

Break costs fact sheet



CAPITAL FINANCE

For certain Equipment Finance facilities.

What is a break cost?

A break cost is a fee that represents our loss if you repay your fixed rate facility early. In addition to a break cost fee you may have to pay other fees like an early termination fee.

Why do we charge break costs?

When we agree to lend you money at a fixed interest rate, we obtain money from the money market at wholesale interest rates based on you making your payments as agreed until the end of the term of your facility. If you don't, and wholesale interest rates change, we can make a loss.

When do break costs apply?

If you repay your fixed rate facility early, and we incur a loss, you must, if required under the terms of your facility pay us the break costs we calculate. You may also have to pay other fees like an early termination fee.

How are break costs calculated?

Our break costs formula is complex. This is a simplified description.

We will incur a loss and you will have to pay break costs if, on the day you repay your facility, the wholesale interest rate applicable for the remaining term of your facility is less than the wholesale interest rate applicable when you started your facility. We refer to this as the 'difference in wholesale interest rates'.

To calculate the amount of the break costs, we multiply the difference in wholesale interest rates with the remaining term of your facility and the average balance of your facility that would have applied during that time if you had not repaid the facility early. The amount is then converted to its value in today's dollars.

Please contact us if you would like to see the formula used to calculate break costs.

Are there any other fees that may be associated with the prepayment of your fixed rate facility?

Yes, an early termination fee may apply on the prepayment of your fixed rate facility, in addition to any break costs.

Is Capital Finance the only lender to charge this cost?

No. Other lenders pass on the actual loss incurred from pre-paying a fixed rate facility.

I have been provided with a break cost in the past and the amount has now changed – why is this the case?

Wholesale interest rates change daily, and the changes can be significant especially if wholesale interest rates continue to decrease. The break cost estimate we give you is valid for 7 business days only. If you decide to proceed with repaying your facility at a later date, you will need to obtain a break cost estimate for that day.

Where can I find information on the wholesale interest rates?

The wholesale interest rate is commercially sensitive and not displayed publicly. There is no way to predict what the wholesale interest rate will be and it changes frequently subject to market conditions. Movement in Capital Finance's variable or fixed rates do not form part of the calculation we use to establish if a break cost is applicable.

Who can I call to find out if break costs apply to my facility and get a quote?

Weekdays 8.30am to 6.00pm AEST

Capital Finance 1300 300 309 – customer service enquiries