Heritage Bank

Break Fee

What is a break fee?

If you currently hold a fixed rate loan with Heritage Bank and wish to close it during the fixed rate period, you may need to pay a break fee.

Examples of when you may need to pay a break fee include paying out and closing the loan, or switching the loan to another loan type.

A break fee is normally payable when current interest rates are lower than your fixed rate. Essentially, the break fee payable is the difference between the amount of interest that will be lost due to the fixed term being broken and the projected interest that can be earned by re-lending those funds at the current offered rate for the remaining fixed period.

How does Heritage calculate the break fee?

Heritage calculates a break fee using the interest rate of the loan compared to the current fixed rate for a fixed term loan similar to the remaining term on the loan that is being repaid or switched. Any discount applicable to the current fixed rate will also be applicable to the comparable fixed rate for the purpose of the break fee calculation.

To work out which fixed term interest rate will apply, Heritage will round the remaining term to the nearest full year (e.g. if the remaining term is one year and seven months, the comparable loan rate would be the two year fixed rate. If the remaining term was one year and four months, the comparable loan rate would be the one year fixed rate).

Once the break fee is calculated, the amount is then adjusted to be a 'net present value' amount. This represents the break fee equivalent as at 'today's value' because the full fee is paid up-front, rather than being charged over the remaining fixed term. For example, a break fee is calculated to be $500, the adjusted net present value may be $400. The lesser amount received 'today' is accepted as having the same value as the $500 if received over the remaining term (because of external factors, such as inflation, etc).

How am I told about this fee?

Heritage Bank provides information about the break fee to you in your credit contract, payout letter and/or switch disclosure.

If you are paying out your loan, or switching to another loan product, the break fees are calculated and disclosed as at the date of the payout letter and/or switch disclosure. If the loan is not paid out or switched on that same day, the break fee provided can only be taken as an indication.

An example of a break fee scenario:

Your loan has an interest rate of 9.28% p.a. fixed for 5 years. After 2 years 10 months, with an outstanding balance of $196,454 you decide to pay out your loan. The interest that would have been received by Heritage over the remaining term would have been $39,033. The comparable loan rate is 5.79% p.a. The interest that Heritage could have received at this rate over the remaining 2 years 2 months is $23,435. By closing the loan early, this shows that Heritage will receive $15,598 less over the remaining 2 years 2 months, due to the fixed rate period being broken. From this, the break fee payable in today's dollars is $14,601.

People first.