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Banks squeeze home owners to save profits

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HOME owners face higher interest rates as the Big Four banks try to protect their bottom lines from rising bad debts and the higher cost of borrowing.

With both the ANZ and National Australia Bank warning yesterday that the recession-hit economy will see their multibillion dollar bad loan problems spread to consumers over the next 12 months, the prospect of any further Reserve Bank rate reductions being passed on in full are receding rapidly.

ANZ revealed yesterday it had made \$1.4 billion this year, following NAB's \$2 billion result. Earlier the Commonwealth reported a \$2 billion profit. The Westpac and St George group is due to report a figure of at least \$2 billion next week, taking the Big Four's combined latest earnings to nearly \$7.5 billion.

They are on track to make net profits of around \$16 billion for the full year, say analysts.

But despite the informal pact with the Federal Government following its funding guarantee scheme that borrowers would not be penalised, the results have shone a light on the increased margins enjoyed by banks - or their surplus on the interest rate they charge customers.

Bankers warn that they will continue to be unable to pass on any future Reserve Bank rate cuts in full, due to an increase in bad loans to businesses, home buyers and credit card users as the economy sours.

ANZ revealed yesterday that its first-half-year profit had dropped by more than a quarter to \$1.41 billion from last March due to the worldwide recession.

The country's fourth biggest bank took a hit of \$1.4 billion against its six-month accounts to cover for bad debts and sour loans which are now beginning to affect more businesses.

However, on a different measure ANZ actually increased its earnings slightly as revenue grew partly as a result of its customers depositing more money with the bank while others, such as first-home buyers, borrowed more to capitalise on the Government's cash grant boost to the housing sector.

It also disclosed "solid" income growth from its mortgage division, one of the areas where ANZ and its main rivals have complained of increasing cost pressures caused by their own higher borrowing.

That followed NAB's figures on Monday that it had increased its net margins over consecutive six-month periods since March 2008 within its Australian division by raising the cost of money it lends to home owners and small businesses.

At the same, NAB's chief executive, Cameron Clyne, said the bank's ability to pass on any further official cuts in

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interest rates - which are expected to fall from 3 per cent to 2 per cent over the next few months - was limited given its cost pressures.

NAB reported a near-10 per cent fall in its half-year earnings to \$2 billion, after its bad debt charge rose by \$1.1 billion to \$1.8 billion.

The bank's customers have already felt the effect of its latest view on interest rates. NAB withheld all of the most recent 0.25 percentage point reduction. ANZ only passed on 0.1 percentage points as did the Commonwealth Bank and Westpac.

The ANZ chief executive, Michael Smith, told the *Herald* yesterday it was a question of balancing the needs of consumers with those of maintaining a strong banking sector in what was turning out to be the worst global downturn since the Great Depression of the 1930s.

"I want to cut rates as much as I possibly can," he said. "The less strain there is on our customers the better." Neither did he want debt to increase on anyone. "We are aligned on the same page here," he said in response to claims that banks might be benefiting from the downturn.

Nevertheless, the banks remain under political pressure to relieve the interest rate burden on consumers with the latest cuts aimed at stifling the worst effects of a domestic recession.

"As I have said many times, Australians have a right to expect their banks to pass on rate relief as soon as possible," the Treasurer, Wayne Swan, said last night.

This story was found at: <http://business.smh.com.au/business/banks-squeeze-home-owners-to-save-profits-20090429-ane7.html>