

Understanding break costs and fixed rate lock

Break Cost

What are break costs?

Break costs are the costs you pay us when you choose to pay more than what you're allowed to under your agreement.

We'll let you pay \$10,000 more than your minimum repayments a year from when your loan is fixed under the agreement. If you pay us more than this amount, then break costs may apply.

Break costs will apply because there is a cost assigned to our wholesale funding arrangements, which then gets passed onto you in the form of break costs.

- **With a fixed rate loan: the interest rate won't go down if the Reserve Bank reduces interest rates.**
- **You'll have to pay us break costs if:**
 - **you make more than \$10,000 in additional payments in any one year above the minimum repayments allowed under your agreement;**
 - **you want to vary your loan; or**
 - **you want to discharge your mortgage or no longer want your fixed rate.**

How are break costs calculated?

When break costs are calculated, a number of things are taken into account such as:

- the wholesale market rate when you first drew on your loan;
- the wholesale market rate when you make the payment;
- any unpaid interest, fees, costs and default interest;
- the timing, frequency and dollar amount of minimum repayments under your agreement;
- the size of any payment you make and the amount we allow you to pay in addition to your
- minimum repayments (this is currently \$10,000 within a year); and
- the number of days remaining until the end of the fixed rate period.

Example:

- you took out a 3-year interest only loan for \$250,000 and the 3-year wholesale market rate at that time was 8% p.a.
- you paid an additional \$10,000 in the first and second years.
- you decide to pay off your loan completely near the end of the third year, and the 1-year wholesale market rate at this time is 5% p.a.

Here, the loss to us is about \$7,500 as the wholesale market rate has fallen. We then will discount this loss to reflect its present day dollar value, which will be about \$7,100. We disclose the break cost calculation formula in your letter of offer.

You should consider seeking independent financial advice and independent legal advice if you don't understand break costs.

Rate Lock

What is a Fixed Rate Lock?

Rate Lock is a feature on all HSBC Fixed Rate Home Loans that can guarantee your fixed interest rate between the time we receive your Rate Lock request and the time of settlement. It protects you against any rate rises during this period for a fee. For full 'Fixed Rate Lock Terms', refer below:

Fixed Rate Lock Terms

Fixed Rate Lock is available on all HSBC's Fixed Rate Home Loan products (excludes home loan pre-approval applications).

If you elect to Rate Lock your Fixed Rate Home Loan, you understand and agree that:

- a fee of \$750 will be payable at the settlement of your home loan ("Rate Lock Fee");
- if your home loan application has more than one fixed rate home loan split, then each fixed rate component will be deemed to be rate locked for the one Rate Lock Fee;
- the interest rate locked in will be the advertised Reference Rate, plus or minus a margin, for the fixed rate home loan product you have chosen on the day your home loan application is submitted to HSBC for assessment;
- the locked interest rate and fee will be disclosed in the Letter of Offer;
- the locked interest rate will be valid for 90 calendar days from the day we issue your first unconditional approval (the "Rate Lock Expiry Date") and cannot be extended after this date;
 - if settlement occurs on or before the Rate Lock Expiry Date, the Reference Rate that will apply to the loan will be the lower of the locked rate or the advertised Reference Rate, plus or minus a margin, applicable on the settlement date;
 - if settlement occurs after the Rate Lock Expiry Date for any reason, the Reference Rate that will apply to the loan will be the advertised Reference Rate, plus or minus a margin, applicable on the settlement date;
- the Rate Lock Fee is still payable if the loan settles after the Rate Lock Expiry Date for any reason;
- any changes to a fixed loan after the initial Rate Lock submission and before the loan has settled deem the original locked interest rate invalid. This includes changes to the loan purpose, loan product, repayment type or Loan to Value Ratio (LVR). Any updated or new fixed rate loans from the initial submission will have the interest rate locked at the time HSBC accepts the resubmission;
- where you first elect to Rate Lock, you may not opt-out of Rate Lock when a fixed rate loan is included within the application;
- acceptance of the Rate Lock request does not constitute approval of your home loan application or an offer to provide credit;
- HSBC reserves the right to not accept the Rate Lock request; and
- the Rate Lock Fee will not be payable if the loan does not proceed to settlement.

For more information regarding HSBC home loans, visit www.hsbc.com.au