Review of M3 Sector Statistics

Alan Boaden, Economics Department

Introduction

In 1993/94 the Reserve Bank (RBNZ) undertook a review of the monthly M3 survey of registered banks and Other M3 Financial Institutions (OM3FIs). The purpose of this review was to improve the quality and usefulness of financial sector statistics collected by the RBNZ, while taking account of costs imposed on reporting organisations.

RBNZ staff visited ten banks to discuss possible changes to the M3 survey and wrote to all other survey participants describing proposals and inviting comment. Other users of financial statistics, such as private economic analysts, were also consulted.

Several changes were made to data collected in the M3 Statistical Return (M3SR). These are reflected in changes to the formats of several tables in this issue of the Bulletin. This article explains the nature of the changes and the reasons for making them.

1. Maturity analyses (Tables F1, F2 and F3)

The number of categories in the maturity breakdowns of funding and claims has been reduced from thirteen to six.

The 20 columns of the old maturity breakdowns of funding and claims in Part C of the M3SR made up the largest single part of the questionnaire. Data was collected on the maturity profiles of non-resident funding and claims, inter-institutional lending, transferable instruments and several other items. A few of those consulted said these figures were important for monitoring pressures on the M3 financial sector's balance sheet and thus on interest rates at different maturities. However, most people indicated that they hardly ever used these statistics. Several banks also made the point that many securities included in claims maturity profiles would not be held to maturity, so the statistics had little meaning. It was therefore decided to reduce the maturity breakdowns to these categories:

- Transactions Balances
- Other Call
- 2 - 90 days
- 91 days - 1 year
- 1 year - 5 years
- over 5 years
- Total

Tables F1, F2 and F3 are now based on this new maturity breakdown.

2. Sectoral analysis of funding and claims (Table E5)

There was universal agreement that these were very important statistics. Four main issues relating to the sectoral analyses were discussed:

(a) Finer breakdown

The number of categories in the sectoral analysis has been increased from thirteen to twenty-six.

A large majority of banks expressed strong support for a finer breakdown of the sectoral analysis of funding and claims. Several large banks have been upgrading the sectoral coding of their customers for their own purposes. Some of the old categories, e.g. "Agriculture, Forestry, Fishing and Hunting" were seen as too large, as they could be concealing different trends in important sub-groups.

A set of about 25 categories was favoured. Statistics New Zealand (SNZ), formerly the Department of Statistics, has recently published the new Australian and New Zealand Standard Industrial Classification (ANZSIC). This was used to specify an amended sectoral classification which is now shown in Table E5.

(b) Non-Resident or foreign currency sectoral data

The possibility of collecting sectoral breakdowns of non-resident or foreign currency items was considered but rejected.

The current sectoral analysis combines New Zealand dollar and foreign currency items, but identifies total non-resident funding and claims separately. Generally, little value was seen in a sectoral breakdown of either non-resident or foreign currency funding or claims. It was pointed out that large corporate borrowers might switch between New Zealand dollar and foreign currency debt quickly and frequently. As a result, it was decided to not

increase the sectoral disaggregation of non-resident or foreign currency funding and claims.

(c) Lending for/against houses

In future, data will be collected on lending against the security of houses rather than lending for the purpose of housing.

Under the old guidelines, the RBNZ asked respondents to provide data on lending to households for the purpose of housing. However, some banks have indicated that it is often not clear whether funds given under mortgages are actually used for housing purposes. They suggested it would be more meaningful for the RBNZ to ask for lending against the security of houses.

The possibility of changing this item was raised with all respondents. A significant majority of banks favoured reporting lending against the security of houses (residential property) rather than for the purpose of housing. Several reasons were advanced for this.

- The 'purpose' of the loan can change over time. For modern, flexible mortgage products, the balance outstanding can vary substantially over short periods of time. Though the original advance may have been used to buy a house, later drawdowns may have been used for different purposes altogether. It would be costly and impractical to monitor such 'changes of purpose'.

- Similarly, for conventional mortgages, top-ups are often requested and granted for housing improvements. As long as the householder has sufficient equity and income, many banks do not check on whether funds are actually used for this purpose. There was a common feeling that often they were not used for housing-related expenditure.

- People are able to borrow money for business purposes more cheaply if they use their house as security. It was suggested that such customers would not disclose the true purpose of their loan if asked, and most lenders would not be concerned about the purpose anyway.

- Some respondents said that classifying by the collateral offered as security for a loan would be more consistent with Basle capital adequacy requirements and with the specifications of some overseas regulatory authorities.

A smaller number of those consulted favoured collecting lending for housing purposes. Some banks were confident that their branch managers or lending officers would know what money was lent for and would classify loans accordingly.

The arguments in favour of collecting data on lending against the security of houses were stronger than those on the other side. In brief, most banks argued that they could supply accurate data on loans secured against houses, but they would be unable to provide reliable numbers on lending by purpose, so any such statistics would be meaningless.

Respondents are therefore asked to enter all lending to households secured against housing in this item if the purpose is uncertain. However, those banks and OM3FIs that are able to identify business loans secured against a residential property are asked to classify them according to the appropriate industry.

(d) Other lending to households

Data will also be collected on lending to households that is not secured against housing.

The discussion of whether to retain the category "Lending to households for other purposes" was inevitably linked to that above. Opinion was divided, but there was a fair measure of interest in a split between mortgages and other forms of lending to households, i.e. a product type split. Most banks indicated that the data were readily available, so this item was retained - though now on lending not secured against housing rather than not for the purpose of housing.

3. Retail and wholesale funding (Table F1)

In future, respondents will classify 'retail' and 'wholesale' funding according to their own criteria for offering 'retail' or 'wholesale' interest rates.

The main source of funds for some financial institutions is the wholesale money market, while others depend mainly on retail deposits. There are different interest rate structures for 'wholesale' and 'retail' funding so it is useful to know how much funds are drawn from each source.

The old 'above and below $100,000' split was generally seen as unsuitable for distinguishing between wholesale and retail funding because different banks have different criteria for paying wholesale rates. A deposit above, or below, $100,000 might attract a wholesale rate at one bank and a retail rate at another. Most banks agreed that more

meaningful statistics would be obtained if banks classified funding as wholesale or retail according to their own criteria for setting interest rates.

A small number of banks disagreed. They argued that such a classification would lead to combining unlike items into a meaningless aggregation. They suggested that $100,000 was actually a good cut-off point as 'retail' deposits above that level would be interest rate sensitive, like 'wholesale' funding.

The essential reason for the lack of consensus on what should be collected in this area is that the terms 'wholesale' and 'retail' funding do not have a precise, commonly accepted definition. The terms are used rather loosely by financial market participants and commentators. No single classification, therefore, would satisfy everybody. However, since a large majority of respondents favoured each institution using its own criteria, this has been adopted as the classification method in the revised M3SR.

4. Housing loan approvals (Table H2)

Data will now be collected on housing loan drawdowns, rather than housing loan approvals.

The M3SR used to collect data on the number and value of housing loan approvals each quarter. However, both the numbers and values of approvals may have been misleading because many potential customers go to several banks, get approval to borrow from them all, then select the most attractive offer. We asked banks if they could instead report on the numbers of drawdowns of housing loans. Most agreed that this was desirable and said they would be happy to change.

The usefulness of the reported value of approvals was also uncertain for another reason. When a customer obtains a 'top-up' to an existing mortgage, most banks write off the old loan, write out a new one and enter the new total value as the sum approved. Ideally, statistics users would like to see the increment rather than the new total entered. However, most banks said this would be very difficult. Even if it was possible, there would still be some degree of overcounting of net new lending when a customer switched from one bank to another.

We have therefore adopted the most practical approach which is to ask respondents to report the number and value of drawdowns, accepting some degree of over-reporting for the reasons described above. Though the value reported will be higher than the ideal measure, it may still be a useful indicator, particularly in observed changes over time. The value of this indicator will be reviewed when a sufficiently long time series has been compiled.

It was also suggested that the old distinction between loans for new and existing houses was misleading because people often borrowed against an existing house to build a new one, e.g. for rental or retirement purposes. Others agreed.

In the past, the return also asked for a split between first mortgages, second mortgages and unsecured loans. Changes in bank lending practices have led to 99 percent of funds being lent on first mortgages in some recent quarters.

For these reasons it was decided to delete the splits between new and existing houses and between first mortgages and other loans. This reduced the number of figures collected in this section from sixteen to two.

5. Interest rate brackets (Table I1)

Some of the higher interest rate brackets have been eliminated.

The old interest rate classification in Part E of the M3SR was designed at a time when nominal interest rates were much higher than they are today. In bringing the table up to date, some of the higher brackets in this part of the questionnaire were able to be eliminated as is reflected in the new Table I1. ■