A fixed interest loan will offer you certainty with your repayments during the fixed interest period. However, there are more differences between fixed and variable interest loans than just the nature of the interest rate.

Nexus Mutual offers the option of variable or fixed interest for mortgage loans, or a split loan - a combination of both. Fixed interest loans are offered for terms of 1, 2, 3, 4 or 5 years and further fixed interest terms can be chosen at the end of this time*.

Key differences – variable and fixed rate loans

Feature	Variable rate loan	Fixed rate loan
Additional repayments ie. above contracted amount	Permitted (no limit, no penalty)	Break cost fee may apply if additional repayments of more than 10% of the original loan value occur over the fixed term.
Early repayment	Permitted	Available but break cost fee will apply if interest rates have gone down since the loan contract was established
Redraw facility	Available	Available
Mortgage offset	Available on Platinum and Standard loans	Not available

Risk of a 'break cost' fee

Our experience is that loans rarely extend for the full term for which they were approved, for various reasons such as a desire to pay off the loan more quickly or other personal reasons.

If fixed interest rates have declined since your fixed interest term was established, a 'break cost' fee will apply if you choose to make any of the following changes during that period:

- Make a repayment in excess of the contracted amount;
- Repay the loan;
- Change to another fixed interest rate;
- Change to a variable interest rate.

Break cost fees, which are applied across the finance industry, compensate the lender for the loss of income which would have been earned if the loan had proceeded as planned. They are calculated using an actuarial formula which takes into account the reduction in interest rates, the amount involved and the remaining term of the fixed rate contract.

The formula we use to calculate the break cost fee is shown on the rear of this brochure.

Example

John and Mary borrowed $450,000 a year ago and decided to fix their loan interest rate for 3 years at 5.29% pa.

John has now accepted a job offer interstate so they wish to sell their house and repay the loan.

Because market interest rates have fallen in the intervening 12 months, they face a break cost fee of $8,490 for repaying the loan 2 years early.

Have you considered a split loan – part variable and part fixed?

Members who would like to gain the benefits of both types of loans may wish to split their loans into variable and fixed components.

If you would like to discuss this further, please contact us on 1300 65 33 28.

*Fees apply to establish a further fixed interest loan or to split a loan, because of the additional work involved. Talk to us if you need longer fixed periods.

Fixed rate loan break cost fee

Method of calculation:

The break cost fee is our reasonable estimate of our loss arising from your prepayment of part or all of the outstanding loan balance during a fixed rate period. The break cost fee is calculated by comparing the market interest rate at the beginning of the fixed rate period with the market interest rate on the day of the prepayment.

The formula used is:

$$\text{Break Cost Fee} = \frac{A}{(1+j)^{d/365}} \times \left[\frac{(i-j)\,d}{365} + B - C\right]$$

A = outstanding balance at repayment date, excluding accrued interest

$$B = \frac{g}{1-v^n} \times \left[\frac{1-w^{m-1}}{h} - v^n\,x\left[\frac{x^{m-1}-1}{x-1}\right]\right]$$

$$C = \frac{h}{1-w^n} \times \left[\frac{1-w^{m-1}}{h} - (m-1)\,w^n\right]$$

i = member annual fixed rate for the remainder of fixed rate term

j = current annual fixed rate for the remainder of the fixed rate term

m = number of months from the previous interest debit date to the end of the fixed rate term

n = number of months from the previous interest debit date to the end of the loan term

d = number of days to the next interest debit date

g = $i/12$

h = $j/12$

v = $1/(1+g)$

w = $1/(1+h)$

x = w/v

If you are considering pre-paying part or all of your fixed rate loan, please contact us on 1300 65 33 28 to find out if you would need to pay any break cost fee.