

Break Cost Fee (BCF)

A Break Cost Fee ("BCF") may be payable if you repay your loan, or if you make an additional repayment, during any period in which your loan interest rate is fixed.

The BCF is based on the difference between the **Fixed Rate**, i.e. the interest rate for your fixed interest rate contract, and our **Reinvestment Rate**, which is the interest rate that we can reasonably expect to earn on any amount that is repaid early.

The BCF reflects the cost incurred by us if the **Reinvestment Rate** is less than the **Fixed Rate** at the date of repayment.

The minimum BCF is zero. We will not pay a refund for any advantage gained if the **Reinvestment Rate** exceeds the **Fixed Rate**.

Calculation of BCF

The BCF will be calculated using the following steps:

1. The proportion of your loan balance that is being repaid subject to BCF will be calculated as:

$$\text{Proportion} = \text{Repayment} / \text{Balance}.$$

2. The interest that would be lost to us if you fully repaid your current loan balance will be calculated as:

$$\text{Amount1} = \text{Balance} \times \text{Years} \times (\text{Fixed Rate} - \text{Reinvestment Rate}).$$

3. An interest offset based on your expected future loan instalments will be calculated as:

$$\text{Amount2} = \text{Instalment} \times \text{N} \times (\text{Fixed Rate} - \text{Reinvestment Rate}) \times \text{Years} / 2.$$

4. Your BCF will be calculated as:

$$\text{Proportion} \times (\text{Amount1} - \text{Amount2}).$$

The BCF cannot be less than zero.

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Definitions

Balance is your total loan balance outstanding after any regular scheduled repayments, but before your additional repayment.

Fixed Rate is the fixed interest rate (% p.a.) applicable to your loan contract.

Instalment is the regular loan repayment instalment you have been paying each week, fortnight, or month, at the date of repayment.

N is the number of whole instalment periods (weeks, fortnights or months depending on your instalment frequency) remaining in your fixed interest rate term, at the date of repayment.

Reinvestment Rate is the interest rate (% p.a.) that we can reasonably expect to earn on any amount that is repaid early. This rate will be determined as our interest rate at the date of repayment for a fixed interest rate loan with a term equal to **Years**, or the nearest term less than **Years** for which we offer fixed interest rate contracts. If there is no such fixed interest rate, then **Reinvestment Rate** will be taken as our standard variable interest rate at the date of repayment.

If at the date of repayment, we offer fixed interest rate contracts for terms of one to five years, then **Reinvestment Rate** will be based on the value of **Years** as follows:

Years (remaining in fixed interest rate period)	Reinvestment Rate
Less than 1 year	Standard Variable Rate
1 year or more, but less than 2 years	1 year fixed interest rate
2 years or more, but less than 3 years	2 year fixed interest rate
3 years or more, but less than 4 years	3 year fixed interest rate
4 years or more, but less than 5 years	4 year fixed interest rate
5 years or more	5 year fixed interest rate

Repayment is the additional repayment that you are making, i.e. in addition to your regular loan repayment instalments.

Years is the number of years remaining in your fixed interest rate term, at the date of repayment. **Years** is calculated as $N/52$ if you are making weekly repayments, $N/26$ for fortnightly repayments, or $N/12$ for monthly repayments.

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Example

The following example is provided to illustrate how a BCF is calculated using the above steps. Any BCF payable under your contract will depend on the loan details specific to the contract.

A member takes out a loan of \$250,000 with a fixed interest rate period of three years, and a fixed interest rate of 9.00% p.a. The member's interest-only repayments are \$1,875 per month. After one year, when the loan balance outstanding is still \$250,000, the member makes an additional repayment of \$100,000.

When the repayment is made, there are 24 whole months remaining on the fixed interest rate period, so **N** is 24 months and **Years** is $24 / 12 = 2.00$. If, at the time of repayment, our 2-year fixed interest rate is 8.00% p.a., then the **Reinvestment Rate** will be taken as 8.00% p.a. The member's BCF will be based on the difference between the **Fixed Rate** of 9.00% p.a. and the **Reinvestment Rate** of 8.00% p.a.

The BCF will be calculated as follows:

1. The proportion of the loan balance that is being repaid subject to BCF is calculated as:

$$\text{Proportion} = \text{Repayment} / \text{Balance}$$

$$\text{where } \text{Repayment} = \$100,000, \text{ and } \text{Balance} = \$250,000, \\ = \$100,000 / \$250,000 = 40.00\%.$$

2. The interest that would be lost to us if the member fully repaid their current loan balance is calculated as:

$$\text{Amount1} = \text{Balance} \times \text{Years} \times (\text{Fixed Rate} - \text{Reinvestment Rate})$$

$$= \$250,000 \times 2.00 \times (9.00\% - 8.00\%) = \$5,000.00.$$

3. The interest offset based on the member's expected future loan instalments is calculated as:

$$\text{Amount2} = \text{Instalment} \times \text{N} \times (\text{Fixed Rate} - \text{Reinvestment Rate}) \times \\ \text{Years} / 2$$

$$= \$1,875 \times 24 \times (9.00\% - 8.00\%) \times 2.00 / 2 \\ = \$450.00$$

4. The member's BCF is calculated as:

$$\text{Proportion} \times (\text{Amount1} - \text{Amount2})$$

$$= 40.00\% \times [\$5,000.00 - \$450.00] \\ = \$1,820.00.$$

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