

SENATE STANDING COMMITTEE ON ECONOMICS QUESTION
(Supplementary Budget Estimates 20 October – 21 October)

Question: SBT 12**Topic: Australian Banks**

Senator Williams asked:

Has the combination of the risk-weighted assets and negative gearing turned Australian banks into permanent building societies that only lend on residential real estate, as opposed to lending on proven cash flow such as that of a medical professional?

Answer:

The short answer to this question is no. There is a range of factors impacting on the composition and level of bank lending, which reflect the underlying demand for, and supply of, credit at various stages in the economic cycle. While prudential standards may have different capital requirements for different types of loans, this is based on the underlying risk on the loans. For example, the average risk-weights applying to residential mortgages are lower than those for other types of loans, such as those to small and large businesses. This reflects the lower underlying risk of residential mortgage portfolios, as evidenced by actual loss rates over a long period. Loans of any nature that are secured against collateral will also have lower risk, and hence a lower capital requirement, than an unsecured loan. While it is difficult to separate the supply and demand effects, one factor behind the fall-off in business lending during the global financial crisis has been the reluctance of businesses to borrow in view of the uncertain economic outlook. In addition, many businesses have been deleveraging over the past couple of years. Over 2010, the subdued level of lending to business has been most apparent in lending to large businesses; lending to small businesses has been expanding at an annualised rate of 6 per cent. Over the period from 2006 to 2008, however, the rate of growth in business credit substantially exceeded that of housing – good demonstration of the cyclical nature of loan demand.

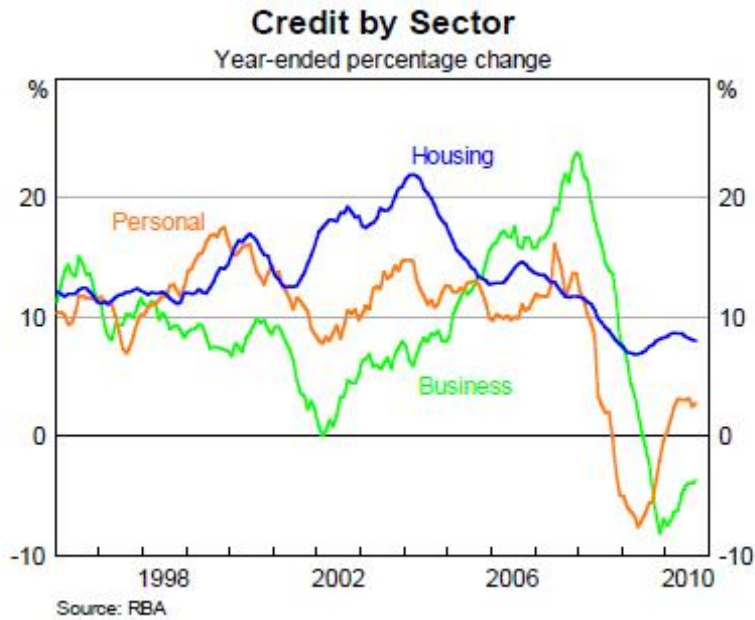
Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

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It is difficult to determine the impact of negative gearing on housing credit. However, it is worth noting that investor housing loans have remained roughly unchanged at just over 30 per cent of total new housing loans over the past five years.

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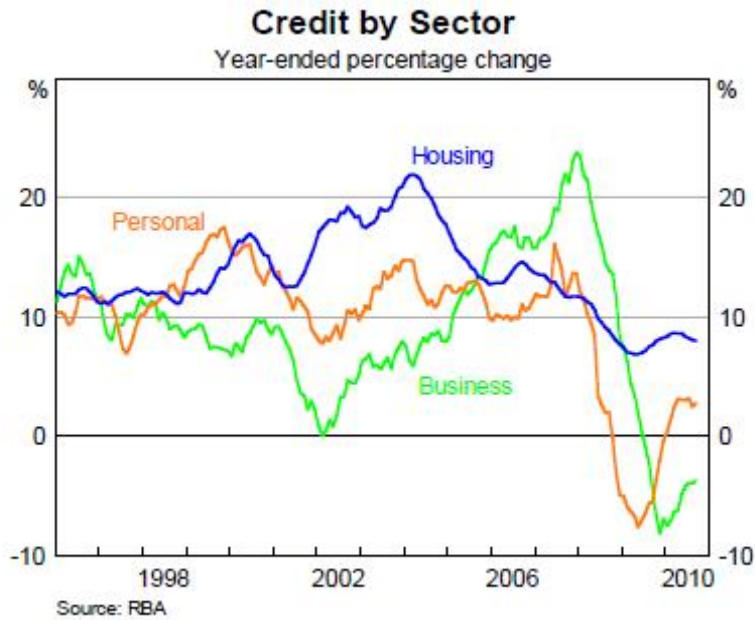
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