Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

10 – 11 February 2010

Question: aet 116

Topic: Supervision of Banks

Hansard Page: E100 (11/02/2010)

Senator JOYCE asked:

Senator JOYCE—This question is going to a separate issue. In your supervision of banks, have you noticed any tightening of lending or any tightening of assessment of lending?

Dr Laker—Yes. It is not surprising in the context of the global financial crisis that banks and all deposit-taking institutions—we talk more collectively about banks, building societies and credit unions—have revisited their credit assessments. More recently there has been a tightening by some institutions of their criteria for housing lending. There has been tightening of criteria for lending to business through the course of the crisis, yes.

Senator JOYCE—Are we looking at tightening across the board or in certain sections? Is it tightening for domestic borrowing, housing loans or small business? Is there any section where the tightening of lending criteria is more prevalent than others?

Dr Laker—I would have to take it on notice to give you a fuller answer. Individual banks approach it from the point of view of what portfolio base they have, what customers they have and what their spread of risks is across their whole lending portfolio. They have gone back and revisited different sectors to see whether or not their previous credit assessment was sufficiently robust and whether they had priced adequately for risks. That is how they build it up from that base. I will take on notice whether or not there is a clearly established difference in the way the banks have approached the different sectors. Clearly, the higher risk sectors like property development have come under much closer scrutiny by lenders in the period of the crisis than, say, other areas. We would certainly encourage them to do so—to look very closely at the risks they are carrying in different sectors.

Answer:

As a general response, APRA has observed that, since the start of the global financial crisis, banks and other ADIs have taken a more cautious approach to lending and have tightened their lending criteria.

In respect to business lending, most banks have reported lower risk appetites across all industry and business lending segments, such as small and medium-size enterprises, large corporates and wholesale. This lower risk appetite was reflected in lower maximum credit limits, shorter loan terms, increases in required interest coverage ratios and a strengthening in loan covenants. There was also an increased focus on risk-based pricing, evidenced as an increase in the interest spread. While all industries were subject to the tighter terms and conditions, commercial property would appear to have been the segment most impacted by this tightening in lending criteria.

There has also been a tightening in lending standards on the retail side over the past 12-18 months. This was primarily evidenced by lower maximum loan-to-valuation (LVR) ratios for housing loans.