Pub: Australian Financial Review
Pubdate: Wednesday 27th of October 2010
Edition: Second

Bash the banks not the economy, stupid

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With the Commonwealth Games over, fret not – Australia's national sport of bank bashing always rates. But just as the New Delhi medals tally leaves a somewhat empty feeling, so does the latest round of empty rhetoric against bank power.

Wayne Swan isn't the first treasurer to talk the talk without walking the walk on bank threats to raise home loan rates independently of the Reserve Bank of Australia.

To score a real victory against those so-called greedy bastards, bank bashers need action that protects home loan customers, without hurting the economy, shareholder returns and monetary policy.

God forbid, regulation is making a comeback! Get out your flares and platform shoes – it's the bad old days of the 1970s all over again.

Agreed. A bastardised version of that 1980s favourite the Prices and Incomes Accord based on the National Wage Case is a much better look for bank bashers.

Banks want the freedom to offset the rising cost of raising funds. Customers want protection from price-gouging. The government supports the banks through regulation and tax policies that exempt family homes from the capital gains tax and allow negative gearing on investment properties. The central bank needs to know its policy settings won't be jeopardised by out-of-cycle rate rises.

Joe Hockey got it half right when he flagged a social compact to rein in major banks, which start reporting today, lifted profit from $9.6 billion in the second half of 2009 to $14 billion the following six months, and are serial offenders on fees and anti-competitive behaviour.

Beyond regulatory tinkering, Joe didn't have an idea to make it work.

A National Interest Rate Accord built on an annual National Interest Rate Case is the answer.

If banks want to raise mortgage interest rates above and beyond the RBA's, they should be forced to justify one-off moves to an independent authority.

Ahead of September-quarter inflation figures due out today, and the Melbourne Cup day interest rate decision by the RBA board next week, banks have whinged about their rising cost of funds. Competition regulator Graeme Samuel is worried those warnings of future rate rises suggests collusion.

If banks behave like oligopolists then treat them as such – just like electricity and water utilities, or inversely, strong unions seeking national wage rises. Private health insurers, which just like the banks enjoy enormous protection and support from government policy, have to justify premium rises, although that process has been watered down far too much.

For banks, the trick is to ensure it doesn't skew central bank economic policy or ration bank lending decisions.

The National Interest Rate Case lets banks, consumers, independent regulators and the government thrash it out in a process that recognises the needs for profitability and confidentiality of the financial sector; takes account of the cost of living (to deter banks from simply raising fees for other services to avoid the home loan controls); and considers the national economic interest.

Just as Bob Hawke insisted the 1980s Accord with the ACTU had to rein in maverick unions, the banks under the Interest Rate Accord need to display goodwill.

Chances are they could not justify any cost recovery levy now – the RBA says bank lending margins have been flat and, while lower than pre-crisis levels, still about average over time.

Setting a maximum margin for home loan rates would be hard – Treasury is already looking into the margins banks enjoy – as will separating small institutions from the large.

But when the banks could justify their case for cost recovery, their reward should be limited to a one-off temporary fee or levy on borrowers up to a set maximum dollar amount, linked to loan size.

It should be paid on one set date in cash and not added to the home loan, so the extra impost is not built into repayments for years to come and cannot be used by the banks as a trick to lock in higher margins.

Banks can gain a competitive advantage by reducing the levy they apply – and, to be fair, the levy should become a refund when banks' cost of funds falls faster than the RBA's rate movements.

The banks themselves will be outraged, but the alternative may be a deal between the Greens and Labor on a super profits tax.

Such is life . . .