Information Sheet: Break costs

What is a Break Cost?

The finance products offered by Angle Auto Finance have a fixed annual percentage rate and fixed repayment amount, over a fixed term. This is the loan or lease you selected.

For us to be able to provide you with your loan or lease, we need to borrow the money we lend to you. To ensure a fixed annual percentage rate for the term of your loan or lease, we lock in our funding costs at a fixed rate in a wholesale money market for the same term. This is a common funding arrangement for financiers to manage the risk of interest rate changes.

Our fixed rate commitment under this funding arrangement is entered into for the entire term of your loan or lease with us. If you terminate your contract early, or in other words 'break' your contract, we may incur a loss as we need to cover the cost of our funding at the fixed rate, irrespective of the early termination of your loan or lease.

The break costs we charge you for ending your loan or lease earlier than the contracted date are calculated to be a reasonable estimate of this loss. We recover this from you in the form of a break cost.

What is a 'Wholesale Market Swap Rate?

A Wholesale Market Swap Rate is just another name for an interest rate that applies when financial institutions like banks borrow money from the wholesale money market. We don't tell you what this rate is. It changes regularly due a range of factors (such as changes in market conditions) and is commercially sensitive.

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Will I be charged a Break Cost if ending a loan or lease early?

You won't always incur a break cost when breaking your contract. We look at changes in interest rates in the wholesale money market (referred to as the 'wholesale market swap rate') from when your loan started to when it's terminated earlier than agreed.

Break costs will generally apply if interest rates have decreased since the time you entered into your loan or lease.

Also, break costs may not be charged for loans or leases terminating within 3 months of maturity.

Calculating Break Costs

When calculating your break cost, we multiply the difference in wholesale market swap rates between when your loan began and when your loan breaks with your remaining loan term and your remaining contracted loan balance. This amount is then discounted to its 'present day value'.

When calculating your break cost, we apply the following formula:

Contracted outstanding balance

X

Difference in wholesale market swap rates

X

Weighted Average Remaining Loan Term (WARLT)

= **Break Cost**

The **calculated break cost** is reduced to its **'present day value'**, by dividing it by (1+r)^WARLT

The WARLT is calculated using the following formula:

$$= \left(\sum_1^n Repayment\,\# * Repayment\ Principal\right) / \left(\sum_1^n Repayment\ Principal\right) / \#\ repayments\ pa$$

Repayment #: **The sequence number of future repayment starting from the date of break,** eg. The second repayment after date of break will be # 2.

Repayment principal: **The principal component of your contracted future repayment.**

 # repayments pa: **The number of repayments in a year** eg. 12 for monthly repayments, 26 for fortnightly repayments, and 52 for weekly repayments.

Examples: Break costs

1. JOHN: When wholesale market swap rate is **lower at time of breaking** the loan

- John bought a family car with a 5-year consumer fixed rate loan of $50,000 on monthly repayments of $1,062 per month and an annual percentage rate of 10%.
- The wholesale market swap rate was **4.35% p.a** at the time of entering his loan for a 5 year fixed term **.**
- Two years into his contract, John received a sizeable bonus from his work and decided to pay the loan off early before going on a lavish around-the-world holiday trip.
- His loan balance was **$32,923** at this time and the 3 year fixed term wholesale market swap rate is **3.35% p.a.** at the time of breaking his loan (reflecting the remaining term on the loan).

LET'S WORK OUT THE BREAK COST

1. **Contracted outstanding balance = $32,923**
2. **Difference in wholesale market swap rates** *(4.35%-3.35%)* **= 1%**
3. **WARLT = 1.62** (see inputs table on right and WARLT formular workings below)

$$= (\textstyle\sum_1^n \mathit{Repayment\ \#} * \mathit{Repayment\ Principal}) \,/\, (\textstyle\sum_1^n \mathit{Repayment\ Principal}) \,/\, \mathit{\#\ repayments\ pa}$$

WARLT = (1 x $787.99 + 2 x $794.56 + 3 x $801.18…+ 36 x $1,053.57) / ($787.99 + $794.56 + $801.18… + $1,053.57) / 12

Repayment #	Repayment sequence as at time of break	Principal component of repayment
25	1	$787.99
26	2	$794.56
27	3	$801.18
...	...	...
60	36	$1,053.57

4. **Break Cost <u>before</u> discounting = $533.35**
   Contracted outstanding balance $32,923 x Difference in wholesale market swap rates 1% x WARLT 1.62
5. **Break Cost 'present day value' <u>after discounting</u> = $505.63**
   ($533.35/(1+3.35%)^1.62

2. JANE: When wholesale market swap rate is **lower at time of entering** the loan

- Jane owns a successful legal consulting firm and borrowed $85,000 over 3 years with an Angle Auto Finance goods loan to buy a car for business use.
- The wholesale market swap rate (WMSW) was **4.35% p.a.** when this loan was entered into.
- After the business was sold 1 year into the loan term, Jane had no further need for the car and enquired about paying out the loan. She had 2 years and a **$66,811 balance remaining** on the loan.
- The WMSR at this time is **4.85% p.a.** for a 2 year fixed term.

IS THERE A BREAK COST?

1. **Contracted outstanding balance = $66,811**
2. **Difference in wholesale market swap rates**
   (4.35%-4.85%) **= -0.5%**
3. **No break cost will be incurred by Jane**, if she decides to pay out the loan at this time.
   The **WMSR at time of breaking was higher than the WMSR when the loan was taken out**.

Angle AUTO FINANCE

FAQs: Break costs

What is 'present day value'?

It is a discount we apply to your calculated break cost to ensure that the break cost reflects the present-day value rather than the value at the time the periodic repayments/ instalments under the loan or lease contract.

I want to see exactly how you've calculated my break cost.

On request we can provide both the wholesale market swap rate used when you entered your loan/lease, and the wholesale market swap rate applied when your payout quote is provided.

Will I incur a break cost for changing my repayment frequencies or requesting a repayment pause due to financial hardship?

No, as your loan will not terminate under these scenarios, break cost does not apply.

Why does the break cost on my termination quotes change?

Your break cost is calculated based on wholesale market swap rates, remaining term and remaining principal. When these things change, your break cost will also change.

Why don't I get refunded any interest benefit if the wholesale market swap rate used at time of break is higher than when my loan/lease started?

Our funding commitment is fixed when your loan was initially drawn. If you break your fixed rate term loan or lease, we are still required to cover the cost of our funding at the fixed rate irrespective of the early termination of your loan or lease.

I was already ahead on payments and only had a small principal left, my break cost seems too high relative to this?

Our funding commitment is made based on your contracted repayments, as a result your break cost is also calculated based on contractual principal outstanding rather than actual principal outstanding. Your contractual principal outstanding means the principal you owe us if all your contractual payments were made on time in line with the loan contract, without early or late payments. In this case you would have also received the benefit of interest savings from your additional payments compared to if your loan ran to its contracted term.

What's the difference between a break cost and early termination fee?

Break costs, an early termination fee and the loan administration fee are separate charges. You may need to pay all of them if your loan or lease ends early.

Unlike break cost, an early termination fee is calculated without reference to interest rates. It represents our costs of originating your loan or lease. Our pricing is based on an expectation that we will recover those costs if your loan or lease runs to full term. The early termination fee is calculated to be a reasonable estimate of the component of those costs that we will not recover due to the early termination of your loan or lease. Your early termination fee is calculated as disclosed in your loan or lease contract.

The Loan Administration Fee reflects Angle Auto Finance's cost of administering early loan terminations (loan administration fees do not apply to novated leases and goods loans).