Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 110

Topic: Bank Guarantee – Analysis by the *Daily Telegraph*

Hansard Page: E78-E79 (11/02/2010)

Senator BUSHBY asked:

Senator BUSHBY—What level of usage was made by other than the big four banks over the time that it was available in terms of a percentage of the moneys guaranteed?

Mr Lonsdale—I can give you some of that information now if that is useful.

Senator BUSHBY—Yes.

Mr Lonsdale—In the first quarter of 2009, as to the amount of guaranteed funding used: 99 per cent of funding derived was guaranteed funding; only one per cent was non-guaranteed. I am going down now: for the second quarter, 62 per cent in 2009 was guaranteed and 38 per cent was not guaranteed; it was 54 per cent in the third quarter of 2009 and 46 per cent was non-guaranteed; in the fourth quarter of 2009, 30 per cent was guaranteed and 70 per cent was non-guaranteed; and, in the first quarter of 2010, so far, three per cent was guaranteed and 97 per cent was non-guaranteed.

Senator BUSHBY—Which is why the Treasurer has decided that the time has come; it was always discussed that the market would sort itself out eventually.

Mr Lonsdale—Yes, so this follows on from Mr Murphy’s comments. If you compare the first quarter in 2009, where almost all the funding raised was guaranteed—

Senator BUSHBY—Because it was the only way they could get funding at that time. At this point, they can get funds without having to pay the fee to the government.

Mr Lonsdale—Yes, that is right.

Senator BUSHBY—So it is a cheaper, more competitive offer.

Mr Lonsdale—Correct.

Senator BUSHBY—I understand all of that. What about non—

Mr Lonsdale—This was the total usage of the facility.

Senator BUSHBY—What about usage other than by the four big banks?

Mr Lonsdale—I would have to come back on that point.

Senator BUSHBY—That is fine. If you take that on notice, that would be appreciated. An analysis of RBA research by the *Daily Telegraph* late last year showed that the big banks had collectively raised some $1.8 million—sorry, $1.8 billion; I have a typo here—

Senator PARRY—It is contagious!

Senator BUSHBY—Yes. Of course, I am sitting next to everybody!

Senator Sherry—It is contagious. I made the mistake at one point too.

Senator BUSHBY—They raised some $1.8 billion more through wider margins than they would have earned had they maintained margins at their pre-global financial crisis levels. Have you looked at that analysis conducted by the *Daily Telegraph* at all?

Mr Lonsdale—No, I am advised.

Senator BUSHBY—Without having the benefit of having analysed their conclusions, do you think that their conclusions sound as if they could be plausible?

Mr Lonsdale—I think, with respect, that before commenting on it, it would be useful for us to read the press article.

Senator BUSHBY—Could you take that on notice, then, please.

Mr Lonsdale—Yes.

Answer:

1. "What level of usage was made by other than the big four banks over the time that it was available in terms of a percentage of the moneys guaranteed?"

Of the most recent data available, measured by the outstanding estimate of guaranteed liabilities 30 March 2010, total usage of the Guarantee Scheme facility by the non-majors was 39 per cent (of a total of $169.5 billion).

2. "They raised some $1.8 billion more through wider margins than they would have earned had they maintained margins at their pre-global financial crisis levels. Have you looked at that analysis conducted by the Daily Telegraph at all?

   Without having the benefit of having analysed their conclusions, do you think that their conclusions sound as if they could be plausible?"

   The net interest margins (NIMs) of the four majors by late 2009 had increased by 20-25 basis points above pre-crisis levels. The Government is of the view that the best response to widening margins is to ensure an environment exists where competition continues to offer consumers a viable alternative.

   To this end, the Treasurer has directed the Australian Office of Financial Management (AOFM) to invest up to $16 billion in Australian residential mortgage-backed securities (RMBS), depending on market conditions. This investment provides a major boost to smaller lenders and promotes competition in the mortgage market. It will help to put downward pressure on borrowing rates over time.

   As at 31 March 2010, this initiative has enabled 14 smaller mortgage lenders to raise almost $15.9 billion in total, or an average of around $1.1 billion each, to fund new mortgage loans. Lenders assisted through this initiative comprise five non-major Australian banks, five building societies and credit unions, and four non-ADI lenders.