

Submission to Senate Inquiry
"Effects of the GFC on the Australian Banking Sector"

date: 21 st May 2012

Economics References Committee
PO Box 6100
Parliament House
Canberra, ACT, 2600

Dear Senators,

Please find attached my submission that relates to how I/my business was treated by Bankwest after it was acquired by the Commonwealth Bank of Australia during the GFC in late 2008.

Introduction:

We had been long term customers of Bankwest getting one of our original home loans with them some 18 years previously. We had gone on to purchase a few investment properties two of which Bankwest held the security over and when we placed one of them on the market to sell in October 2009. here in Perth our experience with Bankwest at that time totally soured our opinion of them as an institution as we were affected very badly by the approach they adopted.

Detail:

We had looked at our cash flow situation at the time and decided that it was in our interests to place one of our properties on the market to firstly improve any cash flow shortfalls and secondly to use the capital gain we had made to use this to rationalise some other higher interest debts outside of Bankwest. The agent had told us that it was going to be better to have the property vacant to sell as a family home and that it would be best to invest some funds and effort to bring it up to a better standard for presentation. Around the same time as an unfortunate coincidence the second property we had with Bankwest had become vacant due to the tenant defaulting on their contract and not paying rent. We

had been told on a few occasions by the managing agent that if some renovations were done we could achieve significantly better rental returns. So whilst it was being advertised we decided to take the opportunity to follow through on this and have carpet and painting done whilst it was vacant and had the same company that was looking at the property on the market quote and measure. We approached Bankwest whom we were in good standing with and had a long association with at that point. We let a local branch know our situation and since we had a large amount of equity in the properties we applied to borrow some short term funds against the two properties to firstly ensure that the loans were serviced as we now had 2 untenanted properties and secondly to help with the cost of the relatively minor (in terms of cost) renovations. We were looking for an additional \$ 22,000 only. We actually got a verbal approval on this and even a written confirmation that we should receive loan documentation shortly. With this in mind we booked for painting and for carpet installation, some wood flooring, and bought plants and some electrical items such as a new oven and some lighting. This was all in process and tradespeople booked when we got a call from Bankwest to say that they had decided that they were not going to proceed with the loan. They had said that as part of the loan application they had done valuations on the properties and proceeded to tell me that the valuation for the one remaining property had come in very low. They supplied the figure in fact after I pushed them for it. This varied by some 50,000 (lower) to what I had been advised independently when we had another valuer through the property only some 3 months earlier. I asked Bankwest about the value and they said the emphasis was on me to obtain sales histories and present them to Bankwest but that they would not show me the valuation. When I asked our mortgage broker who handled our other home loans outside of Bankwest, he asked me what I had told Bankwest about the purpose of the loan and how soon it was envisaged it was to be paid off. His strong suggestion was that since there was no loan application fee at the time and the loan was short term only Bankwest had probably reneged only because there was not enough in it for them. We explained to Bankwest what the consequences of this would be and that we would likely fall into arrears with 2 properties vacant . They did not seem to care about this and in the ensuing weeks having been forced to go ahead with renovations once started we did in fact fall into arrears and had phone call after phone call amidst the stress of getting a good deal of the painting done ourselves now due to lack of funds.

The crux of the issue came when we actually received an offer on the property for sale. This was in Feb 2010 and due to settle in April 10. It was a good offer which vindicated our additional work on the property . We then signed the offer and acceptance. When Bankwest received this that is when the shock to us came. We got a letter from Bankwest that stated that they had received the sale contract and ***now we were required to submit all of our financials over again and that if we wanted to keep any of the proceeds of the sale outside of fixing up the loan against that property and the real estate agent's commissions and conveyancing we had to submit a business case to them about what we wanted to do with the additional funds and they would consider whether they would permit us to do this.*** In

other words the capital gain that we had made on the property was to be applied to the remaining loan on the second property. I re read this several times to make sure I was interpreting it correctly as it seemed surreal. In essence they were **saying they wanted to make sure we could afford to sell the property** (to improve our cash flow by some 12,000 per year taking into account shortfalls on rent received and rates / maintenance etc.) and take the capital gain and apply it to paying off some outside higher interest non tax deductible debt!! I need to point out that this was in spite of having more than 30% equity in the remaining property which was done as a full doc so would have been under the auspices of a 90/10 LVR if we needed to push it that high. I phoned our mortgage broker to seek his opinion. He is one of the top mortgage brokers in the country in fact and has been broker of the year Aust wide on more than one occasion. He is extremely well respected and very knowledgeable. He looked after our business with the CBA only at that point and was not explicitly aware of who had our other 2 investment loans. When I told him it was Bankwest he assured me that I was interpreting the letter correctly and followed up that Bankwest were the **only financial institute Australia wide that had this policy of demanding financials at the time of sale (not just purchase!) and that demanded to know why you wanted to keep any proceeds of the sale outside of agents fees and settlement fees in you had another loan with them.**

I phoned Bankwest's " complex securities" team who were going to handle the settlement to confirm this stance. They did in fact confirm that they were the only financial institute that adopted this policy. We were not made aware of this before deciding to list the property, let alone accept an offer. I explained that we would be incurring a significant capital gain liability on sale and surely they had to at least take this into account. The answer was I had no way on knowing how much the CGT liability would be and that this would not be due until about 2 months post settlement and that it was really not their problem. Over the ensuing weeks my spouse and I essentially went into battle with Bankwest over the handling of settlement. They did another valuation to assess the value of the asset we had left. On this occasion (unknown to them because I happened to have personal knowledge of the company and the valuer they used) I was privy to the actual figure that had been supplied. They actually came back at me with a figure some 45,000 less than what I knew to be the truth!! I queried this and they said my information was probably not correct and they would not let me sight the valuation. They said I would have to accrue sales evidence myself if I wanted to appeal or contest the valuation but that they would not accept another valuation from an independent valuation even if I paid for it. This was all in the context of the clock ticking down towards settlement. I had to keep trying to rearrange the deal myself and I had to come up with the simple idea of transferring the security of the loan we were going to close to the remaining home to avoid **\$25,000.00 in penalties because this was a fixed rate loan.** They eventually conceded that this can be done. I had many sleepless nights until I came up with this revelation. When the complex securities team conceded this they basically said "**yes we will have to get authorisation to do this and it means other paperwork for us but I suppose it can be done but this is the 3rd time**

you have changed the deal and you have to promise this is the last time you will try to change the deal!!" This was said in an exasperated tone almost as if I should feel guilty all because I had thought of a way to avoid some 25,000 in the early payout figure they were working on. When the dust settled the best we could do was to keep enough funds to allow payment of tradespeople , the commission , settlement fees and a small residual to go towards perhaps 30% of the Capital Gain liability we incurred through the sale. This is because a large chunk was forced to be applied to the remaining property loan . This has improved our cash flow (in the short term only) somewhat but really totally negated the purpose of selling and using our capital gain as we wished : to get rid of bad debt in a large lump sum and have enough left over to comfortably deal with the capital gains tax liability. Now the only way we can access those funds is to either refinance or to sell the remaining property. We do not want to sell because that will trigger more capital gain liability .

Over this whole 6 month period Bankwest threatened foreclosure on 1 or 2 occasions even when we had the offer and acceptance on the table and they knew the situation with the equity we had. They threatened not allowing settlement to proceed also.

CONCLUSION

In closing, this whole process caused incredible stress and then the issues with struggling to make repayments then affected our ability to refinance as we had to show some 6-12 mths of clear repayment history. We still have the issue of trying to come up with the remaining CGT liability and had to seek the help of our accountant to stall as long as possible re the issue of this ATO debt. So in essence the way they handled this is still exerting a negative effect on our lives. We have just recently accepted an offer on a property that CBA has the security over along with our personal mortgage and their approach to this had been very helpful and very different from that of Bankwest . I have found them to be extremely helpful and agreeable with this and in seeing us through any arrears with any loans with them over the same period of time.

Although I am aware that CBA owns Bankwest our personal experience in having loans with both institutions and now dealing with their discharge process I would have to say that I am dubious about how much the Bankwest culture has been altered adversely by their takeover by CBA and how much of this is just inherent to Bankwest itself. I have commented on this stark difference to quite a few of the CBA reps that I have had dealings with and they tell me that I was not the first client they have had these types of comments from.

Yours Faithfully,

