Split Loans

Farmer does Finance

A split rate home loan is a loan that allows you to split your home loan into multiple loan accounts that attract different interest rates.

A common example is to split your home loan to obtain a variable interest rate on one portion of the loan and a fixed rate on the other.

For example, if you require a loan amount of $350,000, you can decide to split your loan with $250,000 at a variable interest rate and the remaining $100,000 at a fixed interest rate. You will have the flexibility a variable rate loan offers, while still enjoying the interest rate certainty of a fixed rate on a portion of the loan.

Benefits of a split loan

- Split loans are a comfortable compromise that allows you to enjoy the benefits of both types of mortgages—variable and fixed—at the same time.
- The fixed rate portion of a split loan offers you some security and protection against sudden interest rate rises.
- The variable rate portion of a split loan provides flexibility and allows you to take advantage of decreases in interest rates.
- You can often make extra repayments on the variable portion of the home loan, which could help you pay it off sooner.
- The variable portion can have additional benefits such as an offset account or a redraw facility.
- There are no restrictions on how you split your home loan. For example, you can split your home loan down the middle 50/50, or you can split it 30% variable and 70% fixed. However, most lenders only allow two splits.

Things to consider

- You may miss out on potential savings on the fixed portion of your loan if interest rates should fall.
- You will pay more on the variable portion of your loan if interest rates rise.
- There may be additional costs associated with this type of loan.
- If you need to pay out the loan early within the fixed term, early repayment costs could be charged.
- Consider where you want to be in the next five years. This will help you choose a loan with features suitable to your goals and objectives.
- **Break costs.** The fixed rate portion of your split loan may be subject to break costs if:
    - you want to exit before the end of the fixed term.
    - you prepay part of or your entire loan before the end of your fixed rate period
    - you switch to another product, interest rate or payment type before the end of your fixed rate period.
    - break costs also apply if you want to end the loan as part of selling the property.
- **Calculating break costs.** Each bank uses a different formula to work out its break costs, so it's worth finding out how your lender calculates this fee as the formula is complex. However, in general terms if the current wholesale interest rate for the remaining part of the fixed interest term is lower than the original wholesale interest rate when the fixed interest rate period started, then a Break Cost will be charged.