

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS

#### Commonwealth Bank of Australia

**CBA1QW:** Regarding **principal and interest** mortgages:

- (a) How many do you currently provide, and what is their total dollar value?
- (b) What is their percentage of your total mortgage products provided?
- (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?
- (d) If the latter, how many mortgage holders have requested a reduction in repayments as a percentage of principal and interest mortgage holders?
- (e) For the last two rate cuts, what was the aggregate dollar value reduction in interest repayments compared to each previous month?

**Answer:** **The Commonwealth Bank** currently manages ~\$379 billion of residential mortgages.<sup>1</sup>

Of this amount:

- 20 per cent are mortgages with fixed interest rates – that is, the rates do not change over the period for which they are fixed.
- 14 per cent are interest-only mortgages with variable rates – that is, their monthly repayments are automatically adjusted when the interest rate changes (as they are not making principal repayments).

The remaining 66 per cent represents principal and interest (P&I) mortgages with variable rates, equating to ~\$249 billion of CBA's residential mortgages.

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<sup>1</sup> Excluding line of credit product.

For variable P&I mortgages held by the **Commonwealth Bank**:

- (a) As at September 2019, CBA manages one million variable P&I mortgage accounts. These accounts have an outstanding balance of ~\$249 billion.
- (b) Variable P&I mortgage accounts represent 66 per cent of total mortgages by balances.
- (c) When CBA announces interest rate reductions, the interest savings for variable rate home loans (including P&I and interest-only) are automatically passed on to the customer from the effective date of the interest rate change.

For customers making direct debit monthly repayments on their variable P&I home loan, we proactively notify them if they are eligible to reduce their minimum repayment amounts.

These customers have the choice to contact us online, via phone or branch to inform us they would like to reduce their monthly repayments to their new minimum repayment. That is, they choose their monthly repayment to reflect the interest rate change and, therefore, they receive a cash benefit in the short term.

However, if the customer chooses not to reduce their monthly repayments to reflect a recent rate change, then the differential is paid towards their loan in the form of an advance repayment. If they have a loan with a redraw facility available, the differential may accumulate in the redraw for them to access later – providing flexibility to manage their financial circumstances beyond their home loan.

- (d) Of the one million variable P&I mortgage accounts, 69,000 mortgage accounts (or 6.9 per cent) chose to reduce their monthly repayments between June and September 2019.
- (e) Following the rate cuts in June and July 2019, the aggregate reduction in interest repayments for variable P&I mortgage accounts was \$116 million.<sup>2</sup>

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<sup>2</sup> Based on all accounts that had a reduction in interest payments between June 2019 and September 2019.

**Bankwest** currently manages ~\$73 billion of residential mortgages.

Of this amount:

- 17 per cent are mortgages with fixed interest rates – that is, the rates do not change over the period for which they are fixed.
- 18 per cent are interest-only mortgages with variable rates – that is, their monthly repayments are automatically adjusted when the interest rate changes (as they are not making principal repayments).

The remaining 66 per cent represents principal and interest (P&I) mortgages with variable rates, equating to ~\$48 billion of Bankwest's residential mortgages.

For variable P&I mortgages held by **Bankwest**:

- (a) As at September 2019, Bankwest manages 173,000 variable P&I mortgage accounts. These accounts have an outstanding balance of ~\$48 billion.
- (b) Variable P&I mortgage accounts represent 66 per cent of Bankwest's total mortgages by balances.
- (c) When Bankwest announces an interest rate reduction, the interest savings for variable rate home loans (including P&I and interest-only) are automatically passed on to the customer from the effective date of the interest rate change.

For Bankwest customers with a variable P&I mortgage account, they may choose one of the following repayment methods:

- direct debit monthly repayments with fixed instalment amounts (~23 per cent);
- direct debit monthly repayments linked to the minimum monthly repayment (~45 per cent); or
- other payment methods, such as money transfers (~32 per cent).<sup>3</sup>

For Bankwest customers who have direct debit monthly repayments with fixed instalment amounts, when their interest is reduced, this instalment amount does not change unless the customer advises us they would like to reduce their monthly repayments to match their new minimum repayment.

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<sup>3</sup> As at September 2019.

If a customer on fixed instalments chooses not to reduce their monthly repayments to reflect a rate change, then the differential is paid towards their loan in the form of an advance repayment.

- (d) Of the 39,000 variable P&I mortgage accounts with a fixed instalment amount, 1,900 mortgage accounts (or 4.9 per cent) chose to reduce their monthly repayments between June and September 2019.
- (e) Following the rate cuts in June and July 2019, the aggregate reduction in interest repayments for variable P&I mortgage accounts was \$12.6 million.<sup>4</sup>

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<sup>4</sup> Based on all accounts that had a reduction in interest payments between June 2019 and September 2019.