

NEW INTEREST RATE STATISTICS ON LENDING

Two sets of interest rate statistics have been introduced into this Bulletin, namely First Mortgage Housing Interest Rates and Base Lending Rates. Table 18, containing the data, will regularly appear as a Bulletin table.

To assist the interested reader and potential users of the data, background information regarding the compilation of the data follows, together with a short commentary on the figures presented.

First Mortgage Housing Interest Rates

First mortgage interest rate statistics have been collected from nine major providers of housing finance – ANZ Banking Group, ASB Bank, Bank of New Zealand, Countrywide Bank, National Bank, Postbank, Trustbank Canterbury, United Building Society and Westpac Banking Corporation.

In order to provide a reasonably representative picture each financial institution's rate has been weighted according to its total value of housing lending outstanding. In all cases the rates used were those quoted to new borrowers, and pertaining to mortgages with reviewable interest rates.

In some instances, institutions had different rates for existing borrowers, and/or adjusted their rates for existing housing lending after a lag of a few weeks. There are other complexities in the pricing structure of housing interest rates. For example, some of the institutions surveyed vary their rates according to the term of the loan, the savings record of the borrower, the level of security, and to the ratio of repayments to income of the borrower. But to compile the data presented here each institution's prime rate was used. It was thought that by keeping the methodology uncluttered, the likelihood of maintaining a consistent housing interest rate series over time would be enhanced.

The accompanying graph shows very clearly the upturn in first mortgage lending rates during the early part of 1987, the plateauing out of rates at around 20 per cent for the rest of the year, and then the decline so far this year of about 3 percentage points. In reviewing other interest rate movements over the period

since January 1987, first mortgage rates did not peak as sharply as those for 90 day commercial bills, or for that matter, the base lending rate. Otherwise first mortgage rates have been about a half percentage point below the base lending rate series.

Base Lending Rates

Base lending rate statistics have been calculated using data from four large registered banks, i.e. ANZ Banking Group, Bank of New Zealand, National Bank and Westpac Banking Corporation. Each institution's rate was weighted according to the individual organisation's level of New Zealand dollar claims.

Banks report that the base rate applies to approximately 60 per cent

of the banks' loans. The banks of course add a premium to their base rate for the risk associated with the class of loan or borrowing. To use these statistics without further adjustment it must be assumed that the premium added for each class of loan or borrower has not changed.

Lending not tied to the base lending rate includes that by large corporate borrowers and housing mortgage finance. Large borrowers are affected by a separate base rate called the corporate overdraft rate. This rate changes quickly and closely reflects overnight call rates.

The accompanying graph shows base lending rates rising from 17.7 per cent at the beginning of January 1987 to 23 per cent for April and May 1987, and then falling steadily, often with discrete movements, through to the present time.

Figure 1
Lending Interest Rates

