

Early Repayment Adjustment Fact Sheet

Correct as at: 5 November 2013



This fact sheet explains how we calculate our Early Repayment Adjustment ('ERA'). You may have to pay this fee if, during any period when the Annual Percentage Rate ('APR') applying to your loan is fixed (a 'fixed period'), one of the following events (a 'break event') occurs:

- You repay the loan in full;
- You have prepaid, during the immediately preceding period of 12 months, more than \$10,000 in excess of the repayments required by your loan contract over that period; or
- We agree, at your request, to change your fixed APR to a different fixed APR or to a variable APR or to extend the fixed period.

The fee is payable if we will suffer a loss as a result of the break event, and its only purpose is to compensate us for that loss. We may suffer a loss because changes have occurred in the costs we incur, in raising funds to make loans, between the start of the fixed period and when the break event occurs.

The fee is computed as a series of interest differentials calculated on the amortising balance of your loan and discounted to the present day value. It represents the difference between the present value of interest that would have been payable over the remainder of the fixed period, had the break event not occurred, and the present value of interest flows that will be payable over the remainder of the fixed period following the break event.

The formula for making this calculation is:

$$\text{ERA} = \frac{[B_1^* (R_0 - R_c) + B_2^* (R_0 - R_c) + \dots + B_t^* (R_0 - R_c)]}{(1 + R_c)} - \frac{[B_1^b (R_0 - R_c) + B_2^b (R_0 - R_c) + \dots + B_t^b (R_0 - R_c)]}{(1 + R_c)^t}$$

where:

- B_t^* = loan balance without break event at period 1, period 2, etc up to period t.
- B_t^b = loan balance with break event at period 1, period 2, etc up to period t.
- R_0 = original reference rate
- R_c = current reference rate

The above formula is a simplified example that assumes the break event occurs on the day that a repayment is due. If the break event occurs between two repayment dates, the formula also takes into consideration fractions of repayment periods.

The wholesale swap rates we use for the calculation are the Bank Bill Swap rates (Mid) published each business day on the ASX website. Because what remains of the fixed period may not be exactly one or more years, the wholesale swap rates we use in relation to that period are:

<u>Fixed period remaining</u>	
Less than 18 months	1 year swap rate
18 to less than 30 months.....	2 year swap rate
30 to less than 42 months.....	3 year swap rate
42 to less than 54 months.....	4 year swap rate
54 to 60 months	5 year swap rate

Example of calculation

Here's an example of how the fee is calculated.

Let's say that on 30 August 2013 you borrow \$400,000 from us and the APR is fixed at 5.09% for 3 years. On that day the Mid for 3 years (R_0 in the formula) is 3.045%. The term of the loan is 30 years and at the end of the fixed period the APR is to change to our standard variable rate, which is 5.37% when the loan is made.

After the loan is made you then make the minimum repayments of principal and interest. Two years later you pay out your loan in full, because you've sold your property. At that time there's 1 year remaining of the 3 year fixed period. The balance of your loan is then \$388,084.88. Let's say that at that time the Mid for 1 year (R_c in the formula) is 2.500%.

Applying the formula, our loss (and therefore the fee) as a result of the break event would be \$2,044.52.

Contact us first

If, during a fixed period, you are considering the possibility of repaying the loan in full, making more than \$10,000 in excess of the 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, **before you take any action**. We'll be happy to provide you with an estimate of any ERA that may be payable, and this will help you decide what to do.