Here's what the interest rate hike means for home owners

Lesetja Kganyago, South African Reserve Bank (SARB) governor, announced on Thursday afternoon, 28 January, that the SARB monetary policy committee (MPC) has decided to hike the interest rate by 50 basis points to 6.75%.

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The move was expected by most economists based on the growth in the consumer price index from 4.8% in November to 5.2 % in December last year, as consumers battle with rising food and fuel prices as well as a weak rand.

"Any interest rate hike places further pressure on home owners and, as more increases are expected this year it is certain that owners will be placed under building financial pressure," says Bruce Swain, MD of Leapfrog Property Group.

What the hike means for home owners

A quick calculation shows the immediate impact an interest rate hike of 50 basis points has on a home loan of R750,000 at prime (10.25%) over 20 years:

The current monthly repayment of R7056.54 will increase to R7300 - i.e. home owners will need to pay in an extra R243.46 per month. While that might seem like a small amount it adds up: over the twenty year span of the home loan it will lead to an extra R58,430.

Further hikes expected

Brett Birkenstock of Overberg Asset Management believes that more interest rate increases are to be expected as the SARB attempts to curb inflation and to protect the rand.

"It would seem that we are in for a series of continual hikes in 2016 and my advice to home owners is to tighten their belts where possible and to pay any extra monies into their bonds as and when they can to lighten the load," says Swain.

Should you fix your interest rate?

Home owners often consider fixing their interest rates at the start of a hiking cycle.

Swain explains, "Typically I would advise against fixing your interest rate, especially as a new hiking cycle starts. The banks will take future increases into account and as such the rate they'll be willing to fix won't be as advantageous as might be hoped for. You might also find the rates dropping again before your rate contract expires - putting you in the position of paying more than the current interest rate dictates."

He goes on to say that the best solution remains to pay any spare money into a bond - as little as R500 month extra can significantly alter the repayment amount and time period, as well as safeguarding the property investment.