

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 258

Topic: Banking & Loans

Hansard Page: Written

Senator WILLIAMS asked:

1. Can you tell me if APS330 applied from January 2008? Do most banks really disclose Table 6?
2. Was Bankwest given an exemption from compliance with APS330? Can you produce that document of exemption to the Committee?
3. Is Bankwest accredited for APS 113 Internal Rating Based (IRB) approach to risk evaluation? Was it or its NOHC ever approved for IRB and when did this start and end?
4. Can you explain why the APRA data heading “Loans to non-financial corporations” does not differentiate between land development of commercial, residential and mixed versus lending on the assets of a company and its management acumen?
5. Can you explain the definitions of non-financial corporations and financial corporations?
6. Can you change your statistics to make them more detailed so people can see when a bank is overloaded on one sector or another?
7. Can you tell us what percentage of so-called business loans are secured on residential real estate?
8. It is misleading that they are called business loans when in fact they are residential loans with the proceeds used for business as opposed to a loan on business assets alone?
9. What percentage of loans are made purely on business assets alone with no recourse to real estate?
10. Do you think APS that heavily biases residential mortgages has converted Australian banks into building societies and that Australia’s bank’s are really built on a nation real estate speculation trends rather than investing in real business ?
11. Can you explain a statement in the Australian on 26 March 2010 made by the Australian Competition & Consumer Commission chairman Graeme Samuel at a Credit Suisse conference in Hong Kong:-

As both acquirers used their scale to expand significant home-lending franchises, Australian Competition & Consumer Commission chairman Graeme Samuel expressed regret last

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year that he had approved the CBA/Bankwest deal, in particular.

Mr Samuel blamed advice from local regulators that Bankwest's then-parent, HBOS, was mortally wounded and unable to fund its Australian subsidiary.

12. The reality was that Bankwest was out of cash by late 2007 because it lent long and borrowed short? When did it contact APRA warning of liquidity problems?
13. Can you explain why on 18 September 2008 Mr. Simon Walsh, the MD of Bankwest said in a public statement:-

"I think our key message would be that your funds in BankWest are as safe as they've been in last week, the previous week and other weeks, so don't panic," he said.

"These are turbulent markets and what I can say is that BankWest is regulated in exactly the same way as every other Australian bank - we're highly capitalised, we're highly liquid and with that customers' funds are safe with BankWest."

On the same day the Minister Nick Sherry said:-

"APRA is also in daily contact with the UK financial services authority. There is no suggestion, and I emphasise this there is no suggestion, that BankWest is experiencing any difficulties," he said.

Can you explain the discrepancy between what Mr. Samuel said and what Mr. Walsh and Senator Sherry said in public?

14. In fact was what Mr. Walsh from Bankwest said disingenuous, because it was really just as unsafe in the last few weeks as it was unsafe at time of the announcement and he carefully did not compare it to say two years ago, and so Bankwest appears to have conned the public?
17. Can you explain the HBOS agreement with CBA and why a \$1.2b chargeback is going on, and why Bankwest has had such enormous changes in its valuations?
18. Can you explain why the heading does not differentiate between land development of commercial, residential and mixed versus lending on the assets of a company and its management acumen?
19. Can you tell us what percentage of business loans are secured on residential real estate?
20. Does APRA in effect determine social priorities and monetary policy to small business?

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Answer:

- 1 APS 330 became effective with the implementation of Basel II in Australia on 1 January 2008. Banks have been disclosing the information required by APS 330, including the information requested in Table 6, although the precise detail provided varies from bank to bank.
- 2 The secrecy provisions of the *Australian Prudential Regulation Authority Act (1998)* prevent APRA responding to this question.
- 3 See response to question 2.
- 4 Pursuant to the *Financial Sector (Collection of Data) Act 2001*, APRA is able to collect data to assist in the prudential regulation or monitoring of financial sector institutions, or to assist another financial sector agency to perform its role or the Minister to formulate financial policy. The level of detail suggested is greater than APRA requires for most prudential regulatory purposes.
- 5 Non-financial corporations comprise private trading corporations, private unincorporated businesses, and Commonwealth, state, territory and local government non-financial corporations.

Financial corporations comprise the RBA, other central bank institutions and depository corporations like banks, other ADIs, registered financial corporations, life insurance and other insurance corporations, pension funds, central borrowing authorities, other financial institutions and financial intermediaries.
- 6 See response to question 4.
- 7 See response to question 4.
- 8 APRA's prudential interest is in the security backing the loan – if borrowings are backed by residential real estate this is a significant feature of the security of the borrowing.
- 9 See response to question 4.
- 10 No. APRA's prudential standards for determining capital requirements are risk-based and aim to ensure that adequate capital is held for the risks being taken. Reflecting this, the capital requirements for residential mortgages are significantly less than for most other historic classes of exposure, primarily as a result of the security for the loan and the low loss rates for this business. While the share of residential mortgage lending in total bank lending has increased in recent years as the share of business lending has fallen, this reflects a range of factors, including the decline in housing lending by non-ADI lenders as a result of the global financial crisis, the impact of the first home owners' grant and reduced demand for credit from the business sector as a result of the economic downturn.
- 11-17 See response to question 2.

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- 18 See response to question 4.
- 19 See response to question 4.
- 20 No. This is outside APRA's remit.