



**Queensland Teachers'
Credit Union Limited**

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**Submission to the Senate Economics Committee
Inquiry:**

Competition within the Australian Banking Sector

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Executive Summary

Queensland Teachers' Credit Union (QTCU) is a mid-sized member owned mutual financial institution, asset size \$1.1bn, serving the needs of the wider Queensland community with a significant emphasis on the teaching community. As a mutual our philosophy is to have an open, honest and transparent relationship with our members with a consistent long term value proposition. We also endeavour to optimise profits for our members rather than to maximise profit for shareholders. This basically means that we aim to make enough profit to maintain a prudent balance sheet that meets all of the requirements of our regulator, APRA and, at the same time, allow investments for the future. Beyond this, one of our main objectives is to create a viable alternative to the banks by looking after the needs of our members with high levels of services, good quality products and consistent good value.

However, since the Global Credit Crisis (GFC) our ability to fulfill our objectives has been restricted due to the dominant position of the banks and their ability to both control and price funding options available to smaller financial institutions. This, in our opinion, is the major systematic inhibitor to competition within the Finance Sector.

QTCU supports the recent announcements made by the Federal Treasurer, Wayne Swan, but believe further reforms are required to make funding more equitably available for smaller financial institutions which are either unrated or rated lower than banks.

QTCU has been actively engaged in creating increased competition in the Australian Banking Environment by creating competitive and innovative products and services but would appreciate Government assistance in the following areas:-

- Sustainable access to reasonably priced funding through the securitisation marketplace by encouraging Superannuation Funds to invest in this market.
- Remove the distinction and consumer perception that Banks are regulated differently to CUBS.
- Maintain the Government Deposit Guarantee at the existing level.
- Allow CUBS to utilise their franking credits for the benefit of members based on the members' relationship with the institution.

QTCU endorses the Government's commitment to enhance competition within the Banking Sector and looks forward to the findings of the Senate Economics Committee Inquiry.



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RECOMMENDATIONS

A. Sustainable Funding

QTCU believes that to effectively promote competition within the Australian Banking Sector, there is a need to address a structural funding problem facing most small financial institutions. There are a number of issues that influence both the availability of funding and the pricing of funding. Unfortunately, there is a general acknowledgment that there is a significant funding cost differential between the large banks and smaller financial institutions. This differential needs to be significantly reduced as all Authorised Deposit Taking Institutions, whether they be banks or CUBS, are regulated by the one regulator, APRA, under common Prudential Standards. In some respects, because of their simplified business models and their relatively low exposures to both commercial and business lending, CUBS are, in reality, low risk organisations.

Therefore, availability and pricing for residential mortgage backed securities (RMBS) should only reflect the underlying quality of the assets rather than any other aspect.

The Government has recently criticised financial institutions, especially the major banks, for increasing their mortgage rates higher than movements in the Official Cash Rate. QTCU has recognised that consumers would like some transparency in relation to movements in their mortgage rates and has introduced a mortgage tracker loan product, similar to those offered by UK banks. This mortgage loan is a fully featured standard variable rate loan and has the added benefit that interest rate movements are guaranteed by being based on the premise that the rate applicable to the loan will only move in line with changes in the OCR announced by the RBA and only when the OCR changes, no out of cycle changes. This product creates certainty and surety for consumers and, at the same time, provides transparency. Not only does it provide demonstrable benefits for consumers, it conforms to the social and political objectives of the Government.

QTCU would like to be in a position to widely promote and offer this product to the wider Australian mortgage market. However, due to current securitisation requirements in relation to the ability to reprice mortgage loans, this type of loan does not conform and is therefore ineligible for securitisation, thus significantly affecting and limiting our funding options.



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It is also widely acknowledged that a significant source of funding, Superannuation Funds, is not available to CUBS directly due to the ratings of CUBS and to CUBS via securitisation programs due to policies and return concerns set by Superannuation Funds. Looking into the future, Superannuation Funds will be the dominant consumer savings vehicle rather than retail deposits with financial institutions.

This trend will continue to materialise if and when compulsory superannuation is increased from the existing 9% to 12%.

Therefore, the Government needs to address this structural saving shift that has and will continue to have an unfavourable impact on funding options available to smaller financial institutions. One way in which this situation can be addressed is for the Government to guarantee an AAA rated tranche of securitised mortgage tracker type loans, via the Australian Office of Financial Management, for a small fee, say 10 to 15 basis points, in similar fashion to current practice with most RMBS issues but limited to politically and socially accepted tracker mortgage loans.

In order to encourage participation and investment in the RMBS issues, the Superannuation Funds could receive taxation incentives, in the form of lower rates, on the revenues earned by their RMBS investments. If only 5% of the investment funds available with the Superannuation Funds could be diverted into the RMBS issues then competition in the housing mortgage market would be greatly stimulated. The returns generated by these Superannuation Funds would not be affected due to the investment margin of between 80 and 100 basis points above BBSW application to the RMBS investments. This return would be more than favourable when compared with other AAA rated cash investment type products. The suggested taxation incentive would be an additional bonus and would offset some negative reaction to loss of growth opportunities associated with the investment. However, the investments would not be exposed to capital reductions and would receive consistent and reliable revenue flows.

These actions would not only create structural solution concepts to the funding problems presently being experienced by smaller financial institutions, which may be viewed positively by APRA, but would significantly increase competition within the home loan mortgage sector by creating a viable and reliable funding source at realistic prices and, at the same time, establish a political and social solution for transparency in the movement of home loan interest rates which is something the Australian public are seeking and needing.



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While these concepts have not been modeled, they should be relatively neutral in terms of budgetary affects on the Government but extremely positive in a political and social context by encouraging and assisting smaller financial institutions in offering competitively priced mortgage tracker type housing loans to the wider Australian consumer. As the concept is based on seeking a long term structural funding solution for smaller regulated ADIs, there is every likelihood that APRA may support the concept.

The other items disclosed in the Executive Summary have not been addressed in this brief submission as they have been well documented and described in submissions developed and submitted by Abacus and CUA.