

Senate Committee Inquiry  
Australian Banking Sector  
24<sup>th</sup> March 2011

### **Entrance Fees not just Exit Fees**

The Australian Banking Industry loves to charge Entrance Fees on starting a new property loan.

The reasons for this are:

1. Increases the Banks Profit Margin
2. Makes loans less comparable between banks (you cant compare loans on interest rate alone).
3. Gives them an incentive to churn the loans between different lenders thus increasing margins.
4. Enables them to get kick backs from Valuation companies in the form of reduced fees.

The downside for small business is that we are spending an inordinate amount of time looking for finance and sometimes we feel we are just working for the banks.

If banks were paying their own entrance or setup fees they would make the loans more **sticky**. They would make the length of the loan longer because there would be no incentive for them to churn the loan and incur the setup costs again. This would be a great boon to small business as we would be able to spend more time doing real business instead of just feeding the bankers, brokers, valuers and lawyers who contribute very little to real production.

Although it is difficult to prove, the banks seem to have an agreement between themselves to churn commercial loans to other lenders on a regular basis, thus increasing their profitability.

I also know from experience that valuers are charging the banks a different fee to the fee they are charging borrowers. This amounts to a blatant kickback from the valuers. Why cant the borrower choose the registered valuer? The answer to this question is obvious. The banks have special agreements with their favoured valuers.

I think small business is sick of the obvious games that the banks continue to play always in their favour. Could you please do something and fix the system.

Yours sincerely,

Small Business.