Understanding
your home loan

When buying your first home, choosing the right home loan can be quite overwhelming. There are many products and features available to you, but with so many options to consider, which home loan is the best one for you? To help you select a home loan that is right for you, we have compiled a list of key features. Speak to a lender or broker for guidance specific to your circumstances.

The interest rate - fixed vs variable

Probably the most important decision is whether you choose a variable interest rate loan or a fixed rate loan. The decision to take a fixed or variable rate loan is really a decision about managing your risk. Both types have pros and cons and we can't predict the direction of interest rate movements.

Variable interest rate

With a variable interest rate loan, the interest rate charged to you may go up and down. This means that your regular repayment amount will also go up and down as the interest rate changes.

Benefits	Things to consider
• You are usually permitted to make additional repayments which can save you interest and can help you pay off your home loan sooner • Variable rate home loans typically have more flexibility with additional features	• Your repayments may increase if interest rates rise • Makes budgeting more difficult as you are less certain of how much your repayments will be and how interest rates will move • If you have not budgeted for interest rate rises, you may have difficulty keeping up with your repayments

Fixed interest rate

With a fixed interest rate loan, the interest rate charged to you is locked for a set period of time, typically one to five years. This means that your regular repayment amount will not change during that period of time.

At the end of the fixed rate term, the loan will usually switch to the standard variable rate offered by the lender at that time or you can request another fixed rate term.

Benefits	Things to consider
• Your repayments will not increase if interest rates rise • Fixed rate loans provide certainty and make budgeting easier as you know exactly how much your repayments will be	• You will not benefit from falling interest rates • A break fee may apply if you pay out or refinance a fixed rate loan during the fixed rate period. You may not be permitted to make any additional repayments, or additional repayments may be capped to a certain amount. • When you refinance upon expiry of your fixed rate loan, interest rates may have significantly increased

Split loan - part fixed, part variable

Another option available is to split your home loan so you have part with a fixed interest rate and part with a variable interest rate. There is typically no restriction on how you split the loan, so you can allocate the proportions that you are most comfortable with (e.g. 50/50 or 30/70).

A split loan allows you to take advantage of the benefits of both types of loans – you have the certainty of a fixed rate on part of your loan as well as the flexibility to make extra repayments on the variable rate part of your loan.

Talk to your lender, broker or financial advisor to ensure your loan is structured to best suit your needs.

Interest-only vs principal and interest

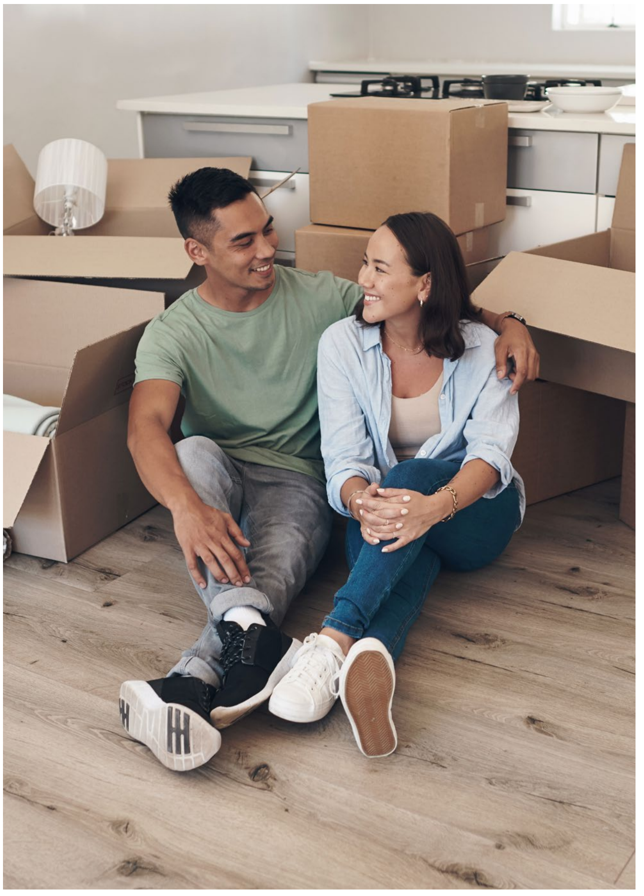
Generally, home loan repayments will consist of principal and interest components, gradually reducing the amount owing on your loan. With interest-only loans, only the interest is paid each month, leaving the original principal outstanding at the end of the interest-only period. This means, for example, that at the end of ten years, you will still owe what you started with.

Principal and interest

Benefits	Things to consider
• You will pay less interest over time and you will pay off your loan in full by the end of your loan term	• Your repayment amount will be higher as the principal is being repaid as well as interest

Interest-only

Benefits	Things to consider
• Your repayment amount will be lower during the interest-only period as no principal amount is being repaid	• At the end of the interest only period, your repayments will increase and be higher to repay the principal over the remaining, shorter term



Offset account

A mortgage offset account is a bank account that is linked to your home loan. No interest is paid on the savings in the offset account. Instead the savings in your bank account reduce the balance of your loan on which interest is calculated.

Benefits	Things to consider
• Your home loan interest is charged only on the net balance, reducing the amount of interest you will be charged which mean you can pay your loan off sooner	• Higher monthly fees may apply to have this feature • No credit interest is earned on the balance in the linked account • Additional repayments

Some loans offer the ability to make repayments above the minimum repayment amount, so you can repay the loan faster and reduce the amount of interest you are charged.

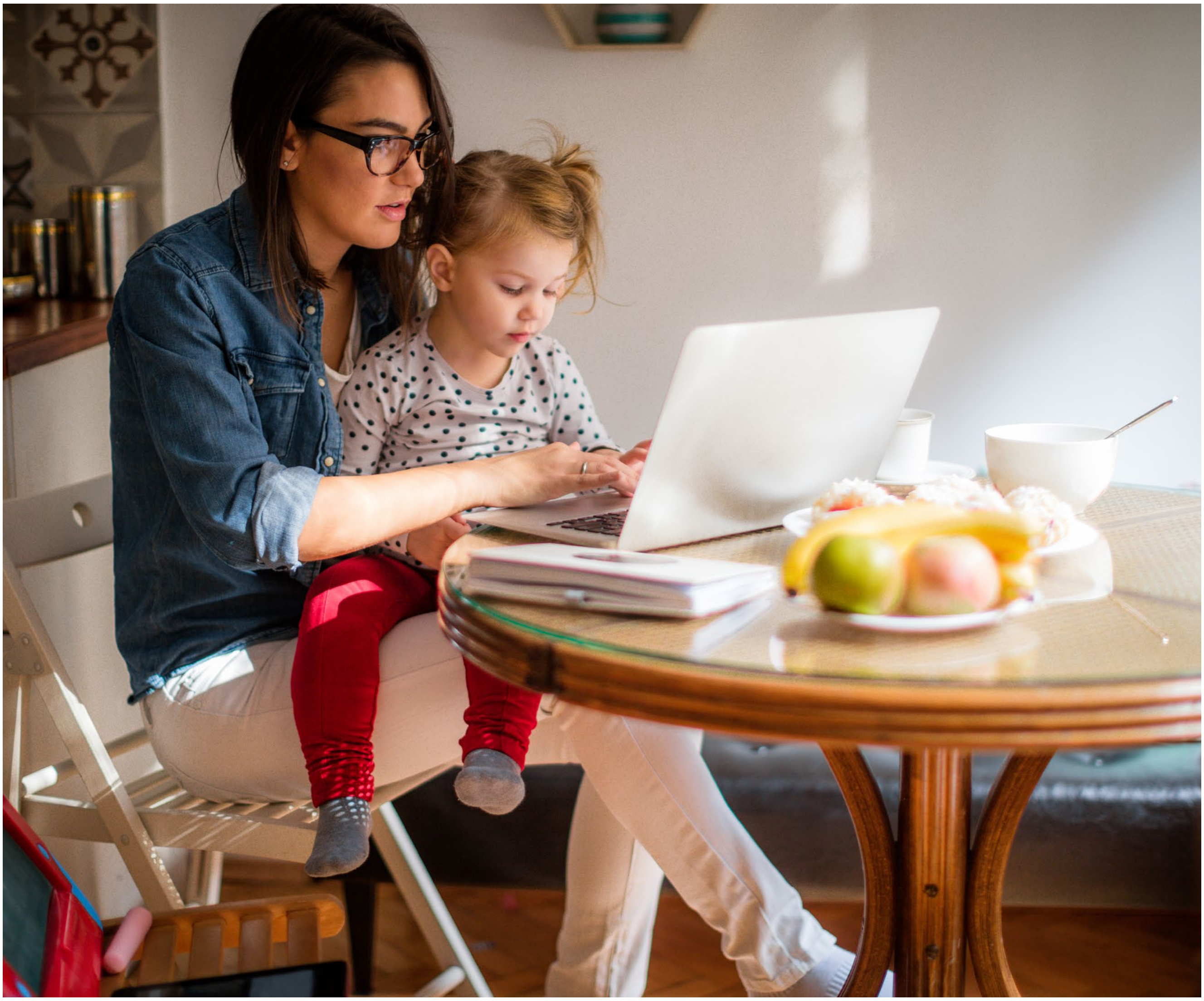
Other home loan terms you should know

Additional repayments
Some loans offer the ability to make repayments above the minimum repayment amount, so you can repay the loan faster and reduce the amount of interest you are charged.

Redraw facility
Some lenders may allow you to access additional repayments made on your home loan. If you redraw funds from your home loan, your outstanding balance will increase. Some lenders may have a minimum or maximum redraw amount and may also charge a fee per redraw.

Repayment frequency
Refers to the regularity of loan repayments over a period of time which you must make as indicated in your loan agreement. Repayment frequencies are generally weekly, fortnightly or monthly. It is good to have this flexibility so you can align your repayments to your pay cycle.

Increase or additional advance
Some lenders allow you to increase your loan, using the equity in your home, to complete home renovations, make an investment, etc. (subject to meeting their eligibility criteria and loan suitability requirements). Fees and charges may apply.



Understanding *the property market*

When buying your first home, it is important to consider what is currently happening in the property market and how the wider economy is affecting property prices, housing availability and interest rates.

Speak to a lender, broker or financial advisor for personalised guidance about how the market could affect you when buying your first home.

Inflation

Australia has experienced significant inflation during the past number of years.

The Reserve Bank of Australia (RBA), who is responsible for facilitating financial stability, has an average inflation target of 2 per cent to 3 per cent.

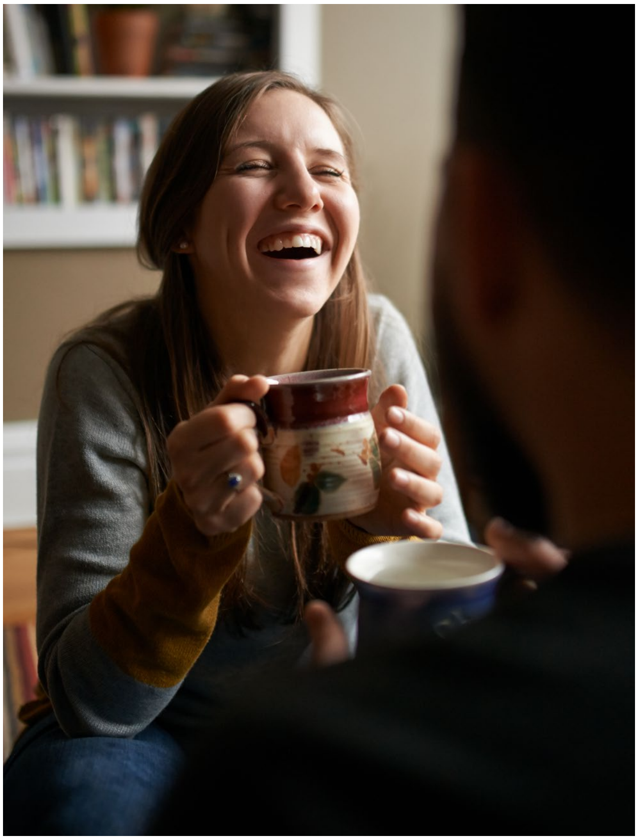
When inflation rises, the RBA might attempt to slow inflation by raising the cash rate which can increase interest rates. This may reduce borrowing and spending.

What does this mean for you as a home buyer?

The main contributors to inflation also contribute to higher property prices. This includes higher cost of building materials and fuel as well as disrupted supply chains. With many people looking to buy homes and a limited supply, home prices may fluctuate and will likely increase.

Rising interest rates will also have an effect on your mortgage repayments if you have a variable interest rate. If you have a variable rate or a part fixed part variable rate, you can expect your mortgage repayments to increase. This is an important factor to consider when applying for a home loan.

When the RBA finds that inflation is being brought under control, it may lower the cash rate which can result in lenders reducing loan interest rates.



Home buyer sentiment

Each quarter we survey approximately 350 home buyers in our Helia Spotlight pulse survey. We found that more prospective buyers than ever are losing hope in buying their own property. However, we also found alternative pathways to home ownership are emerging, such as co-ownership (e.g. parents buying a home with their child or siblings buying a home together).

Read more about home buyer sentiment in our Helia Spotlight pulse survey on our website.