



Strong banks – strong Australia

House of Representatives Standing Committee on Economics

Review of the four major banks (second report)

Australian Bankers' Association

ABA06QW: 60

On what specific legal basis did the ABA make public comments on the commercial desirability of rate tracker mortgages?

Answer: The ABA's public comments on rate tracker mortgages were in direct response to a proposition put by the Committee through its Chair to major bank Chief Executives that the Government might consider amending the Banking Act 1959 or introducing some other legislation to compel banks to offer customers such mortgages:

CHAIR: So if the committee, for instance, were of the view that the Banking Act 1959 should be changed to effectively legally require you to offer such a product, you would not be opposed to that? (Hansard, Standing Committee on Economics, Annual review of Australia's four major banks, 4 October 2016).

CHAIR: If the committee was of the view to recommend that through legislation or regulation banks be required to provide a tracker rate mortgage so that consumers would actually know where they stand relative to the RBA cash rate always, what would be your view on that? (Hansard, Standing Committee on Economics, Annual review of Australia's four major banks, 5 October 2016).

CHAIR: ...would you object to or have any issue with regulatory action to require you to make those products available? (Hansard, Standing Committee on Economics, Annual review of Australia's four major banks, 6 October 2016).

CHAIR: ...would you have any problem with a regulatory change to require you to do so? (Hansard, Standing Committee on Economics, Annual review of Australia's four major banks, 6 October 2016).

It is entirely a matter for individual banks what products they chose to offer customers. It is an issue of industry importance, and therefore relevance to the ABA, when a proposition to legislate to compel banks to offer a particular product appears to be under active consideration by a Parliamentary Committee. The ABA has consistently opposed suggestions that Governments, rather than markets, should decide what banking products and services should be available.

Consequently, the ABA issued a media release on 6 October 2016, at the conclusion of the Committee's hearings, stating that:

At the moment tracker rate mortgages are not a product offered by the 100 or so financial institutions which provide home loans. This suggests there is not a viable market opportunity for this type of product.

The purpose of this statement was to highlight that the proposal put by the Committee was effectively to mandate a product where a dynamic, competitive market with many and diverse players had not seen a commercial imperative or opportunity to do so. In other words, it appeared the Committee was contemplating mandating a product that market experience to date had suggested was not commercially viable. Subsequently, as far as we are aware, only one mortgage provider has chosen to offer this product. Where in the past home loan providers have provided this type of product into the Australian market, they have subsequently withdrawn it.



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The ABA media release then stated that:

Banks are, however, always looking at ways to improve their products and services. This involves reviewing product design and drawing on international experiences to see if customers would get any value from a new product.

The purpose of this statement was to highlight that it was a matter for individual banks to determine whether a new product should be offered and that, in a dynamic market, home loan providers, including banks, are always assessing and responding to customer needs.

The sum total of the ABA's argument was that it should be up to markets, not Governments, to decide what products are offered by home loan providers. If a market failure can be identified, the cause of that failure should be addressed. It should not be overcome through compelling businesses to offer specific products.

On 14 October 2016, the ABA issued a further media release in response to comments by the Chairman of the Australian Prudential Regulation Authority that he would be concerned if there were a suggestion that tracker mortgages should be mandated. The Chairman's comments were made to the Committee at its hearings on 14 October.

In that media release, the ABA reiterated that its concern was with the proposal to regulate to require banks to offer tracker mortgages:

Requiring banks to offer a rate tracker mortgage that follows movements in the RBA cash rate, rather than the actual cost of funds, would add considerable risk into the banking system.

Copies of both media releases are attached.

In conclusion, the ABA, as the banking industry's association, was responding to proposals publicly put by the Committee to the major banks that the Committee might consider compelling banks through legislation to offer a specific product. As such, the ABA was responding to a matter of public policy and possible legislation on behalf of the industry. This is a core responsibility of the ABA. The ABA made it clear that commercial issues, including whether to provide a tracker loan, were a matter for individual banks.

Media Release

Banks support wide choice in mortgage market

Sydney, 6 October 2016: Home buyers have more than 3,600 home loan products to choose from, at the lowest interest rates in half a century, the Australian Bankers' Association said today.

“This very competitive market allows home buyers to choose the loan product that best suits their financial needs,” ABA Chief Executive Steven Münchenberg said.

“Although there is a wide range of both variable and fixed rate products available, more than 85 per cent of home buyers choose a variable rate product.”

Mr Münchenberg noted the potential of offering tracker rate mortgages in Australia was one of the topics discussed during Parliamentary hearings into major banks this week.

“A tracker rate mortgage is a variable rate loan offered in some countries as an alternative to fixed interest rate products. It means that the interest rate moves up or down in line with an indicator rate, such as the cash rate,” he said.

“This differs to standard variable rate mortgages which are linked more to the total cost to banks of providing the loan.

“At the moment tracker rate mortgages are not a product offered by the 100 or so financial institutions which provide home loans. This suggests there is not a viable market opportunity for this type of product,” he said.

“Banks are, however, always looking at ways to improve their products and services. This involves reviewing product design and drawing on international experiences to see if customers would get any value from a new product.

“It’s important that when customers are searching for a home loan, they know what features are most important to them. For example, no application fee, flexible repayment options or a low interest rate,” Mr Münchenberg said.

ENDS

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About the ABA

With the active participation of 25 member banks in Australia, the Australian Bankers' Association provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services.

The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Media Release

ABA supports APRA comments on rate tracker mortgages

Sydney, 14 October 2016: The Australian Bankers' Association has supported today's comments by Chairman of the Australian Prudential Regulation Authority, Mr Wayne Byres, about the concerns of mandating rate tracker mortgages for all authorised deposit-taking institutions.

"Mortgages with interest rates tied to movements in the cash rate do not offer the best outcomes for customers, the banking industry or the Australian economy," ABA Chief Executive Steven Münchenberg said.

"The RBA cash rate is only one of many factors which goes into the cost to banks of providing mortgages.

"Other funding costs, especially those sourced offshore, change independently of the cash rate. This means banks need to factor in the likelihood of these funding costs rising, and build in a higher buffer when setting a tracker mortgage rate. Customers will end up paying more than they otherwise would be with a typical home loan.

"In Australia, a large part of bank funding comes from overseas. Requiring banks to offer a rate tracker mortgage that follows movements in the RBA cash rate, rather than the actual cost of funds, would add considerable risk into the banking system."

Mr Münchenberg said the idea of legislating to require banks to offer rate tracker mortgages was previously proposed by former Greens Leader Bob Brown in 2010 and did not pass the Parliament.

"While banks are supportive of any product which improves customer outcomes, regulating rate tracker mortgages would only result in higher costs for banks and customers," he said.

Mr Münchenberg said it was important to note that many tracker mortgages offered overseas are not for the life of the loan, as they typically revert to a standard variable rate after two, three or five years and are offered in order to attract customers.

ENDS

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