

Break costs fact sheet

For Margin 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 choose to, or are required to, repay the fixed interest rate loan prior to the end of the fixed rate period, 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.

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. Break costs are calculated using this formula which is an estimate of our loss as a result of your repayment of the fixed rate loan before the end of the fixed rate period.

Generally, you will need to pay us a break cost if, at the date of the repayment, 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 repayment;
- 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 repay your loan we may calculate the break cost shortly before the repayment. 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 repayment.

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:

$$\sum [i * B_{t-1}^{adj} + B_{t-1}^{adj} - B_t^{adj}] * df_t - CB - \sum [i * B_{t-1}^{new} + B_{t-1}^{new} - B_t^{new}] * df_t - (CB - P)$$

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 repayment.

P = This repayment amount.

t = Period number (where $t = 1$ at the next repayment date).

B_t^{adj} = The Scheduled Principal loan balance such that it is equal to

$$\max \left\{ \begin{array}{ll} B_0^{adj} = CB & \text{for } t=0 \\ 0 & \text{for } 0 < t < n \\ B_n^{adj} = 0 & \text{for } t=n \end{array} \right. \left\{ \begin{array}{l} B_t^{adj} = B_{t-1}^{adj} (1 + C_i (k_t - k_{t-1}) / 365) - R + AI_{t-1} \\ \end{array} \right.$$

Where

R = Scheduled Repayment amount

AI_t = Accrued Interest at time of Repayment

C_i = Customer Interest Rate

K_t = Number of days between the date of repayment and the last day of the fixed rate period

B_t^{new} = The new scheduled principal loan balance after taking into account the repayment amount, such that it is equal to

$$\max \left\{ \begin{array}{ll} B_0^{new} = CB - P & \text{for } t=0 \\ 0 & \text{for } 0 < t < n \\ B_n^{new} = 0 & \text{for } t=n \end{array} \right. \left\{ \begin{array}{l} B_t^{new} = B_{t-1}^{new} (1 + C_i (k_t - k_{t-1}) / 365) - R + AI_{t-1} \\ \end{array} \right.$$

Your fixed rate break cost questions answered

Is St.George Margin Lending the only lender to charge this cost?

No. It is a common practice for lenders to pass on the actual loss incurred from repaying 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 facility terms.

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 St.George Margin Lending'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 fixed rate 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. St.George Margin Lending encourages you to seek independent financial advice before choosing to repay any amount on a fixed rate loan. St.George Margin Lending 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. St.George Margin Lending encourages you to seek independent financial advice before choosing to repay 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 fixed rate loan, please call 1300 304 065 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.

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