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FEATURE ARTICLE

How Interest Rates (Fixed, Variable and Mixed) Affect Loans and Mortgages in Fiji

Taking out a loan or mortgage is one of the most significant financial commitments many consumers in Fiji will ever make. Yet, for many borrowers, the way interest is applied to loans remains poorly understood. Consumers often focus on the advertised interest rate without fully realising how different types of interest, fixed, variable and mixed, work over time, or how they can affect monthly repayments and the total cost of a loan.

This feature addresses some of the most frequently asked questions about interest rates on loans and mortgages, with the aim of helping consumers better understand what they are agreeing to and how to avoid unexpected costs and financial stress in the future.

“I’m thinking of taking out a loan, but everyone keeps talking about fixed, variable and compound interest. What do these actually mean?”

Interest is the cost of borrowing money from a bank, credit institution or lender. In Fiji, most personal loans, housing loans, vehicle loans and business loans use fixed interest rates, variable interest rates, or compound interest (sometimes all together). Understanding how each one works can help you avoid unexpected costs and make better financial decisions.

“Let’s start with fixed interest rates. What is a fixed interest rate?”

A fixed interest rate means the interest rate stays the same for a set period of time, regardless of changes in the economy or market conditions. For example, if a bank offers you a fixed interest rate of 6% per year on a housing loan for five years, that rate will not change during those five years. Your monthly repayments remain the same, making it easier to budget.

“When I apply for a loan, the bank just tells me the interest rate. Do I actually get to choose whether it’s fixed or variable?”

For many short-term personal loans and vehicle loans in Fiji, consumers generally do not have a choice. The interest rate and whether it is fixed or variable are usually set by the lender and presented as part of the loan offer. Borrowers are expected to either accept or decline those terms.

However, for long-term loans such as housing or property mortgages, consumers may be given some choice between fixed and variable interest rates. This choice often comes with additional conditions. Fixed interest rates on mortgages are usually offered for limited periods, such as one, two or five years, and may be higher than variable rates. For example, some banks in Fiji offer the option to fix your interest rate for a full year, but this may require paying an upfront fee.

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Since these options and conditions are not always clearly understood, it is important for consumers to look beyond the headline interest rate. Whether the rate is fixed or variable, and how long it applies for, can have a significant impact on repayments over time and on the total cost of the loan.

“What do you mean when you say the loan switches to a variable rate?”

This type of loan is commonly referred to as a mixed interest loan. While the initial fixed rate may appear attractive, the long-term cost of the loan depends largely on what happens after that fixed period ends.

Consider a consumer who takes out a \$120,000 housing loan over 25 years. The bank offers a fixed interest rate of 5.5 percent for the first year. During that year, the borrower’s repayments remain stable and predictable. However, once the fixed period ends, the loan automatically moves to a variable interest rate. If market conditions change and the variable rate increases by a certain percentage, the borrower’s monthly repayments will rise. Over time, this increase can add tens of thousands of dollars to the total amount repaid.

“Why do lenders structure loans this way?”

Short-term fixed interest rates are often used to attract borrowers by making loans look more affordable at the beginning. From the lender’s perspective, fixing the rate for a short period limits their exposure to long-term interest rate changes. Once the loan switches to a variable rate, the risk of rising interest rates is passed on to the consumer. This is why it is important for borrowers to think beyond the initial offer and consider what may happen later.

“What risks does a variable interest rate create for consumers?”

When a loan moves to a variable rate, the lender has the ability to adjust the interest rate during the life of the loan. When this happens, the borrower’s repayment amount usually changes as well. The biggest risk is that repayments may increase to a level that becomes difficult to manage. For example, a borrower who takes a personal loan with a one-year fixed interest rate of six percent may budget comfortably during that year. If the interest rate later increases to seven or eight percent once it becomes variable, the borrower may struggle to meet the higher repayments. This can place pressure on household finances and increase the risk of missed payments.

“Where does compound interest fit into all of this?”

Most loans and mortgages in Fiji use compound interest, whether the rate is fixed or variable. Compound interest means that interest is calculated on the outstanding loan balance, which already includes previously charged interest. Over long loan periods, especially when interest rates increase, compound interest can significantly raise the total amount a borrower ends up paying.

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“Does compound interest make loans more expensive over time?”

Yes. On long-term loans such as mortgages, compound interest means that borrowers may repay far more than the original amount borrowed. If repayments are missed or reduced, interest continues to accumulate on the unpaid balance, making the debt grow rather than shrink. When combined with variable interest rates, this effect can be even more pronounced.

“What should consumers be doing before agreeing to a loan?”

Consumers should take time to ask questions and seek clear explanations in plain language. It is important to understand how long any fixed interest period lasts, what interest rate will apply afterward, and how often the rate can change. Asking for an estimate of repayments under both the fixed and variable periods can help consumers prepare for future increases.

“What is the Consumer Council of Fiji’s main message to borrowers?”

The Consumer Council advises consumers not to focus only on the advertised interest rate at the start of a loan. What matters most is how the interest works over time and how much the loan will cost in the long run. Understanding mixed interest loans and compound interest is essential to avoiding financial stress later.

“Where can consumers turn if they need help?”

Consumers who feel confused, pressured, or unsure about loan terms should seek advice before signing. The Council is available to provide guidance, explain loan conditions, and assist consumers in protecting their financial interests. Taking the time to understand interest rates today can prevent serious financial difficulties tomorrow.

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