

## TREASURY

### SENATE QUESTION

(Question No. )

Senator Furner asked Ms Wijeyewardene on 13 March 2009:

It has been some time since I switched banks but I am just wondering what are the current fees associated with exit fees on switching from one bank to another?

Ms Wijeyewardene to the question on notice.

**Senator Furner:** :- The answer to the honourable member's question is as follows:

In relation to switching transaction accounts the major banks do not charge a fee for closing a transaction account. In addition three of the major banks do not charge a fee for providing the switching list which lists all of the customer's direct debits and credits for the last 13 months. One major bank charges \$7 to generate the list.

In relation to mortgage accounts, customers are generally charged an exit fee if they close their mortgage early either through terminating it or refinancing. Exit fees fall into three categories:

- early termination fees – typically charged for mortgages that are terminated in the first three to five years. These generally apply to variable rate mortgages. The fee can be either a fixed amount, a percentage of the original loan amount or a multiple of the standard monthly repayment;
- early termination fees (fixed rate mortgages) also called break costs generally apply to fixed interest rate mortgages. The fee is usually calculated by reference to the gap between the fixed interest rate and the prevailing market interest rate at the date of early termination over the remaining term of the loan (interest rates are usually fixed for a term of up to 5 years); and
- termination or discharge fees – charged by the lender to the consumer for discharge of the mortgage, including providing a release and the update of the property owner's certificate of title.

These fees allow lenders to recover any loss they may incur from a mortgagee as a result of terminating a mortgage contract early.

Research by the Australian Securities and Investments Commission (ASIC) conducted in 2008 shows that total costs for exiting a variable rate mortgage of \$250,000 after three years range from \$1,388.11 to \$3,267.83. Costs to exit a fixed rate mortgage are heavily impacted by changes in interest rates. Lenders that are not prudentially regulated tend to charge the highest early termination fees. Within each industry sector (the four major banks, other banks, credit unions/building societies, lenders not prudentially regulated) category there is a loan available that does not have any early termination fee associated with it.

With the recent decreases in interest rates, more than 50 per cent of exit fees on fixed rate mortgages appear to be between \$5,000 and \$20,000, and almost 15 per cent are above \$20,000.