

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

National Australia Bank

NAB01QW: Regarding principal and interest mortgages:

- (a) How many do you currently provide, and what is their total dollar value?
- (b) What is their percentage of your total mortgage products provided?
- (c) When the board decides to cut interest rates is the reduction automatically passed through to mortgage holders through lower repayments, or when the board decides to cut interest rates is the reduction in repayments only passed through on request of the holder with the gap paying off additional principal?
- (d) If the latter, how many mortgage holders have requested a reduction in repayments as a percentage of principal and interest mortgage holders?
- (e) For the last two rate cuts, what was the aggregate dollar value reduction in interest repayments compared to each previous month?

Answer:

(a) How many do you currently provide, and what is their total dollar value?

As at Sep-19, the total number of principal and interest home loans on balance sheet was 730,000 with a total value of \$225bn.

(b) What is their percentage of your total mortgage products provided?

As at Sep-19, the total value of new home loans provided which were principal and interest repayments was 74.1 per cent.

(c) When the board decides to cut interest rates is the reduction automatically passed through to mortgage holders through lower repayments, or when the board decides to cut interest rates is the reduction in repayments only passed through on request of the holder with the gap paying off additional principal?

Interest rate decisions in relation to NAB's variable rate home loan customers (back book) are made by NAB's management.

For Advantedge and UBank customers repayments are automatically reduced in line with a reduction in interest rates. For other NAB customers, when interest rates are changed for existing variable rate home loans, the interest rate change is automatically applied on the announced effective date. However, minimum scheduled repayments are not automatically adjusted.

Every 12 months on the loan anniversary, NAB conducts an automated system review of each variable loan to ensure the current minimum scheduled repayment amount is sufficient to repay the loan by the end of the contractual loan term. If it is, no change is made to the minimum scheduled repayment amount. If it is not, the minimum repayment is increased to ensure the loan will be repaid by the end of the contractual loan term and the customer is contacted. Where customers are making higher repayments than what would be required to pay the loan at the end of the contractual loan term, they can seek a repayment review to have their minimum scheduled repayment lowered. This can be done through a NAB banker or through the NAB mobile app.

(d) If the latter, how many mortgage holders have requested a reduction in repayments as a percentage of principal and interest mortgage holders?

Following the June interest rate change, 0.4 per cent of NAB customers (excluding Advantedge and UBank) requested a reduction in their repayments and in July this number rose to 0.7 per cent.

As noted in question 1(c) above, UBank and Advantedge customers see their repayments automatically reduce in line with a reduction in interest rates. When this is taken into account, 23 per cent of NAB's overall customer base saw its repayments reduced following the June and July 2019 interest rate reductions.

For context and relativity:

- 0.15% rate reduction for the average customer (\$400k loan) reduces repayments by \$50 per month;
- 0.25% rate reduction for the average customer (\$400k loan) reduces repayments by \$83 per month;
- 66% customers are at least one monthly repayment ahead (c. \$1600) and are on average c. 33 months ahead.

(e) For the last two rate cuts, what was the aggregate dollar value reduction in interest repayments compared to each previous month?

	May 2019 Outstandings	Reduced Rate	Reduced interest charged (annual)
Owner Occupier P&I	\$104.8 bn	0.44%	\$461.1 m
Investor P&I	\$40.0 bn	0.44%	\$176.0 m

Note: the reduction in interest rates includes the June and July SVR changes.