

Media Release

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Use rate increase time lag to your advantage, Retirement Commissioner advises homeowners

As many of the major banks increased their floating interest rates overnight, homeowners should be planning ahead to look at how to cover future larger mortgage repayments, says Retirement Commissioner Diana Crossan.

The banks have followed last week's move by Reserve Bank Governor Alan Bollard to increase the Official Cash Rate to 7.25 percent. The floating interest rate is now 9.5 percent.

Dr Bollard warned that the majority of homeowners had not yet felt the impact of the previous months' increases in the OCR because they had fixed term mortgages. About 40 percent of homeowners will have their fixed rate mortgages come up for renewal within a year.

Ms Crossan said any homeowners who have not reviewed their financial situation in the wake of previous rate increases should certainly do so now.

"The Retirement Commission strongly encourages homeowners to use the time lag to review their mortgage and look at how they can cover the future increases. A review is useful for anyone with a mortgage, not just those who may have stretched themselves when taking out a home loan."

"Many mortgage holders are likely to face between a 1 percent and 1.3 percent increase when they come off their fixed term and that can make a significant difference to payments. Preparation is the key to good mortgage management."

Options when reviewing could include looking at the household budget to see whether spending can be cut to cover future increases, or starting to put money aside now for when the fixed term ends.

For some people, extending the term of the mortgage to make repayments affordable under higher interest rates may be the only solution but as this would increase the overall cost of a mortgage, it should only be considered as a last resort, Ms Crossan said.

Ms Crossan said people could calculate the financial impact of changing interest rates by using the new mortgage tools and information on the Retirement Commission's independent personal finance website www.sorted.org.nz. The site also had a number of budgeting calculators to assist with household budget planning.

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