

How to Break Out or Prepay your Fixed Rate Home Loan?



When you take out a fixed rate loan with a lender/credit provider, you sign a fixed rate contract agreeing to lock in your fixed interest rate for a set period.

Are You Thinking of Breaking Out of Your Fixed Rate Home Loan?

Breaking out of your fixed rate home loan contract during the fixed interest period can be shockingly expensive. So if you decide to break out, switch or prepay your fixed rate home loan early, for any of the following reasons, you will be liable to your existing lender/credit provider for any loss they incur due to you breaking out of your fixed rate agreement:

- You want to break out of your fixed rate home loan, because you have decided to sell the security property within the life of the fixed rate loan
- You decide to switch your fixed rate home loan to another lender/credit provider, in order to take advantage of lower interest rates
- You decide to switch your fixed rate home loan to a cheaper variable rate home loan
- You are able to prepay your fixed rate home loan early (either partially or in full), because you have come into a lump sum of money or inheritance, or
- You want to make additional payments in excess of the accepted tolerance, because you may have received a pay rise

Will I be charged any Fees if I Break Out of My Fixed rate Contract?

There are two types of fees you will be responsible for if you break out or "prepay" fixed rate home loan early, and they are the amount you will owe the lender/credit provider if you decide to pay your fixed rate home loan before the term ends, such as:

- An Early Repayment Adjustment (ERA) fee (this is the expensive fee), and
- An Early Repayment fee (this fee is usually a couple of hundred dollars)

If you are still undecided if you should break out of your fixed rate contract, it is advisable that:

- You firstly speak to your lender/credit provider and request a quote, which sets out the fees that will be charged if you decide to break out or "prepay" your fixed rate loan early.
- You refer to the terms and conditions of your fixed rate contract to ascertain for yourself, what fees will be charged

When you have undertaken the above steps, you can then make a much better and informed decision as to whether you still wish to break out or "prepay" your fixed rate home loan early.

Do Break Out Fees Go By Any Other Names?

Break out fees go by different names depending on your lender/credit provider, such as:

- Exit fees
- Discharge fees
- Break costs
- Early termination fees, or
- Early repayment fees

How Are Break Out and Prepayment Fees Calculated?

Lenders/credit providers can choose a number of different ways when calculating the break out or prepayment fees to be charged, for example the lenders/credit providers can choose any one of the following methods:

- A simple set dollar amount
- A percentage of the amount you have borrowed, or
- Predetermined extra monthly repayments

Lenders/credit providers will calculate these fees by:

- Comparing the interest rate that you locked your fixed rate loan in at against the current market rate, and
- The length of the time that is left on your fixed rate home loan is then compared to the initial amount that you borrowed

Example: The following example will best explain the concept of how the break out/prepayment fees are calculated. The illustration assumes that you have an existing fixed rate home loan on your security property and the loan details are:

Your current fixed rate loan amount is: \$200,000

Your fixed interest rate is: 6%

Your fixed rate term is: 5 years

You have decide to sell the security property after 3 years and you want to pay off the full loan amount, and the interest rates have also dropped by 2%

From the example illustrated above the fee charged will be \$800.00

Fee = \$200,000 x 2 years x 2% (interest rate change) = \$800.00

How Can A Finance Broker Help You?

When considering if you should break out or prepay your fixed rate home loan early, spend some time researching recent rate movements. More importantly, speak to a dedicated finance expert who can:

- Assist you to compare the interest costs of a potential new low rate home loan, and
- Guide you towards the right personal decision that best meets your needs and requirements

So, this is how you can break out or prepay your fixed rate home loan successfully.