Fact Sheet: Early Repayment Adjustment (Fixed Rate Loans)

Why do I have to pay an early repayment adjustment?

When you take out a loan that has a fixed rate of interest for a certain period, it is agreed in the contract that bcu will not vary the interest rate on your loan for that period of time. That period of time is known as the “fixed rate period”.

If you had a variable rate of interest, bcu would be able to vary the interest rate by giving notice to you at any time. We give up the right to do this when you take out a fixed rate loan.

In return for bcu agreeing not to change the interest rate, you agree that in the event you either repay the loan in full, ask to change to a variable rate of interest or make repayments in excess of the scheduled amount, you will pay us an early repayment adjustment.

What is an early repayment adjustment?

When you agree to pay a fixed rate of interest for a fixed period of time, bcu is relying on you keeping your side of the agreement. bcu therefore expects to receive interest at that fixed rate for that period of time, and budgets on that income accordingly. If you break the agreement, bcu will have to lend or invest the money elsewhere and may not get the same rate on that amount, consequently bcu must be compensated for this loss of income.

In addition, before or prior to settlement, bcu may lock in its funding costs and by breaking the contract, those locked in funds have to be unwound, and there is a cost to doing that, which bcu needs to recover from you , as it is your actions that have necessitated that happening.

What constitutes breaching the fixed rate agreement?

This could include:

- repaying your loan in full
- switching it from fixed rate to a variable rate
- switching to another fixed rate
- making additional repayments above the contracted amount to the loan, before the expiry of the fixed rate period.

Calculating bcu’s loss?

When calculating whether there is a loss or cost that we need to recover, bcu calculates the difference between the wholesale market swap rate on the day your loan was first funded and the date that you wish to vary or break your fixed rate agreement. If this rate has dropped, bcu has suffered a loss.

The amount of this loss is calculated on:

- the amount of the early repayment or the amount moved to the different interest rate
- the amount by which relevant interest rates have changed between the time the loan was advanced and
- the time of the early repayment and the time remaining of your fixed rate period.

The amount is then adjusted to a present day value.

How can I avoid paying an early repayment adjustment?

Before you enter into a fixed rate loan, be sure that this is the right product for you for the period of time you have entered in to the fixed rate agreement to avoid having to pay an early repayment adjustment.

Example of calculation

On February 2, 2008 you borrowed $200,000 on a 3-year fixed interest rate. Twelve months later, you pay out this facility, so bcu determines whether it has incurred a loss as a result of your actions. If the wholesale market swap rate was 6.0% when the loan was funded and it is now 5.0%, when paid out, the net result is that bcu needs to recover the 1.0% loss.

Over the 12 months that the loan has been running, the loan balance has reduced from $200,000 to $191,500.

Balance Outstanding	$191,500
Wholesale market swap rate when the loan was funded	6.0%
Wholesale market swap rate when the loan is repaid	5.0%
Difference	1.0%
Remaining Fixed Rate term	24 months
So $191,500 x 1.00% x 24 months =	$3,830.00

This “Present Value” amount adjusts the Early Repayment Adjustment to $3,493.10

Please note that fees and charges other than the early repayment adjustment may be payable in the above example.

Loans available to approved applicants only. Normal lending criteria, fees, charges, terms and conditions apply.