When is an economic cost charged?

An economic cost may be charged when you repay a fixed rate loan before the end of the fixed rate term. This will occur when the cost of funds at the start of your fixed rate loan exceeds the cost of funds at the time of repayment, resulting in a loss to NAB.

No economic cost will be charged on home loans when you make a partial prepayment and/or increase your repayments, as long as these extra payments do **not** exceed $20,000 within the fixed rate term. This exemption however does **not** apply to Personal/ Residential Investment Fixed Rate Interest Only loans or loans for business purposes.

How can I obtain an economic cost quotation?

If you are considering prepaying all or part of your loan during a fixed rate period, a quote of the economic cost may be obtained by calling **13 22 65** or by contacting your Banker.

Please note:
a quote will be valid for a period of 7 days only.

For more information call

13 22 65

or visit us at **nab.com.au**

Hearing impaired customers with telephone typewriters can contact us on **1300 363 647**

nab

EARLY REPAYMENT OF FIXED RATE HOME LOANS.

Things you need to know.

EARLY REPAYMENT OF FIXED RATE HOME LOANS

The information in this brochure is designed to give a general overview of how early repayment costs (economic costs) are calculated and why NAB charges them. It does not replace or form part of your home loan contract with us.

An explanation of economic cost

NAB offers Fixed Rate Loans to provide our customers with rate and repayment certainty for an agreed period. Borrowers need to be aware of the economic cost which may apply in some circumstances.

What is an economic cost?

Economic cost is NAB's calculation of its loss on a fixed term loan due to movements in the cost of funds. This may occur, if before the end of the fixed rate term of your loan:

- The loan is fully repaid.
- A partial prepayment is made to the loan.
- The loan changes from fixed to variable or to another fixed term.
- The total outstanding loan amount is payable because you are in default and NAB is required to end the fixed rate contract early.

These are typically the customer driven events that trigger a significant change in the original fixed term of the loan by the customer and in turn potentially a sizeable loss to NAB.

Why does NAB charge an economic cost?

To understand why an economic cost is charged, you need to understand what happens when NAB lends you money to fund your loan. In order to lend money to you at a fixed rate for a particular fixed period, NAB typically borrows funds from someone else (eg other banks, small businesses, personal depositors) for the same period. The interest rate at which NAB borrows from the market to fund your loan is called the 'cost of funds rate'.

Just as you have an obligation to repay NAB, we have an obligation to repay those in the market who lent us the fixed funding for your loan or to continue to pay the fixed interest on this borrowing. If you repay the loan before the end of its fixed rate term, we need to calculate the economic cost (if any) of breaking our own loan arrangements or continued use of these funds in another loan. NAB looks to recover the economic cost associated with the initial fixed loan from the customer in some circumstances.

How is the economic cost calculated?

Economic cost is based on a number of factors:

- The amount of the loan being repaid.
- The remaining fixed rate period.
- The contracted loan repayments.
- The cost of funds at the start of the fixed rate term of your loan (the 'original cost of funds').
- The cost of funds at the time you repay the loan (the 'current cost of funds') adjusted for the remaining fixed rate term of the loan.

Please refer to the quick reference table.

Quick reference table

The table below gives an indication of the economic cost in $ for every $1,000 principal repaid early.

		Months before fixed period of loan expires						
		1	**6**	**12**	**18**	**24**	**30**	**36**
Original cost of funds minus current cost of funds	**1% pa**	1	5	10	15	20	25	30
	2% pa	2	10	20	30	40	50	60
	3% pa	3	15	30	45	**60***	75	90
	4% pa	4	20	40	60	80	100	120
	5% pa	5	25	50	75	100	125	150

The amount would then be discounted at the current cost of funds to reflect the present day value of the future cash flows.

Note: the above table shows selected scenarios only.
* Refer to example below.

For example

A customer takes a 3 year fixed rate interest only loan for $250,000 when the 3 year cost of funds is 7% pa. With 24 months of the loan term to go they decide to repay the loan. The 24 month cost of funds at the time is 4% pa. In this instance the early repayment cost is based on a $250,000 repayment with a rate difference of 3% pa over a remaining term of 24 months.
The early repayment cost would be approximately 250 x $60 = $15,000. This amount would then be discounted at 4% pa to reflect the present day value of the future cash flows – approximately $14,400.