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Marlborough Express Opinion Column by Retirement Commissioner, Diana Crossan

## Protect yourself from higher interest rates

Recent rises in interest rates make it even more important that you manage any debt well, so it costs you as little as possible.

Interest rates have already gone up several times this year. Last week the Reserve Bank increased the Official Cash Rate by 0.25 per cent to 6.5 per cent, and banks are expected to adjust their rates accordingly.

For savers an increase in the Official Cash Rate is good news, as the interest rates paid on many savings accounts go up, boosting savers' returns.

For many borrowers, however, higher interest rates means it will cost more to buy something using a credit card, short term loan or mortgage - either regular repayments will rise (if you're not on a fixed rate mortgage), or it will take longer to pay off.

So if you want to borrow, it's important that you're really sure you need to, and that you find the least expensive option.

Higher interest rates will increase the size of your repayments. The trick is to figure out how much you can afford to borrow before you commit yourself. So before you borrow, visit the Retirement Commission online at [www.sorted.org.nz](http://www.sorted.org.nz) and use the *Get into debt calculator* to work out how much you can afford.

If you already have debts, try to minimise the impact of higher interest rates. If you have more than one loan (say, a mortgage and a credit card debt you're having difficulty repaying), you can save money by consolidating your other borrowings into your mortgage. Next, if you can afford it, increase the size of your regular repayments so they at least cover the extra interest costs. Use Sorted's *Repayment options calculator* to find out how much extra you'd need to pay.

Play around with this calculator. It will also show you how increasing repayments further can reduce the overall cost of the loan. It's important to be realistic when working out how much you can afford to pay back, so you can still afford unexpected bills or expenses.

Of course, repaying your debts is the best way to protect yourself from further rises in interest rates. Sorted's *Get out of debt calculator* will help you work out a plan for doing this. Once you are debt free, you can start saving - and then rises in interest rates will be good news as you earn more on your savings.

Saving for an "emergency fund" of at least two to three month's pay is a great first step to cushioning yourself against financial emergencies.

For more help sorting your finances, visit Sorted ([www.sorted.org.nz](http://www.sorted.org.nz)). Sorted is packed with helpful, impartial information, tools and calculators that will help you manage your money and achieve your financial goals. And it's free.