community first credit union

Early Repayment Fee (ERF)
Fact sheet and Calculation Example

Early Repayment Fee: (Break costs)

An Early Repayment Fee **(ERF) is also known as an economic break cost.** It may be payable if you make an additional full or partial repayment or switch out of a fixed rate during the fixed interest rate period. Switching wholly or partly out of a fixed rate loan during its term is treated like an early repayment.

Warning: Early repayment fees can be substantial. Ask for a quote before you decide to repay early or switch out of a fixed rate loan.

The **ERF** is based on the difference between the **Fixed Rate**, i.e. the contract fixed interest rate, and CFCU's **Reinvestment Rate**, which is the interest rate that CFCU can reasonably expect to earn on any amount that is repaid early.

The **ERF** reflects the cost that may be incurred by CFCU if the **Reinvestment Rate** at the date of repayment or switch is less than the **Fixed Rate** applicable to your loan.

If the **ERF** is less than zero, CFCU will not make a payment or allowance to you for any advantage gained by CFCU because the **Reinvestment Rate** exceeds the **Fixed Rate**.

The **ERF** will be calculated using the following steps:

1. The proportion of your loan balance that is being repaid subject to ERF will be calculated as:
   (Repayment – Tolerance) / Balance.
2. The interest that would be lost to CFCU if you fully repaid your current loan balance will be calculated as: **Balance x Years x (Fixed Rate – Reinvestment Rate).**
3. The interest difference on your expected future loan installments will be calculated as:
   Installment x N x (Fixed Rate – Reinvestment Rate) x Years / 2.
4. Your **ERF** will be calculated as:
   Proportion 1 x [Amount 2 – Amount 3] where the Proportion, Amount 2, and Amount 3 are calculated as shown in steps 1,2, and 3 above respectively..

Definitions:

Balance is the total loan balance outstanding before the repayment.

Fixed Rate is the fixed interest rate (% p.a.) applicable to your fixed interest rate contract.

Installment is the amount of regular loan installment you are paying each week, fortnight, or month, at the date of repayment.

N is the number of whole installment periods (weeks, fortnights or months depending on your installment frequency) remaining in your fixed interest rate term, at the date of repayment.

Repayment is the repayment that you are making to your fixed rate loan in addition to your regular loan installments.

Tolerance is the additional amount that you can repay without an **ERF** applying. Within any one year (starting from the anniversary of your fixed interest rate period) you can make additional repayments up to $25,000 off the loan balance at the start of the fixed interest rate period, without an **ERF** applying.

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Early Repayment Fee (ERF)
Fact sheet and Calculation Example

Reinvestment Rate is the interest rate (% p.a.) that CFCU can reasonably expect to earn on any amount that is repaid early. This rate will be determined as the CFCU interest rate at the date of repayment using the table below.

***Years* remaining in fixed interest rate period**	**Reinvestment Rate**
Less than 1 year	Standard variable rate
1 year or more, but less than 2 years	1 year fixed interest rate
2 years or more, but less than 3 years	2 year fixed interest rate
3 years or more	3 year fixed interest rate

Years is N/52 if you are paying weekly loan installments, N/26 for fortnightly loan installments, or N/12 for monthly loan installments. Years will be expressed two one digital place – if you repay in 18 months early, Years will be 1.5.

Example:

The following example is provided to illustrate how the **ERF** is calculated using the above steps. It is fictitious and does NOT use amounts from this loan. Any **ERF** payable under your contract will depend on the loan details specific to your loan contract.

You borrow $240,000 with a fixed interest rate period of three years, and an interest rate of 8% p.a. Your regular loan instalments are $1,600 per month.

When there are eighteen months remaining on the fixed interest rate period, and the loan balance outstanding is $220,000, you make an additional repayment of $47,000.

If at the time, CFCU offers fixed interest rate contracts for terms of 1, 2 and 3 years, and the fixed interest rate for a 1 year term is 6% p.a., the **Reinvestment Rate** will be taken as 6% p.a.

Your **ERF** is calculated using the steps specified above, as follows.

1. The proportion of the loan balance that is being repaid subject to **ERF** is calculated as:
   (Repayment – Tolerance) / Balance
   where **Repayment** = $47,000, **Tolerance** = $25,000 and **Balance** = $220,000,
   = ($47,000 - $25,000) / $220,000 = 10%.

2. The interest that would be lost to CFCU if you repaid the fixed rate loan in full is calculated as:
   Balance x Years x (Fixed Rate – Reinvestment Rate)
   = $220,000 x 1.5 x (8% - 6%) = $6,600.

3. The interest difference on the member's expected future loan installments is calculated as:
   Installment x N x (Fixed Rate – Reinvestment Rate) x Years/2
   =$1,600 x 18 x (8% - 6%) x 1.5 / 2
   = $432.

4. The member's **ERF** is calculated as:
   Proportion 1 x [Amount 2 – Amount 3)
   = 10% x [$6,600 - $432] = **$616.80.** You would be obliged to pay $616.80 as your early termination fee (break costs).

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Early Repayment Fee (ERF)
Fact sheet and Calculation Example

Early Repayment Fee: (Break costs)

An Early Repayment Fee **(ERF) is also known as an economic break cost.** It may be payable if you make an additional full or partial repayment or switch out of a fixed rate during the fixed interest rate period. Switching wholly or partly out of a fixed rate loan during its term is treated like an early repayment.

Warning: Early repayment fees can be substantial. Ask for a quote before you decide to repay early or switch out of a fixed rate loan.

The **ERF** is based on the difference between the **Fixed Rate**, i.e. the contract fixed interest rate, and Easy Street's **Reinvestment Rate**, which is the interest rate that Easy Street can reasonably expect to earn on any amount that is repaid early.

The **ERF** reflects the cost that may be incurred by Easy Street if the **Reinvestment Rate** at the date of repayment or switch is less than the **Fixed Rate** applicable to your loan.

If the **ERF** is less than zero, Easy Street will not make a payment or allowance to you for any advantage gained by Easy Street because the **Reinvestment Rate** exceeds the **Fixed Rate**.

The **ERF** will be calculated using the following steps:

1. The proportion of your loan balance that is being repaid subject to ERF will be calculated as:
   (Repayment – Tolerance) / Balance.
2. The interest that would be lost to Easy Street if you fully repaid your current loan balance will be calculated as: **Balance x Years x (Fixed Rate – Reinvestment Rate).**
3. The interest difference on your expected future loan installments will be calculated as:
   Installment x N x (Fixed Rate – Reinvestment Rate) x Years / 2.
4. Your **ERF** will be calculated as:
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Early Repayment Fee (ERF)
Fact sheet and Calculation Example

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***Years** remaining in fixed interest rate period*	**Reinvestment Rate**
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If at the time, Easy Street offers fixed interest rate contracts for terms of 1, 2 and 3 years, and the fixed interest rate for a 1 year term is 6% p.a., the **Reinvestment Rate** will be taken as 6% p.a.

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   where **Repayment** = $47,000, **Tolerance** = $25,000 and **Balance** = $220,000,
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2. The interest that would be lost to Easy Street if you repaid the fixed rate loan in full is calculated as:
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3. The interest difference on the member's expected future loan installments is calculated as:
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   =$1,600 x 18 x (8% - 6%) x 1.5 / 2
   = $432.

4. The member's **ERF** is calculated as:
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