SPLIT LOANS

A split rate home loan is a loan that allows you to split your home loan into multiple loan accounts that attract different interest rates.

A common example is to split your home loan to obtain a variable interest rate on one portion of the loan and a fixed rate on the other.

For example, if you require a loan amount of $350,000, you can decide to split your loan with $250,000 at a variable interest rate and the remaining $100,000 at a fixed interest rate. You will have the flexibility a variable rate loan offers, while still enjoying the interest rate certainty of a fixed rate on a portion of the loan.

Benefits of a split loan

- Split loans are a comfortable compromise that allows you to enjoy the benefits of both types of mortgages—variable and fixed—at the same time.

- The fixed rate portion of a split loan offers you some security and protection against sudden interest rate rises.

- The variable rate portion of a split loan provides flexibility and allows you to take advantage of decreases in interest rates.

- You can often make extra repayments on the variable portion of the home loan, which could help you pay it off sooner.

- If you choose a variable and fixed portion split, your variable portion can have additional benefits such as an offset account or a redraw facility.

- There are no restrictions on how you split your home loan. For example, you can split your home loan down the middle 50/50, or you can split it 30% variable and 70% fixed. However, most lenders only allow two splits.

Things to consider

- You may miss out on potential savings on the fixed portion of your loan if interest rates should fall.

- You will pay more on the variable portion of your loan if interest rates rise.

- There may be additional costs associated with this type of loan.

- If you need to pay out the loan early within the fixed term, early repayment costs will be charged.

- Consider where you want to be in the next five years. This will help you choose a loan with features suitable to your goals and objectives.

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