



## Paul Clitheroe

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# getting rates rise ready

When Treasurer Wayne Swan recently indicated that rates look set to rise next year, home owners around the country undoubtedly took a deep breath. It's not the sort of news anyone with a variable rate loan wants to hear but at least the Treasurer's warning gives us time to get rate rise ready.

When the Reserve Bank slashed the official cash rate to a historical low of 3% in April, it was designed to ward off the worst of the global downturn. So far, so good. The Aussie economy appears to be holding up a lot better than many others. But the positive economic results are seeing plenty of economists bringing forward their predictions of a rate hike.

Given the delicate state of our economy, it's likely that rates will go up gradually. But if higher rates would be a serious strain on the household budget, there are a few steps worth taking now to get ahead while rates are still low.

If you're paying off a home loan, try 'stress testing' your finances by assuming your mortgage repayments are already based on a higher rate. Lenders often look to see if borrowers could cope with

an extra 2 per cent in interest charges, and it's an exercise you can try for yourself.

If you're currently paying around 5.5 per cent on a loan of say, \$300,000, your monthly repayments could rise by as much as \$400 if rates hit 7.5 per cent (assuming a typical term of 25 years). If you can start paying the extra now, you'll get a fair idea of how well you'll cope when rate hikes arrive. You'll also put yourself ahead financially as the extra payments will reduce your loan balance.

Take a look at the repayment calculators on websites like [www.infochoice.com.au](http://www.infochoice.com.au) to work out how your repayments will be affected if rate hikes.

Rate hikes don't just impact home loan repayments, they also flow through to credit cards. So take a look at all your debts including card balances, and think about whether you could stay on top if rates head north.

If your card debt is a bit bloated, think about a zero or low interest balance transfer deal. Trim your spending and use the savings to pay off the debt in the low rate honeymoon period.

If you find yourself sliding into a debt trap while rates are low, you need to seriously think about how you'll manage when rates turn the corner. If you have doubts about your ability to handle higher rates, see a financial counselor now. The website of the Australian Financial Counselling & Credit Reform Association ([www.afccra.org](http://www.afccra.org)) provides contact details for a range of counselling services.

It also helps to change the way you think. Aim to be a saver, not a spender. It really is the only way to get ahead financially. For ideas on ways to save and make your money go further, take a look at my new TV show, Money For Jam, eight o'clock on Wednesdays, on Nine.

*Paul Clitheroe's 'Making Money' for the week beginning 14 September 2009*



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