

Break Costs Fact Sheet



This document is not part of, and does not replace or modify your loan agreement. It is designed to assist you in understanding how we calculate break costs.

What is a break cost?

A break cost is a fee that applies when a fixed interest rate loan contract ends prior to the fixed interest rate period ending due to an event undertaken by you.

The break cost fee is calculated to compensate People's Choice for the estimated financial impact on People's Choice if a fixed rate contract is broken. This fee is only payable if a break event occurs.

Why do we charge a break cost?

A fixed rate loan is a contract between you and People's Choice, with a fixed interest rate giving you the benefit of certainty around your rate and what your repayments will be during the contract or fixed rate period. It also gives us certainty about the interest payable to us over that same term, meaning we are able to make funding and hedging arrangements to match the lending needs of our members.

We fund our loans through a number of sources such as our members' deposits and wholesale funding from other financial institutions. If you repay some or all of your fixed rate loan early or switch to another product before the end of the fixed rate term as outlined in your contract, we need to alter these funding arrangements and just like you have entered into a contract with us, we have entered into a contract with the parties who provide our funding. Therefore, when we change these funding arrangements we need to determine the cost (if any) on breaking our own funding and/or hedging arrangements.

The break cost that we subsequently charge you helps us to recover the reasonable estimate of the cost that we have incurred and as this is a cost to People's Choice, this fee cannot be reduced or waived.

When do break costs apply?

You may be charged break costs if, before the expiry of the fixed interest period:

- You repay your loan in full due to selling, refinancing or any other reason
- In any one year, you make an additional lump sum payment of \$10,000 or more or you make additional payments totalling \$10,000 or more, (with the first one-year period starting on the first day of the fixed rate period)
- You request to change the annual interest rate (for example from a fixed rate to a variable rate), the length of your fixed rate period, the term of your loan, the amount you've borrowed or the loan account type.

How is the break cost calculated?

A break cost can be different for each individual member, and is based on a calculation that considers factors such as:

- Market rates (or wholesale interest rates) that applied on the first day of the fixed rate period for that fixed rate term
- The current market rate for the remaining part of the fixed rate period (rates that apply at the time of the break event)
- The amount of extra repayments that have been made since you told us that you wanted a fixed rate and selected your fixed rate period, or the amount of your outstanding loan balance (including unpaid interest, credit fees and charges) at the time you changed your loan conditions
- The threshold amount we allow you to repay before we impose a break cost fee (this threshold will be deducted from the amount of extra repayments you have made in a one-year period)
- The timing, dollar amount and frequency of the repayments required under the loan contract
- The remaining fixed interest rate period
- The break cost estimate is valid for five business days

Break costs are calculated on market rates that change 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 five business days only. The final amount payable will be determined on the day that the break event occurs, if the loan is paid out within five business days of the last quote having been given, we will charge the Break Cost Fee as described in the quote, unless there has been a variation in the Wholesale Interest Rate or any other variant between the date of the quote and the date on which the loan is paid out which would result in:

- i. the Break Cost Fee being less, we will charge the lesser amount; or
- ii. the Break Cost Fee is more, we will not charge the difference.

The formula for determining our break costs is as follows:

$$\left(\frac{a - b}{c} \times d \times e \right)$$

a = the market rate that applied on the first day of the fixed rate period (the original market rate).

b = the market rate that is applicable for the remaining part of the fixed rate period on the day of the break event. [The market rate can only be 1-year, 2-year, 3-year, 4-year and 5-year rates]. Therefore, where the remaining term is greater than one year, it will round to the nearest year's market rate for the remaining fixed rate period. Where the remaining term is less than one year, it will round up to the one-year market rate.

c = 365, which is the number of days in the year.

d = the number of days remaining in the fixed rate period.

e = the loan balance or the amount of additional repayments on the day of the break event.

If 'a' is less than 'b' there is no break cost applicable.

EXAMPLE 1

Full repayment of the loan

You borrow \$350,000 from us for a fixed interest period of three years. One year later, you decide to pay out your fixed rate loan in full.

On this date, you have two years remaining of your fixed interest period and the loan balance has reduced to \$340,000. On the date that we provided you the funds (settlement date), the market rate for a three-year fixed term was 2.10% p.a. and now one year later, the market rate for a two-year term (the amount of your fixed interest period remaining) is 1.80% p.a.

The difference or movement in our cost of funds will be 0.30% p.a.

Using the formula above the break cost applicable would be \$2,040.00

$$\left(\frac{2.1\% - 1.8\%}{365} \right) \times 730 \times 340,000$$

EXAMPLE 2

Partial repayment of the loan

You borrow \$400,000 from us for a fixed interest period of five years. Two years later you decide to make a lump sum payment of \$50,000 to the loan. You have already made \$5,000 in additional repayments this year above your contracted repayment amounts.

At this time, you have three years remaining of your fixed interest period, and the loan balance has been reduced to \$380,000. As you can make additional repayments of up to \$10,000 per year of your fixed period without incurring a fee, it is only the remaining balance of the lump sum payment that will incur a break fee. For the purpose of this calculation, the break cost will apply on the lump sum amount of \$45,000, being the amount of the lump sum payment (\$50,000) less the remaining additional repayment balance (\$5,000).

On the date that we provided you the funds (settlement date), the market rate for a five-year fixed term was 4.50% p.a. and now two years later, the market rate for a three year term (the amount of your fixed period remaining) is 3.00% p.a.

The difference or movement in our cost of funds will be 1.50% p.a.

Using the formula above the break cost applicable would be \$2,025.00

$$\left(\frac{4.5\% - 3.0\%}{365} \right) \times 1,095 \times 45,000$$

If, during a fixed period, you are considering the possibility of repaying the loan in full, making more than \$10,000 in additional repayments required by your loan contract over a period of 12 months, or asking to change the rate applying to your loan, please contact us first. We'll be happy to provide you with an estimate of any break cost that may apply, and this may help you decide what to do.