

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (FOURTH REPORT)

Australia and New Zealand Banking Group Limited

ANZ04QON: Hansard p. 18

Interest rates charged on breaches of contracts

Mr CRAIG KELLY: And what would a typical interest rate hike be for a breach?

Mr Elliott: I would have to come back to you. I'll take that on notice. I'm not sure. Basically the issue is that, when the risk profile of a customer changes, it's reasonable that the price of the loan changes to reflect that. And that is declared up-front and customers enter into that knowingly in advance of signing up to those contracts.

ANSWER

ANZ's answer responds to the context of Mr Kelly's question which related to a breach of a financial covenant in a small business loan.

In practice, ANZ rarely increases an interest rate as a result of a financial covenant breach, but data on this is not kept.

Financial indicator covenants are not included in over 96 per cent of ANZ business loans to small businesses. That is, they are not in standard lending contracts for small business loans from our Small Business Banking area, which are typically loans up to \$1 million. These covenants may be included in loans from our Business Banking area which are typically larger business loans to small businesses (i.e. loans between \$1 and \$3 million).

Financial indicator covenants may be included where a small business loan is under secured, or for specialised lending transactions such as margin lending, self-managed super funds or for property development.

Where financial indicator covenants are included in a small business lending contract and a customer is in breach of such a covenant, ANZ can review the interest rate on the customer's loan. If the breach indicates a change in risk to the bank, ANZ may consider whether adjusting the price is appropriate to cater for that change in risk.

We estimate that in rare instances where the interest rate price is increased due to a deterioration in risk profile, this is below 50 basis points.