BREAK COST FACT SHEET

A fixed interest rate loan gives you the certainty of knowing exactly what your repayments will be for the term that you choose. If variable interest rates rise and you are on a fixed interest rate loan you won't face higher repayments. On the flip side, when variable interest rates fall and you have a fixed interest rate loan, you do not receive the benefit of lower interest rates and repayments.

What is a Break Cost?

A Break Cost is the calculated amount of the loss which we suffer if you choose to break your fixed interest rate loan contract with us. This loss is passed onto you as a Break Cost.

Why does the bank charge break costs?

When you decide to fix your 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 funding costs at a fixed interest rate for the same period as your contract with us.

When does the bank charge a Break Cost?

When you switch or pay out your loan early (in part or full) you are choosing to break your contract with us by exceeding your extra payment limit. In turn, this forces us to break our funding contract with the third party.

How do we calculate Break Costs?

We use a formula to calculate whether we have incurred a loss as a result of the extra payment or switch. The formula is complex, but in general terms if our current wholesale interest rate for the remaining part of the fixed interest term is lower than the original wholesale interest rate when the fixed interest rate period started, then a Break Cost will be charged. The difference between the wholesale interest rate at the start of the fixed interest rate period for the contracted fixed interest rate term and the rate on the day of the extra payment for the remaining fixed interest rate term is known as the Interest Rate Differential.

The formula can be approximately expressed as:

Break Cost = Loan amount prepaid * (Interest Rate Differential) * Remaining Term.

BOQ GROUP

An Example

- A loan amount of $300,000 is fixed for 3 years and then is entirely repaid by the customer with 1.5 years of the loan's original fixed term remaining.
- The 3 year wholesale rate on the date the loan was fixed was 3.45% p.a. but the rates have fallen since then. The current 1.5 year wholesale rate when the contract was broken was 2.23% p.a.
- The difference between the wholesale rates on the date the loan was fixed and when the contract was broken is:

  3.45% less 2.23% = 1.22% Interest Rate Differential
- The approximate Break Cost would therefore be:

  $300,000 x 1.22% x 1.5 = $5,490
- This figure is then discounted to provide a net present value as at the date of the break.

Notes

Each extra payment is calculated and processed at the time of the extra payment.

A Break Cost administration charge applies in addition to the calculated extra payment Break Cost amount.

How can you minimise Break Costs?

Going into a fixed interest rate term contract implies you are seeking protection against rising rates and higher repayments. If you want flexible payment alternatives discuss your needs with us and we can look at restructuring your loan to meet your needs.

Important Information

You can obtain details of the Break Costs payable on your loan at any time from one of our branches or our Customer Contact Centre.

These Break Costs will only apply for the moment in time that you switch or payout your loan. As the wholesale interest rates change from time to time the actual Break Cost amount can vary from moment to moment.

Should you require further explanation on the detailed formula for how your Break Cost was calculated you should seek qualified independent advice.