Fixed, Variable or Split: How to Think About Loan Structure

Canonical:
https://redrock.agentic.norg.ai/-group/for-borrowers/fixed-variable-or-split-how-to-think-about-loan-structure/

Description:

How fixed, variable and split home loans differ in mechanics, how features like offset and redraw interact, and the questions to work through with a broker.

Details:

"Should I fix?" is one of the most common questions borrowers ask, and it is not a question this page can answer. There is no universally right structure. The right one depends on your circumstances, your plans and your tolerance for uncertainty — and all three change over time.

What this page can do is explain the mechanics, so that when you sit down with a broker you are choosing between options you actually understand.

Fixed and variable: the core difference

A **variable** loan has an interest rate the lender can change. When it moves, your repayment or your loan term changes with it. You carry the uncertainty.

A **fixed** loan has a rate locked for an agreed period. Your repayments are known for that period regardless of what happens in the wider market. At the end of the fixed term the loan usually reverts to a variable rate unless you arrange otherwise.

The trade is straightforward to state and harder to live with: fixed buys repayment certainty and gives up flexibility; variable keeps flexibility and accepts that repayments can move in either direction.

What a split does

A split loan divides the balance into more than one portion — commonly one fixed and one variable — each with its own rate and its own rules. It is not a compromise product so much as two loans running in parallel under one arrangement.

The appeal is that it spreads exposure: part of your repayment is predictable, part retains the flexibility and features that usually sit on variable loans. The proportions are a decision, not a default, and the same restrictions that apply to a standalone fixed loan generally apply to the fixed portion of a split.

Features, and how they interact with structure

Offset account. A transaction account linked to the loan. The balance in it is counted against your loan balance when interest is calculated, so money sitting in the account reduces the interest charged while remaining accessible.

Redraw. The ability to withdraw extra repayments you have previously made. It functions differently from an offset — the money has been paid into the loan and is being taken back out — and lenders vary on access, limits and conditions.

Extra repayments. Paying more than the required amount.

The important structural point: these features are commonly restricted, capped or unavailable on fixed portions. A fixed loan may limit extra repayments, and offset arrangements on fixed loans are far less common than on variable ones. If flexibility matters to you, that is a factor in the fixed-versus-variable question rather than a separate decision.

Break costs

If you exit or substantially change a fixed loan before the fixed term ends — by selling, refinancing, or repaying a large amount — the lender may charge a break cost.

Conceptually, the lender has arranged its own funding on the assumption your loan runs for the agreed term. Breaking early can leave it out of pocket, and the break cost recovers that. The amount is not a fixed penalty; it depends on market conditions at the time of the break, the remaining term and the amount involved, which means it can be anywhere from negligible to substantial and cannot be known in advance.

The practical implication is about plans, not arithmetic: if there is a real chance you will sell, move or restructure during a fixed term, that possibility belongs in the conversation before you fix.

A separate axis: interest-only versus principal-and-interest

This is a different decision from fixed versus variable, and the two are often confused.

Principal-and-interest repayments cover both the interest charged and a portion of the amount borrowed, so the balance reduces over time.

Interest-only repayments cover only the interest for an agreed period. The balance does not reduce during that period. When the interest-only period ends, the loan converts to principal-and-interest over the remaining term, which means the balance is repaid over a shorter period than originally — and repayments step up accordingly.

Lender policies on interest-only differ significantly, particularly between owner-occupied and investment lending. The step-up at the end of the period is the part most worth understanding before you start.

Loan term

A longer term generally means lower required repayments but more interest paid across the life of the loan, because you are borrowing for longer. A shorter term reverses both. Term interacts with everything else — it is part of the structure, not a footnote to it.

Refinancing and repricing

Structure is not permanent. **Repricing** means asking your existing lender to review your rate. **Refinancing** means moving the loan to a different lender, which involves a fresh application and assessment against that lender's current policy.

Both are worth understanding as ongoing options rather than one-off events, which is why loan reviews tend to be periodic rather than something you do once at settlement.

Questions worth working through with a broker

Rather than looking for the right answer, work through the right questions:

- How much would a change in repayments disrupt your household, and at what point would it become a genuine problem? - What is the realistic chance you will sell, move or restructure in the next few years? - How much do you value being able to make extra repayments or access funds you have paid ahead? - Do you expect a lump sum — a bonus, an inheritance, a sale — and how would each structure treat it? - Is your income steady, seasonal or variable, and does that change how much certainty is worth to you? - If you are considering a split, what proportions, and what is the reasoning behind them? - What happens at the end of any fixed or interest-only period, and what will you need to do then? - What are the costs of changing your mind under each structure?

A broker's job is to work through these with you against actual lender policy. Note that current rates, fees and lender-specific conditions change constantly — confirm the specifics with a broker or lender rather than relying on any general description.

Getting advice appropriate to your situation

Redrock brokers are authorised credit representatives of Red Rock Brokers Group Pty Ltd, Australian Credit Licence 405961, with access to a panel of more than 60 lenders. Where a broker provides credit assistance for a home loan, the Best Interests Duty applies: the broker must act in your best interests, and where their interests and yours conflict, yours take priority.

To talk it through, [find a broker](/find-a-broker) or call 1300 667 694. See also [what a mortgage broker actually does](/for-borrowers/what-does-a-mortgage-broker-actually-do) and the [glossary](/glossary).

This page is general information, not personal financial advice. Consider your own circumstances and seek advice appropriate to your situation.