

# Understanding Early Repayment Adjustments

For loans documented on or after 1 April 2015.

When you make an early repayment on your fixed rate loan, switch to another interest rate before the end of the fixed rate period or decide to increase your regular loan repayments during the fixed rate period, you may incur an Early Repayment Adjustment (ERA) cost. Before you make the final decision to do any of these, it's important to consider how this may affect you and what your options are.

## Why am I charged an ERA?

Fixed interest rate loans give you certainty in relation to your regular repayments and interest payable on your loan during the fixed rate period. It also means that if interest rates change, you will not be affected by this during the fixed rate period.

When you fix your interest rate for your loan, ASB also enters into loans in the wholesale money market for the same fixed rate period to fund your loan. This is how ASB manages the risk of interest rate fluctuations. When you decide to break your fixed rate loan, ASB is still required to honour its commitments to the funding it borrowed in the wholesale market for the remainder of ASB's fixed interest rate loan. This means that if wholesale interest rates have moved and there is a difference between the wholesale interest rate at the start of your fixed interest rate period and the wholesale interest rate at the date of your early repayment, then we may incur a loss. We will charge you an ERA cost to help us recover this loss.

# What are my options?

## Should I break my fixed rate loan?

Breaking the fixed interest rate period for your loan may seem like an easy way to save money on interest when circumstances change. However, this can have big financial implications due to the ERA cost, so it's worth discussing your options with a lending specialist first. The best option depends on your individual circumstances. Here are some things to consider:

### Short term versus long term financial implications

If you are considering breaking your fixed interest rate period to switch to a lower interest rate, it's important to weigh up the ERA cost against the benefit of lower repayments. You should also consider whether breaking your fixed interest rate period will give you interest savings in the long run.

### Paying for the ERA

An ERA can be costly, so you need to consider how you'll pay it. If you can't pay the ERA cost immediately, you may be able to add the cost to your loan as an addition to the principal sum borrowed. ASB's lending criteria will apply and a one-off processing fee may also apply if you want to borrow more money.

This option should be considered carefully as you'll be adding to the total amount outstanding under your loan which will increase the amount of interest you'll pay. Such considerations may outweigh the immediate benefit of lower repayments.

## How can I avoid an ERA?

If you're looking for ways to pay off your fixed interest rate loan faster, there is some flexibility to do so without incurring the cost of an ERA. One option is to increase your regular repayments by up to \$1,000 per month or \$500 per fortnight. As long as you commit to those increased repayments for the remainder of the fixed interest rate period then we will not charge you an ERA.

In some circumstances, if you decide to sell your home and purchase a new home, you may be able to keep your existing fixed interest rate home loan in place and substitute the new property as security for that loan, without incurring the cost of an ERA. If you are considering some changes to your loan with ASB, talk to us to find out more about how this could impact you financially. ASB's lending criteria will apply.

## How is my ERA calculated?

The amount of your ERA cost is calculated based on factors including your current loan balance, how much you want to repay, changes in wholesale interest rates and the time left on your current fixed interest rate period.

Calculating the cost of an ERA is a complicated calculation and is not the same for everyone. There are many factors that are taken into consideration when working out an ERA cost therefore we recommend you contact us for a quote before repaying your loan early or switching interest rates. You'll find more information on the procedure for calculating the cost of an ERA in your general loan terms and conditions.

Want to find out how much your ERA cost might be?  
Call 0800 100 600 to talk to an  
ASB lending specialist today.