

## Fixing short terms the cheapest option for borrowers

A new report from ASB suggests homeowners may be better off fixing mortgages at short terms over the next five years.

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Chris Tennent-Brown, ASB

ASB's team of economists expect the official cash rate to rise from May 2022. Yet they don't believe the OCR will move up "significantly", and forecast a peak of 1.25% in late 2023 or early 2024.

In the bank's latest Home Loan Rate Report, ASB said downward pressure on short-term rates could continue, with the RBNZ Funding for Lending Programme providing cheap financing opportunities for the banks.

While rates remain low, global economic factors could push interest rates higher. ASB said an improving economic picture here and abroad remained an upward force on the mortgage rate outlook, "particularly for the longer terms".

With the prospect of rising long-term rates, and potential falls on shorter terms, the bank recommends fixing shorter terms and rolling those over, rather than locking in longer-term rates.

"Taking advantage of the lower rates on offer now, combined with our expectations that mortgage rates will only rise modestly over the years ahead, influences our thoughts on mortgage strategies. Fixing for the lowest cost shorter terms and subsequently rolling fixed-term mortgages is forecast to be the cheapest option over a five-year time horizon," the lender said.

But the lender issued a warning that homeowners will need to factor in increasing costs, "rather than budget on rates remaining this low indefinitely". It said more cautious borrowers may wish to lock in longer-term rates for the certainty.

"For those who want interest rate certainty now, the cost of fixing for longer terms is very low compared to the past, with current rates around 3%."

ASB said buyers need to pick the right strategy to suit their risk appetite, need for flexibility, and the goal of minimising interest rate costs.

"Some investors may wish to split their mortgage to hedge their bets in this market, the lender added.

"Borrowers could also consider splitting the mortgage into different terms to better suit their preferences for interest rate certainty versus retaining flexibility."