# Early Payment Interest Adjustment

## Lending

Making a decision to fix your interest rate is a serious financial decision that should not be entered into lightly. When considering whether to protect your loan from increasing interest rates for a period of time you should also consider lifestyle factors such as:

— Whether you would like to make additional repayments to your loan in addition to the set loan repayment amounts;

— Whether you may wish to sell your property during the time you are considering fixing your loan for;

— Whether there are any family or financial considerations that could result in you wanting to make changes to your loan during the time your loan interest rate is fixed.

We recommend that you obtain financial advice when contemplating a decision to fix your interest rate as the EPIA that may apply could be substantial depending on the movement of the wholesale funding market between the time you fix your rate and the time you break it or repay it early. EPIA is applied so the Bank is able to recover a reasonable estimate of the loss incurred as a result of your decision to break your fixed rate or make additional repayments to your loan outside of those allowed under your arrangements with us. EPIA is not a penalty fee or charge and will not apply to your loan unless you repay your loan early or make additional repayments that are not allowed under your contract.

## Q1. What are the general terms of a Suncorp Bank fixed rate loan?

When you take out a Suncorp Bank fixed rate loan, your interest rate is locked in for the fixed rate period. Movements in Interest Rates (both increases and decreases) will not affect your loan during the fixed rate period.

## Q2. What is the fixed rate period?

The fixed rate period can be:

— for the whole loan term, if the full term of the loan is five years or less; or

— for a part of the loan term, where the full term of the loan exceeds five years.

## Q3. When does Suncorp Bank charge the (EPIA)?

An Early Payment Interest Adjustment (EPIA) applies if you have a fixed rate loan and you:

— pay more than the Pre-payment allowance (currently $500) in excess of your monthly payment;

— repay your loan in full during the Fixed Interest Period;

— if you wish to break the current fixed rate early. For example, if you choose to sell your security property during the fixed rate period.

## Q4. How is the EPIA calculated?

The method of calculating EPIA is included below under the heading 'Working Example'. EPIA is calculated using a formula, which takes into account the fixed rate period that has not yet elapsed, the amount of any excess payments, and the difference in the wholesale 'swap reference rate' (subject to this difference not being greater than the fixed rates used by Suncorp at the same dates). The figures are then adjusted to reflect present day value.

## Q5. When is EPIA charged if I make additional repayments?

Suncorp Bank allows you to make extra loan repayments of up to $500 per month without incurring EPIA. If you pay more than this amount in any month you will be charged EPIA on the full amount prepaid (e.g. if your loan repayment is $2500 per month* and you choose to repay $3,050 ($2500* +$550), EPIA will apply on the full $550. EPIA will be applied to your loan on your next repayment date if your make repayments in excess of those allowed under your agreement with us.

## Q6. How much will the EPIA be if I break my fixed rate loan or repay it early?

Because the amount of EPIA is based on the changes in market conditions between when you fix your interest rate and break or repay it early, we cannot tell you at the time you fix your rate whether EPIA will apply to your loan or the amount of any EPIA that could apply.

The method the Bank uses to calculate EPIA is included in your loan contract and a Worked Example is included in this brochure. The amount of EPIA could be substantial and for this reason we recommend you seek financial advice prior to fixing your rate.

## Q7. Why does Suncorp Bank charge an EPIA if I make early repayments?

Early Payment Interest Adjustment applies to fixed rate loans only and is charged so that Suncorp Bank is able to recover any loss it incurs as a result of its customers either breaking their fixed rate loan or paying more than the allowed pre-payment limit. Suncorp Bank use the wholesale "swap reference rates*" to calculate whether we have incurred a loss. Where the wholesale "swap reference rate" has decreased from the rate applied at the start of your fixed rate period we incur a loss and you will be charged EPIA.

## Q8. How can I avoid being charged the EPIA?

- By making sure that any monthly repayment to your loan does not exceed the set monthly repayment amount by more than $500 in any month;
- By not making any changes to your loan during the fixed rate period;
- By not asking the Bank to terminate your fixed rate period early.

## Q9. If I don't make an additional payment one month can I save it and add it to the next month?

**No.** EPIA pre-payment allowance of $500 applies on a month by month basis. The system counts amounts paid from one due date to the next due date for each month during the fixed rate period.

SUNCORP

## Working Example

For example, you borrowed $300,000 on the 01st February 2010 and fixed the interest rate for 3 years at 7.35% p.a. Your contractual monthly repayments are $2,100 per month.

The 3 year wholesale market rate used by the Bank on the disclosure date of your loan is 6.45%p.a.

On the 01st February 2011, with 2 years still remaining in your fixed rate term, you decided to sell your property and repay your loan in full.

The balance of your loan is now $274,500 because of the monthly loan repayments you've made between 1st February 2010 and 1st February 2011.

As you have 2 years remaining in your fixed rate term, we refer to the 2 year wholesale swap reference rate applicable on the 01st February 2011 which is 4.45% p.a. to determine any loss of interest the Bank may expect as a result of your request to break your fixed rate. At this date, the 2 year fixed loan borrower rate available from us is 5.15% p.a.

As we agreed to lend you money for 3 years in February 2010, we still must pay interest at the rate negotiated when we borrowed the money which is 6.45% p.a. for the remaining 2 years of your fixed rate term. The wholesale swap reference rates at the time you break your fixed rate are now lower which means Suncorp makes a loss because the market value has decreased. In this case the loss is estimated at 2.00%p.a. (6.45%p.a. less 4.45% p.a. ) for the remaining 2 years of your fixed rate term.

To adjust the amount prepaid for scheduled principle reductions or future repayments you would have made to your loan (which reduces the EPIA) we:

i. Calculate the component of the amount pre-paid which would have remained at the end of the fixed rate period had contractual repayments continue to have been made from the date of early repayment to the end of the fixed period.

ii. Determine the component of the amount pre-paid that would have effectively amortised over the remaining fixed rate term by subtracting the balance 1) from the amount pre-paid.

**For the example above:**

- The amount pre-paid is $274,500 because the loan is being repaid in full.
- The component of the loan balance related to item (i) above is $263,710.87
- The component of the loan balance related to item (ii) above is 10,789.13 ($274,500 - $263,710.87).
- The portion of your monthly repayment that amortises this balance over the remaining fixed rate term is $484.77.
- The difference is wholesale swap reference rates is calculated as 2.00% p.a. (6.45% p.a. - 4.45% p.a.).
- The remaining loan term is 2 years.

**The calculation for our loss is:**

1. Multiplying balance from component i) by the difference in swap reference rates for the remaining fixed term:
   - $263,710.83 X 2.00% p.a. X 2 = $10,548.44
   - We reduce this amount to the present day value of $10,074.80
2. For component ii), the difference in swap reference rates (2.00% p.a.) is subject to it being no greater than the difference in the fixed term borrower rates (7.35% p.a. - 5.15%p.a.). The loss is given by firstly multiplying this difference by the balance at each future scheduled repayment for the remaining fixed term:

i.e. Month 1 difference in interest = 10789.13 * 2.00% p.a./12 = $17.98
Month 2 difference in interest = (10789.13 * 7.35%/12 - 484.77) * 2.00%p.a./12 = $17.28
Then the present value of these differences is taken at the new borrower rate, and they are summed together to give the total loss:
i.e. 17.98/(1 + 5.35% p.a./12) + 17.28/(1 + 5.35% p.a./12)2 + ... = $221.31

3. These two amounts are summed together to determine the EPIA
   EPIA = $10074.80 + $221.31 = $10,296.11

## How to contact us

*Call*
*13 11 55*

*Online*
*suncorp.com.au*

*Local*
*store*

* Suncorp Bank bases the Swap Reference Rates on figures published in The Australian Financial Review as the Swap Rate Quarterly in Arrears Versus Mean Bank Bill. If figures are not published, Suncorp Bank supplies the rate. Banking products are issued by Suncorp-Metway Ltd ABN 66 010 831 722. Australian Credit Licence 229882. Loans are available to approved applicants only. Terms and Conditions, Fees and charges apply and are available upon request. Please contact us for a copy.

00289 23/05/18 A