Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates – 25–26 February 2009

Question: aet 75

Topic: Mortgage Providers

Hansard Page: Written

Senator PAYNE asked:

1. Have there been any discussions with Australian home mortgage providers regarding possible transfer of control from their private ownership to the Australian Government?
2. Have any discussions arisen with Australian home mortgage providers regarding their liquidity as a consequence of the action by the United States Administration in September 2008 to place Fannie Mae and Freddie Mac under government control, with government-appointed chief executives?
3. Does the department have concern over the liquidity during the next 12 months of any Australian home mortgage provider? If so, can the department name those providers?
4. Is the department in dialogue with FaHCSIA and/or Department of Finance and Deregulation to monitor the liquidity of home mortgage providers in Australia?
5. Is there any evidence available to Treasury that home lending in Australia has tightened?
6. Is the Department aware of any trend towards lending a lesser proportion of the total value of the property to be mortgaged? That is, are financiers now lending say 80 or 85% of the property valuation where a year ago they might have lent 100% of the purchase price, or even 100% plus conveyancing costs? If such as trend towards more restricted lending practices is evident, why is it occurring?
7. Has the department questioned mortgage providers when they have failed to pass on the full benefit of Reserve Bank cuts in cash rates to those Australians who have variable rate home loans? If so, what were the responses to the Government from those lenders?

Answer:

1. The Government is closely monitoring the impact of the global financial crisis and global recession on the financial system and in performing this role it has consulted with a wide range of ADI and non-ADI financial institutions. There are no plans to transfer control of any financial institutions to the Government.
2. While placing Fannie Mae and Freddie Mac under US Government control had general reverberations across global financial markets, this US Government measure did not have a significant direct impact on the liquidity of Australian home mortgage providers, as they had no significant direct exposures to Fannie Mae and Freddie Mac.

3. The Government will continue to closely monitor the impact of the global financial crisis and the global recession on the financial system, including mortgage providers. It is particularly concerned with the dislocation in the mortgage backed securitisation market, a source of funding which is now in limited supply. It has therefore developed a number of initiatives that support competition in the home mortgage market, including an $8 billion investment in residential mortgage-backed securities.

4. The department is in contact with other Government departments and agencies on the impact of the global financial crisis and the global recession. It has discussed how developments in the financial system impact on Australian households and businesses, including the impacts on home mortgage providers.

5 & 6. In the March 2009 and September 2008 Financial Stability Reviews, the Reserve Bank of Australia (RBA) noted that lenders have recently tightened lending standards by reducing their maximum loan-to-valuation ratios (LVRs). The RBA also noted that few large lenders offer 100 per cent LVR loans, some lenders have increased their documentation requirements and risk margins for their low-doc loans, and one lender has reduced its discount on advertised standard variable rates.

More conservative borrowing and lending patterns can be expected given the uncertainty stemming from the global financial crisis and the global recession, and following the loosening in lending standards over recent years. However, this has not reduced the quantum of housing credit, with the latest financial aggregates data indicating that both the flow and stock of home loans has increased in recent months.

7. Representative from the banking industry have stated publicly that increases in the cost of raising funds in global and domestic capital markets and the uncertainties stemming from the global financial crisis and the global recession may influence their capacity to pass on reductions in the RBA cash rate to home loan consumers. The department has discussed these issues with representatives from the banking industry.