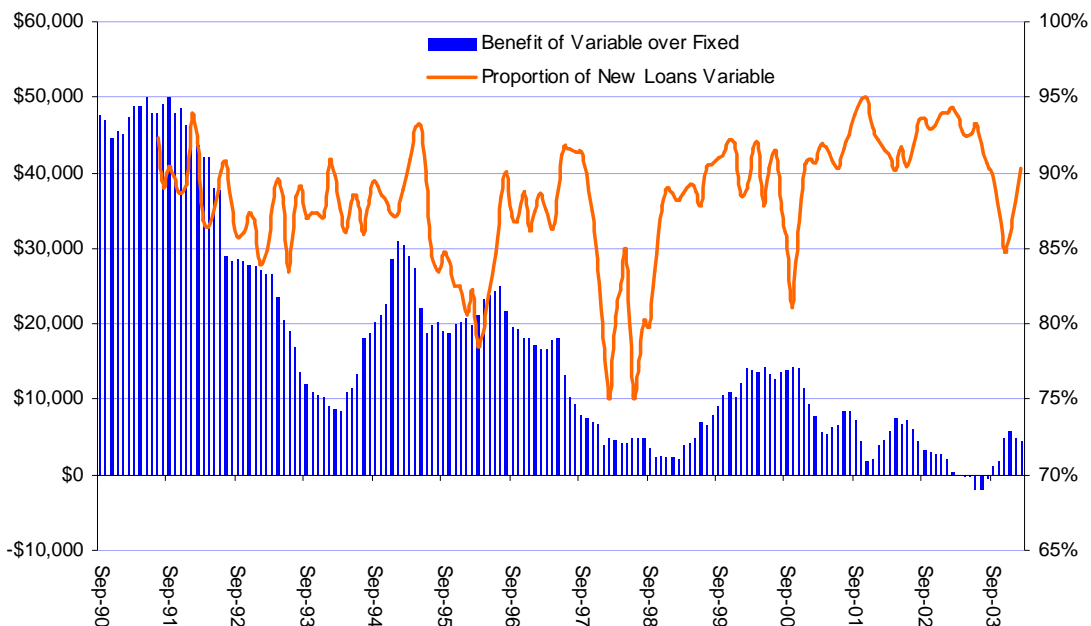
**Interest Savings Over 3 Years on a QuickDirect Variable Mortgage Compared to a 3 Year Fixed Rate Bank Mortgage\***



Source: RBA, \* Notional QuickDirect Variable Interest Based set 0.89% above RBA Official Cash Rate

We then went on to examine the proportion of customers that chose fixed rate mortgages over time. Over time there is no real relationship between the proportion of borrowers taking out fixed rate loans and the associated costs. In other words, borrowers do not have a particularly good track record when it comes to picking the best time to take out a fixed rate loan. In fact, there have been times when borrowers tended to fix their loans at quite inopportune times.

**Proportion of Customers Taking Out Fixed Rate Loans**



Source: RBA, ABS