Thinking of repaying your fixed rate home loan sooner?

Early Repayment Adjustment (ERA) guide.

When you take out a fixed rate home loan, you agree to lock in an interest rate for a set period of time. You get the certainty of knowing exactly what your repayments are and know that if interest rates change during your fixed rate period, your repayments won't be affected. In return, you don't have as much flexibility to make changes during the fixed rate period.

We understand that sometimes things change and there may be circumstances when you need to break the fixed rate period of your home loan. When this happens an Early Repayment Adjustment (ERA) and an Administrative Fee may apply.

This guide will help you understand when an ERA may apply and outline how it is calculated.

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Key considerations related to an Early Repayment Adjustment

If you do any of the following you'll break your fixed rate contract and may incur an Early Repayment Adjustment and an Administrative Fee. An Administrative Fee is applicable when an ERA is payable to cover the cost of processing a full or partial prepayment to your home loan. To view our current fees and charges go to **commbank.com.au/homeloanfees**

Switch your loan

For example when you switch from a fixed to a variable rate home loan.

Top Up

When you need access to extra money during your fixed period and apply to increase your loan.

Pay off part of your loan early

If you make additional repayments above $10,000 in any year* of your fixed rate loan.

*We count a year as 12 months from the date you commence your fixed rate period and every 12 months after that.

Pay off your entire loan early

For example when you sell your property before your fixed rate period has come to an end.

TIP: Before you decide to break the fixed rate period, it's important to consider the financial impacts and explore all of your options. We know this is complex and we're here to help. To understand whether an ERA could apply and how much it could be, speak to a Home Lending Specialist on 13 2224 (8am – 8pm any day).

Why am I charged an Early Repayment Adjustment?

When you take out a fixed rate home loan, we lock in our funding costs at a fixed rate in the 'wholesale money market' for the same period on the same day. We do this so we can manage the risk of interest rate changes and lock in our own funding costs.

If you break your fixed rate period, we are still required to pay our commitment in the wholesale market for the remaining period. So if we've made a loss as a result, an ERA will apply. The ERA is not a charge we profit from. It's an adjustment to recoup our estimated loss from you breaking your fixed rate agreement. You can find more information about the ERA in your Consumer Mortgage Lending Product Terms and Conditions.

How is my ERA calculated?

To calculate any loss, we look at any changes that have occurred in the wholesale money market from the date your fixed rate period commenced to the date you choose to break the fixed rate period. We refer to this as the 'swap rate'– this is the interest rate that applies when banks and other businesses lend to each other.

This rate can change on a daily basis. For this reason, an ERA quote is only valid for the day it was issued and is subject to change. Generally, an ERA will apply if the relevant swap rate when you break your fixed rate contract is less than the swap rate that applied at the start of your fixed rate period.

Simplified ERA calculation formula

The current home loan balance X **The remaining fixed rate period** X **The difference in swap rates** = **Early Repayment Adjustment***

***This amount is then 'reduced' to adjust for present day value – and this is your ERA.**

We will also adjust the final ERA based on your repayment option (Principal and Interest or Interest Only).

Meet Aliya

Aliya is looking to purchase her first home. She discusses her home loan options with her Home Lending Specialist or Broker and decides to apply for a 5 year fixed rate period home loan which will revert to a Standard Variable Rate home loan for the remaining 25 years. Let's have a look to see what happens if Aliya decides to break her fixed rate period early.

How does it work?

Below is a detailed look at the factors we use to calculate an ERA.

Aliya borrows $400,000 for a 5 year fixed period today. The wholesale market swap rate for 5 year fixed period is 5% p.a. This is known as our funding cost.

Aliya is 2 years into her 5 year fixed period and she decides to sell her property and pay out her home loan in full.

She has a loan balance of $387,208 owing and 3 years remaining on her fixed rate period.

The wholesale market swap rate for 3 year fixed periods is 3% p.a.

So for the next 3 years (Aliya's remaining fixed rate period) our funding cost (what we pay) continues to be 5% p.a. However if Aliya chooses to break her fixed rate period and repay her loan early, it will now have a market value of 3% p.a.

We estimate we've incurred a loss based on the difference in the swap rates.

5% p.a. – 3% p.a. = 2% p.a.

(Difference between the swap rates)

Aliya decides to continue with the sale of her property and pays off her home loan in full, including the ERA and Administration Fee for breaking her fixed rate period.

The simplified ERA calculation will be:

The current home loan balance
$387,208

X

The remaining fixed rate period
3 years

X

The difference in swap rates
2% p.a.

=

Early Repayment Adjustment*
$23,232.48

***This amount is then 'reduced' to adjust for present day value - and this is Aliya's ERA.**

Reduced ERA: $21,504.91

We will also adjust the final ERA based on your repayment option (Principal and Interest or Interest Only).

Common questions

How can I avoid an ERA?	If you're looking to pay off your fixed rate home loan faster, you can do so. You can make additional repayments of up to $10,000 for each year of your fixed rate loan, without incurring an ERA. These additional repayments can't be redrawn until after your fixed rate period expires. If you are looking to top up your home loan to access more money, you may want to consider applying for a separate loan. This means you will have a new home loan for the extra amount required (additional fees and charges may apply) without affecting your current fixed rate home loan. Standard lending criteria will apply.
Should I break my fixed rate home loan?	The decision is yours. It's important to consider how this may affect you financially and what your options are. Breaking the fixed period on your home loan for a lower advertised rate may be appealing. However this can have large financial implications based on the ERA versus the potential interest savings on a lower interest rate. We highly recommend that you: • Discuss your options with your Home Lending Specialist or Broker and; • Seek independent legal and/or financial advice to understand the impact on your financial position.
What changes can I make to my fixed rate home loan without an ERA?	There are changes you can make to your fixed rate home loan that will not be considered a break and will not incur an ERA. Some of these include: • Changing your repayment type (e.g. from Principal and Interest to Interest Only) • Changing your repayment frequency (e.g. from monthly to fortnightly or weekly)
Why is my ERA quote different today than it was in the past?	The ERA is calculated based on the wholesale market swap rate available on the wholesale money market. These rates change daily which is why an ERA quote may change depending on the day. The ERA quote is indicative and only valid on the date calculated. On request, we can provide a breakdown of the swap rates used at funding and on the day we quote an ERA.
What is 'present day value'?	We expect to receive the interest on your fixed rate home loan from you monthly over the remaining term. However when you break the loan we receive the full amount at the time we charge the ERA. As a result we make an adjustment that represents the value of money over time.

We're here to help

If you have any questions or need more information:

Book an appointment with a Home Lending Specialist at **commbank.com.au/appointment** or contact your Broker

Call us on **13 2224** (8am - 8pm any day)

Visit **commbank.com.au/homeloans**

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