

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS

Australia and New Zealand Banking Group

ANZ01QW: REGARDING PRINCIPAL AND INTEREST MORTGAGES

(a) How many do you currently provide, and what is their total dollar value?

Answer: As at 30 September 2019, ANZ had 782k principal and interest accounts and their collective value is \$216.4b. Please note these numbers include fixed rate principal and interest products (102k accounts are fixed and their collective value is \$34.5b).

(b) What is their percentage of your total mortgage products provided?

Answer: Approximately 82% of total home loan accounts and 80% of the total dollar value of ANZ's mortgages are principal and interest as at 30th September 2019.

(c) When the board decides to cut interest rates is the reduction automatically passed through to mortgage holders through lower repayments, or when the board decides to cut interest rates is the reduction in repayments only passed through on request of the holder with the gap paying off additional principal?

Answer: If a customer makes their loan repayments using direct debit (ie direct loan repayment), ANZ does not automatically reduce the customer's periodic repayment amount when there is a decrease in the interest rate for the customer's loan.

This means the repayment amount the customer is making stays the same. However, the minimum repayment amount is reduced as a result of the rate reduction. As a result, the customer pays off more of their loan principal with each repayment than would be the case if the periodic repayment payment amount were reduced automatically.

ANZ advises customers of the change to their minimum repayments after a change in interest rates. If customers would like to reduce their periodic repayment amount they are able to do so via internet banking self-service or by contacting ANZ.

ANZ adopts this policy because we consider it is in the interests of customers. It helps customers get ahead of their payments and is likely to reduce the term of the loan. It reduces the risk that customers may be unable to meet repayments in the event of future rate rises because they have become accustomed to lower repayments.

This policy would also be expected to reduce the interest paid to ANZ and the outstanding debt to ANZ. While it results in credit risk benefits to ANZ in our view, it does not directly commercially benefit ANZ.

The question refers to when the board decides to cut interest rates. This may be interpreted as referring to the boards of either the RBA or ANZ. We wish to clarify that ANZ pricing decisions are taken by the ANZ executive.

(d) If the latter, how many mortgage holders have requested a reduction in repayments as a percentage of principal and interest mortgage holders?

Answer: Between July 2019 (prior to the 12 July date of effect of the ANZ's rate change) and 1 October 2019, around 7% of ANZ home loan customers took action that resulted in a reduction of their regular mortgage repayments.

This number includes customers who lowered their repayments as a result of the rate decision as well customers who had a home loan structure change (eg change in product, increase in loan amount, change in loan term etc).

As at 1 October 2019, around 3% of all ANZ mortgage holders with principal and interest loans are scheduled to pay the minimum repayment.

(e) For the last two rate cuts, what was the aggregate dollar value reduction in interest repayments compared to each previous month?

Answer: ANZ reduced interest rates on variable rate principal and interest products by 0.18% in June 2019 and 0.25% in July 2019.

It is difficult to calculate on an account level the reduction in interest payments that solely occurs as a direct result of rate cuts. A rate reduction is one factor among many that may reduce interest payments. Customers may reduce interest payments because they may:

- negotiate additional discounts
- change products, eg moving from a variable rate loan to a fixed rate loan
- change repayment behaviours and make lump sum payments
- increase linked offset accounts

Noting these limitations, we have estimated the reduction in interest due as a result of the two reductions in June 2019 and July 2019 to be approximately \$57m per month.