Fixed Rate Loan Break Costs Schedule

Updated: 22nd September 2021

Fixed Rate Loan Break Costs (FRLBC)

When a borrower enters into a fixed rate loan contract, they are effectively locking in the loan interest rate offered to them for an agreed period of time (e. g. 3 or 5 years). If subsequently they decide to switch or payout their fixed rate loan before the end of the agreed period, they are effectively breaking that fixed rate loan agreement, an FRLBC that could cost them thousands of dollars may be applied.

An FRLBC is not a penalty, it is not a fee revenue and Dnister does not make a profit from it. If Dnister lose money as a result of the borrower breaking their fixed rate loan agreement, we can charge an FRLBC using a reasonable cost recovery calculation to recoup our loss.

The fixed rate loan agreement is a contract and under the general principle of contract law, if the borrower breaks a contract and the other party to the contract suffers a loss, they need to compensate that party for the loss.

Before the borrower decides to break their fixed rate loan agreement, we suggest that the borrower obtain an FRLBF quotation from Dnister and then seek independent financial and/or legal advice. It is also important to note that the financial markets are unpredictable and interest rates can change daily, therefore an FRLBF quotation is valid for the day it was quoted.

When the borrower takes out a fixed loan, they are effectively locking in the interest rate (i.e. funding costs) for an agreed period of time. Dnister in turn borrows funds from depositors and investors in the economy in order to lend to the borrower. Dnister may also seek to fix our funding costs for a similar period of time to protect Dnister against future interest rate movements.

Should the borrower decide to break their fixed rate loan agreement, Dnister will also need to unwind our fixed rate funding in order for us to reasonably calculate whether or not we have made a loss, we compare the movement in the wholesale market swap rates between the two points in time.

On the day the borrower breaks the fixed rate loan early, if the swap rate for the remaining term of the fixed rate period is less than the swap rate applied at the start of the fixed rate period, Dnister will make a loss and we will charge the borrowers an FRLBC.

Example

Let’s say that John has a fixed rate loan of $300,000 fixed for 3 years and then he sells his property and repays his fixed rate loan in full with 1.5 years of the loan‘s original fixed term remaining.

The 3 years wholesale rate on the date of the loan was fixed was 3.45% p.a. but rates have fallen since then. The current 1.5 years wholesale rate when the contract was broken was 2.23% p.a.

The different between the wholesale rates on the date the loan was fixed and when the contract was broken is:

3.45%- 2.23%=1.22% Interest Rate Differential

The approximate FTLBC would therefore be:

$300,000 x 1.22% X 1.5=$5,490

This figure is then discounted to provide a net present value as at the data of the break.

IMPORTANT

These FTLBC will only apply for the moment in time that you payout the loan as wholesale rates change from time to time, therefore the FTLBC can vary from moment to moment.