



Mr John Hawkins  
Secretary  
Senate Economics Committee  
Parliament House  
CANBERRA ACT 2600

16 March 2011

Dear Mr Hawkins

I am writing to provide an update to the Senate Economics Committee's Inquiry into Competition within the Australian banking sector. Since ANZ appeared before the Committee in December there has been a significant increase in competition in the home loan market. I consider it important that this is taken into account by the Committee when it formulates its final report.

In December, we reported that, over the last few years, competition in the deposit market has been very strong. In the wake of the financial crisis, banks were competing to attract deposits as a stable source of funding. This saw the 90-day term deposit rate offered by ANZ increasing from around the RBA official cash rate in 2007 to be around 100 basis points (bps) above the cash rate. However, in the last few months, we have also seen intensified competition on the lending side of our business.

Over the last two years, Australian consumers have saved more and borrowed less. The national household savings rate has increased from around zero in 2006 to about 10 per cent of household income today. At the same time we have seen a decline in the demand for home loans.

Due to increased saving and reduced home loan lending, lenders are now chasing market share within a smaller pool of borrowers. As a result competition between lenders has intensified. This has manifested itself in a number of ways. Since the beginning of 2011, we have observed that banks are:

- Providing rebates on exit fees and switching costs or cash incentives for customers who switch from one bank to another. One major bank is offering up to \$1,400 for customers who switch their mortgage, credit card and transaction account from another major bank. Customers taking out home loan packages are also being offered waivers on annual fees for the first year.
- Offering higher discretionary discounts on the SVR. Before the financial crisis, the maximum discretionary discount would typically have been around 70-80 bps off the lender's SVR. Now we are seeing lenders offering discounts of 80bps as standard and up to 100bps in some instances.
- Relaxing home loan credit policies and lending to higher loan to value ratios (LVRs). As a result of the financial crisis, all major banks tightened their lending criteria to

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lend only up to a maximum of 90 per cent of the value of the property for new to bank customers. This was prudent in light of the difficult and uncertain economic conditions. However, recently, a number of major banks have increased the maximum LVR for new to bank customers to 95 per cent.

We are also seeing product innovation with one major home loan lender introducing a fee-free home loan with an interest rate 57bps below their standard variable rate. These recent developments are an indication of the highly competitive environment amongst Australian banks and the difference in the propositions offered to consumers. Some banks are choosing to grow market share by offering the lowest rate while others are offering a higher rate but aiming to retain customers through other service offerings. Consumers who are refinancing or taking out a new home loan are benefiting from the choice and competitive offers available in the market.

In our submission to the Inquiry on Competition within the Australian banking sector, we indicated we support sensible measures which will support competition and consumer choice in the market. The current state of the mortgage market highlights how a competitive environment can benefit consumers without the need for significant new regulation.

ANZ would be pleased to provide any further information to the Committee. I can be contacted on (03) 8654 3459 or michael.johnston2@anz.com.

Yours sincerely  
(...)

Michael Johnston  
Head of Government & Regulatory Affairs