Great Southern Bank

Great Southern Bank
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Early Payout Cost Factsheet

Effective: 28 September 2021

When you enter into a fixed rate loan contract, you are effectively locking in the loan interest rate offered to you for an agreed period of time (e.g. 5 years). If you decide to switch or payout your fixed rate loan before the end of your agreed period, you are effectively breaking that fixed rate loan agreement, an EPC that could cost you thousands of dollars may apply.

An EPC is not a penalty and it is not a fee revenue. If we lose money as a result of you breaking your fixed rate loan agreement, we charge an EPC using a reasonable cost recovery calculation to recoup our loss. Your fixed rate loan agreement is a contract and under the general principle of contract law, if you break a contract and the other party to that contract suffers a loss, you need to compensate that party for that loss.

We recommend that before you decide to break your fixed rate loan agreement, you should obtain an EPC "quotation" from Great Southern Bank and then seek independent financial and/or legal advice. It is also important to note that the financial markets are unpredictable and interest rates can change daily, therefore, an EPC quotation is valid only for the day it was quoted.

Contracts entered into prior to 28 September 2021, the amount is referred to as an Early Payout Fee.

Calculation of EPC

The Financial Ombudsman Service (FOS), the predecessor to the Australian Financial Complaints Authority, has assessed the methodology to fairly and reasonably estimate break costs on fixed rate loans and released a fact sheet titled 'Breaking a Fixed Rate Loan' on their website. Great Southern Bank's EPC calculation reflects this fair and reasonable methodology supported by FOS.

When you take out a fixed rate loan, you are effectively locking in your interest rate (i.e. your funding costs) for an agreed period of time. Great Southern Bank as a financial intermediary borrow funds from savers and investors in the economy and on lend to you (borrower). As you have fixed your funding costs for an agreed period of time, we will also seek to fix our funding costs for similar period of time to protect Great Southern Bank against future interest rate movements.

If you decide to break your fixed rate loan agreement, we also need to unwind our fixed rate funding. In order for us to reasonably calculate whether or not we have made a loss, we compare the movement in the wholesale market swap rates (swap rates) between two points in time (i.e. point 1 is the swap rate for the agreed fixed rate period when you take out your fixed rate loan and point 2 is the swap rate for the remaining term of the fixed rate period when you break your fixed rate loan).

On the day you break your fixed rate loan early, if the swap rate for the remaining term of the fixed rate period is less than the swap rate applied at the start of your fixed rate period, we will make a loss and we will charge you an EPC.

The wholesale market swap rates are published daily in the Australian Financial Review under the heading "Swap Rates: Quarterly in arrears" and they are the most transparent fixed rate cost of funds that can be used to approximate our EPC calculation.

Working Example

For example, you borrowed $150,000 from Great Southern Bank on 1 July 2011 fixed for 5 years at an interest rate of 7% over a 25 years loan term, and you chose to pay principal and interest on a monthly basis. The swap rate for 5 years fixed term was 6% (i.e. our funding costs for Point 1 of the two points in time mentioned earlier).

On 1 July 2014, after 3 years into your 5 years fixed rate loan, you decide to payout your loan in full but your loan still has 2 years remaining. Accordingly we refer to the swap rate for 2 years fixed term on the day of loan payout and it was 4.5% (i.e. Point 2 of the two points in time).

The money you paid back to us on 1 July 2014 estimated around $137,800 (i.e. principal outstanding) has market value of only 4.5% for the remaining 2 years, however, we are still required to pay the 6% funding costs for that same 2 years. Therefore, we are effectively losing 1.5% from the money you paid back to us for the remaining 2 years of the 5 years fixed term (i.e. 6% - 4.5% = 1.5%).

The full calculation is technical and complex. We use an automated calculation model that conforms to the methodology assessed by FOS.

For the purpose of this working example, we will simplify the calculation based on the underlying principles of the disclosed formula.

- The loan amount being paid out is: $137,800
- The movement in the swap rates between Point 1 and Point 2 is: 6% - 4.5% = 1.5%
- The remaining fixed rate term of the loan: 2 years
- The simplified calculation to reasonably estimate whether or not we have made a loss for the remaining 2 years (future value) is: $137,800 x 1.5% x 2 = $4,134.00
- Using the present value formula, the $4,134.00 is then discounted back to present day value, therefore: EPC = $3,821.50

A full explanation of the Early Payout Cost and the formula used to calculate it is available in your home loan contracts.