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Ready for rate action

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INTEREST rates remain on hold but borrowers are being urged to tread carefully when it comes to financing their biggest asset, because the next move will probably be up.

Last week's decision by the Reserve Bank of Australia to keep the official cash rate steady for the 10th consecutive month, at a 54-year low, continues a long period of stability for mortgage rates.

HSBC Australia chief economist Paul Bloxham expects rates to remain steady for a few months, but believes the RBA will have to consider a rise before the end of the year.

RateCity chief executive Alex Parsons says borrowers should be wary of rate rises.

"Make sure that you can afford a 2 percentage point increase in interest rates and still be able to make those repayments. If you can't, you'll soon find yourself in mortgage stress," he says.

Oracle Lending Solutions director Angelo Benedetti says banks use a 2 percentage point buffer when working out people's ability to repay, and borrowers should do the same.

"That's effectively eight interest rate rises, so it's quite a big buffer," says Benedetti.

"We are encouraging clients to seriously consider locking in these rates, or taking a hybrid approach of some fixed and some variable."

Mortgage Choice spokeswoman Jessica Darnbrough says falling consumer confidence levels and the Federal Government's tough Budget may keep rates low for longer.