Box D

Enhancing the Transparency of Interest Rates

Over the past few years, the Australian Prudential Regulation Authority (APRA), the Australian Bureau of Statistics and the Reserve Bank have worked to enhance the interest rate data collected from banks and other financial institutions. The new Economic and Financial Statistics (EFS) collection provides a more comprehensive view of interest rates on mortgages, personal and business loans in a way that was not previously available.[1]

In January 2020, the Reserve Bank began publishing interest rates paid by households and businesses based on this new EFS collection (see new Statistical Tables F6-F8 and Lenders' Interest Rates).[2] A broader range of interest rates are now published monthly, including for new and existing loans, and across a larger set of lenders, accounting for around 95 per cent of credit outstanding.[3]

These new data will help to enhance the transparency of interest rates paid by borrowers in Australia. The absence of readily available data on actual interest rates paid by borrowers in relation to their mortgages had been highlighted in a 2018 Productivity Commission report as one factor impinging on competition in the Australian financial system. The Council of Financial Regulators is working with the Australian Competition and Consumer Commission to develop an online tool for mortgage borrowers based on this new collection of interest rate data.

This box presents some key findings from these new interest rate data.

Lenders continue to differentiate mortgage rates by the type of loan repayment

The Lenders' Interest Rates page on the Reserve Bank's website and the new Statistical Table F6 provide mortgage interest rates paid by borrowers on new and outstanding loans. Mortgage rates vary across interest-only and principal-and-interest repayments, variable- and fixed-rate loans, loan sizes and loan-to-valuation ratios (LVRs). The information on new loans available from the EFS data is especially valuable given that competitive pressures are greater for these loans.

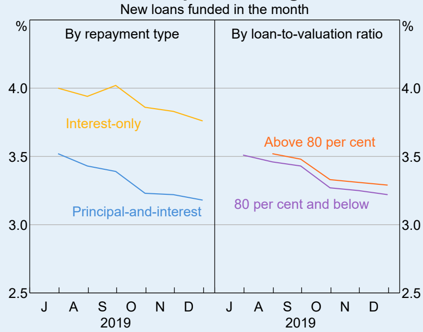
The EFS data show significant differences in interest rates across new interest-only and new principal-and-interest loans (Graph D.1 and Graph D.2). For example, new owner-occupier borrowers pay around 65 basis points more, on average, for interest-only loans than for principal-and-interest loans. Since 2015, lenders have charged higher interest rates for interest-only loans, following measures taken by APRA to place limits on investor and interest-only lending.[4] By contrast, there is much less differentiation in the average interest rates paid by borrowers with different loan sizes or LVRs.

While the new EFS collection provides more detailed and comprehensive interest rate data, it has not changed the Reserve Bank's overall assessment of the mortgage interest rates paid based on the Bank's Securitisation Dataset and existing APRA data (Graph D.3). One important finding it confirms is that new borrowers, on average, pay lower interest rates than existing customers.

Graph D.1

Owner-occupier Housing Rates

New loans funded in the month

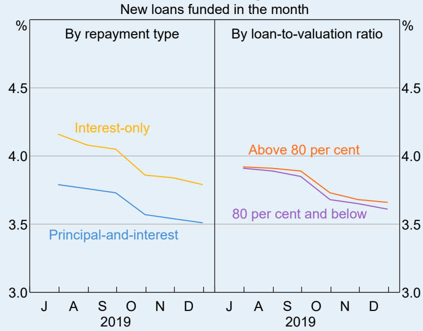


Sources: APRA; RBA

Graph D.2

Investor Housing Rates

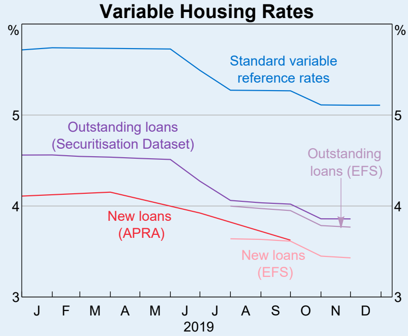
New loans funded in the month



Sources: APRA; RBA

Graph D.3

Variable Housing Rates



Sources: APRA; major banks' websites; RBA; Securitisation System

Interest rates are higher on credit cards than other personal finance products

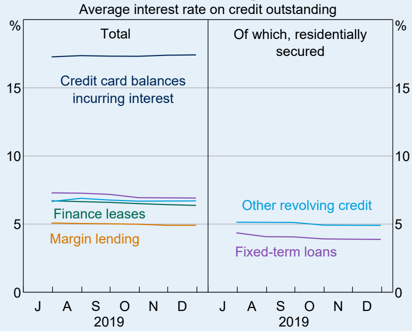
The new Statistical Table F8 contains interest rates for personal finance products (Graph D.4). Personal finance is extended to households for purposes other than housing, and includes products like credit cards and personal loans (such as for a holiday, furniture or whitegoods). Personal finance also includes margin loans – which are loans that enable households to borrow to invest directly in shares or managed funds – and finance leases, where the borrower essentially pays to lease an asset such as a car.

On average, borrowers pay a much higher interest rate on credit cards, which are a form of unsecured finance, compared with other forms of personal finance. However, about half of all other personal loans (i.e. excluding credit cards) are secured against a residential property. The interest rates charged on these personal loans are considerably lower than on non-residentially secured personal loans.

Graph D.4

Personal Lending Rates

Average interest rate on credit outstanding



Sources: APRA; RBA

Small businesses pay higher interest rates than larger businesses

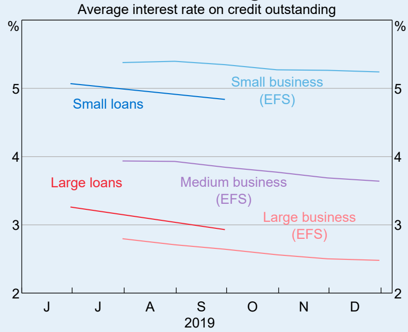
Business interest rates are published in the new Statistical Table F7 and the Lenders' Interest Rates page on the Reserve Bank's website based on three different sizes of businesses: small, medium and large (Graph D.5). Previously, the interest rate data was based on the size of the loan (not the business) and it distinguished only between small and large loans.

Smaller businesses pay higher interest rates for finance than larger businesses. However, small-business borrowers pay significantly lower interest rates on loans secured by residential property compared with their other loans (Graph D.6). This is consistent with the security provided by their property reducing the risk for lenders relative to unsecured finance.[5] ✠

Graph D.5

Business Lending Rates

Average interest rate on credit outstanding

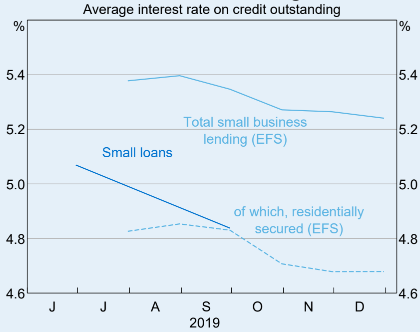


Sources: APRA; RBA

Graph D.6

Small Business – Lending Rates

Average interest rate on credit outstanding



Sources: APRA; RBA

Endnotes

[1] The EFS collection is also used to compile the financial aggregates and a number of other measures of financial institutions' activities and performance. For more information see Bank J, K Durrani and E Hatzvi (2019), 'Updates to the Financial Aggregates', RBA *Bulletin*, March. Available at <https://www.rba.gov.au/publications/bulletin/2019/mar/updates-to-australias-financial-aggregates.html>.

[2] The Reserve Bank will continue to publish Statistical Table F5 Indicator Lending Rates – the advertised interest rates published by lenders – for various types of finance. For more information see the change notice published on 6 January 2020 available at the Changes to Statistical Tables web page. Available at <https://www.rba.gov.au/statistics/tables/changes-to-tables.html>.

[3] The interest rates presented are weighted averages across all reporting lenders. The weights correspond to the value of credit outstanding or funded in the month for a given type of finance.

[4] These measures have since been removed. For more information see APRA (2018), 'APRA to remove interest-only benchmark for residential mortgage lending', Media Release, 19 December.

[5] For more information see Connolly E and J Bank (2018), 'Access to Small Business Finance', RBA *Bulletin*, September. Available at <https://www.rba.gov.au/publications/bulletin/2018/sep/access-to-small-business-finance.html>.