

Break Costs and Fixed Interest Rate Guide

Effective: 16 June 2021

When buying your own home or an investment property, taking out a home loan with a fixed interest rate helps give you the certainty of knowing what your repayments will be each month and how much interest you will pay for the fixed rate period.

When you take out a fixed rate loan with us, you sign a contract to lock in your loan's interest rates for an agreed period of time. For example, a rate of 4% per year for 3 years.

However it's important that you make sure a home loan with a fixed interest rate period is right for you and understand the potential risks and costs, before you sign your loan agreement. There may be situations where you need to 'break' your fixed loan, for example if you sell your property before your fixed rate period has come to an end.

When this happens you may have to pay a Break Cost which could be high - sometimes tens of thousands of dollars. Before entering into and also before changing your fixed rate loan, you should understand when Break Costs may apply and how they are calculated.

This guide will give you helpful general information when considering what the potential Break Costs may be, however does not replace any terms of your Mortgage Loan agreement or any related Terms and Conditions documents.



What is a Break Cost?

A Break Cost is the calculated amount of the economic loss we incur when you change, or 'break', the repayment terms set out in your fixed rate loan agreement with us. The calculated amount of our loss is passed on to you as a Break Cost and can change daily.

A Break Costs is sometimes called an Early Repayment Adjustment or a Break Fee by other lenders.

Break Costs are different to early exit fees and discharge fees, and can be charged in addition to other standard fees or charges that are payable regardless of whether your loan is repaid early or not. Break Costs only apply to home loans with a fixed interest rate, and are not charged for variable rate home loans.

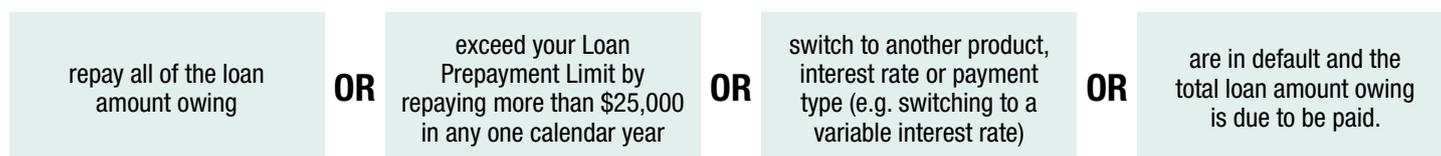
Why is a Break Cost charged?

When you decide 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. To enable us to fund your loan, we enter into a contract with a third party to lock in our costs at a fixed rate for the same period as your fixed rate loan.

If you break the terms of the fixed period, we are still required to pay our funding costs at the rate we originally locked in, and we may incur an 'economic loss' as a result. We calculate the reasonable amount (if any) of this economic loss and charge you a Break Cost to cover the loss. **We do not make a profit when recovering this cost.**

Reasons a Break Cost will apply

Generally, you will be charged a Break Cost if you do any of the following things before the end of the fixed rate period of your loan:



Loan Prepayment Limit

During the fixed rate period of your home loan, you are allowed to repay up to an additional \$25,000 each calendar year above your scheduled repayments, without incurring a Break Cost. However if you go over this Loan Prepayment Limit, a Break Cost may be payable.

TIP: Before you decide to break the fixed rate period, it's important to consider the financial impacts and explore all of your options. We know this is complex and we're here to help. To understand whether a Break Cost could apply and how much it could be, drop in to any branch, call us on 13 19 87 or chat with us at newcastlepermanent.com.au

How do we calculate Break Costs?

We use a formula to calculate whether we have incurred a loss as a result of you changing, or breaking, the repayment terms set out in your fixed rate loan agreement with us. The amount of break cost payable can change daily and will be different for everyone.

The following section describes how we calculate Break Costs on your fixed rate home loan if the disclosure date shown on your Mortgage Loan Schedule is 1 July 2021 or later. This method for calculating the Break Cost on your fixed rate home loan will also apply if you convert your fixed rate home loan and your application to convert your loan is received by us on 1 July 2021 or later.

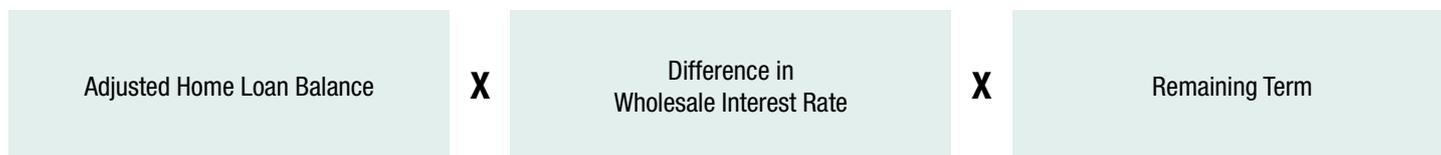
The amount payable in Break Costs will depend largely on the movements in wholesale interest rates.

Our calculation of Break Costs reflects the loss to us on a fixed rate loan as a result of an early repayment or switch. The Break Cost formula is complex, but in general an economic loss will occur if wholesale interest rates reduce between the starting date of your fixed rate period and the date of the break.

We look at different factors when calculating a Break Cost:

- the total outstanding loan amount and the amount being repaid;
- the fixed interest rate on your loan;
- the remaining term of your fixed rate period
- the wholesale interest rate at the start of the fixed rate period, for the original term of the fixed rate period;
- the wholesale interest rate at the time of the break, for the remaining term of the fixed rate period.

The approximate amount of the Break Cost can be determined as:



How Does it Work?

Below is a detailed look at the factors we use to calculate Break Costs.



Meet David, after meeting with our home lending specialist, David has decided to apply for a 5 year Fixed Rate period home loan which will revert to a Standard Variable Rate home loan for the remaining 25 years of his loan term.

Let's have a look to see what happens if David decides to break his fixed rate period early.

David borrows \$550,000 for a 5 year fixed period today at an interest rate of 3.99% p.a. The wholesale interest rate for a 5 year fixed period is 3% p.a.

David is 3 years into his fixed period and he decides sell his property and repay his loan in full.

David has an adjusted home loan balance of \$500,000 and 2 years remaining on his fixed rate period. The wholesale interest rate for a term of 2 years is 1% p.a.

So for the remaining 2 years (David's remaining fixed rate period) our funding costs continues to be 3% p.a. However if David chooses to break his fixed rate period and repay his loan early, it will now have a market value of 1% p.a.

We would therefore estimate we've incurred a loss based on the difference in wholesale rates.

$$3\% \text{ p.a.} - 1\% \text{ p.a.} = 2\% \text{ p.a.}$$

David decides to continue with the sale of his property and pays off his home loan in full, including the Break Cost and any other associated fees for breaking his fixed rate period.

The Simplified Break Cost Calculation will be:

\$500,000
adjusted home
loan balance

X

2 years
remaining
Fixed Rate period

X

2%
difference in Wholesale
interest rates

=

\$20,000
Break Cost

The following section describes how we calculate Break Costs on your fixed rate home loan if the disclosure date shown on your Mortgage Loan Schedule is prior to 1 July 2021. This method for calculating the Break Cost on your fixed rate home loan will also apply if you convert your fixed rate home loan and your application to convert your loan is received by us prior to 1 July 2021.

Depending largely on movements in market interest rates, we may suffer an economic loss if you break the fixed rate period. You must pay us any economic loss we determine as set out below.

We calculate our economic loss as the excess of:

a. the present value of the repayments we would have received from the time of the break up to the end of the fixed rate period current at the time of the break if the fixed rate period had not been broken

over

b. the present value of the repayments we would receive from the time of the break (if the total amount owing at the time of the break was repaid on the same terms as under this agreement from the time of the break) up to the end of the fixed rate period current at the time of the break but at the "current market rate". The "current market rate" is the approximate interest rate at which we could lend that amount for that period at the time of the break.

We use the current market rate as the discount rate.

If you elect to make payments in addition to the scheduled repayments, that is prepay more than \$25,000 of the amount of credit in any one calendar year, our economic loss is a proportion of the amount by which the amount under paragraph (a) exceeds the amount under paragraph (b) being the same proportion that the amount prepaid bears to the total amount owing at the time of the break.

Remember, Before you Break a Fixed Rate Loan

We calculate our economic loss and our calculation binds you and us. However, you are entitled to dispute any matter connected with this calculation as set out in the dispute resolution clause/s (if any) of the terms and conditions applicable to your loan.

If you are thinking about making changes to your fixed rate loan, selling your property, or adjusting the amount of your repayments during the fixed rate period, please contact our Customer Contact Centre on 13 19 87 and we can provide you an estimate of what Break Cost amount may apply.

Please note: a Break Cost estimate will only be valid for the date it is issued and is subject to change on a daily basis.

WARNING: Break Costs can be quite high. We suggest you ask us for an estimate of the Break Cost and seek independent financial advice before you make any changes or early repayments to your fixed rate loan. A fixed rate option may not be suitable for you if you plan on breaking the fixed rate period.

Common Questions

Why is my Break Cost quote different today than it was in the past?	The Break Cost is calculated based on interest rates and other factors applicable for a specific day. These rates change daily which is why a Break Cost quote may change depending on the day. Any Break Cost quote is indicative and only valid on the date calculated.
What is meant by adjusted home loan balance?	For calculating break costs, we deem the home loan balance to be the balance owing on the fixed rate loan as of the 1st day of the month preceding when we process the break cost, minus \$25,000.
Can I make any changes to my loan without incurring a Break Cost?	There are changes you can make to your fixed rate home loan that will not be considered a break and will not incur a Break Cost. Some of these include: <ul style="list-style-type: none">– Changing your repayment type (e.g. from Principal and Interest to Interest Only)– Changing your repayment frequency (e.g. from monthly to fortnightly or weekly)
What is 'present value'?	When you enter into a fixed rate loan contract, we expect to receive the interest on your fixed rate home loan from you monthly over the remaining term. However, when you break the loan we receive the full amount at the time we charge the Break Cost. As a result we make an adjustment that represents the value of money over time.
What is a 'wholesale interest rate'?	Wholesale interest rate refers to the rate available on the wholesale money market from the date your fixed rate period commenced to the date you choose to break the fixed rate period. This is often referred to as the 'swap rate' which is the interest rate that applies when banks and other businesses lend to each other. It is not the same as the interest rate applicable, advertised or available to customers on home loan products.

We're here to help

- Drop in to any branch
- Call us on 13 19 87, 8am to 6pm Monday – Friday, 9am to 2pm Saturday
- Enquire anytime online via enquiries@npbs.com.au
- Visit newcastlepermanent.com.au