

11 July 2008

Committee Secretary
Inquiry into competition in the banking and non-banking sectors
House of Representatives
PO Box 6021
Parliament House
CANBERRA ACT 2600

BY EMAIL TO economics.reps@aph.gov.au

Dear Secretary

Submission on Inquiry into competition in the banking and non-banking sectors

Thank you for the opportunity to provide comments to the Inquiry into competition in the banking and non-banking sectors.

As a major participant in the credit industry, and particularly in the home loan market, Aussie Home Loans (Aussie) is uniquely placed to comment on competition in the retail banking and non-banking sectors in Australia. Further detail on Aussie's business is set out in the attached Appendix.

Executive Summary

1. The recent liquidity crisis has significantly reduced competition and unless the government acts to support non-banks, competition is likely to reduce further. We recommend the government adopt a two-prong approach, ie by:
 - establishing a Canadian type system to assist capital raisings and to strengthen the market. As the bonds would be Government guaranteed, treasury investors would provide more depth to the market;and
 - boosting household savings and encourage greater investment for housing and related credit through tax incentives and other concessions.
2. The current state of retail banking and non-banking industries has seen an increase in margin, resulting in increased cost to Australian consumers.

3. Maintaining a role for finance brokers is essential to drive competition and to provide greater choice for consumers.

Aussie's entry into the home loan market in 1992 contributed substantially to a reduction in interest rates for Australian consumers, estimated to be in the order of more than 2% per annum.

This reduction was powered by the participation of non-banks bringing competition to the Australian banking system. In addition to enhancing price competition, non-bank lenders have been on the forefront of home loan product and distribution innovation. Unfortunately, many of these non-banks are now unable to compete due to the effective closure of securitisation markets as a result of the US sub-prime or liquidity crisis.

The effects of the liquidity crisis continue to ripple throughout the Australian economy and will result in wide ranging impacts for businesses seeking to invest or expand, and for investors and consumers seeking credit. The strong credit growth in the last decade has led to many credit providers funding domestic lending activities by borrowing offshore through the sale of mortgage-backed securities. This has resulted in increased exposure of Australian households to the vagaries of the global financial markets.

Aussie supports policies which promote robust competition and credit market efficiency, whilst providing consumers with real choice.

To address the shortage of available credit in the Australian market, Aussie recommends that the government adopt the following proposals:

Firstly, Aussie strongly supports the proposals put forward by the Australian Securitisation Forum (**ASF**) for the adoption of a scheme similar to the Canadian mortgage bonds program. We believe that the early introduction of such a scheme would enable non-banks to re-enter the mortgage market which will significantly stimulate competition.

The reduction in competition is clearly demonstrated by the recent significant reduction in commission paid by lenders to brokers. The reduction of broker commissions is a clear demonstration of a significant reduction in competition over recent months. Lenders are now not so keen to fight for consumers' business.

This can only be rectified by:

- strategies to reinvigorate the non-bank market;
- Commonwealth regulation of finance brokers in a cost effective and simple fashion (in this regard we have made a separate submission to the Green Paper on Financial Services and Credit Reform).

Aussie recognises that markets tend to operate most efficiently with little or no government intervention. Consequently, Aussie advocates a system where the government's mortgage bond program is scaleable and can operate in a flexible manner, depending upon the severity of the liquidity shortage.

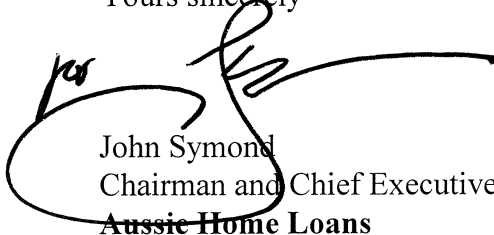
Secondly, Aussie is supportive of tax incentives and concessions to boost household savings. The current taxation regime does not provide sufficient incentive for Australian households to save more. In this regard, Aussie notes that:

- Increased levels of household gearing have resulted in Australian consumers becoming much more exposed to relatively small fluctuations in borrowing rates.
- High levels of gearing are only beneficial when financial markets operate in an orderly fashion without exceptional and prolonged volatility or supply constraints.
- Australia is a net borrower within the global community and is therefore heavily reliant on credit from overseas investors. During normal market conditions the sourcing of overseas credit has a positive effect on reducing concentration of domestically held risk.
- Increased household savings would enable lenders to better diversify funding sources.
- It would be inappropriate for regulators to mandate maximum security deposits on lending.
- As with mandatory superannuation contributions, domestic savings would provide a relatively cheap source of funds for short term market liquidity.

Aussie believes that boosting domestic savings, when used in conjunction with the Canadian Mortgage Bond model, would better insulate the local credit market against future volatility in the global market.

I am happy to meet to expand upon my views.

Yours sincerely

A handwritten signature in black ink, appearing to read 'John Symond', is written over the typed name and title. The signature is fluid and cursive, with a long horizontal stroke extending to the right.

John Symond
Chairman and Chief Executive Officer
Aussie Home Loans

Appendix

Aussie Home Loans (**Aussie**) is one of Australia's leading finance brokers and mortgage managers. Established in 1992, Aussie initiated some big changes in the home loan market that have made the dream of home ownership more accessible for all Australians, including true interest rate competition.

Aussie participates in the credit industry as:

- a mortgage broker for home loans;
- a mortgage broker for investment and business finance;
- a mortgage manager for mortgage loans;
- a distributor of white labelled credit cards, car and personal loans, and referral of home insurance.

Aussie is a long-standing member of the Mortgage & Finance Association of Australia (**MFAA**) and the ASIC approved alternate dispute resolution scheme, Credit Ombudsman Services Limited (**COSL**).

Aussie is a compliant organisation that has always espoused industry best practice and can proudly stand on our record.