

7 DEC 2010

The Secretary, Senate Standing Committee on Economics,

Inquiry into Competition within the Aust Banking Sector,

Dept of The Senate, PO Box 6100, Parliament House, Canberra ACT 2600

Submission from : John P McAuley M Ec

The essential point of this Submission is that when the Australian banks follow the upward movements in the Reserve Bank's cash rate and when, as in November 2010, the banks postulate higher costs of securing funds as a justification for passing on to their borrowing customers, interest rates in EXCESS of the RBA's increases, this justification is completely invalid.

It is virtually irrelevant whether the banks' average costs of raising funds in the market eg around November, was excessive as the Banks claimed, or about in line with the RBA cash rate as the RBA claimed.

The essential point is that the banks' current short-term costs of raising funds in the markets, which are needed to be passed on, are the interest rates chargeable only on NEW borrowings, not on the earlier old, Existing borrowings of customers.

The banks' funding of old, existing borrowings has already been financed in markets earlier. These customers do not deserve to have their interest rates raised again by the banks when the RBA's cash rates are later increased.

The banks are therefore taking an undue advantage by raising Existing customers' rates as well as on new and future loans.

The practice of the banks' in raising rates on ALL loans when the RBA's cash rates are increased, yields the banks unwarranted bonuses of \$billions when higher funding costs are successively and unfairly passed on to customers whose funding had previously been completed, perhaps years earlier in many cases.

Thus the banks' attempt at justifying rate increases in excess of RBA's movements is invalid, as my opening paragraph indicated.

It is not always understood that changing the RBA's cash rate is the SOLE and I believe, inadequate instrument used by the RBA in attempting to implement a national Monetary Policy, and that the Banking system is not regulated in any rigorous sense, but is a Voluntary system entirely dependent on banks' acceptance and cooperation which is not always given because banks know the system is not sufficiently competitive.

For at least a decade, Housing and land prices have risen above the reach of family formation. Infrastructure spending and assistance for youth job placements have been neglected. Monetary & Banking policy is not meeting Australia's needs. 30.11.10

