

# New yields (B6) and new interest rate series (B21): Technical note

**6 November 2018**

Prior to the introduction of the new Bank Balance Sheet (BBS) collection in April 2017, the Bank published monthly yield estimates (also known as “Effective” interest rates) for mortgages and business lending in web table **B3**. During the development of the BBS the Bank identified data quality concerns around the quality of published effective mortgage and business lending rates. We have not updated these series since the retirement of the old Bank balance sheet collection (the Standard Statistical Return or SSR) in February 2017.

The Bank has now completed an update to our Bank Income Statement Survey (ISS) collection, following workshops and trials with banks over the last 18 months. The revised ISS collection now captures the actual interest income flows for loans fully secured by residential mortgage (both fixed and floating) and the actual interest income flows for loans for non-financial business not secured fully by residential mortgage, to enable the calculation of **yields** for these loans. The new series in web table **B6** replace the series previously published in web table B3. We have not added or “stitched” the series together due to construction and underlying quality differences between the series.

| New series   | Start date   | Source |
|--|--------------|--------|
| A1. Yield on residential mortgage loans (Total)    | January 2017 | ISS    |
| A2. Yield on residential mortgage loans (Floating) | January 2017 | ISS    |
| A3. Yield on residential mortgage loans (Fixed)    | January 2017 | ISS    |
| B1. Yield on total business loans                  | January 2017 | ISS    |

After the introduction of the BBS we also began reviewing our interest rate data needs and have extended the Retail Interest Rates Survey, publishing some new series at the beginning of this year, B20: New residential mortgage standard interest rates. We have extended the series released from this survey and are publishing a new table, **B21: New residential mortgage "special" interest rates**. Both these tables are simple averages. Both tables now include fixed rates for 18 months. Further series will be released over the coming months, including interest rates for interest bearing call savings accounts, interest bearing term and term PIE deposits.

## New yields (B6)

Each yield is calculated as followed:

$$\frac{\text{The sum of each bank's interest income received on loans}}{\text{The sum of a two period moving average of the value of loans}} \times \frac{365}{\text{number of days in a month}} \times 100$$

Using a two period moving average for the value of loans takes into account that not all loans at the end of the reporting period would have contributed to the interest income over the reported month. Capturing the interest flows for just loans in the revised ISS produces a higher quality series.

### Interpreting the new B6 series:

The old and new series will overlap by one period but given the different source, construction and underlying quality of the series of the series, we have not added or “stitched” the series together.

The previously published mortgage series were captured directly from banks in the old SSR. The underlying calculation was not identifiable (and potentially not consistently reported across banks). In addition, the new BBS has resulted in improvements in the overall quality of the mortgage series. The revised ISS aligns the mortgage interest flows with the equivalent value of mortgage loans captured in the BBS.

The previously published Business lending rate was calculated as a residual from the monthly weighted average interest rate series captured in the old SSR collection. It referenced the ANZSIC breakdown of claims, as well as selected items from the credit card survey, and selected wholesale rates. The underlying series was NZ dollar claims which included loans plus securities and deposits with other financial institutions (it excluded FX).

### Coverage of the B6 series

The New Zealand mortgage market is dominated by the five largest banks<sup>1</sup> which account for 95% of total mortgages. To construct a monthly series back to January 2017, only these banks were used, with all other registered banks reporting from June 2018. There is no material impact on the yield. As in the case of the mortgage data, the five largest banks generate the majority of the business lending, although slightly less at around 85%. Again there is no material impact on the yield with this backdating approach.

The ISS project also collects interest expense flows for deposits – over the coming months we aim to release this data.

### Discontinued B3 series

The old B3 series were based on data collected in the old SSR. During the development of the new BBS collection in 2016/2017 we identified data quality concerns around the published

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<sup>1</sup> Australia and New Zealand Banking Group Limited, Bank of New Zealand, Commonwealth Bank of Australia, Kiwibank Limited and Westpac Banking Corporation

effective mortgage and business lending rates. We have not updated these series since the retirement of the SSR in February 2017 and are now discontinued.

| Old series                           | Start date    | End date     | Source |
|--------------------------------------|---------------|--------------|--------|
| A1. Business lending rate            | June 1998     | January 2017 | SSR    |
| B2. Effective floating mortgage rate | June 1998     | January 2017 | SSR    |
| B3. Effective fixed mortgage rate    | December 2004 | January 2017 | SSR    |
| B4. Effective mortgage rate          | June 1998     | January 2017 | SSR    |