To Fix or to Gamble

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It is fair to say that interest rates have remained lower for longer than we might have expected.

With the next major move in interest rates likely to see finance costs rising, should borrowers be seriously thinking about locking into the current low interest rates on offer?

The general consensus is that the ECB may wait until 2019 before declaring that the era of “cheap-money” is over and start the process of hiking rates for the first time since 2011.

Most borrowers make the mistake of waiting for the ECB or their lender to raise interest rates before deciding on whether to fix their rate or continue borrowing at the bank’s variable rate offering. Try to avoid this trap. By waiting for an explicit increase in rates it’s very often the case that the best fixed rate deals are missed.

Traditionally, borrowing costs attached to fixed rate loans were much more expensive than variable-rate alternatives, however in recent years that premium has reduced and in some cases, disappeared entirely.

Some banks are even offering 5, 7 and 10-year fixed rate options that are nearly as attractive as the current variable rates. This is almost without precedent.

So why are banks offering attractive fixed rates?

Ireland’s banks came under severe political pressure over the last number of years to cut their mortgage rates, with the banks accused of charging rates that were too high in comparison to Eurozone averages.

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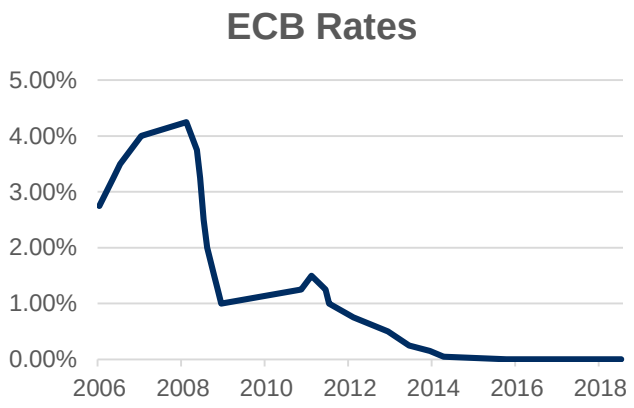
Indeed, Richie Boucher (the former Bank of Ireland chief executive) in late 2017 was reported as saying that the bank deliberately kept standard variable rates high to entice borrowers to fix instead.

Also, the addition of some new players to the market has offered some relief to borrowers with increased competition between the lenders.



From the banks' point of view, the reduction in 10-year bond yields has in turn allowed them to offer lower, more manageable long term fixed rates than has ever been seen previously.

There is also the likelihood that by enticing their customers away from variable rates onto attractive fixed rates options, banks are safeguarding themselves against bad debts by insulating vulnerable borrowers from future rate increases.

While the decision to fix interest rates brings certainty of borrowing costs, the disadvantages should also be considered. These include the additional cost that may arise if the loan is repaid before the end of the term or if additional lump sum repayments are made. Also, there is always the risk that variable rates do not increase as predicted or that they may even fall.

To fix or to gamble requires consideration. We would advise all borrowers to review their current loan documentation and loan to value ratio and compare their borrowing costs to the market to see to if there are more attractive rates on offer.

How we can help

If you would like to review or restructure your borrowing costs our experienced business advisory team will:

- Assist with the review of your current loan documentation.
- Help prepare financial projections to determine the effect of a change in borrowing terms.
- Research and identify the funding options available in the market.
- Assist with the selection of the most suitable funding provider.
- Provide advice on the commercial aspects of the financing documents.

About McAvoy & Associates

McAvoy & Associates is a multi-disciplinary consulting firm which provides its clients with leading-edge expertise in the fields of taxation, business advice and financial planning.

Founded in 1997, the firm has established a reputation for high quality, partner-led service.

By paying careful attention to clients' individual requirements and by using the combination of expertise, business acumen and initiative we strive to become each client's trusted advisor.

In doing so we work to build strong client relationships that enable us to gain a superior understanding of client needs. By operating in this way we are able to offer our clients more complete advice than they would receive otherwise.

Our continuing growth has been founded on our directors acting as trusted advisors to our clients. Our clients include multinationals, private companies, partnerships and high net-worth individuals.

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