Break costs fact sheet.

For Home and Investment Property Loans.

How are break costs calculated?

How are break costs calculated? The answer isn’t simple, but we do use a standard formula. Set out below is an explanation of the issues involved and the calculations we use. The actual formula is shown on the next page.

Break costs.

When we agree to lend you money at a fixed interest rate, we do so on the understanding that you will make certain fixed rate repayments for the whole of the fixed rate period.

We generally arrange our own funding position on the assumption that we will receive those payments. So, if during the fixed rate period you make a prepayment (that is, repay more than your monthly scheduled minimum required payment amount) or switch to another interest rate, it will change our funding position. We may make a loss from re-arranging our own funding.

The amount of that loss will be passed on to you as a break cost.

A break cost will apply:

- If at any time before the end of a fixed rate period you choose to or are required to prepay all or part of the loan, then you must pay us the prepayment break costs that we calculate. However, you are able to make additional prepayments up to your prepayment threshold* over the total fixed rate period without incurring a break cost.
- If at any time before the end of a fixed rate period you switch to another product, interest rate (fixed or variable) or repayment type, then you must pay us the switching break costs that we calculate.

Each of these events is a “break”.

When there is a break, you will also need to pay an administration fee regardless of whether a break cost is payable.

How is the break cost worked out?

To work out whether you need to pay us a break cost, we will use the formula shown on the next page. Both prepayment break costs and switching break costs are calculated using the same formula which is an estimate of our loss as a result of your prepayment or switch.

Generally, you will need to pay us a break cost if, at the date of the prepayment or switch, current Wholesale Interest Rates are lower than your original Wholesale Interest Rate.

Wholesale Interest Rates are our estimates of the current rate at which we can transact fixed rate funds with the money market. Different rates apply for different periods of time, and do not include any applicable customer margin. These rates are not advertised.

Among other things, the break cost formula takes into account:

- the original Wholesale Interest Rate on the date your interest rate was fixed;
- the current Wholesale Interest Rates at the time of your prepayment or switch;
- the prepayment threshold* we allow you to prepay over the fixed rate period;
- any unpaid interest you may have;
- the timing and dollar amount of repayments required under your loan contract; and
- the remaining fixed interest rate period.

When you partially or fully prepay your loan or switch loan products, we may calculate the break cost shortly before the prepayment or switch. In this case, we may assume that the current Wholesale Interest Rates on the day we make our calculation are the rates on the date of prepayment or switch.
Break Cost Formula.

Where break costs apply, the formula used to calculate the break cost is as follows. Where possible we have used the same terms as in the accompanying explanation.

The break cost is:

\[ \sum [iB_{t-1}^{adj} + B_{t-1}^{adj} - B_{t}^{adj}] df_t - (CB - UT) - \sum [iB_{t-1}^{new} + B_{t-1}^{new} - B_{t}^{new}] df_t - (CB - P) \]

Where:

- \( i \) = The original wholesale interest rate (adjusted for number of days between payments divided by 365).
- \( n \) = Number of scheduled repayments remaining in the fixed rate period.
- \( df_t \) = “Zero coupon discount factor” at period ‘t’ based on the current wholesale interest rates. The zero coupon discount factor is a value which takes into account the time value of money.
- \( CB \) = Current balance before this prepayment.
- \( UT \) = Unused threshold amount (UT is the allowable prepayment threshold* less any amounts you have already prepaid, not including this prepayment amount).
- \( P \) = This prepayment amount.
- \( t \) = Period number (where \( t = 1 \) at the next repayment date).
- \( B_{t}^{adj} \) = The Scheduled Principal loan balance after taking into account the unused threshold amount at period \( t \) (not including the current prepayment), such that it is equal to

\[
\begin{align*}
\max \left\{ \begin{array}{ll}
B_{0}^{adj} = & CB - UT \\
B_{t}^{adj} = & B_{t-1}^{adj}(1 + C_i (k_t - k_{t-1})/365) - R + A_l_{t-1} \\
B_{n}^{adj} = & 0
\end{array} \right. \quad \text{for } t = 0 \\
& \text{for } 0 < t < n \\
& \text{for } t = n
\end{align*}
\]

Where

- \( R \) = Scheduled Repayment amount
- \( A_l_t \) = Accrued Interest at time of Prepayment
- \( C_i \) = Customer Interest Rate
- \( K_t \) = Number of days between the date of prepayment and the scheduled \( t^{th} \) repayment date

- \( B_{t}^{new} \) = The new scheduled principal loan balance after taking into account the prepayment amount, such that it is equal to

\[
\begin{align*}
\max \left\{ \begin{array}{ll}
B_{0}^{new} = & CB - P \\
B_{t}^{new} = & B_{t-1}^{new}(1 + C_i (k_t - k_{t-1})/365) - R + A_l_{t-1} \\
B_{n}^{new} = & 0
\end{array} \right. \quad \text{for } t = 0 \\
& \text{for } 0 < t < n \\
& \text{for } t = n
\end{align*}
\]

*For loans fixed prior to 21/3/09, the prepayment threshold is $15,000. For loans fixed between 21/3/09 and 16/3/12 (inclusive), the prepayment threshold is $25,000. For loans fixed on or after 17/3/12, the prepayment threshold is $30,000.
Your fixed rate break cost questions answered.

Is Westpac the only lender to charge this cost?
No. It is a common practice for lenders to pass on the actual loss incurred from switching or pre-paying a fixed rate loan.

When is a break cost payable?
It is payable if the current Wholesale Interest Rate for the remaining fixed rate term is lower than the original Wholesale Interest Rate. This is outlined in your Terms and Conditions which also includes the formula used with an example.

I have been provided with a break cost in the past & the amount has now changed – why is this the case?
Wholesale rates change daily, and the changes can be significant especially if wholesale rates continue to decrease. Break costs are valid for 5 business days from the day they are calculated.

Where can I find the information on the Wholesale Interest Rates?
The Wholesale Interest Rate is commercially sensitive and not displayed publicly. Therefore, you do not have access to this information. However, there is no way to predict what the Wholesale Interest Rate will be and it changes frequently subject to market conditions. Movement in Westpac’s Variable or Fixed rates do not form part of the calculation we use to establish if a break cost is applicable.

I want to break my loan so I can take advantage of the lower fixed rates on offer at the moment. What do I need to consider?
The decision to break your fixed rate loan is entirely up to you however a break cost may be applicable. Your decision may be affected by the amount of interest you may save at a lower interest rate versus the cost to break the loan. Westpac encourages you to seek independent financial advice before choosing to switch or prepay any amount on a fixed rate loan. Westpac also encourages you to seek independent financial advice when considering whether or not to fix your rate.

The current market is seeing variable rates and fixed rates trend down – should I move out of my fixed rate now or later?
As noted above, Wholesale Interest Rates can change up or down daily. If the Wholesale Interest Rate decreases, the break costs will increase. Westpac encourages you to seek independent financial advice before choosing to switch or prepay any amount on a fixed rate loan.

Who do I call to find out if a break cost will be applicable for my fixed loan?
To find out whether a break cost will be applicable for your loan, please call 132 558 to request a quote.

How long is a break cost quote valid for?
As noted above break cost quotes are valid for 5 business days from the day the break costs are calculated. If you decide to proceed with breaking your fixed loan, your request needs to be submitted within the 5 business days for the quote to be honoured. For example, for a break cost calculated on Monday 24th November, the request must be lodged by close of business Friday 28th November.