INQUIRY INTO COMPETITION WITHIN THE BANKING SECTOR

SENATE ECONOMICS REFERENCES COMMITTEE

SUBMISSION BY THE

MORTGAGE AND FINANCE ASSOCIATION OF AUSTRALIA

NOVEMBER 2010

Executive Summary

Inquiry needs to consider Competition within whole Lending Sector

To have any impact and meaning, this Inquiry must take into account competition in the entire lending industry, of which the banking sector is a part. Other players in the wider lending industry compete with those in the banking sector to provide credit to Australian individual and business borrowers.

Competition has reduced since the 2008 House of Representatives Inquiry

The House of Representatives Economics Committee held an Inquiry Into Competition In The Banking And Non-Banking Sectors, releasing its report November 2008.

That Report commented:

> *"The Treasury, the Reserve Bank of Australia and the big four banks, Westpac, ANZ, the Commonwealth Bank and National Australia Bank, believe that competition within the sector is strong and that the non-banking sector will regain its market share when market conditions normalise again".*
>
> *"The non-banking sector, including the Mortgage and Finance Association of Australia, the Australian Securitisation Forum, and Challenger Financial Services Group, to name a few, believes that there is some uncertainty about how long it will take for the funding markets to return and that as a consequence competition will be substantially reduced".*

Clearly the latter view has turned out be correct.

On the competition front little has changed for the better over the past two years. On the contrary, competition has continued to decline with banks now holding a 90% share of the residential mortgage market. Non bank lenders, which held a rapidly reducing 5-6% share in 2008 now cling to a 3% share. While credit unions and building societies have maintained a 6-7% share, the combined 'non-bank' share is not a sufficient critical mass to apply significant market pressure.

The Essence of the Problem

Competition (when it works in this industry) is multi dimensional. Non-banks, credit unions and building societies compete both at origination, product, and retail levels with banks and brokers provide competition at the retail level.

It is unfortunate that much of the contemporary commentary has revolved around name calling and vilification, controlling interest rates and an over attention to regulating exit fees to encourage 'switching'.

Having said that we believe ASIC has got the balance pretty right in RG 220 regulating exit fees. This Regulatory Guidance recognises MFAA's long standing argument that Deferred Establishment Fees, transparently disclosed and reasonable in cost, is an important tool to assist non bank lenders compete and provide choice to consumers.

However the solution to the lack of competition does not rest in those areas.

It ought to be patently obvious that there is no point in switching lenders if there is no real alternative.

Lending institutions, like any other business, have a responsibility to their shareholders or owners, to remain viable and to maximise returns.

In a competitive market the ability of businesses to maximise returns is tempered by the pricing actions of a large number of players in the industry. Equally, the level to which businesses enhance customer service is dependent on the competitive levels of service in the market.

Clearly the 'tempering' factor is almost absent currently in the Australian lending market.

Funding costs – not the only costs

Much of the current debate has been about funding costs and their impact on pricing or interest rates.

An Inquiry into Competition also needs to consider the impact of the lack of attention to other costs.

According to Fujitsu Consulting there are several areas in which cost can be reduced in the mortgage processing operation.

More Competition – What is an Effective Facilitator?

It is clear, after an Inquiry in 2008 and much debate since then, that there is unlikely to be a 'silver bullet' solution to the lack of competition in the lending industry in Australia.

The initiative taken by the Federal Government during the 2008 Inquiry and subsequently to enable AOFM to inject $16b into the securitisation market was welcomed and has been helpful but in reality, only a 'drop in the bucket'. It pales by comparison with the $300b of issuances by the Canadian Mortgage and Housing Corporation over the past 3 years, during the GFC.

Given the uncertainty of the future the Federal Government would be well advised to take the type of action taken by the Canadian Government when it established the National Housing Act Mortgage-backed Securities. This should not be seen as a knee-jerk measure to band-aid over a temporary problem but rather a permanent system to ensure there are appropriate levels of competitive funding available to all lenders, irrespective of the economic environment.

Conclusion

The Australian lending industry has shown over the past few decades that it has operated most competitively and in the consumers' interest when banks have been subject to competition at the origination and retail level by non-banks/mortgage managers and at the retail level by brokers competing with branch lending.

The lack of access to funding to the non bank sector has reduced competition in the market, reverting the industry to almost a pre-deregulation environment.

The result of the 2008 Inquiry seemed to assume this would be a temporary position that the cycle would remedy.

That the cycle has not remedied the market two years later should be a strong signal to all that more lasting measures are required to ensure a continuous competitive flow of funds.

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MORTGAGE AND FINANCE ASSOCIATION OF AUSTRALIA (MFAA)

The MFAA is an association focused on the representation of, and maintaining professional standards for, mortgage and finance credit advisers and intermediaries, viz mortgage brokers, finance brokers, mortgage management businesses and non bank lenders. Its membership includes also ADI lending institutions which distribute their products via intermediaries, and businesses which provide support services to the mortgage and finance sector.

As at November 2010 its membership profile is:

Membership Breakdown	Total	%
Individual members (i.e. loan writers)	9370	76.08
Broking firms	2770	22.49
Aggregator/Franchisor groups	55	0.45
Total loan writers/broking firms/aggregators	**12195**	**99.02**
Mortgage managers	48	0.39
Total intermediaries	12243	**99.41**
Lenders/Funders	33	0.27
Support Services	40	0.32
Total	**12316**	**100.00**

MFAA estimates that its broker members account for between 75-80% of brokers in Australia.

Focus of Submission

The focus of the MFAA submission is to ensure that Australia maintains a competitive lending industry with the objective of all players in the industry operating to better facilitate consumer choice.

It is noted that the Terms of Reference relate to 'competition within the Banking sector'. However to have any impact and meaning , this Inquiry must take into account competition in the entire lending industry, of which the banking sector is a part. Other players in the wider lending industry compete with those in the banking sector to provide credit to Australian individual and business borrowers.

We note at the outset that a similar inquiry was conducted by the House of Representatives Economics Committee in 2008.[1] We have reviewed our submission to that Inquiry and we note that much of our comments (and comments from other parties appearing before that Inquiry) are still relevant to the current Inquiry and are referred to in this Submission. In fact they are now more relevant as competition in the sector has measurably declined since 2008.

It is instructive to review the Report of that Inquiry. Its summary below serves as a good history of the state of competition in the lending industry. It also serves to remind all that little has changed for the better over the past two years. On the contrary, competition has continued to decline.

The state of competition[2]

1 Inquiry Into Competition In The Banking And Non-Banking Sectors, November 2008
2 Inquiry Into Competition In The Banking And Non-Banking Sectors, November 2008, page 2

1. *The rise of the non-banking sector in the early 1990's played a significant role in enhancing competition particularly in the mortgage industry. The non-bank lenders introduced innovations such as internet and phone banking and mobile lenders. This put pressure on the banks resulting in greater competition, tighter margins and lower interest rates.*

2. *The non-banking sector opened the way for 'mortgage brokers' to enter the market. Brokers acted as a 'one stop shop' for consumers by providing advice on the numerous home loans available.*

3. *Prior to the commencement of the credit crisis, the non-bank sector sourced their funds primarily from securitisation ('bundling' individual loans and selling them in financial markets).*

4. *In the last 12 months the global securitisation market has all but dried up and as a consequence the non-banking sector's market share 'has fallen from around 12 per cent in 2006 to 5 per cent.'*

5. *The lack of available funding has forced some providers and brokers out of the market. Less providers within a market would normally result in a fall in competition.*

6. *There are, however, two opposing views about the current state of competition within the banking and non-banking sectors.*

7. *The Treasury, the Reserve Bank of Australia and the big four banks, Westpac, ANZ, the Commonwealth Bank and National Australia Bank, believe that competition within the sector is strong and that the non-banking sector will regain its market share when market conditions normalise again.*

8. *The non-banking sector, including the Mortgage and Finance Association of Australia, the Australian Securitisation Forum, and Challenger Financial Services Group, to name a few, believes that there is some uncertainty about how long it will take for the funding markets to return and that as a consequence competition will be substantially reduced.*

Clearly the belief of those in point 8 above has proven to be correct as at the time of this current Inquiry.

Competition in the lending industry

It is self evident that competition has dramatically reduced compared to almost any time since the mid 1970's.

The dramatic change can often be too easily dismissed as a generic statement. The facts are much more important, much more dramatic, and the consequences much more serious.

Since the early 1970s, in addition to a larger number of banks than we have today, there was significant competition from finance companies. Although in some cases those finance companies were owned by banks, they often (and indeed usually) operated with a significant degree of autonomy and had different criteria for lending and different lending products. They operated separately, and often in competition with their parent.

The last major disruption to the Australian credit market occurred in about 1990 and continued to 1994. During that period the vast majority of the finance companies referred to above ceased to exist.

However, fortunately mortgage trusts and securitisation providing money to banks and non banks alike to a large extent filled the gap commencing in 1995 and continuing until 2007 when the GFC hit. Most of these participants have ceased to operate.

It seems unlikely that securitisation and managed investment schemes (mortgage trusts) will re-emerge to create the much needed competition without significant government support.

The Essence of the Problem

It is indisputable that the level of competition in the lending industry has markedly reduced just in the past few years.

There have been well publicised bank mergers and significant withdrawals or 'hibernations' in the non bank sector.

The market share of banks in Housing Finance has increased from 79.5% in 2007 to 90% in 2010, while that of non banks has shrunk from around 14% to less than 3%[3], half of what it was in 2008, when the House of Representatives Inquiry was conducted. Interestingly credit unions and building societies have managed to maintain a market share of around 6-7%.

In Commercial Finance the banking sector has increased its market share from 88% in 2007 to 91% in 2010.[4] More significantly the availability of business credit has been limited. The level of Commercial Finance approved in the first 6 months of 2010 is 31% less than the same period in 2007[5]. Despite the posturing of various businesses including major banks, the availability of credit for business is restricted and in particular for property development is almost non-existent. Adequate business lending (particularly small business lending) is crucial to innovation and development in the Australian economy. Although much of the commentary in recent weeks has been focused on residential mortgages, mechanisms to ensure the availability of competitive funding for business is equally important.

Much of the focus in recent weeks leading up to this Inquiry has been on interest rates. However an uncompetitive market also manifests itself via poor service levels and lack of availability of product.

While these are symptoms which directly impact borrowers, there are other symptoms which indirectly impact borrowers because of their direct impact on the viability of mortgage and finance brokers. The most obvious of these are:

- 'claw back' provisions which enable the lender to 'take back' commissions due to brokers, if loans already settled are re-financed by the borrower within a specified period eg 12-18 months.
- volume hurdles which require brokers to transact a certain level of business with a particular lender.

By January 2002 mortgage brokers had established a retail market share in the[6]

3 ABS Housing Finance, 5609.0
4 ABS Lending Finance, 5671.0
5 Ibid
6 Source: Fujitsu Consulting Estimates

mortgage market of around 18%, which had increased to close to 40% by 2007. Although that market share may have dropped a few percentage points during the GFC all indications are that has now re-established or exceeded its 2007 share of 40%.

Consumers are much better informed because brokers are out there in the market. They are able to source the most appropriate deal for them, which if they were operating on their own they probably would not have the time or resources to do that.

Brokers are an integral part of the competitive mix in the industry but their value to the consumer and the competitive forces is enhanced when there is a wide choice of lenders and credit products. See the comments from the Chair of the 2008 Inquiry:

> ***"CHAIR****—Would you agree with me that for that downward pressure to continue from brokers there needs to be enough variety in products, product lenders and ability and ease to move between those product lenders; that is, that that downward pressure is a result of competition?*
>
> ***Mr Naylor****—Absolutely."*[7]

The MFAABankWest Home Finance[8] research carried out on a six monthly basis by *brandmanagement* consistently demonstrates the powerful proposition offered by mortgage brokers to consumers. The most recent survey (Autumn 2010) showed the following 'benefits of using a broker' as indicated by consumer respondents:

'They do all the legwork for you'	77.0%
'They have a wider loan range'	75.0%
'They are experts in a range of mortgages from numerous lenders'	73.0%

Any non competitive measures which inhibit their viability will have a negative effect on the competitive forces impacting consumers.

Competition (when it works in this industry) is multi dimensional. Non-banks, credit unions and building societies compete both at origination, product, and retail levels with banks and brokers provide competition at the retail level.

It is unfortunate that much of the contemporary commentary has revolved around name calling and vilification, controlling interest rates and an over attention to regulating exit fees to encourage 'switching'.

Having said that we believe ASIC has got the balance pretty right in RG 220[9] regulating exit fees. This Regulatory Guidance recognises MFAA's long standing argument that Deferred Establishment Fees, transparently disclosed and reasonable in cost, is an important tool to assist non bank lenders compete and provide choice to consumers.

However the solution to the lack of competition does not rest in those areas.

It ought to be patently obvious that there is no point in switching lenders if there is no real alternative.

Lending institutions, like any other business, have a responsibility to their shareholders or owners, to remain viable and to maximise returns.

7 Inquiry Into Competition In The Banking And Non-Banking Sectors, Transcript 14 August 2008, page 46
8 MFAABankWest Home Finance Index, Autumn 2010
9 Early Termination for Residential Loans: Unconscionable Fees and Unfair Contract Terms, November 2010

In a competitive market the ability of businesses to maximise returns is tempered by the pricing actions of a large number of players in the industry. Equally, the level to which businesses enhance customer service is dependent on the competitive levels of service in the market.

Clearly the 'tempering' factor is almost absent currently in the Australian lending market.

In his appearance before the House of Representatives Economics Committee Inquiry in 2008, MFAA CEO Phil Naylor commented:

> *"All we are saying is that if there were more players in the market and more access to funds there would be some downward pressure on that. Not all industries have the luxury of saying, 'My costs have gone up, therefore I will put my prices up.' The world is not a cost-plus industry.*
>
> *You certainly take cognisance of your cost, but you also have to take cognisance of what your competitors are doing."* [10]

Stating the blindingly obvious, if there are insufficient competitive players in the market, how they respond to increased costs is irrelevant if those in the market have reason to assume all other players will react similarly.

That begs the question… what level of players in the market will bring a return to a more competitive market?

Credit unions and building societies have done a good job in differentiating their competitive proposition to borrowers but clearly a 6-7% market share in itself is insufficient to enable consumers to exercise choice and apply market pressure on the banking sector.

In our 2008 Submission we commented:

> *'The Australian lending industry has shown over the past few decades that it has operated most competitively and in the consumers' interest when banks have been subject to competition at the origination and retail level by non-banks/mortgage managers and at the retail level by brokers competing with branch lending.'*

In the period just prior to the GFC (viz early 2007) there was a sufficient critical mass of non bank lenders, credit unions and building societies, applying competitive pressure on pricing, service levels and differentiated product ranges to suggest Australian borrowers could enjoy reasonable competition in all those facets.

For those conditions to be replicated the Australian Housing Finance market share would need to approach a position where non banks held around 14% and credit unions and building societies at least maintained their 6-7%. Such dynamics would provide the platform for a competitive lending industry in Australia.
It is instructive to review the following comments by witnesses appearing before the 2008 House of Representatives Economics Committee Inquiry:

Mr Ric BATTELLINO, Deputy Governor, Reserve Bank of Australia
— *I think the non-banks drive down the margins....*

10 Inquiry into Competition in the Banking and Non-Banking sectors, Transcript 14 August 2008, page 44

Our general view is that when conditions settle down and the cost of funds in the money markets returns to a more normal level, that downward pressure and competition from [11]*the non-banks will reappear.*

Mr Battellino — *If those cycles even out I think it would be wrong for the government to try to intervene to smooth out all those cycles between competitors.*[12]

Mr Jim MURPHY, Executive Director, Markets Group, Department of the Treasury
...
It appears that, for some, the Aussie Mac proposal is seen as a mechanism to address the current problems in the securitisation market. Treasury strongly disagrees with that. I note that the Treasurer has ruled out establishing a government body of this nature. Referring to securitisation markets, the impact of the current turbulence has been centred on a relatively small slice of the lending market, albeit a very important one. The current dislocation does not appear to have unduly restricted the supply of credit, and lending activity continues. As I pointed out previously, it is the beginnings of a return to a strongly competitive market, but it is still early days.[13]

Mr Phil NAYLOR, Chief Executive Officer, Mortgage and Finance Association of Australia
— I heard some of the previous speakers say that the market will sort it out. The market did not sort it out in 1994. It took a shock to the market by new players coming in. If the market had been left to itself with the existing players, nothing would have changed. Our concern is that we are looking at possibly a back-to-the-future scenario, winding the clock back to 1994 or pre-1994 when non-bankers and brokers were not in the market and the remaining players did not have anything forcing or persuading them to change the way they operated, whether it be in their pricing, their range of services or products. Like some other submissions, ours talks about the Canadian mortgage bond system, and the Aussie Mac system. We do not have a strong view or a strong proprietary knowledge or ownership of any of those things. But we think that unless there is some dynamic that comes into the market that enables continued liquidity, competition as we know it will disappear and we will face that back-to-the-future scenario.[14]

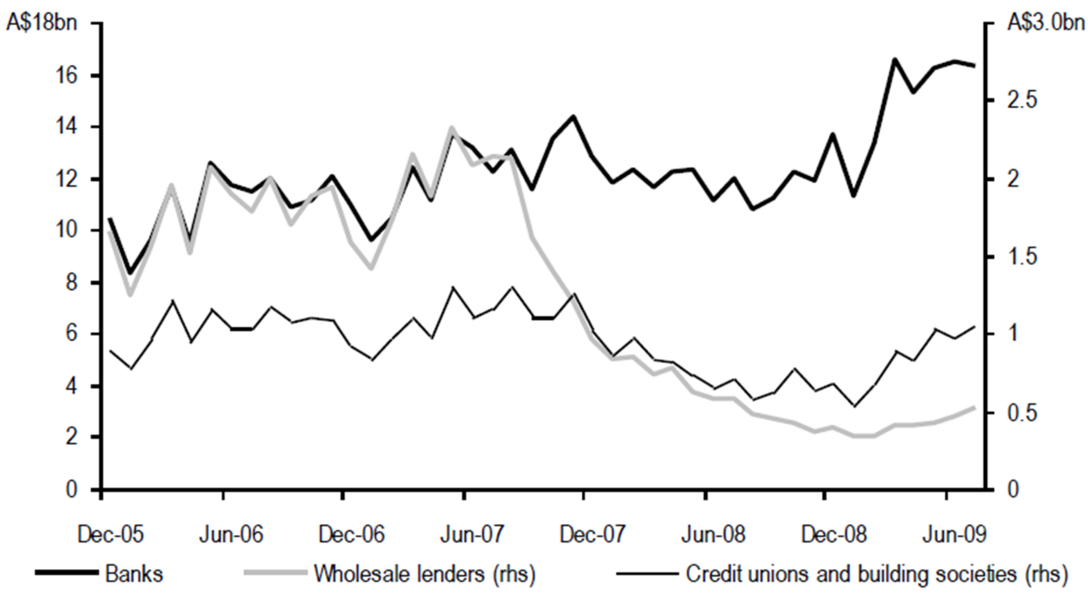
As I said before, at the best the non-banks had 15 per cent of the market. That was demonstrably effective in changing the competitive dynamics of the industry. Now they have about 6 per cent. I would certainly argue that they lost a lot of their competitive potency. Whether they would regain it at 10 per cent, 11 per cent or 9 per cent, I am not sure. I am not sure what the figure is, but I think at the moment quite a few of them have gone or are inactive. I agree that we do not want to get precious about the right figure of market share, but at the moment it is probably too small to have much effect. The likelihood is that if this is left to run it will get less rather than more. There is nothing we can see in the cycle or environment at the moment that says suddenly non-banks will reverse their market share upwards. That means that there is not the competitive dynamic that was there before.[15]

It is clear that the suggestions that the cycle or market would sort things out have not borne fruit. MFAA's concerns that the competitive potency of non banks would weaken further is demonstrated by that sector's current 3% market share in Housing Finance approvals and in originations (see Fig 1). Although the sector is still attempting to compete on rates (see Fig 2), it does not have sufficient access to funding to provide

11 Inquiry into Competition in the Banking and Non-Banking sectors, Transcript 14 August 2008, page 14
12 Ibid, page 15
13 Ibid, page 29
14 Ibid, page 43
15 Ibid, page 43

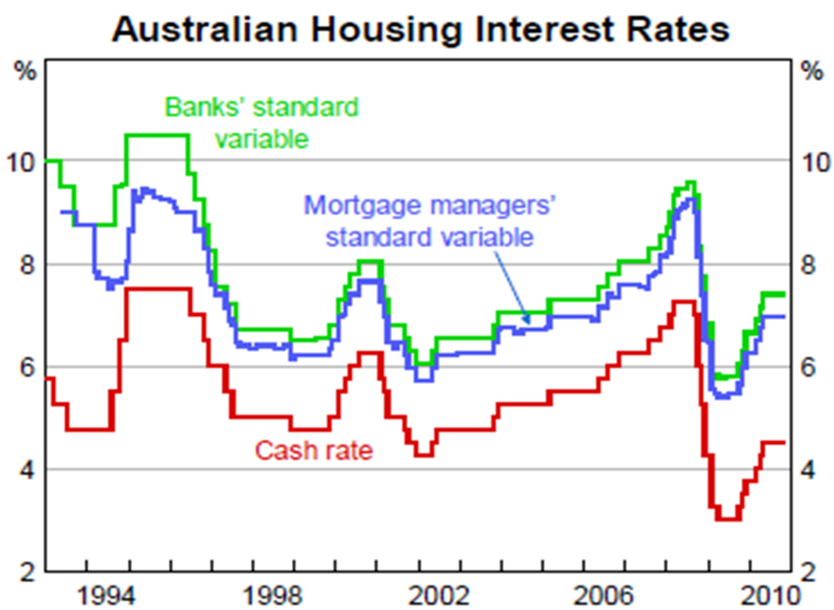
effective competition.

Figure 1: Bank vs Non-Bank Monthly Mortgage Originations



Source: RBA

Figure 2



Funding costs – not the only costs

Much of the current debate has been about funding costs and their impact on pricing or interest rates.

An Inquiry into Competition also needs to consider the impact of the lack of attention to other costs.

According to Fujitsu Consulting[16] the following are areas in which cost can be reduced in the mortgage processing operation:

- Optimising valuation process could yield savings in excess of 40%
- Reducing Rework with rates of less than 5% being achievable
- Simplifying Redraws with savings in excess of 30% achievable
- Simplifying Product Portfolio with cost savings of 50% achievable
- Optimise IT/Virtualisation with 20-30% savings potential
- Early Leads Screening could result in 40-60% cost savings

It seems that most financial institutions have directed all their innovative energy to the "front end" and to the post settlement or "back end"; i.e. sales and borrower retention. However, the bulk of the industry continues to daily generate mountains of loan documents in a mostly manual fashion, with little or no true automation, to the great expense and frustration of all Australian borrowers.

Properly addressing this neglected process will increase profitability and competition, and greatly reduce time and cost.

Government and the Lending Industry should be encouraged to provide real support to innovative processes and organisations such as LIXI, the Lending Industry Electronic Standards body to assist in their development.

More Competition – What is an Effective Facilitator?

It is clear, after an Inquiry in 2008 and much debate since then, that there is unlikely to be a 'silver bullet' solution to the lack of competition in the lending industry in Australia.

The initiative taken by the Federal Government during the 2008 Inquiry and subsequently to enable AOFM to inject $16b into the securitisation market was welcomed and has been helpful but in reality, only a 'drop in the bucket'. It pales by comparison with the $300b[17] of issuances by the Canadian Mortgage and Housing Corporation over the past 3 years, during the GFC.

In the 2008 Inquiry MFAA was one of the several proponents of the Canadian system. Its objectives were eminently suited to the Australian market then and are even more appropriate now in the 2010 environment, viz:

- To create a more competitive market that would allow smaller financial institutions to provide housing finance at comparable rates to larger institutions
- To provide investors with high quality Mortgage-Backed-Securities that are secured by a government guarantee and underlying mortgage-insured property
- To lower mortgage rates to the consumer
- To strengthen the solvency of the financial system by adding another liquidity source for housing finance

Unfortunately the Committee's report declined to recommend the adoption of the Canadian or similar models proposed and the views of Treasury, the Reserve Bank of Australia and the big four banks, held sway, it seems largely because there was a belief that ' the non-banking sector will regain its market share when market conditions

16 Australian Mortgage Industry – Vol 10 Can More Juice Be Squeezed From The Cost Lemon?
17 Canadian Mortgage and Housing Corporation, Statistical Report R303A, Activity by Year, reports issuances of $85b in 2007, $145b in 2008 and $134b in 2009

normalise again'.

Obviously market conditions have not normalised again... (what is 'normal'?)... and no one has been able to confidently predict when that will occur. It is clear that the credit markets are experiencing something which is much more sustained than a temporary glitch. That was MFAA's point in its submissions in the 2008 Inquiry.

> "The problem with cycles is that no-one knows how long they are. If we are going to sit back—and I am not suggesting the committee is—and wait to see what happens at the end of the cycle it might be too late, a lot more damage might be done. We have to assume that the environment we are in at the moment may not change for some time. If something else does not happen—and I used the phrase before—it is a back-to-the-future scenario for the industry. We do not think that is good for consumers."[18]

Given the uncertainty of the future the Federal Government would be well advised to take the type of action taken by the Canadian Government when it established the National Housing Act Mortgage-backed Securities. This should not be seen as a knee-jerk measure to band-aid over a temporary problem but rather a permanent system to ensure there are appropriate levels of competitive funding available to all lenders, irrespective of the economic environment.

Of note, in Canada, are the following statistics on residential mortgages outstanding:[19]

Lender	**% share of balance outstanding**	**% share Aust. equivalent**[20]
Life Companies	1.6%	na
Banks	48.2%	84.4%
Trust and Mortgage Companies	1.1%	1.4%
Credit Unions and Caisses Populaire	12.5%	4.4%
Special Purpose Corps (Securitisation)	1.8%	9.9%
1NHA Mortgage –backed securities	30.0%	-
Finance companies, non deposit intermediaries and others	3.0%	na
Pension funds	1.7%	na
Total (as at 2009 - $936b)	**100.0%**	**100.0%**

1The banks' share of NHA MBS is around 83% [21]

This would indicate the Canadian banks' total share of residential mortgage credit is around 73% (48.2% + 83% of 30%).

Again referring to outstanding mortgage balances, it is instructive to learn that of the total amount of NHA Mortgage-Backed Securities, there were 42 issuers, 17 of which were banks. The top 5 banks were responsible for 71% of the issuances. Around 11% were issued by trust companies/mortgage companies.[22]

18 Inquiry into Competition in the Banking and Non-Banking sectors, Transcript 14 August 2008, page 47
19 Statistics Canada: Residential Mortgage Credit 2009 and CMHC Mortgage Lending 2009
20 ABS Housing Statistics: Table 12 Housing Loans Outstanding (Owner Occupation and Investment) 5609.9 August 2010
21 CMHC MBS –R-120 NHA Mortgage – Backed Securities, Volume by Issuer October 2010
22 Ibid

It should be noted that almost 60[23] per cent of NHA mortgage backed securities are represented by Canadian Mortgage Bonds which are issued by the Canadian Housing Trust and to which all lenders, bank and non bank, large and small have equal access. This provides a comparative advantage to smaller lenders.

Even though the above table showing Australian equivalents is not exactly comparing 'apples with apples' it gives a reasonable picture of the differences. The Canadian mortgage market, even with five large banks, is much less concentrated than the Australian market. As with the NHA-backed securities in Canada, the 9.9% securitisations outstanding in Australia are distributed across a number of lender types.

As reported elsewhere in this submission the Canadian Mortgage and Housing Corporation enabled issuances of $85b in 2007, $145b in 2008 and $134b in 2009, during the period of the GFC. These provided around 25-30%[24] of the funding for residential mortgage credit over that period. In Australia the amount of securitised funding made available was negligible, by comparison.

Non bank lenders, or mono line lenders as they are called in Canada, indicate[25] that they would not exist without the CMHC Canadian Mortgage Bonds and mortgage backed securities as Canada's private securitisation market has collapsed (as has Australia's). The CMHC programs inject a critical mass of funds into the market which facilitates more competition.

Regulation

The amount and degree of regulation over the last few years has been staggering. The AFSL regime, the NCCP Act, AML/CTF, Unfair Contracts legislation and soon amendments to the *Privacy Act* place tremendous pressures on business.

It is hard to identify the benefit the consumers have derived from these initiatives, but on the other hand the cost to business is significant.

MFAA has been a strong supporter of enhanced regulation in the credit sector, but it is essential that the rate of change to regulation is now slowed to allow the market to have commercial certainty and for new businesses to plant green shoots.

Conclusion

The Australian lending industry has shown over the past few decades that it has operated most competitively and in the consumers' interest when banks have been subject to competition at the origination and retail level by non-banks/mortgage managers and at the retail level by brokers competing with branch lending.

The lack of access to funding to the non bank sector has reduced competition in the market, reverting the industry to almost a pre-deregulation environment.

The result of the 2008 Inquiry seemed to assume this would be a temporary position that the cycle would remedy.

23 Canadian Housing Observer 2010, page 38, published by the Canadian Mortgage and Housing Corporation

24 Statistics Canada: Mortgage Loan Approvals 2007, 2008, 2009 and Canadian Mortgage and Housing Corporation, Statistical Report R303A, Activity by Year

25 Interviews conducted by MFAA CEO over 22-25 November in Montreal and Toronto, Canada with mono line lenders, including Australia's Macquarie Financial Ltd, which has established a strong presence in the Canadian mortgage market over the past few years – Phil Naylor, Chief Executive Officer, Mortgage & Finance Association of Australia

That the cycle has not remedied the market two years later should be a strong signal to all that more lasting measures are required to ensure a continuous competitive flow of funds.