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Sent: Saturday, April 6, 2024 12:47 PM
To: marketstudies <marketstudies@comcom.govt.nz>
Subject: Westpac prepayment fee formula

[redacted]

To whom it may concern,

For your information I will state my experience with Westpac (I understand all 4 major banks are similar) and their prepayment fee formula.

With these tough times we played the bank of mun and dad and gave our son $250,000 for a prepayment on their mortgage to help out the costs with two teenagers.

Details;
Two year choices home loan (balance $663,299) taken out 1.11.23 , interest rate 6.89%. (wholesale rate 5.48%.
Prepayment 26.1.24, interest rate still 6.89% (wholesale rate dropped to 4.64%)

Prepayment interest rate cost $2802.

On behalf of my son I questioned the bank on their prepayment calculations, stating in the current market their own formula was not fit for purpose. With the Reserve Bank behind closed doors telling the banks to keep interest rates high and not pass on the drop in wholesale interest rates, the banks are making record net interest margins.
It is impossible for the banks to be making a loss with the prepayment.

I asked the bank a number of questions regarding the drop in wholesale rates not being passed on to clients and the retail rate still the same. Westpac refused to answer my questions stating they had used their prepayment formula correctly.

I then made a complaint to the Banking Ombudsman scheme. This was also a waste of time, they stated Westpac's prepayment formula was an appropriate estimate of the bank's loss following a prepayment. They were happy that the bank based its prepayment costs on the difference between wholesale interest rates at the time the borrower entered into a fixed interest rate loan, and wholesale interest rates at the time of the borrower's early repayment.

The Bank Ombudsman would not comment on the drop in wholesale interest rates not been passed on and the retail interest rate still the same. They believed Westpac was acting ethically, transparently and not misleading.
The only reason they could give is the 2009 case law, Commerce Commission v Avanti Finance, to establish the prepayment formula was a reasonable estimate of the bank's loss. This case was 15 years ago, completely different market circumstances, but even back then the Commerce Commission Director Adrian Sparrow, stated, "The

commission will continue to consider the reasonableness of break fee calculations, such as mortgage break fees charged by a number of trading banks, on a case by case basis, and, where appropriate, put those break fee calculations before the Court."
No bank has been taken to Court.

You could compare it to the literacy folktale, The Emperor's New Clothes by Han Christian Andersen.

The goal is to calculate the difference in interest flows both wholesale and retail with and without payment.

The aim should be to balance the interest of both borrowers and lenders.

For your market studies and hopefully some change in the future.

Kind regards

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