

---

## Mortgage Obsession Bad For Business

The latest in a painful series of 'determined to be different' advertisements claims **Commonwealth Bank** has 'more satisfied customers than any other Australian Bank'. Given they have the most customers by a large margin, this is probably true. No doubt they also have more dissatisfied customers than any other Australian bank (**Telstra** will probably start using the same line on us soon).

Most of the messages we hear from the banks are like this. Drivel. On mortgages, though, they have a point. Home loan rates should rise by more than any increase in the Reserve Bank's official rate.

The banks' funding margins have been increasing and they will continue to do so for a few years yet. Three years ago they could obtain funding for as little 10-20 basis points over the benchmark rate (a basis point is 0.01%). Today the same money costs 80-100 basis points. As the old, cheap funding rolls off and is replaced by new, expensive funding, the average cost of funds continues to rise.

Mortgage rates are, to make the understatement of the year, politically sensitive. Any bank that raises mortgage rates by more than the official change in rates is going to get bashed from all sides of politics. The banks have been very reluctant to be on the receiving end of such a public relations disaster, so have not recovered all of the increase in funding costs. They are making less on mortgages now than they were before the crisis.

Fear not if you are bank shareholder. The overall net interest margins for Australia's big four have risen since the onset of the crisis. That's possible because the lower margins on mortgages have been offset by charging through the nose for any loan that isn't a home loan.

Small to medium businesses are paying margins 300-400 basis higher than they were before the crisis, compared with 25-40 basis points extra for homeowners.

This is a bad outcome for the overall economy. Resources are being diverted from productive business assets to unproductive housing and the banks, by charging below market rates on home loans, are making it almost impossible for anyone else to compete. All because of an unhealthy political obsession with mortgages.

The Australian banking sector is not competitive enough. It's a cosy oligopoly where the profits made far exceed a reasonable return on capital. Contrary to popular opinion, Australia's homeowners are the one group of borrowers that aren't paying the price.