Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates 2012

15 – 17 February 2012

Question: AET 1256

Topic: Introduction of covered bonds lowered the cost of funding for the major banks

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Senator Waters asked:

If you could possibly take that on notice and table a little more information about the concerns you have about such products, how you address those concerns and how you quantify them, that would be great. Has the introduction of covered bonds lowered the cost of funding for the major banks?

Dr Laker: We do not track individual cost of funds. The Reserve Bank has said that they will be issuing a discussion of trends in the bank funding costs in their March bulletin, and that will be where they will be able to draw that data together, but that is not—

Senator Waters: Sure, but I think all four of the majors have now done so. Has that come to your attention?

Answer:

Banks derive their funding from numerous retail and wholesale sources. As such, the cost of funding for a bank at any point in time is fluid and will be dependent on numerous factors such as its funding mix, weighted-average cost of each source, market conditions at time of issue, etc.

Since late 2011, the major Australian banks have begun accessing the covered bonds market as an additional funding source. The Reserve Bank of Australia has noted that the cost of recent issuance was only slightly cheaper than for senior unsecured funding of equivalent maturity, although secondary market spreads tightened as market sentiment improved for the first part of 2012. In the current environment covered bonds have provided banks with access to longer-term funding besides unsecured bonds and to a wider investor base.

As foreshadowed, in its recent article in the Bulletin March Quarter 2012 *Banks' Funding Costs and Lending Rates*, the Reserve Bank of Australia updated its research on changes in the composition and pricing of bank funding.