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Handling rising interest rates

In mid-August I sent out a survey to the three-quarters of my 23,000 Tony's View subscribers who this month did not receive the monthly Business Survey request. The question I asked was this.

"Borrowing costs are going up - potentially rapidly. Thinking back to periods when you have had to save on spending to meet higher debt repayments or another large expense hike, what did you cut back on or otherwise do to ensure you could keep your property? Newbies to rising rates may find such insights useful."

Over 500 people sent in their thoughts. There was understandably a lot of replication regarding areas for saving money. Nonetheless, I have reprinted a good number of the cost saving suggestions.

I have also placed some responses under a heading of "The mortgage", others under "Property investment" and some under "Earning extra income"

A key thing for affected borrowers to remember as interest rates rise potentially more rapidly and to higher levels than you currently think, is that the Reserve Bank is not seeking to force people out of their homes. They are trying to get householders generally to pull back on spending, reduce borrowing, and boost savings.

My summary of the thoughts which people have offered is this.

- Entertain at home rather than going out to restaurants and bars.
- Make your own lunch and stop buying it.
- Cut café coffees and make your own.
- Check bank account and credit card statements to see monthly subscription services you pay for but might not actually use all that much – e.g., streaming TV.
- Get rid of all high-cost debt like credit cards.
- Prepare well before interest rates rise by assuming the mortgage rate is 6% or so immediately and budgeting for that.
- Spread one's mortgage across different fixed terms to give time for budget adjustments and minimise the immediacy of changing interest rates.
- Get in a boarder or flatmates. Shortages of accommodation mean there should be no shortage of potential takers.
- With widespread labour shortages, consider taking on some part-time work.

Respondents' suggestions

- Take control of where you are spending your money and take good advice via an experienced mortgage adviser who will start with a detailed budget based on past/current expenses and current incomes. This often results with savings to be had. Complete interest rate risk profile and allow for future changes such as rising interest rates, starting a family, retirement, starting your own business, helping your children onto property ladder. Compare this information with one's current mortgage strategy and establish a plan to accommodate future changes. Rising interest rates are only part of the problem.

- First you have to know on what you are spending your money so then you can choose on what to reduce your spending.
- Tightened belt across the board, but particularly less eating out and travelling away in weekends. Also bought secondhand appliances, furniture, etc rather than new.
- I'm a newbie. I have got three kids, however, with my wife staying home and not earning an income for at least a year after each birth. One of the things I did in anticipation of it was purchase two investment properties with positive cash flow for additional income. Otherwise, work hard and save hard.

Prepare for eventually higher rates by spending now as if they had already increased 2-3%.

- Buy a bottle of Maccona ~ last six weeks? Reduce Cappuccinos & Flat whites to once a fortnight ~ special occasions. I used a T A/c balance sheet ~ debit what comes in, credit what goes out & ensure you have a positive balance to pay for a WoF or new tyre...
- Calculate what the repayment will be at the test rate of 6% and rejig your budget in advance to cope. It will take a little time and needs to be treated seriously.
- Entertainment (coffees, takeaways), all the subscription stuff we easily get into like Netflix, Neon etc. All adds up. And don't fall into getting Afterpay, lay buy etc. If you can't afford something initially then you very likely can't afford to be paying it off each week.
- Try to pull a budget together on Excel. I started doing this back in January 1997 when I first started working full-time post graduation and have never stopped. Might sound anal, but I even have a column for actuals and review to see where I over-spent or saved. Businesses do this so why not do it for your own self, your life, standard and way of living depends on this. Based on the above, see where you can cut and save some $$$. Do we need to do takeaways every Friday night or can you cut to two weekly? Gym, Netflix etc, brunches, coffees, when you start looking into in detail, you'll be surprised what you'll save. I recently did this and saved approximately $500 a month when I cut them back.
- Groceries and fuel are one of the largest expenses items in our household. Make a list and stick to it. Go through the pantry and see what all can be used. You'd be surprised what you find. Same with fuel, do you need to make that trip or can you wait and do it later with something else and save two trips. Think smart. Little things habits etc. like this will start adding up and make a difference.
- Start right now. Stop the leaks in your budget. Pay off and close short-term debt, stop layby spending, stop unnecessary online subscriptions, put your hand up for extra hours at work, stop drinking alcohol, smoking and eating meat, make your lunches, make your coffee at home. If you can't afford it - don't buy it.
- Entertainment and travel. Entertain at home and do cheap or free things, beach, bush walks etc.

- You have to start planning for it NOW, not later. Keep your eye on what the commentators are saying and act with advice from competent professionals. That is what we did BEFORE rates went to over 20% in the 80s. They could go there again soon - Who knows.

Stop buying your lunch - this is the most common unnecessary expense I see coming through with most clients.

- Tailor your repayments to a significantly higher interest rate from the get-go. Create the habit now so when there is no option but to fork out the extra debt repayment, you're already used to it. Stop buying your lunch - this is the most common unnecessary expense I see coming through with most clients. $250 per week average on groceries + at least $100 per week on bought lunches.
- Sold the second car and rode my bike to work every day.
- Lots of young people buy lunch during the week - let's say a conservative $12.50 a day for a two-person household would be $125.50 a work week. You can cook yourself and have leftovers (we do) and probably halve that amount. $100 extra a fortnight would help cushion the impact of rate and repayment increases.
- Most insurance companies don't tell you this, but you can often get a bit of a discount if you pay your premium upfront (if you have the cash lying around). If you have insurance products across providers, check whether you could get a package discount and it would be cheaper all up. Every little helps.
- I battened down the hatches and cut out discretionary spend and got a 2nd job.
- We are looing at selling in Auckland and moving to the Provinces, could be mortgage free there & tele-commute for work.
- I remember when I brought my first investment property in 2007. Interest rates were only 5/6 % but heading towards 10. I had to top up the mortgage, so it was a matter of sacrificing in other areas rather than making a knee jerk reaction and selling up. I stopped buying so many clothes and discretionary items, made my lunch, got a flatmate in etc. I also fixed for three years so I had the certainty of what my repayments were and could budget. it was tight but I got through it. If you can afford to keep the property do so, remember it's a long game and if you can hang in there even if it means getting a second job or other income, learning to cook so you aren't relying on expensive Uber Eats and my food bag then do that. Print out your bank statements and credit card statements so you can see them in front of you and then you will realise how much $$ you are wasting i.e., on subscription services. How many Neons, Netflix etc. do you really need? I still have my rental; the mortgage will be paid off in one year.
- Look at your bank account to see if there are regular payments going out for things you cannot remember signing up for - Netflix, Disney, Neon, Spark, meditation, don't borrow long term for short term stuff.
- On the basis that something is better than nothing, swapping Friday night restaurant gourmet pizzas and the hazy IPAs for the

home-made version and a box of Speights could be worth considering?

- Get qualified and start looking for a second job on the weekends and evenings. Learn to cook instead of takeaways. Get friendly with Pak n Save weekly specials. Find the cheapest beer you can find and start trialling it. Contact your local college and find out when the Homestays are back. Start practising with just one family car and downsize to one cheaper to run. Start increasing rents to tenants before Labour rent controls come in to cope with the exponential rise in taxes to you as interest rates increase the same time as deductibility is whittled away to zero. Get a fishing rod and net ready to start finding your own food. Start stockpiling baked beans and 2-minute noodles.
- Ditched the car that was on a 1/3 1/3 1/3 payment deal. Two trips to Pacific Islands per year cut back to one. Others I know took kids out of private schools and some took in a boarder.
- Buy an electric lawn mower instead of a man from the village, take in a flatmate, get a side gig (mine was marking University assignments).
- Only purchase small & big-ticket items with money in the bank, i.e. No Hire Purchase, no extending the mortgage - Only spend it if you have it.
- We cut back on the luxury of empty rooms in the house. Taking even one boarder lifted a huge load off the mortgage repayment burden. At one stage we even had to assign a separate lounge as a boarder's bedroom. It was the best room in the house (with a view) for them, and the rest of us made the most of the remaining living area. In a previous interest rise, our mortgage interest rose from 17% p.a. to 22% p.a. We had never seen interest in single figures. When we filled the house with boarders, we were able to pay our mortgage in just 5 years, i.e., before the price of the house had doubled due to interest. Interesting times, but we made the best of our resources - made a week's worth of bread each weekend (by hand), grew veggies, bought very few items, lived minimally, walked 3kms to work instead of owning a car, entertained ourselves by gathering in each other's homes or enjoying the bush, mountains, beaches for free. We stripped & painted the ground floor exterior of our own house, after work and had painters just do the second level where we couldn't reach easily, slashing expenses.
- Back in the early 1980s, my mortgage started at 17%. It went up as far as 23%. I kept doing what I'd done for years as an out of hometown student - ate frugally, no meals out, biked instead of using car when I could, etc and continued even when I got my job to get my deposit - then scrimped and saved to pay mortgage as my top priority. Most of my peers had an OE. I bought a house.
- I ensured my family was economical with electricity i.e., no lights etc on if they were not essential, short showers, all share the lounge for warmth in the evening rather than being in separate rooms. School holiday activities had to be freebies - get everyone involved and creative e.g., have a dress up theme and go for a picnic that you can walk to at a nearby park AND creative games like 'explorers' where you have imaginary tools etc and the excitement is in the story you make up together etc - with creativity, the list of possibilities is endless. Treat foods once per week. Have an attitude of 'how can we make this work' and celebrate the

successes rather than an attitude of depravity i.e. 'I don't have ...'

- Excellent question and relevant to us at the moment as our kids are moving on from their first Auckland 60M2 unit to bigger homes for approx. 1.2million each (900K mortgages, Bloody hell!!). To cut back, first list current spending habits from recent records. Then, work out what can go leaving what can be afforded. (EG: 5 x flat whites per week = $20) Do the sums re interest rate rises, have contingency plans in place such as flat-mates or borders, overtime, second job or other money producing activities. It may surprise some of the young that fiscal discipline won't detract from having a good time in this Country. We have been there, done that.

Assume higher interest rates right from the start and repay to that schedule and keep repayments high even when interest rates fall.

- Throughout this decade of declining interest rates, I kept my mortgage repayments at the same level, paying off more and more principal. Even with interest rates increasing I will continue to keep my repayments the same and will avoid any discomfort.
- My car was costing me money on repairs, so I sold it and used public transportation for the next 2 years. It was difficult.
- Moved in with our parents and rented out our recently purchased first property because we could not afford to live in it. But we kept the property and eventually moved in. We were on the property ladder at least
- Make lunches, reduce coffees out are a simple way to save $50-100+ a week, easy thing to do to easily get in some more cash to pay for any interest rate increase.
- Stopped the Saturday night partying and drinking. Found out I was spending about $150-$200 each outing. As a bonus, my body and mind felt much better :) Also sought a better paying job.
- Honest and frank conversation with your wife/partner essential first step. Then set out together to establish your "needs" vs "wants". Immediately set a savings plan to cope with problems that might be coming down the line. Finally, if it is really hard going talk to your parents and ask if they have any "advice"- nothing like a slice of early inheritance to ease the burden as long as you are definitely toughing it out and there is no wasting going on.

The mortgage

- Break up the mortgage into smaller pieces, spread out over different terms.
- Try to fix mortgage for a longer period than the usual 12 - 18 months we have been so used to the last 10 years coz rates were not going anywhere. The rates might look a little high now but in the long run, will average out.
- Each pay increase / bonus / unexpected windfall - apportion a percentage to repaying debt, i.e., 50% to you 50% to the mortgage.
- Paying your mortgage back fortnightly rather than monthly will mean you might get an extra repayment in every year bringing down interest costs.

- Turn your lights and appliances off when you're not using them! Check Powerswitch online to see if you're getting the best deal for your power bill.
- If you're a new build/first homeowner lots of councils offer rates rebates on some or all of a rates bill (their way of encouraging increases in housing stock) so check in with your council. My household will save $5k in rates over two or three years because of it.
- Any food that wasn't from the supermarket, all holidays, haircuts, clothes, shoes, activities, everything! It was not a fun period, and mainly it was the GFC combination of rising rates plus job losses (yes, losses plural: three in two years between us). Seriously thought we might have to sell the house. But we got through, retrenched, changed direction with both our jobs, and ended up in a position where we were totally protected from the downturn of coronavirus. Learned that lesson the hard way but it set us up for life.
- Always keep your repayments at the same level when rates go down so that the impact of rising rates later on is less noticeable and easier to manage. You'll also pay off your debt faster when the rates go down as well.
- Fixed for 5 years at 2.99% so going to smash my mortgage in 5 years. Will be cutting back on buying new vehicles and holidays to put the money towards my mortgage.
- I have only been in the housing market for 12 years but when I fixed in 2009, I was getting a "good deal" of 6.5%. To save for my deposit I was already lowering all of my costs - made my lunch every day, meal planned, took out cash and only spent that on a night out. Once I had my house, I got flatmates in to help pay the bills. Fortunately, I was in a holiday location so also rented my house out on book a bach over the summer to fund my own holiday. I threw whatever spare cash I had onto my flexi mortgage to minimise the interest costs.
- Check the break cost on your current loans and see if it is worth breaking these loans and refix for a 2- or 3-year rates that is still quite low currently. It has worked really well for us.
- Set loan repayments at higher level than minimum when rates are low, to insulate against future rate rises.
- Large Property Investor: we have a policy of not having more than 25% of our borrowing coming off a fixed interest rate at any one year - even at the risk of paying over the odds at times. Same can be done for your home. Ask the bank to split your mortgage and fix portions at varying intervals. Review rents annually. Control costs.

Extra income

- Buy a bucket of neutral paint and new curtains, refresh your spare bedroom/bathroom and rent out a room. If you don't have a spare bedroom, get your kids to share a room or move your office into the lounge. Nobody wants a border but it's better option than mortgage stress.
- Take in a flatmate or two....
- Get a higher paying job - business owners are fighting for staff. Maybe NZers can finally get a decent pay increase.
- I took on a waitressing job at night to supplement the family income. Our interest rate had climbed to 18%. My partner looked after the children while I worked (no babysitting fees). As the hospitality industry

is in short supply of staff finding additional work along these lines should not be too difficult.

Property investment

- Make sure you are doing a cashflow forecast for each property. Plan for P&I payments not interest only payments. (banks are getting tougher with interest only). Budget for rate and insurance increases along with 10% of rental income for r&m. (if you don't need it all that's great). Rent increases are expected, however look after good tenants as having a few properties empty for 2-3 weeks can knock cashflow. If things get too tight ask your bank for an O/D facility. Remember selling is your last option, not your first.
- Meet compliance requirements such as healthy homes as soon as possible and pay down on loan principals to minimise funding costs in the future.
- Consider consolidating the property portfolio down and use some capital to reduce debt elsewhere.
- Consider selling a property if you have multiple with mortgages and pay down some debt to be more comfortable. Large gains have been made already, it may be best to capitalise on some of these now, especially while there is a shortage of supply and almost certain sale. It doesn't seem worth it to gamble on further gains if you have high debt, heading into the adverse combination of both rising interest rates and non-deductible interest for existing investors. This would give you some breathing space/ better cashflow in the meantime - It may also help your position in the future to purchase a new build with deductible interest if the market stabilises.
- Be aware that it's happening to you. Get your head out of the sand. Prepare a budget/cash flow which includes a worst-case scenario. Reach out and be prepared to take some sound advice. Always keep your banker well advised as they are there to help. Bankers hate surprises and they will view your lack of factual & timely advice very poorly. Maintain a good and scrupulously honest relationship with your banker. You'll survive.
- In the past I have had to go interest-only for a period on my loans. I have also had to defer optional maintenance and upgrades and have moved the kids into a shared room and taken on boarders.
- Sell that property now while the market is good if your debt servicing is more than 25% of your gross income.

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