Break Costs and Fixed Interest Rate Guide

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.

A fixed-rate period in a loan applies where you and Newcastle Permanent have agreed that you will pay interest at a set rate for a certain 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 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 sometimes called an Early Repayment Adjustment or a Break Fee by other lenders. It 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.

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:

- repay all of the loan amount owing; or
- exceed your **Loan Prepayment Limit** by repaying more than $25,000 in any one calendar year; or
- switch to another product, interest rate or payment type (e.g. switching to a variable interest rate); or
- are in default and the total loan amount owing is due to be paid.

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.

Here for good. NEWCASTLE PERMANENT

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 Break Cost amount will be different for everyone and depends largely on the movements of market interest rates.

We look at different factors when calculating a Break Cost:

- the fixed interest rate on your loan compared to the current market interest rate on the same loan
- the remaining time of your fixed rate period
- the remaining balance owing of your loan
- your minimum monthly repayments, as stated in your Mortgage Loan agreement

The Break Cost formula is complex, but in general, if the current market interest rate for the remaining part of the fixed rate period is lower than the original market interest rate when we initially locked in our funding costs for your loan at the start of the fixed rate period, then a Break Cost will likely apply. So as a general rule, 'the more market interest rates have come down since you took out the fixed rate loan, the higher the Break Cost will be'.

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 do any of these things while you are under the fixed rate option.

A fixed rate option may not be suitable for you if you plan on breaking the fixed rate period.

We're here to help

- Drop in to any branch
- Call us on 13 19 87, 8am to 8pm Monday – Friday, 8am to 4pm Saturday and Sunday
- Visit newcastlepermanent.com.au