

Interest rates on lending and deposits – request for feedback

24 August 2017

We are interested in receiving your feedback to better understand user needs on the following:

- *Proposed effective yields to replace business lending and effective mortgage rate series discontinued in January 2017*
- *A draft plan for an extended range of interest rates, including new effective interest rates*

Please provide your feedback to stats-info@rbnz.govt.nz by Friday 22 September 2017.

Background

In April 2017 the Reserve Bank began publishing new monthly banking statistics. These are sourced from the new Bank Balance Sheet (BBS) data collection which replaced the Standard Statistical Return (SSR) from registered banks. The new data collection provides greater insight into the structure and activities of the banking sector.

While the new BBS collects substantially more comprehensive data items than the old SSR, some data previously collected is no longer available, particularly selected interest rates and yields. The trials for the BBS revealed quality issues for some of the lending rates and confirmed conceptual misalignments. For example, the business lending was derived as a residual of all banks' NZ Dollar claims, which included loans, securities and deposits.

The Reserve Bank currently collects advertised standard interest rates for selected lending and deposit products (published in table [B3](#) and [B20](#)).

Data series being published in web table [B3](#) (the longest running series beginning 1964) are weighted interest rates for:

- SME overdraft rate
- Floating first mortgage new customer housing rate
- Effective credit card rate on interest-bearing credit card debt
- Effective credit card rate on all credit card debt
- Six-month term deposit rate

Simple average rates are also available in web table [B20](#) for:

- Floating residential mortgages
- Fixed residential mortgages

With the retirement of the SSR the following interest rates have not been updated since January 2017:

- Business lending rate
- Effective floating mortgage rate
- Effective fixed mortgage rate
- Effective mortgage rate

The above discontinued series were all estimates of the yield on the stock of selected registered bank lending, not interest rates prevailing at a time. See appendix 1 for more information on the discontinued series.

We are looking to extend existing Reserve Bank data collections to collect these or more appropriate interest rates and yields in the future. Our current priority, however, is to first replace the discontinued series.

We are also discussing data provision with registered banks. User feedback and data availability will inform the next steps towards providing more interest rates.

Thank you.

Steffi Schuster
Manager Statistics Unit

Interest rates on lending and deposits – Your feedback

We are particularly interested in receiving your feedback to better understand user needs on the following:

A Currently discontinued business lending and effective mortgage rates series

As noted above the discontinued series were all estimates of the yield on the stock of selected registered bank lending. See appendix 1 for more information on the discontinued series.

The effective mortgage rates were calculated by each bank, based on their own system information. A weighted average series was published. The BBS trial process, however, revealed some quality issues in the consistency of the underlying data across banks for the mortgage lending series. The business lending rate series was derived as a residual from data including financial instruments other than just loans. In addition, the base data for the calculation was restricted to just NZ Dollar loans only.

We plan to collect the interest income flows for individual loan products to match the stock loan values for the same product we are currently collecting in the new bank balance sheet collection. An example of the formula would be:

$$\frac{\text{Interest income for residential mortgages (June reporting month)}}{\text{Loan value of residential mortgages (June reporting month)}}$$

As a result we will be able to improve the quality of the series previously produced and publish weighted average yields for specific products.

Proposed effective yield replacements for discontinued series:

Loans fully secured by residential mortgage	
Interest rate types	Product types
Effective yields (on the stock of loans secured by residential mortgages)	Floating Fixed Total

Loans not fully secured by residential mortgage		
Interest rate types	Product types	Customers
Effective yields (on stock of existing lending)	All lending (excluding loans fully secured by residential mortgage)	Total non-financial business

1. Have you been a user of the discontinued series?
2. What was your prime business need for the series?
3. What other yield series do you have a business need for?

B New effective lending interest rates: calculation

We are reflecting on the need for advertised standard or “Blackboard” interest rates versus “effective” new lending interest rates. For example, sometimes advertised standard mortgage interest rates are not indicative of actual new rates, as borrowers have been able to take advantage of the discounts or special rates offered by banks. Also some lending occurs at a higher rate, e.g. high LVR residential mortgage lending. While we intend to continue to collect advertised standard rates, we propose to also collect “effective” new interest rates to provide a better indicator of the actual price of new lending for each bank. We would then aim to publish a weighted average “effective” rate to provide an improved estimate of new lending.

We propose to calculate the effective interest rates for individual loan products (products to be determined) by taking the sum of all new lending (loans) multiplied by their respective interest rate, over the total value of all new lending during the reference period.

$$\frac{\sum [\text{each new loan value} \times \text{annualised interest rate for each loan}]}{\sum \text{new loans}}$$

4. Do you think the provision of new “effective” lending rates would be useful?
5. Do you have any feedback on the proposed calculation of new “effective” lending rates?

C New effective lending interest rates: definition

There are likely to be many factors that will determine the actual interest rate a customer pays for a loan or advance (lending) including, but not limited to: loan purpose and size, collateral and customer characteristics.

The pricing of lending is likely to include all new or additional lending, as well as roll-overs (loan repricing) and restructures where no new lending may actually take place. Credit or repricing events would include:

- Loans and advances to a new customer
- Loans and advances to an existing customer who:
 - rolls over existing lending
 - tops up existing lending
 - restructures with and without changes in the value of total lending

6. Do you have any feedback on the definition of new lending?
7. Do you have any specific need for the new effective lending interest rates? How would you use this data?

D Possible customer and product data granularity

Banks offer a range of products which are priced differently. We are looking for your feedback regarding the granularity of data to meet your needs.

Lending - dimensions for consideration

Loans fully secured by residential mortgage	
Interest rate types	Possible product types
Advertised rates New effective rates	Floating Fixed: Including 6, 12, 18 months, 2 years to 5 year

Loans not fully secured by residential mortgage		
Interest rate types	Possible product types	Customers
Standard base rates New effective rates	Overdraft Floating Fixed	Non-financial business, e.g. Agriculture (dairy & other), Commercial property
	Overdraft, term loans	Households - personal/consumer
	Overdraft Floating Fixed	All other non-household lending, incl. financial businesses, government, non-profits

Deposits - dimensions for consideration

Interest rate types	Product types	Customer
Highest interest bearing rate New effective rate	Transaction accounts	Households Businesses Other
Interest bearing rate, including and excluding bonus New effective rate	Savings accounts	Households (deposits < & > \$10,000, Cash PIEs) Businesses Other
Advertised rates New effective rates	Term deposits by duration	Households (deposits < & > \$10,000, Cash PIEs) Businesses Other

Collecting the value of the credit or repricing events at great granularity would enable the calculation of weighted base and new effective lending rates but also presents significant respondent burden.

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| <p>8. What level of granularity do you need of published new lending interest and deposit rates? Please provide examples.</p> <p>9. Are there any significant gaps in dimensions suggested above?</p> |
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The strategy and schedule for new effective interest rates is in its early stages. We look to provide more detail and certainty later this year.

Please provide your feedback to stats-info@rbnz.govt.nz by Friday 22 September 2017.

Appendix 1: Rates currently not being updated

Business lending rate	<p>The business lending rate is a weighted average interest rate (WAIR) for NZ resident business borrowing (including agriculture) from registered banks. The business lending rate was not surveyed directly, but was calculated as a residual from the existing monthly WAIR for all registered bank NZD claims, which has been surveyed and published since June 1998 until January 2017. To calculate the business lending rate, non-business lending categories were identified:</p> <ol style="list-style-type: none"> 1. Housing and credit card lending totals comprise more than half of all NZD claims. WAIR are surveyed monthly for these series. 2. WAIRs are estimated for five other loan categories that are not included in the Bank's aggregate business and agriculture loan totals (table C5). These include lending to: <ol style="list-style-type: none"> i) Finance (both interbank and other finance); ii) Insurance; iii) Government and defence (in effect; local authority claims); iv) Other consumer loans, and; v) Non-resident lending <p>Estimation of WAIRs for the five listed categories draws on market prices for 90 day bills, two and three-year swap rates, published consumer loan interest rates, and the Bank's knowledge of market pricing practices. Given the nature of lending to these categories and their aggregate share of total NZD claims (around 10%) it is the Bank's view that the calculated business lending rate is not materially affected by the estimation process. Subtracting (1) surveyed housing and credit card loan WAIRs and (2) estimated WAIRs for the loan categories from the total NZD claims WAIR delivers a calculated business lending rate as a residual WAIR.</p>
Effective floating mortgage rate	<p>The effective floating mortgage rate is a weighted average of the interest rates currently being paid across all floating rate mortgage loans. It is calculated as a function of the average floating mortgage loan balances and the interest receivable on those balances over the month. This rate differs from the floating first mortgage new customer housing rate as it accounts for discounts that may be applied to the advertised floating mortgage rate. These may include special offers and offset mortgage facilities. The effective floating mortgage rate was sourced from S8: Banks: Mortgage Lending of the Aggregate Registered Bank statistical return.</p>
Effective fixed mortgage rate	<p>The effective fixed mortgage rate is a weighted average of the interest rates currently being paid across all fixed term mortgage loans. It is calculated as a function of the average fixed term mortgage loan balances and the interest receivable on those balances over the month (see above formula). The effective fixed mortgage rate was sourced from S8: Banks: Mortgage Lending of the Aggregate Registered Bank statistical return.</p>
Effective mortgage rate	<p>The effective mortgage rate is a weighted average of the interest rates currently being paid across all types of mortgage lending (floating and fixed). It is calculated as a function of the average mortgage loan balances and the interest receivable on those balances over the month (see above formula). The effective mortgage rate was sourced from S8: Banks: Mortgage Lending of the Aggregate Registered Bank statistical return.</p>