Submission to Senate Inquiry

"Effects of the GFC on the Australian Banking Sector"

21 May 2012

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

Dear Senators,

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

Introduction:

Six months prior to the completion/ expiry date for the initial loan, Bank officers visited the business and informed me that they would not re new the loans taken out to develop a property. This was shocking as the loans between the Business and the Bank were considered by the Directors to be a loose partnership and that the bank was behind the Business supporting it until it gained momentum. The exposure was slightly under $4M at the time. The independent valuation on the Business was $10M giving an LVR or 40%, a very comfortable position to be in from a borrowers point of view in this industry sector.
I very quickly learned that money was tight. I arranged, or so I thought, a loan to continue the business, done on handshake with a CBA officer, to be confirmed in a few days. Only be told several days later that he could not

take over the business, he didn't know why he had never experienced this before etc.
Basically my Goose was then cooked. I had to sell out.
A very distressed seller indeed.
Sold out for $6.8M paid out all outstanding debts. Moved on.

NB normally this type of business sells at a15-20% premium to the bank valuation.

Detail:

Background

The business is a development Business building Manufactured homes for the Over 55 Market. (It is going quite well under new ownership.)
I was developing a block of land to have 217 homes on it plus associated infrastructure.

Why Bank West

I went to all banks. Bank West courted me and won the business with their hunger for new lending.

Nature of the facility

The facility was originally for 2 years and by implication renewable. It was to be for $5M the first tranche of the loan came through, for $1M. This was to be OK as it was for the first part of the development. In retrospect alarm bells should have been clear and loud, however enthusiasm for a new project meant the money was borrowed and the project began. Another $3M was advanced in September 2008 but the final $1M was withdrawn. Making the business difficult.

Dates of what happened

The first accounts were opened in April 2008 and the first monies were advanced in May 2008. Draw-downs being made as the work progressed. The second $4M was reduced to $3M in September 2008. Six months prior to the term date the renewals were withdrawn.

What the bank did

The bank let me down in not lending the final $1M and by not renewing the loan when it fell due. Again in retrospect one wonders why they lent any money at all. Everyone concerned would have been much better served if the banks duty of care to its customers plus its responsibility to the larger business community had been considered both prior to lending the money (experienced banking executives should have known the consequences of where they were headed) and prior to reneging on the loans, even if done on a technicality. Again (experienced banking executives should have known the consequences of where they were headed. Super profits?)

Personal Impact

Once the bank removed its support, its confidence, the business stalled, I was focussed on raising capital not growing the development. The rug had been pulled from beneath the business' feet.
My Life has been severely impacted by the banks actions, from sleep patterns to personal relationships, to business relationships, to work prospects to motivation. And I am one of the lucky ones.

Conclusion:

As stated above, why the loans were made in the first place, is perplexing. Then once made, why the implied continuation of the loans was reneged on, is similarly, perplexing.

I made every attempt to sell the property at valuation but was forced to sell well under valuation to satisfy the bank. I achieved this to my considerable disadvantage, in the end the bank reimbursed the about fifty percent of the 'Default' interest margin it had charged against the loan account. There were no receivers involved.
In my view this is a sorry episode of shylock-ism. Even the bank officers involved expressed, in various ways, their embarrassment in having to carry out the wishes of their masters. I might say, wishes carried out, in the full knowledge of their impending redundancies. The whole thing is a disgusting shame.

Yours Faithfully,