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Break Cost Fact Sheet & Calculation Example

The ins and outs of a fixed rate

A fixed interest rate provides constant repayment amounts for the full term of the fixed rate period, regardless of movements in variable rates. Please be aware that for interest only loans, the repayments will vary each month based on the number of days in that month but the amount of interest charged during the fixed rate term will not change. It also provides a level of certainty to customers. If rates rise, customers on fixed rate loans are not impacted by higher rates and repayments. However when rates fall, borrowers on fixed rate loans do not have the benefit of the corresponding lower rates and repayments.

When you elect to fix your home loan interest rate, we enter into a contract with you to fix the interest rate for your loan for a specified period.

What are Break Costs?

When you switch or payout your loan early (in part or full) you are choosing to break your contract with us. Under Australian law, if someone breaks their contract and the other party suffers a loss as a result, the person who breaks the contract is required to compensate the other party for that loss.

Break Costs is the term we use for the loss which we suffer because you have chosen to break your contract with us. The way in which we calculate break costs is set out in the terms and conditions which we gave you when you took out your loan with us.

How do we calculate Break Costs?

When you elect to fix your home loan interest rate, we enter into a contract with a third party to lock in our funding costs at a fixed rate for the same period (Funding Contract) as your contract with us. If you decide to switch or payout your loan early (in part or full) we need to break our Funding Contract.

To calculate our Break Costs we refer to the wholesale rates. The rationale for using these rates is that they are transparent and independent rates, which reflect the basis on which the Lender's cost of borrowing money from time to time, may be determined.

In simple terms, if you have fixed your rate for 5 years, the Lender will borrow 5 year fixed rate money to lend to you for the 5 years of your contract. When you choose to repay the money (in part or full) back earlier than the original expiry date, the Lender can only invest that money for the remaining term of the 5 year contract. As rates have dropped, we will only be able to invest at a lower rate and so we therefore incur a loss, or cost, which we pass on to you as Break Costs.

Working Example:

- Loan Amount of $300,000.
- Wholesale rate on date loan was fixed: 7.39%
- Wholesale rate when contract was broken: 4.94%
- The difference between the wholesale rate on the date the loan was fixed and when contract was broken:
- 7.39% less 4.94% = 2.45%
- The remaining fixed term is: 1.5 years
- The calculation is: $300,000 × 2.45% x 1.5 = $11,025
- This figure is then adjusted to reflect that the amount is being paid earlier than required under the contract with us. This is known as adjusting for the net present value.

Important Information

You can obtain details of the Break Costs payable on your loan at any time from our Customer Care Team. These Break Costs will only apply for the particular day that you switch or payout your loan. As the wholesale rates change from time to time the actual Break Cost amount can vary from day to day.