The Mortgage Affordability Myth

Following the Reserve Bank's move to stimulative monetary policy, there has been plenty of speculation in the major newspapers that low rates are set to spur on a housing boom.

The theory goes that low borrowing rates enable larger mortgages. This makes it easier to bid for property and pushes prices higher. We're already seeing evidence of higher prices across Australia and increased auction activity.

But has the cost of your mortgage actually gone down?

Certainly the major bank standard variable rates have decreased; **Commonwealth Bank** now has a standard variable rate of just 5.9%. Mortgages are however long-dated loans, and variable rates will change over the life of the loan. For this reason the 10 year government bond rate, which reflects the likely changes to funding costs in the future, reveals more about the average cost of your mortgage long term.

The table below shows the movement in cash and 10 year bond rates since the start of the year.

	Start of year	Now
Cash rate	3%	2.5%
10 year gov bond	3.27%	4.12%

Short-term cash rates have been falling, but longer-term bond rates have been rising – significantly so. Future rates are of course uncertain, but they are important, much more so than the current cash rate. And they are saying that the likely cost of your mortgage, over its life, has just gone up. Better mortgage affordability, in the long term, is a myth.