NAB BILL FACILITY

Flexible, Fixed, Floating & Capped

Depending on your risk profile, needs and circumstances, NAB's Markets Specialists can offer your business a range of financial solutions to assist in managing interest rate risk. Please contact your Relationship Manager to arrange an appointment.

IMPORTANT INFORMATION

This Product Information Summary (PIS) is a guide only.

NAB Bill Facilities are only available to approved business customers.

For more information about NAB Bill Facilities, or for full terms and conditions, please contact your Relationship Manager.

Australian distribution only

This PIS is intended for distribution in Australia only. Receipt of it in jurisdictions outside Australia may be restricted by local law. Anyone who comes into possession of this PIS, who is not in Australia, should seek advice.

General information only

The information set out in this document is general in nature. By providing this PIS, National Australia Bank Limited ("NAB") does not intend to provide financial advice or any financial recommendations.

Availability

The minimum facility is $500,000.
The availability of a NAB Bill Facility is subject to Credit Approval.

ECONOMIC COST/BENEFIT

If you decide to terminate a NAB Fixed Rate Bill Facility or NAB Fixed Rate Component under the NAB Flexible Rate Bill Facility, in whole or part, before the end of the agreed term, NAB may incur a cost or receive a benefit; known as an economic cost or economic benefit, under any equal or opposite contracts it has entered into in wholesale interest rate markets. This is standard industry practice.

As such, if all or part of your NAB Fixed Rate Bill Facility or a NAB Fixed Rate Component under the NAB Flexible Rate Bill Facility is terminated early (before the end of the term) for any reason NAB will incur a cost or benefit as it will need to close out the equal and opposite contracts which were entered into out to the expected maturity date of the facility or component.

You will be liable to pay NAB any economic cost and you will receive from NAB any economic benefit. Any cost or benefit will be adjusted to recompense NAB for any transaction or other costs it incurs.

Economic costs can be high and will increase the amount you owe NAB. The calculation of economic costs or benefits will depend on the type of Bill Facility or Bill Facility Component you have entered into and the prevailing interest rate market conditions. You can get an estimate of applicable economic costs at any time by contacting your Relationship Manager or Markets representative.

Fixed Rate Bill Facilities or Fixed Rate Component under the NAB Flexible Rate Bill Facility

The economic cost or benefit is calculated by reference to the difference between the interest rate used or applied by NAB when setting the yield rate for the Facility or the relevant facility component and the most applicable interest rate NAB is able to receive in the interest rate market at the time of termination for the remaining term of the bill facility or fixed rate component. The calculated costs and losses are then discounted back to the net present value at the rate determined by NAB at that date.

Examples

A customer enters into a $1 million five year Fixed Rate Bill Facility/Component at 6.20% per annum. After three years the customer informs their Relationship Banker that they wish to repay this Fixed Rate Bill Facility/Component in full. The two year fixed interest rate is the relevant rate in this case because the Fixed Rate Bill Facility/Component has two years remaining to maturity.

Scenario 1

The two year Interest Rate is 5.50%. Because this rate is lower than the customer's fixed rate of 6.20% an Economic Cost applies. This is calculated as follows:

6.20% - 5.50% x $1,000,000 x 2 Years
= 0.70% x 1,000,000 x 2
= 7,000 x 2
= $14,000

The Bank then calculates the present value of the economic cost using the 2 year interest rate. The present value of this amount is $12,612. This amount is to be paid by the customer at the point of repayment of their facility or component.

Scenario 2

The two year Interest Rate is 6.70%. Because this rate is higher than the customer's fixed rate of 6.20% an Economic Benefit applies. This is calculated as follows:

6.70% - 6.20% x $1,000,000 x 2 Years
= 0.50 x 1,000,000 x 2
= 5,000 x 2
= $10,000

The present value of this amount is $8,896. This will be paid to the customer at the point of repayment of their facility or component.

Capped Rate Bill Facilities or Capped Rate Components under the NAB Flexible Rate Bill Facility

You may not prepay any Bill accepted, discounted or endorsed by NAB unless NAB agrees. Prepayments are likely to provide you with no financial benefit with respect to your liabilities to us or your cost of finance. Before you prepay, you should consider your position carefully and seek independent tax and financial advice.

Payments that are still required as a result of terminating Capped Rate Bill Facilities or Components are:

i. the net cost of all future premium payments outstanding under the facilities; plus

ii. Any administration costs that may apply.

NAB FLEXIBLE RATE BILL FACILITY

Description

The NAB Flexible Rate Bill incorporates a variety of risk management techniques into a single bill facility. The bills can be any combination of a Fixed, a Capped and a Floating component, but requires at least two of these components.

On each drawdown date, the total proceeds of the bills are the aggregate proceeds of each of the components of the facility, i.e. the fixed component is discounted at a fixed rate, the capped component is discounted at a capped or floating rate (whichever is lower) and the floating component is discounted at a floating rate. The rate applied to the total facility equates to an average rate weighted by all yield rates applied to each Bill Facility Component.

The NAB Flexible Rate Bill simplifies the drawdown process by reducing the administrative burden (i.e. drawdown fees, paperwork and accounting) when compared to drawing amounts under multiple bill lines.

For example

A customer would like to raise $1,000,000. Of this $1,000,000 the customer would like $400,000 to be exposed to a fixed rate, $300,000 exposed to a capped rate and the last $300,000 exposed to a floating rate.

There are two alternatives that can achieve this outcome. The customer could establish three bill facilities, one for each of the above strategies, or establish one bill facility called the NAB Flexible Rate Bill.

Strategy One – The customer has covered their debt by establishing three separate bill facilities.

On each rollover the customer will draw down $400,000 under a Fixed Rate Bill Facility, $300,000 under a the Floating Rate Bill Facility and $300,000 under a Cap Rate Bill Facility.

Strategy Two – The customer established a NAB Flexible Rate Bill Facility. On each rollover date, instead of drawing down under three separate bill facilities the customer pays one weighted average rate across the total face value drawn down.

The NAB Flexible Rate Bill does not restrict each exposure from having a different total duration. For example, at the establishment of the facility the customer may nominate a component of the facility to be a fixed rate for the first two years [and a cap for the remaining duration of the facility].

Application

This may suit a business:

i. That requires their interest rate risk management strategy to incorporate a variety of risk management techniques.

ii. That requires some protection against an adverse movement in interest rates and the subsequent impact on cash flows for the terms of the Fixed component.

Advantages

The advantages of the Fixed Rate Bill or the Floating Rate Bill are combined into one product.

The NAB Flexible Rate Bill provides flexibility in the drawn down amount, method of premium payment and exposure to fixed and floating rates.

The customer establishes one bill facility instead of three.

Disadvantages

The ability to participate in lower rates is limited by the amount exposed to a fixed rate. The floating component of the structure may unfavourably expose the customer to rising interest rates.

The contracted terms of the facility are fixed at the outset. Therefore, any alteration to the amounts or dates to the fixed rate components may result in an economic cost being charged.

Features

The cash flow of the facility can be tailored to match the specific requirements of the customer's underlying exposure.

The facility can commence on any business day and drawdown dates can be monthly, quarterly, half-yearly or tailored to suit the customer's cash flow requirements. Drawdown terms range from a minimum of 30 days to a maximum of 185 days.

Establishment fees and charges are payable when establishing a Bank Bill Facility, including application, facility, activation and bill drawdown fees. These are subject to change from time to time. Refer to your Relationship Manager for current details.

FIXED RATE BILL FACILITY

Description

A Fixed Rate Bill is a bill facility where a fixed rate applies.

The discount rate (fixed for the term of the facility), the aggregate proceeds of the bills to be discounted and the drawdown dates are established prior to the first drawdown date.

Applications

This would suit a business situation where, for example, a customer wishes to fix the funding cost for a project or to finance part of a business where income is stable. A Fixed Rate Bill Facility provides a known cost of funds.

If a customer is concerned about a rise in interest rates and the subsequent impact on their funding costs, a Fixed Rate Bill Facility provides the certainty of known funding cost cash flows.

Advantages

A Fixed Rate Bill Facility establishes a known funding cost for a predetermined period and thereby protects the customer against rising funding costs for the term of the facility.

Increases, decreases, forward start dates can be priced into any Fixed Rate Bill structure; however these must be adhered to during the term of the facility.

Disadvantages

The contracted terms of the facility are fixed at the outset therefore any early payment in whole or in part may incur an economic cost (see description of economic costs on page 1).

No benefit from floating rates falling below the fixed rate.

Features

The cash flow of the facility can be tailored to match the specific requirements of the customer's underlying exposure. For example, the following provide an indication of the more commonly structured bill facilities:

i. Increasing proceeds – principal increases over time

ii. Decreasing proceeds – principal decreases over time

Any alteration to the facility, including early termination, or part prepayment of the facility, may result in an economic cost being charged.

The facility can commence on any business day and drawdown dates can be monthly, quarterly, and half yearly or tailored to suit the customer's cash flow requirements. Drawdown terms range from a minimum of 30 days to a maximum of 185 days.

Establishment fees and charges are payable when establishing a Bank Bill Facility, including application, facility, activation and rollover fees. These are subject to change from time to time. Refer to your Business Banker for current details.

FLOATING RATE BILL FACILITY

Description

A Floating Rate Bill Facility is a bill facility where a floating rate applies.

The drawdown rate and the term to maturity of the bill are agreed at the time of the drawdown.

The floating rate applicable is determined by the term of the bill.

Drawdown terms range from a minimum of 30 days to a maximum of 185 days.

NAB accepts the bills and discounts the bills on the required date at NAB's Bank Bill Drawdown Rate of the day. This drawdown rate will depend on a number of items including, the term of the bill, the size of the facility and current market conditions.

Applications

This facility would suit a customer if it wants maximum borrowing flexibility but is prepared to accept the risk of rising floating rates.

Advantages

A Floating Rate Bill Facility provides flexibility and ready access to committed funding for the term of the facility.

A floating rate allows a customer to take advantage of any reduction in floating rates.

Varying bill terms (i.e. between 30 and 185 days) to suit the customer's cash flow needs.

Disadvantages

A Floating Rate Bill Facility may unfavourably expose a customer to rising floating rates.

Features

The cash flow of a bill facility can be tailored to match the specific requirements of a customer's underlying exposure. For example, the following provide an indication of the more commonly structured bill facilities:

i. Increasing proceeds – principal increases over time

ii. Decreasing proceeds – principal decreases over time

iii. Increasing and decreasing proceeds – principal fluctuates over time.

The floating rate bill facility can be structured to commence on any business day and drawdown dates can be monthly, quarterly, half-yearly or tailored to suit a customer's cash flow requirements.

Establishment fees and charges are payable when establishing a Bank Bill Facility, including application, facility, activation and rollover fees. These are subject to change from time to time.

Refer to your Relationship Manager for current details.

The aggregate proceeds of the bills is payable in full at bill maturity.

CAPPED RATE BILL FACILITY

Description

A Capped Rate Bill Facility is a bill facility with a “capped” yield rate.

The “cap” provides a maximum known cost of funding whilst enabling the customer to benefit if the floating rate is below the “capped” rate on a drawdown date. On each agreed drawdown date, the rate applied will be the lower of either the cap rate or the floating rate. The floating rate will depend on a number of items including, the drawdown term, the size of the facility and current market conditions.

Applications

The customer can protect itself from rising rates and the subsequent impact on its cash flows, while benefiting if rates should fall.

The customer can reduce debt levels on their designated roll date with NAB’s agreement whilst protecting themselves from rising rates.

The customer seeks improved risk management of their business cash flows.

Advantages

A maximum rate (the Cap Rate) is established for the term of the facility with the ability to benefit if the floating rate falls.

Disadvantages

A premium is payable for the protection offered in a Capped Rate Bill Facility.

If the component is repaid ahead of the agreed schedule, in whole or in part, then any unpaid premium will still be payable.

Features

The cash flow of the facility can be tailored to match the specific requirements of the customer’s underlying exposure. For example, the following provide an indication of the more commonly structured bill facilities:

i. Increasing proceeds – principal increases over time

ii. Decreasing proceeds – principal decreases over time

A premium is paid by the customer in exchange for the right to access this facility.

Partial drawdown of the bill facility is available.

Early termination by the customer of a cap is possible on any agreed drawdown date, although all future premiums, if payable by instalments, must be paid out in full.

The facility can commence on any business day and drawdown dates can be monthly, quarterly, half-yearly or tailored to suit the customer’s cash flow requirements.

Drawdown terms range from a minimum of 30 days to a maximum of 185 days.

The cap rate is available only on the agreed drawdown dates. Consequently, bill drawdowns under this facility are protected from unfavourable movements in rates only if the drawdown occurs on the agreed drawdown dates.

Establishment fees and charges are payable when establishing a Bank Bill Facility, including application, facility, activation and rollover fees. These are subject to change from time to time, refer to your Business Banker for current details.

Premium

Additional to the normal bill facility charges, a premium is payable in advance or in arrears – established at the commencement of the facility. Upon early termination of a Capped Rate Bill Facility, the outstanding premiums must still be paid.

The amount of the premium is influenced by the following factors:

i. The term of facility,

ii. The level of the cap rate relative to the current market rate,

iii. The volatility of current market interest rates, and

iv. The amount of the facility.

WHERE TO FROM HERE?

If you have more questions or need further assistance, please contact your Relationship Manager or one of NAB's Markets Specialists.