Things you should know about break costs.

On fixed rate residential and portfolio loans.

What is a break cost?

A break cost is a fee that represents our loss if you repay your loan early or switch your product, interest rate or payment type during a fixed rate period.

Why do we charge break costs?

When we agree to lend you money at a fixed interest rate, we obtain money from the money market at wholesale interest rates based on you making your payments as agreed until the end of the fixed rate period. If you don't, and wholesale interest rates change, we can make a loss.

When do break costs apply?

If you prepay part of or your entire loan before the end of your fixed rate period, you must pay us the prepayment break cost we calculate, unless the amount you prepay doesn't exceed the prepayment threshold.

If you switch to another product, interest rate or payment type before the end of your fixed rate period, you must pay us the switching break cost we calculate.

What is the prepayment threshold?

The prepayment threshold is the amount that we allow you to prepay on your loan during the fixed rate period without incurring a prepayment break cost. This amount is $30,000.

To calculate how close you are to reaching your prepayment threshold you add together all of the amounts that you have prepaid and deduct any amounts you have redrawn. You will only exceed your prepayment threshold once the result is more than $30,000 at any time during the fixed rate period.

Note that the prepayment threshold for fixed rate loans fixed prior to 18 August 2019 is $10,000 in each 12 month period. For this purpose, a '12 month period' is the period from the date the fixed rate period starts to the first anniversary of that date and each consecutive 12 month period after that during the fixed rate period. You will reach your prepayment threshold once the total prepayments reach $10,000 or more on a day during the 12 month period, after taking into account any amounts you have already redrawn during that 12 month period.

Note: Redraw is not applicable to any fixed rate sub-account within a Portfolio Loan.

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How are break costs calculated?

Our break costs formula is complex. This is a simplified description.

We will incur a loss and you will have to pay break costs if, on the day a prepayment or switch is made, the wholesale interest rate applicable for your remaining fixed rate term is less than the wholesale interest rate applicable when you began your fixed rate period. We refer to this as the 'difference in wholesale interest rates'.

To calculate the amount of break costs, we multiply the difference in wholesale interest rates with the remaining term in your fixed rate period and the loan account balance (if you are prepaying the full loan balance) or any amounts you have prepaid as at each remaining loan repayment date. The amount is then converted to its value in today's dollars.

Please contact us if you would like to see the formula used to work out the break costs.

Who do I call to find out if a break cost applies to my fixed rate loan?

If you are considering prepaying all or part of your fixed rate loan during a fixed rate period, please contact us to request an estimate of the break costs that may be payable.

For how long is a break cost figure valid?

Break costs are calculated on the wholesale interest rate that changes daily. This means that the actual break cost amount applicable on your loan may differ from one business day to the next. The break cost estimate we give you is valid for two (2) business days only. If you decide to proceed with breaking your fixed rate period at a later date, you will need to obtain a break cost estimate for that day.

Be careful with break costs.

Break costs may be high - sometimes tens of thousands of dollars. Ask us for an estimate of the break costs and seek independent financial advice before you repay early or change your loan.

Note: In this brochure, the fixed rate period is the time during which the interest rate is fixed on your loan.

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