Bank of Sydney

Break Cost Fact Sheet

What is a Break Cost?

Fixed rate loans can give you certainty of your loan's interest rate and repayment amounts for an agreed period. However, a fixed rate loan comes with less flexibility if you would like to make changes or extra repayments.

Break Costs are charged if a fixed rate loan ends earlier than agreed on. What could cause your fixed rate loan to terminate early?

- The repayment of your loan in full before the end of the fixed period.
- Making extra repayments on your loan, which exceed the maximum amount of $10,000 per calendar year, as specified in your loan agreement.
- Switching to a different type of loan, for example, from your fixed rate to a variable interest rate loan.

Why do we charge a Break Cost?

Break Costs are charged to compensate for losses we may incur if your fixed rate period contract is terminated early.

Please note that we do not make a profit from charging our customers a Break Cost. We only charge the difference in amount it would cost us to terminate or alter your contract with us. We are committed to ensuring that we provide our customers with the fairest service possible.

How do we calculate a Break Cost?

When you enter into a Fixed Rate Loan with us, we may enter into external finance arrangements in the wholesale money market in order to ensure that we can continue to provide the fixed interest rate to you for the agreed term.

To calculate any loss we would incur in case a fixed rate contract is broken, we apply the relevant wholesale interest rate on the date your loan was drawn and the wholesale interest rates applicable on the day you decide to break your fixed term loan.

The formula to calculate a Break Cost is normally complex; however, in a simplified way, this is how we calculate it:

Your loan balance X **Interest rate difference/12** X **Months left in the fixed period** = **Break cost amount**

Example:

You have taken out a 5 year Fixed Rate Loan of $100,000, and when your loan was drawn, the wholesale interest rate was 4.00% p.a.

After 2 years, you decide to pay off your fixed rate loan in full. You have already paid $8,000 off your loan, bringing your loan balance to $92,000.

The current wholesale interest rate for a 3 year fixed loan is 2.50% p.a.

What would be the Break Cost amount if the fixed term loan were broken?

Break Cost = Loan Balance × (Wholesale Interest Rate when loan was drawn – Current Wholesale Interest Rate)/12 × Remaining Term in Months

Break Cost = $92,000 × (4.00% p.a. - 2.50% p.a.)/12 × 36
$92,000 x (1.50%/12) x 36
$92,000 x 0.125% x 36 = $4,140

Tip

Before deciding to break your fixed rate loan early, assess your options and talk to one of our home loan specialists to check if this is the best option for you. Break costs can be high depending on the circumstances; therefore, it is always best to check all options.

If you are thinking about ending your fixed term earlier, speak with us to get an estimate of how much your Break Cost would be.

Get in touch

We are always here to help. If you need more information, please contact us on 13 95 00 or speak with our staff at any of our branches.

Visit banksyd.com.au for more information on our home loans.