FAMILY FIRST
DISSENTING REPORT

Australia has some of the highest interest rates in the world.

One of the reasons Australians are paying higher interest rates is because the major banks have been greedy in withholding official interest rate cuts and lifting their rates above the official rate rises.

During the Senate inquiry Professor Milind Sathye revealed that homeowners are being slugged an additional 2.8% above the official cash rate on their standard variable loans. This is outrageous and something must be done to bring the banks into line.

The Rudd Government is as weak as water and refuses to stand up to the big banks – it hides behind saying if customers aren't happy they should switch banks.

Unfortunately, ordinary Australians have little ability to do anything about their predicament because of ineffective competition in the banking sector. The big four banks continue to dominate the Australian market and follow one another in regards to interest rates – that's why most Australians believe there is no use switching banks because they are all just as bad as each other in regards to interest rates and fees.

Competition in the banking sector has become worse under the Rudd Government. Even the Chairman of the ACCC, Graeme Samuel has recently conceded that competition in the banking sector was not intense or vigorous enough.

The way in which the Rudd Government granted the 4 major banks access to a Commonwealth Government Guarantee has seen the big banks increase their market share even further. **The wholesale funding guarantee has helped the four major banks to increase their market share in home loans from 57% to 72%.**

The big banks have enjoyed a windfall profit gain under the Rudd Governments bank guarantee. Under the guarantee the big banks have enjoyed lower borrowing costs and according to Professor Sathye's estimate,

> **…banks would make a profit of $1.34 billion over a three year period from the public wholesale funding guarantee.**

The Commonwealth Government Guarantee is being underwritten by all Australian tax payers for the benefit of the big banks. It is appalling that tax payers should be asked to help prop up the banks with the government's bank guarantee and then be slugged again with higher than necessary interest rates. It is a slap in the face to every Australian family.

It is for these reasons that Family First believes the *Banking Amendment (Keeping Banks Accountable) Bill 2009* is necessary.

The *Banking Amendment (Keeping Banks Accountable) Bill 2009* will keep the banks accountable for the movements in their standard variable home loan interest rate. The major banks will no longer be able to withhold an interest rate cut or put up interest rates beyond the Reserve Bank's official interest rate changes **without** having to justify their actions. This bill will force the banks to satisfy to the Treasurer that their decision is not contrary to the public interest and should not warrant the loss of their commonwealth guarantee. Banks need to understand that government assistance comes with responsibility.

During the Senate inquiry the National Australia Bank claimed that the increasing gap between the official cash rate and the standard variable loan rate was not a result of greedy profiteering by the banks but was due to the global financial crisis which had pushed up the cost of offshore wholesale borrowing.

However, according to Professor Saythe,

> …the argument appears to be weak.

The chart provided by Professor Sathye in his supplementary submission demonstrates that this excuse is just a smokescreen for the great rip-off being carried out by the major banks.

Professor Sathye's chart clearly shows that the gap between the official cash rate and the standard variable loan rate began to increase already in January 2008, well before September 2008 when the global financial crisis took full effect. He stated further,

> …the OCR-SVR difference continued to widen even after January 2009, the month from which the LIBOR substantially declined.

Moreover, former chief executive of Westpac, David Morgan, recently admitted that rising funding costs have been offset by rising lending rates for businesses and home loans. In fact, the increased costs have been more than offset as the graph provided by Professor Sathye indicates.

Banks are making $450 a year more from each average home mortgage than they did before the global financial crisis, while at the same time crying poor that they can't afford to pass on the full rate cuts of the Reserve Bank.

Australian banks continue to record bumper profits of the back of hard working Australians. The world has experienced the biggest economic downturns since the great depression, a downturn which hit the finance industry the hardest, and yet none of the major Australian banks recorded a loss for the previous financial year because of the higher than necessary interest rates which were being charged to Australian families.

This Bill will remedy this injustice. It will send a clear message to the major banks that they can't have their cake and eat it too. If they want the Australian people to help them through providing them with a tax payer backed Commonwealth Government Guarantee, they must be willing to help the Australian people in return.

Family First welcomes the recommendation of the committee that the Reserve Bank and the Australian Prudential Regulation Authority regularly publish estimates of the cost of funds for the banking sector as a whole and bank interest margins, however this recommendation does not go far enough. Simply publishing these estimates will not succeed in holding the banks accountable because there are no repercussions for those banks which increase their margins. Only by passing this bill and enacting measures such as the ability of the Treasurer to withdraw the Commonwealth Government Guarantee will real change be achieved.

During the inquiry, Professor Sathye also commented that by not making the banks accountable for the movements in their interest rates, this gave rise to the possibility that the Australian monetary policy could be "stunted". This is a serious concern for Family First as this could have enormous ramifications on the Australian economy.

All of the above reasons provide a compelling case for why the Senate should pass this bill without further delay.

Recommendation 1

Family First recommends that the bill be passed.

Senator Steve Fielding
Leader of the Family First Party