



# **NAB BUSINESS MARKETS LOAN**

**Product information summary**

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 document is a guide only. It is intended to be read alongside the full terms and conditions. NAB Business Markets Loans are only available to approved customers.

For more information about NAB Business Markets Loans, or for full terms and conditions, please contact your Relationship Manager.

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### **General information only**

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# NAB BUSINESS MARKETS LOAN

## What is a Business Markets Loan?

A Business Markets Loan is an interest in arrears term loan with market-linked pricing and embedded interest rate risk management options.

## How does it work?

The Business Markets Loan has the flexibility to help you manage interest rate risk and offers market linked pricing.

Once a single limit and expiry date is approved, a combination of components can be set up under this limit, as long as the sum of the loan monies attributable to the components does not exceed the facility limit and any one component does not exceed the expiry date or the relevant term/limit (if any) for that specific component.

## What components are available?

- Floating Rate
- Fixed Rate(s)
- Flexible Maturity Fixed Rate(s)
- Cap Rate(s)

## What Loan Structures are available?

The cash flow of the loan can be tailored to match your business's specific requirements. Available structures are:

- Principal and Interest Loans – principal payments and interest payments are required. The principal amount may be a regular or variable amount each period.
- Interest Only Loans – you elect to pay only interest.

The availability of each loan structure is subject to credit approval.

## What is the minimum amount of each loan?

As approved by NAB.

## What fees are applicable?

Fees, charges and premiums apply for the Business Markets Loan, depending on the component selected.

For Other Fees and Charges, see NAB's 'A Guide to Fees and Charges – Business'

For more information, call your Relationship Manager.

## What term is available?

Up to 15 years with longer terms subject to our lending criteria.

## When is interest paid?

Interest is payable up to 2 Banking Days following the end of each pricing period and on the Termination/Expiry Date.

## How are interest rates determined?

Interest rates are based on the weighted average of the interest rates applicable to each of the loan components.

## How are floating interest rates determined?

Floating interest rates are calculated using the applicable NAB Business Lending Rate plus your customer margin. The Floating Rate is reassessed for each pricing period.

The Business Lending Rate is the rate determined by NAB which is equal to the Australian Bank Bill Swap Reference Rate (Bid) administered by ASX Benchmarks displayed on page BBSY of the Thomson Reuters Screen on the first day of that Pricing Period for a period equal to that Pricing Period (or where the Pricing Period is less than 1 month, a period of 1 month) and which starts on that day plus a minimum return margin.

If BBSY is not available, a comparable rate will be used.

NAB will periodically publish one or more indicative NAB Business Lending Rates on [nab.com.au](http://nab.com.au) and you can contact NAB for information about current rates.

## How are fixed interest rates determined?

Fixed interest rates are determined and advised by NAB prior to commencement of the fixed rate component, and apply for the term of the fixed rate component.

# FLOATING RATE COMPONENT

## Description

A floating rate component with no interest rate risk management function. For each pricing period, the applicable interest rate will be the floating rate.

## Applications

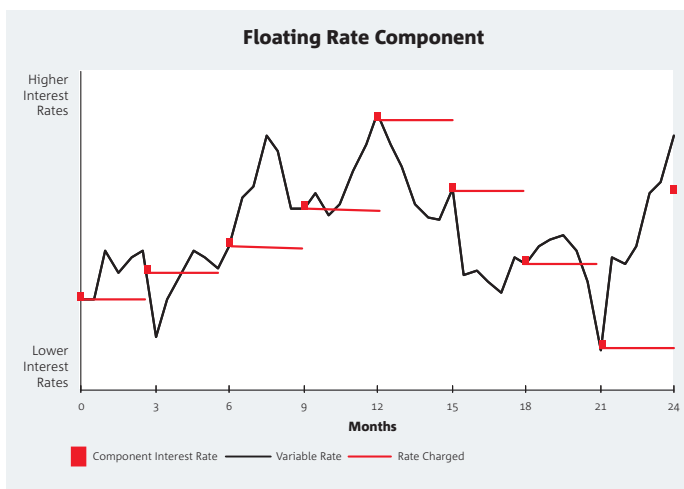
This component may suit a business that is comfortable with the risk of any changes in the interest rates during the term of the component whilst retaining the opportunity to enter into one of the other components at a future date.

## Advantages

- The ability to enter into one of the other components with no switching costs.
- The business can still benefit from floating rates falling between pricing periods.
- The business can make early repayments of principal without incurring the Economic Cost that may be incurred in early repayment of principal for other components (if one business day's notice is provided).

## Disadvantages

- There is no maximum interest rate established for the term of this component. Therefore, the business may be disadvantaged by floating rate increases between pricing periods.



# FIXED RATE COMPONENT

## Description

A component with a fixed interest rate that applies for the term of that component.

## Applications

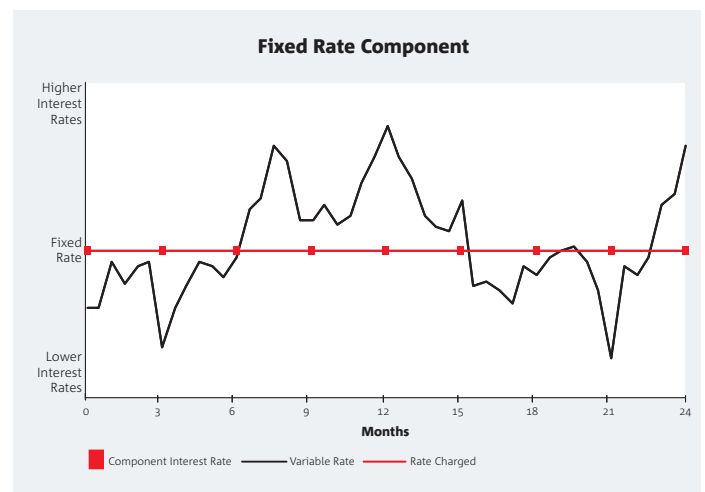
This may suit a business that wishes to fix their funding cost for the term of the component and therefore have known funding costs for the amount borrowed.

## Advantages

- This component protects the business from the direct impact of any increase in interest rates, for the term of that component.
- The business can structure the principal drawdown and repayment structure (determined at the outset) to suit their cash flow forecast (subject to credit approval).

## Disadvantages

- The business will not receive any direct benefit if interest rates fall during the term of this component.
- The contracted terms of the component are fixed at the outset therefore any alterations to the amount drawn down or any other term, including early repayment in full or in part, may incur significant Economic Costs.



# FLEXIBLE MATURITY FIXED RATE COMPONENT

## Description

The Flexible Maturity Fixed Rate component is a variation of the Fixed Rate component. The interest rate is fixed for the term of the component. At least two business days' before maturity of the component, the business has the right, but not the obligation, to extend the term of the component at the existing fixed interest rate for an additional pre-agreed term. The fixed interest rate is higher than for a non-extendable Fixed Rate component with the same expiry date and loan term.

The right to extend the fixed rate applies only for a predetermined term, and is a 'once only' right. The principal repayment structure during both the initial component term and the extended component term can be structured at the outset to suit the business's cash flow forecasts.

For each pricing period of the initial component term, the applicable interest rate will be:

- The fixed interest rate for the Flexible Maturity Fixed Rate component.

Providing you give at least two business days' written notice before initial component term expiry, you may elect to:

- Extend the component term. In this case the applicable fixed rate will continue for each pricing period of the extended component term, or
- Terminate the component, in whole or in part without paying any Economic Cost. A business may choose to do this if its funding requirement has been reduced or cleared, or a more favourable interest rate can be achieved by moving to a new Floating or Fixed Rate component.

## Applications

This may suit a business:

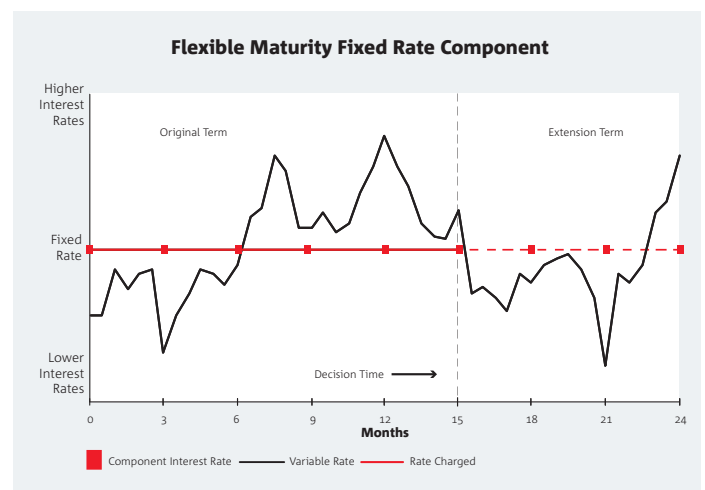
- That is not definite about the timing of funding requirements and would like to have protection against interest rate rises in the future without committing to a fixed interest rate for the whole (initial and extended) component term.

## Advantages

- The component establishes a known funding cost for a predetermined amount and protects the business against a rise in interest rates for either the initial component term and if applicable, the extended component term if the extended period fixed rate option is exercised by the business.
- If floating interest rates fall, or are expected to fall, below the fixed interest rate and are expected to remain lower by the business, the business may elect to let their option lapse on maturity of the initial component term.
- If the interest rate applicable to a new Fixed Rate component at the expiry of the initial component term is less than the existing fixed interest rate, the business may repay the component on the initial maturity date and apply for a new Fixed Rate component at the lower interest rate.
- Termination of this component at expiry of the initial term (in whole or in part) does not incur Economic Cost.

## Disadvantages

- The business pays for the flexibility of an extendable maturity date by accepting a higher interest rate than for a Fixed Rate component with a similar maturity to the extendable term.
- The business will not receive any direct benefit if interest rates fall during the term of this component.
- The contracted terms of the component, including the period for which the component may be extended, are fixed at the outset, therefore any alterations to the amount drawn down or any other term, including early repayment in full or in part, may incur significant Economic Costs.



## CAP RATE COMPONENT

### Description

A floating interest rate term component that incorporates an agreed maximum interest rate (the 'Cap'). The Cap provides a maximum known funding cost for the term of the component.

For each pricing period, the interest rate applied for the component will be:

- The lower of the Cap and the applicable floating rate.  
The business pays a premium for the Cap which is payable either in advance as a single payment, or as regular payments on a pre-agreed schedule.

### Applications

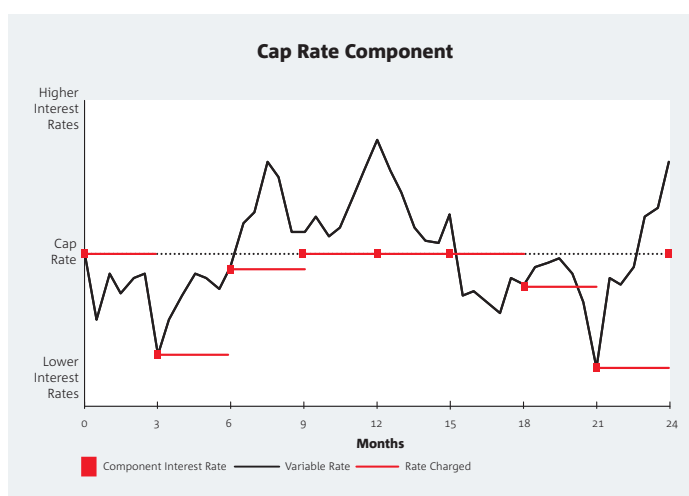
This component may suit a business that is seeking protection against the direct impact of interest rates rising above the Cap but also wishes to benefit from being able to achieve interest rates below the Cap.

### Advantages

- A maximum interest rate is established for the term of the component.
- The business can still benefit from floating rates being below the Cap on the first day of any pricing period.
- The business can make early repayments of principal without incurring the Economic Cost that may be incurred in early repayment of principal for other components (providing one business day's prior written notice is provided).

### Disadvantages

- A premium is payable for receiving the benefit of having a known maximum interest rate.
- If the component is repaid ahead of the agreed schedule, in whole or in part, then any unpaid premiums will still be payable.



## ECONOMIC COST/BENEFIT

If a Business Markets Loan Fixed Rate component or a Flexible Maturity Fixed Rate component is terminated early for any reason, in whole or in part before the end of the component maturity date, or is repriced, cancelled or reduced before the component maturity date, is not fully drawn or the borrower defaults, 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.

The Economic Cost represents NAB's costs and losses, including by reason of the liquidation of deposits or other funds, or the termination or reversing of any swap or option agreement or other agreement or arrangement entered into by NAB to fund or maintain the facility component or to hedge, fix or limit NAB's effective cost of funding in relation to a Facility.

An Economic Cost occurs when the current interest rate at the time it is payable is lower than the contracted Fixed Rate.

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 significant and will increase the amount you owe NAB. The calculation of Economic Cost or Benefits will depend on the type of Business Markets Loan 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 Specialist.

### Early Termination of Fixed Rate and Flexible Maturity Fixed Rate Components

The Economic Cost or Benefit is calculated by:

- Determining the difference between the rate applicable under your fixed rate 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 component. This difference is then multiplied by the remaining amount under the component and the remaining term. Generally, the longer the term to maturity the greater the Economic Cost or Benefit, and
- This amount is then discounted using the discount rate determined by NAB, to arrive at a present value.

## PREMIUM

### Examples

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

### Scenario 1

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

$$\begin{aligned} &6.20\% - 5.50\% \times \$1,000,000 \times 2 \text{ Years} \\ &= 0.70\% \times \$1,000,000 \times 2 \\ &= \$7,000 \times 2 \\ &= \$14,000 \end{aligned}$$

The Bank then calculates today's value of the economic cost by discounting this sum to the **net present value** using the 2 year interest rate at that date. The present value of this amount is \$12,612. This amount is to be paid by the customer at the point of repayment of the component.

### Scenario 2

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

$$\begin{aligned} &6.70\% - 6.20\% \times \$1,000,000 \times 2 \text{ Years} \\ &= 0.50\% \times \$1,000,000 \times 2 \\ &= \$5,000 \times 2 \\ &= \$10,000 \end{aligned}$$

After discounting this sum by the 2 year interest rate at that date, the present value of this amount is \$8,896. This will be paid to the customer at the point of repayment of the component.

You can choose to early terminate a Cap Rate component on any banking day, provided that you give NAB at least 1 banking day's notice. However you will be liable for all future premiums, if payable by instalments.

Payments that are still required as a result of terminating the Cap Rate component are calculated by determining the present value of all future premiums outstanding under the facilities and netted against the market value of the Cap Rate component.

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