

Switching mortgage loan products information statement for customers

Effective 1 June 2022

Variable to fixed

When switching your variable interest rate mortgage loan to a fixed interest rate mortgage loan the following new conditions apply:

- The interest rate on a mortgage loan can be fixed for a period of 12 months, 24 months, 36 months or 60 months.
- A Loan Variation Fee to switch your loan applies. The fee will be debited to the loan account when the switch application is approved.
- Additional repayments are capped at a maximum of \$30,000 during the fixed rate period.
- The current fixed interest rate can vary between the date of application to fix the interest rate and the approval.
- Repayments may need to change to keep to the original term of the loan. At the end of the fixed term repayments will be recalculated at the variable interest rate applicable at that time.
- If you repay the loan during the fixed term we will charge a Break Fee (BF).

Break fee (BF)

Break Fee for Fixed Rate Loans entered into from 1 June 2022*	Break Fee for Fixed Rate Loans entered into prior to 1 June 2022*
<p>Break Fee A Break Fee (BF) may be payable if you make repayments additional to your scheduled repayments, including repaying your loan or switching to another type of loan, while your loan interest rate is fixed.</p> <p>The BF reflects the calculated loss to the Bank, based on movements in wholesale interest rates between the date the fixed period commenced and the date of the additional repayment.</p> <p>BFs may be substantial. If you are considering repaying or switching your loan, or making additional repayments, we recommend you contact the Bank to find out whether a BF will be payable.</p>	<p>Break Fee A Break Fee (BF) may be payable if you repay your loan in full during any period in which the Annual Percentage Rate is fixed.</p> <p>The BF is based on the difference between the Fixed Rate, i.e. the Annual Percentage Rate ("APR") for your fixed interest rate contract, and Bank Australia's Reinvestment Rate, which is the interest rate that Bank Australia can reasonably expect to earn on any amount that is repaid early.</p> <p>The BF reflects the cost incurred by Bank Australia if the Reinvestment Rate is less than the Fixed Rate at the date of repayment.</p> <p>The minimum BF is zero. Bank Australia will not pay a refund for any advantage gained if the Reinvestment Rate exceeds the Fixed Rate.</p> <p>A BF may be payable if you repay your loan in full while the APR is fixed.</p> <p>The BF will apply to the amount being repaid, less any amount not subject to the BF.</p>

Break Fee for Fixed Rate Loans entered into from 1 June 2022*

Amounts subject to BF

A BF will be calculated if the following amount exceeds \$30,000 during the fixed rate period:

1. The amount that your loan repayments are in advance, plus
2. If you are repaying your loan, or switching to another type of loan, the loan pay-out amount.

The BF will apply only to the amount in excess of \$30,000.

Calculation of BF

If you repay your loan or switch to another type of loan during the fixed rate period, a BF will be calculated at the loan pay-out date.

For continuing loans where loan repayments are more than \$30,000 in advance, a BF will be calculated at the end of the calendar month.

In both cases, the BF will be calculated using the following steps:

1. The proportion of your loan balance that is subject to BF will be calculated as:
 $(BF\ Amount - Tolerance) / Balance$
This proportion is calculated as a percentage to two decimal places.
2. The Bank's loss if you fully repaid your current loan balance will be calculated as:
 $Balance \times Years \times (Rate_o - Rate_i)$
3. An offset based on your scheduled future loan repayments will be calculated as:
 $Instalment \times N \times (Rate_o - Rate_i) \times Years / 2$
4. Your BF will be calculated as:
 $Proportion (1) \times [Amount (2) - Amount (3)]$

The BF cannot be less than zero.

Break Fee for Fixed Rate Loans entered into prior to 1 June 2022*

Repayments not subject to BF

The amount not subject to a BF is calculated as \$20,000 for each year, and for each part year, that your APR has been fixed, less the total of your previous additional repayments, with a minimum of zero.

Calculation of BF

At the date of any repayment, a Break Fee will be calculated using the following steps:

1. The proportion of your loan balance that is being repaid subject to BF will be calculated as:
 $(Balance - Tolerance) / Balance$
2. The interest that would be lost to Bank Australia if you fully repaid your current loan balance will be calculated as:
 $Balance \times Years \times (Fixed\ Rate - Reinvestment\ Rate)$
3. An interest offset based on your expected future loan instalments will be calculated as:
 $Instalment \times N \times (Fixed\ Rate - Reinvestment\ Rate) \times Years / 2$
4. The BF would be calculated as:
 $Proportion (1) \times [Amount (2) - Amount (3)]^*$

Break Fee for Fixed Rate Loans entered into from 1 June 2022*

Definitions

Balance is your loan balance at the **Calculation Date** (before any pay-out).

BF Amount is the amount subject to BF, before allowance for **Tolerance**. It is calculated as:

1. The amount that your loan repayments are in advance at the **Calculation Date**, plus
2. If you are repaying your loan, or switching to another type of loan, the loan pay-out amount, less
3. The highest amount that your loan repayments have been in advance at any previous month end

subject to a minimum of zero.

Calculation Date is the loan pay-out date if you are repaying your loan or switching to another type of loan, or the end of the relevant calendar month if the loan is continuing.

Instalment is your scheduled monthly, fortnightly, or weekly repayment, at the **Calculation Date**.

N is the number of whole repayment periods (months, fortnights or weeks depending on your repayment frequency) remaining in your fixed rate period, at the **Calculation Date**.

Rate₀ is the **Wholesale Interest Rate** applying for the fixed rate period at the commencement date of the fixed rate period.

Rate₁ is

- If you are repaying your loan or switching to another type of loan, the **Wholesale Interest Rate** for the unexpired fixed rate period at the **Calculation Date**.
- For continuing loans, the highest **Wholesale Interest Rate** during the calendar month ending on the **Calculation Date**.

Tolerance is that part (if any) of the **BF Amount** that is not subject to a BF. It is calculated as \$30,000 less the highest amount that your loan repayments have been in advance at any previous month end, subject to a minimum of zero.

Example:

A continuing loan has loan repayments \$55,000 in advance at the **Calculation Date**. The highest amount that the loan repayments have been in advance at any previous month end is \$10,000.

The **BF Amount** will be calculated as \$55,000 less \$10,000 = \$45,000.

Tolerance will be calculated as \$30,000 less \$10,000 = \$20,000.

The BF calculation will be based on **BF Amount** – **Tolerance**, i.e. an amount of \$25,000.

Break Fee for Fixed Rate Loans entered into prior to 1 June 2022*

Definitions

Balance is your total loan balance outstanding after any regular scheduled repayments, and before your final additional repayment. Fixed Rate is the Annual Percentage Rate (% p.a.) applicable to your fixed interest rate contract.

Instalment is the regular loan instalment you have been paying each week, fortnight, or month, at the date of repayment.

N is the number of whole instalment periods (weeks, fortnights or months depending on your instalment frequency) remaining in your fixed interest rate term, at the date of repayment.

Reinvestment Rate is the interest rate (% p.a.) that Bank Australia can reasonably expect to earn on any amount that is repaid early. This rate will be determined as Bank Australia's Annual Percentage Rate at the date of repayment for a fixed interest rate loan with a term equal to Years, or the nearest term less than Years for which Bank Australia offers fixed interest rate contracts. If there is no such fixed interest rate, then the Reinvestment Rate will be taken as Bank Australia's Basic Home Loan Reference rate at the date of repayment.

Tolerance is the amount being repaid not subject to the BF. This is calculated as \$20,000 for each year, and for each part year, that your APR has been fixed, less the total of your previous additional repayments, with a minimum of zero. Years is the number of years remaining in your fixed interest rate term, at the date of repayment. Years is calculated as N/52 if you are making weekly repayments, N/26 for fortnightly repayments, or N/12 for monthly repayments.

Break Fee for Fixed Rate Loans entered into from 1 June 2022*

Wholesale Interest Rate is based on the Australian overnight indexed swap rates (for durations of one-day, one to six months inclusive, and one to five years inclusive) applying at the date on or most immediately prior to the relevant date, as published by Bloomberg or a similar agency considered appropriate by the Bank. For the purposes of this calculation, the overnight indexed swap rate for duration 0-months will be taken as equal to the one day rate. The **Wholesale Interest Rate** will be interpolated to the number of whole months remaining in the fixed rate period, and expressed as a percentage rounded to two decimal places. The **Wholesale Interest Rate** will be subject to a minimum of zero, i.e. the rate cannot be negative.

Example:

A customer pays out their loan when there are 10 months remaining on the fixed rate period.

The relevant overnight indexed swap rates at the

Calculation Date are:

6-month overnight indexed swap rate 3.20% p.a.

1-year overnight indexed swap rate 3.50% p.a.

Based on these rates, the **Wholesale Interest Rate** for a 10-month duration will be interpolated as 3.40% p.a.

Therefore, for this additional repayment, **Rate₁** will be taken as 3.40% p.a.

Years is the number of years remaining in your fixed rate period, at the **Calculation Date**. **Years** is calculated as $N/12$ if you are making monthly repayments, $N/26$ for fortnightly repayments, or $N/52$ for weekly repayments. **Years** is calculated to two decimal places.

BF calculation example

The following example is provided to illustrate how a BF is calculated using the above steps. Any BF payable under your contract will depend on the loan details specific to the contract.

A customer takes out a loan of \$400,000 with a fixed rate period of three years, and a fixed rate of 7.0% p.a. The customer's scheduled repayment is \$2,830 per month. After 20 months of making scheduled repayments, when the loan balance is \$389,500, the customer makes an additional repayment bringing the loan repayments \$200,000 into advance.

As the customer has not previously made additional repayments, the highest amount that the loan repayments have been in advance at any previous month end is nil. Hence **BF Amount** = \$200,000, and **Tolerance** = \$30,000.

At the **Calculation Date** at the end of the calendar month, there are 16 whole months remaining on the fixed rate period, so **N** is 16 months and **Years** is $16 / 12 = 1.33$.

Break Fee for Fixed Rate Loans entered into from 1 June 2022*

If when the fixed rate period commenced, the **Wholesale Interest Rate** for a 3 year duration was 4.00% p.a., then **Rate₀** is 4.00% p.a. If during the calendar month ending on the **Calculation Date**, the highest **Wholesale Interest Rate** was 3.50% p.a. for a 1 year duration, and 3.80% p.a. for a 2 year duration, then the **Wholesale Interest Rate** for a 16-month duration will be interpolated as 3.60% p.a. **Rate₁** therefore will be 3.60% p.a.

The BF will be calculated as follows:

1. The proportion of the loan balance that is being repaid subject to BF is calculated as:
(BF Amount – Tolerance) / Balance
 $= (\$200,000 - \$30,000) / \$389,500 = 43.65\%$.
2. The Bank's loss if the customer fully repaid their current loan balance is calculated as:
Balance x Years x (Rate₀ – Rate₁)
 $= \$389,500 \times 1.33 \times (4.00\% - 3.60\%) = \$2,072.14$.
3. The offset based on the customer's scheduled future loan repayments is calculated as:
Instalment x N x (Rate₀ – Rate₁) x Years/2
 $= \$2,830 \times 16 \times (4.00\% - 3.60\%) \times 1.33 / 2$
 $= \$120.44$.
4. The customer's BF is calculated as:
Proportion (1) x [Amount (2) – Amount (3)]
 $= 43.65\% \times [\$2,072.14 - \$120.44]$
 $= \mathbf{\$851.92}$.

* There may be some exceptions to which break fee methodology applies to your loan. Please contact us to find out more.

Fixed to variable

When considering switching your fixed interest rate mortgage loan to a variable Home Loan the following new conditions apply:

- A Break Fee is payable for the early conversion of a fixed interest rate loan to a variable interest rate loan. Please call us to discuss the fee before proceeding with the application. The fee is calculated using the same formula as the Break Fee above.
- If you proceed with your application the Break Fee will be debited to your loan account when the switch application is approved.
- Repayments may need to change to keep to the original term of the loan.
- The variable interest rate can vary between the date of application to switch your loan account and the approval.
- A Loan Variation Fee to switch your loan applies. The fee will be debited to the loan account when the switch application is approved.

Variable to variable

When considering switching your variable interest rate mortgage loan to an alternative variable interest rate mortgage loan the following new conditions apply:

- A change of loan interest rate from the existing variable interest rate to the new variable interest rate will be applied upon conversion.
- A Loan Variation Fee to switch your loan applies. The fee will be debited to the loan account when the switch application is approved.
- Repayments may need to change to keep to the original term of the loan.
- The variable interest rate can vary between the date of application to switch your loan account and the approval.

Fixed to fixed

When considering switching your fixed interest rate mortgage loan to an alternative fixed interest rate mortgage loan the following new conditions apply:

- A Break Fee is payable for the early conversion of a fixed interest rate loan to an alternative fixed interest rate loan. Please call us to discuss the fee before proceeding with the application. The fee is calculated using the same formula as the Break Fee above.
- If you proceed with your application the Break Fee will be debited to your loan account when the switch application is approved.
- Repayments may need to change to keep to the original term of the loan.
- The current fixed interest rate can vary between the date of application to fix the interest rate and the approval.

A copy of the current Loan Interest Rate Schedule and the current Loan Fee Schedule can be requested from your nearest Branch, by phoning us on **132 888** or can be located on our website www.bankaustralia.com.au.

To request a switch of your current Mortgage Loan product please:

Drop into your nearest Bank Australia Branch;
Log into Internet Banking and send us a secure email.
Call us on 132 888;
Mail us a letter to Bank Australia, Private Bag 12,
Kew VIC 3121

