

# About Fixed Rate Break Costs.



Fixed Rate home loans are designed to give you interest rate and repayment certainty for a period of up to 10 years. The choice of whether you want to fix your home loan and how long you want to fix it for is up to you (currently we offer 1, 2, 3, 4, 5 and 10 year fixed rate periods).

The positives for fixing are that your repayments don't change during the fixed rate period of your loan, so you can budget accordingly, and there are no surprises. And if variable rates go up during the fixed rate period, your interest rate will remain the same – meaning your rate may be lower than the variable rate that would otherwise apply to your loan.

On the other hand, the amount of extra repayments you can make during the fixed rate period is often limited. And if variable rates go down during the fixed rate period, your interest rate will remain the same – meaning your rate may be higher than the variable rate that would otherwise apply to your loan.

## Costs for breaking your fixed rate period

When a Lender lends you money at a fixed interest rate, they do so on the understanding that you will make certain fixed payments for the whole of the fixed rate period. Usually the Lender arranges their own funding position on the assumption that they will receive those payments. As a result, if you make certain changes to your loan (see below for list), it will change that funding position. The Lender may make a loss from re-arranging their funding. As a result, you may be required to pay costs for breaking the fixed rate period depending on the following circumstances:

<i>Fixed rate termination cost</i>	Payable if at any time before the end of a fixed rate period (where your loan contract is terminated) you repay all of your loan.  For example, you are selling your house and will discharge your loan.
<i>Fixed rate unwind adjustment</i>	Payable if at any time before the end of a fixed rate period (where your loan contract is not terminated), you prepay all or part of the fixed rate portion of your loan in excess of your agreed pre-payment threshold (currently \$30,000 or as otherwise agreed) or you switch from fixed rate to a variable rate.  For example, you decide to change all or part of your home loan from a fixed rate loan to a variable rate loan.

In addition to the costs above, a fixed rate break admin fee is payable when you break a fixed rate period (currently \$150).

## Avoiding costs for breaking your fixed rate period

Break costs can be expensive so it's important to discuss with RAMS all the impacts a fixed rate loan can have down the track, before you decide to fix. Think about your circumstances and the likelihood that you will want to pay off your loan early, or whether you might want to sell your property before a fixed rate period would end.

You may also wish to consider choosing to split your loan i.e. a fixed rate portion for repayment certainty and a variable rate portion for greater repayment flexibility.

If you already have a fixed rate loan and plan to make extra repayments or change your fixed rate loan, call **13 RAMS, that's 13 7267** to discuss whether you may have to pay costs for breaking fixed rate.

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## An example of costs for breaking fixed rate

Costs for breaking a fixed rate period can be substantial, particularly where interest rates fall during the fixed rate period. The amount of such costs can vary significantly over time with the movements in interest rates, even daily.

The costs are also different for everyone, depending on their own situation, the amount of the loan and how long you have left to go on your fixed rate term.

To help you understand how we calculate these costs, on the next page we have shown a simplified example.

## Find out more

To find out how costs for breaking a fixed rate period may affect you, please call **13 RAMS, that's 13 7267** to request a quote.

## Example:

The following example illustrates the formula used to calculate how the fixed rate unwind adjustment or fixed rate termination cost generally works.

Say you take out a home loan of \$100,000 (Principal and Interest - based on 25 year term) in April 2009. You fix your interest rate at 7.00% p.a. for a fixed rate period of five years. You make monthly repayments of approximately \$706.78. You didn't make any prepayments or redraws. The original wholesale interest rate for your fixed rate period was 6.00% p.a.

You then prepay the loan in full after one year on an instalment date in April 2010, (i.e. four years still remain on your fixed rate).

If the four year wholesale interest rate in April 2010 is 5.00% p.a. you will need to pay us a fixed rate break cost of approximately \$2,308.70.

The table below shows examples of the fixed rate break costs if there are 4, 3, 2 and 1 years left on your fixed rate period (based on loan details in the above paragraphs).

Years remaining (on fixed rate period)	Original loan amount	Balance owing on your account at time of prepayment/switch	Fixed rate unwind adjustment/ fixed rate termination cost worked out on balance owing less \$30,000	Monthly Payment (@7.00% p.a.)	Original wholesale interest rate p.a.	Wholesale interest rate p.a. at the time of prepayment/switch	Estimated fixed rate unwind adjustment/ fixed rate termination cost
4	\$100,000	\$98,470.19	\$68,470.19	\$706.78	6.00%	6.00%	\$2,308.70
3	\$100,000	\$96,829.78	\$66,829.78	\$706.78	6.00%	5.00%	\$1,732.97
2	\$100,000	\$95,070.79	\$65,070.79	\$706.78	6.00%	5.00%	\$1,186.91
1	\$100,000	\$93,184.65	\$63,184.65	\$706.78	6.00%	5.00%	\$609.30
0	\$100,000	\$61,162.15	\$706.78	\$706.78			

**Please note:** The example shown is a general guide only. Please refer to your loan contract for further information on costs for breaking fixed rate. Our formula for calculating the costs for breaking fixed rate is complex - a copy is available on request by calling **13 RAMS, that's 13 7267**.

*This simplified information is provided to help you understand how RAMS calculates costs for breaking fixed rate, and the information contained in the example is indicative only. Please refer to your loan contract for further information on costs for breaking fixed rate. RAMS encourages you to seek independent financial advice before choosing to prepay any amount on a fixed rate loan and when considering whether or not to fix your rate.*