

**House of Representatives Standing Committee on Economics  
Review of the Four Major Banks (Second Report)  
National Australia Bank (NAB)**

**NAB14QW:** At the Public Inquiry all banks, except NAB, said they were considering removing non-monetary default clauses for loans of up to a total of \$3M to an individual customer. In light of this, please advise NAB's position on this issue.

**Answer**

NAB believes the best way to address this issue is via an industry-wide approach; and work is currently underway to build a consistent approach across the industry.

For customers with an aggregate credit facility under \$3m – which captures some 97% of business customers operating in Australia – NAB:

- Supports removing general catch all 'material adverse changes' clauses from loan contracts for small businesses; and
- Believes covenants should be explained in plain language and include a summary of covenants with loan contracts for small businesses.

NAB believes that there are legitimate reasons for specific non-monetary defaults such as bankruptcy, voluntary administration, fraud, significant changes in management, loss of trading licence and changes to underlying security. However, all covenants should be clearly explained. The number of non-monetary covenants should also be reduced and disclosure improved; with banks specifying circumstances in which covenants will be used.

Removing non-monetary default clauses from all loan contracts and credit products for individuals and small businesses could have adverse and unintended consequences for all borrowers and impact the price and availability of credit.