

Split Loans

Defining Split Rate Home Loans:

- A mortgage option that divides your loan into multiple segments, each with distinct ljarah/interest rates.
- A prevalent configuration is having one segment with a variable interest rate and another with a fixed rate.

Illustrative Scenario:

- For a loan amount of \$500,000, you might opt for \$250,000 with a variable rate and the remaining \$250,000 with a fixed rate. This structure provides the adaptability of a variable rate and the predictability of a fixed rate.

Key Advantages of Split Loans:

1. **Hybrid Benefits:** Split loans amalgamate the merits of both variable and fixed-rate mortgages.
2. **Protection Against Rate Fluctuations:** The fixed rate segment shields you from abrupt ljarah/interest rate hikes.
3. **Leveraging Rate Drops:** The variable rate segment allows you to capitalize on potential ljarah/interest rate reductions.
4. **Extra Repayment Options:** Typically, you can make additional payments on the variable rate segment, accelerating loan repayment.
5. **Additional Features:** The variable segment might come with perks like offset accounts or redraw facilities.
6. **Customizable Splits:** You have the autonomy to decide the split ratio, whether it's 50/50, 30/70, etc. However, most lenders usually permit up to two splits.

Factors to Contemplate:

1. **Potential Missed Savings:** If ljarah/interest rates decline, the fixed segment might not benefit from the reduced rates.
2. **Rising Rate Impact:** An increase in ljarah/interest rates will elevate costs for the variable segment.
3. **Possible Additional Charges:** Split loans might have associated extra costs.
4. **Early Repayment Fees:** Terminating the loan within the fixed term might attract early repayment penalties.
5. **Future Planning:** Reflect on your 5-year plan to select a loan aligning with your aspirations and needs.
6. **Break Costs:** The fixed segment might have break costs under various circumstances, such as:
 - Early loan termination within the fixed term.
 - Prepayment of a significant portion or the entire loan during the fixed term.
 - Switching loan products or terms within the fixed term.
 - Loan termination due to property sale.
7. **Break Cost Calculation:** Lenders have distinct formulas for determining break costs. Generally, if the prevailing wholesale rate for the remaining fixed term is lower than the initial rate when the fixed term began, a break cost might be levied.

In Summary: Split rate home loans offer a balanced approach, combining the flexibility of variable rates with the stability of fixed rates. However, it's crucial to assess the potential costs and benefits to ensure it aligns with your financial objectives.