



Media release

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Changing interest rates: What does it mean for you?

The trend of lower mortgage rates is expected to continue following today's announcement of a 1.5% reduction in the official cash rate, which controls the interest rate the Reserve Bank charges on money it lends to New Zealand banks.

New Zealanders wanting to see just what a difference a lower mortgage interest rate will make to their finances can use the [mortgage repayment calculator](#) on sorted.org.nz.

Retirement Commissioner Diana Crossan says a mortgage is the biggest single expense for many New Zealand families, and even a small reduction in interest rates can make a big difference.

For example, a family owing \$200,000 over 20 years currently paying 7.5 percent will be paying a minimum of \$743 a fortnight. A one percent reduction, to 6.5 percent, would reduce their payments to \$688 a fortnight, a saving of \$55 per fortnight and \$28,600 over the term of the mortgage (equivalent to saving a total of \$23,700 in repayments in today's dollars*).

Alternatively, if the family continued to pay the same amount every fortnight, the term of their loan would be reduced by almost three years, saving a total of \$53,100 over the term of the mortgage (equivalent to saving \$37,200 in repayments in today's dollars - see the example below).

"For people with a fixed term mortgage which still has a way to run, it can be tempting to change the terms of your mortgage to benefit from falling interest rates but this will cost you. You should talk to the banks about all the fees and other costs involved first," says Diana Crossan.

The flip side of lower interest rates is lower returns for people with some types of investments, such as short term deposits (bank savings accounts or fixed term investments).

"I understand it will be hard for some people who are retired and relying on that income. It's another impact of the current downturn that's affecting many New Zealanders," says Diana Crossan. People facing lower returns from their investments may find that the [budget calculator](#) on sorted.org.nz will help them.

People who are still some years away from retirement should regularly review their financial plans to take account of external factors such as changing interest rates, and they can use the calculators on Sorted to do this.

"Although none of us can be certain what 2009 will bring, it makes even more sense in these challenging economic times to know how much you earn and how much you spend, and to do a budget.

“Many New Zealanders are already doing this. We’ve certainly experienced a significant increase in traffic to sorted.org.nz this month as people pay more attention to how they manage their money and live within their means.”

A range of Sorted booklets, based on key information from the website, can be ordered online at sorted.org.nz/ordering or by calling 0800 SORT MONEY (0800 767 866). They are also available from ANZ and National Bank branches and some Pak’n Save stores in Auckland, Hamilton, Wellington and Christchurch.

* Today’s dollars are dollars adjusted to reflect the power of inflation over time

Effect of interest rate reduction on a \$200,000 mortgage, all in today’s dollars

	Current	Option 1 Reduce repayments	Option 2 Reduce term
Interest rate*	7.5%	6.5%	6.5%
Repayment amount per fortnight	\$743	\$688	\$743
Term	20 years	20 years	17 years and 3 months
Total amount paid	\$318,941	\$295,183	\$281,688
Effect		Same term but saves \$55 per fortnight and saves \$23,700 in total repayments in today’s dollars	Reduces term by almost 3 years and saves \$37,200 in total repayments in today’s dollars

* Examples based on assumption of 1% reduction in interest rates by banks.
Source: Melville Jessup Weaver

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