

Fixed Interest Rate Break Costs Guide

Before repaying your fixed interest rate home loan early, please ensure you are aware of the break costs.

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Introduction

When you take out a fixed interest rate home loan with us you sign a contract to lock in the interest rate for a set period of time – one, two or three years. This gives you certainty of knowing exactly what your repayments will be and how much interest you will pay for the fixed rate period of your home loan.

You need to weigh up if a fixed interest rate home loan is right for you and ensure you understand the potential risks and costs before signing your loan contract. This guide is designed to help you.

What is a break cost?

A break cost is the amount you need to pay if you break your fixed interest rate home loan before the agreed time period. Break costs are different from discharge fees and other standard fees payable at the end of a loan.

Why do break costs apply?

When you enter into a fixed rate loan contract, we may 'lock in' our funding costs in the wholesale money market. If you break the fixed interest rate loan before the fixed rate period ends, we are still required to pay our commitment in the wholesale money market.

If you break the fixed interest rate period you will pay an amount equal to our reasonable estimate of any loss we may suffer, plus an administration fee, as a break cost.

When do break costs apply?

Actions that are considered "breaking" your fixed interest rate include:

Paying off your loan early

If you decide to pay out your fixed interest home loan in full early, before the fixed rate period ends, for whatever reason, (for example if you sell your home) this is considered breaking your fixed interest rate loan.

Making additional repayments

If you make additional payments more than \$20,000 during your fixed rate period, this is considered breaking your fixed interest rate loan.

Borrowing more money

If you want to borrow more money, for example for renovations to your home, before your fixed rate period ends, this *may* mean breaking your fixed interest rate loan.

Changing your loan

During your fixed rate period, if you switch to another loan product, another fixed interest period or to a variable interest rate this will mean breaking your fixed interest rate loan.

You are in default

If you are in default of your loan contract resulting in the total amount outstanding becoming immediately due for repayment whilst in your fixed rate period, your loan will incur break costs.

How we calculate break costs

To work out whether you need to pay us a break cost is complicated, and we will use a special formula which is fully detailed in your home loan contract.

We estimate our loss because 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 the original wholesale interest rate at the time the fixed period commenced. These rates are not advertised.

We will charge a Break Costs Administration Fee, as outlined in our [Consumer Lending Fees and Charges](#), along with break costs.

Break cost calculations are complex and specific to your current loan conditions (such as repayment type, fixed interest term dates and your loan balance). Please contact us for a quote on your break costs if breaking your fixed interest loan is something you are considering.

Frequently asked questions

How do I know what the break costs are on my loan?

Talk to us to get a quote for your break costs if you are weighing up whether to break your fixed interest rate home loan before the agreed fixed rate ends.

Variable interest rates are now lower than when I locked into my fixed interest rate. Can I break the loan and change?

The decision to break your fixed interest rate loan is one you will have to decide. We encourage you to seek independent financial advice before breaking your fixed interest rate loan. You can contact us to get a quote on what the break costs will be and then determine if the cost is worth it to you.

Where can I find more information about wholesale interest rates?

The wholesale interest rate is commercially sensitive and not publicly available. Consumers do not have access to this rate. There is no way to predict the wholesale interest rate and it changes frequently due to market conditions.

Is The Mutual Bank the only bank to charge a break cost?

No. It is common practice for lenders to pass on the cost incurred from paying a fixed rate loan if a consumer breaks the fixed rate before the expected time period.

How do I get a quote for what the break costs might be?

Talk to your Lending Manager for a quote – call 1300 688 825 or email info@themutual.com.au.

How long is a quote valid for?

As your break costs quote is based on the wholesale swap rate available on the wholesale money market for that day, your quote is valid for one day.

What does 'present day value' mean?

We expect to receive the interest on your fixed rate home loan monthly for the agreed term of your fixed interest rate period. When you break the loan, we receive the full amount at the time we

charge the break costs. As a result, we make an adjustment that represents the value of money over time.

How can I avoid break costs?

In most cases, if you break your fixed interest rate period before the end of the fixed period, break costs will apply. However, if you are substituting your security, you could avoid paying break costs. If you want to borrow more money, you may be able to set up a new loan for the additional amount.

Before you take any action, talk to us on 1300 688 825

We can help you understand what, if any, costs there will be for you if you are considering breaking your fixed interest rate loan before the end of your fixed rate period. Break costs can be high. We suggest you ask for an estimate of the break costs before making a decision and we encourage you to seek independent financial advice.

For more information contact:



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