

How to choose the right mortgage

Taking on a mortgage nowadays is as much about the dollars as about making it work with your lifestyle choices. A basic low-rate home loan might seem like a good option up front, but considering a loan with more features might be more beneficial in the long run.

Before you start looking for a mortgage, ask yourself what your priorities are. Do you want to pay off the mortgage quickly, or is maintaining your lifestyle more important? Is flexibility the most important factor for you?

Lenders also offer lots of options including offset accounts (which allow you to use savings to reduce the amount of interest you pay on your loan), and redraw facilities (which enable you to draw on the money you have already paid off the principal). So remember to ask the lender about all of these options as well.

Here are some of the more popular options for first time buyers. And as with any financial deal, check out all fees and terms and seek advice from experts.

Standard variable

This is one of the most common loans, and can normally be up to 95 percent of the property's value. It is also subject to market variation, i.e. interest rate increases and decreases.

PROS: If interest rates are low, and likely to stay that way, then this could be a great option.

CONS: If rates are likely to go up, then this mightn't be the most competitive mortgage.

Fixed rate

As the name suggests, this type of loan allows you to pay a fixed rate of interest. Usually, this will be higher than standard variable rates, but you will be protected if rates go up. On the other hand, if rates go down, you won't automatically get a rate cut. However, your mortgage payment will be constant and predictable, making budgeting more straight forward.

PROS: Predictability in repayments and protection from unexpected market variability.

CONS: Usually more expensive than a standard variable rate and your rate won't go down if the bank cuts its variable rate.

Combined

Many lenders allow you to combine a standard variable and a fixed rate product, by fixing the rate of a portion of the loan and leaving the rest as variable. This kind of loan gives



you a bet each way on the economic outlook during the term of the fixed portion of your loan.

PROS: Having a little bit of risk, with some security.

CONS: Harder to capitalise on favourable market conditions.

100 percent

Some lenders now enable you to borrow the entire amount of your property, a product designed to assist the first home buyer who may not be able to save for a 5, 10 or 20 percent deposit required of other loans. Again, there will be costs associated with this, but could be a good option to get you on the property ladder. This option obviously comes with a greater risk. Ask yourself: can you service this level of debt?

PROS: Easier to get into the market.

CONS: A riskier and more expensive option. Not very many lenders offer this option.

