

Government and big banks face off on rates

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There are renewed tensions between the Federal Government and the big banks over interest rate hikes that go beyond official movements by the Reserve Bank. Just days after passing on the Reserve's full 25 basis point increase, one of the big four banks has hinted that independent hikes might be on the cards. Last week there was a 48-hour lull before any of the banks announced when they would pass on the RBA hike, and by how much. The ANZ moved first, minutes before the better-than-expected employment data on Thursday, and then the others followed. The potential for future independent hikes remains as banks start to manage expectations and provide the necessary outs. The question about independent hikes was put to Commonwealth Bank chief executive Ralph Norris, and he said he would be "surprised" if banks went beyond official movements. While that does not rule anything in or out, it has been seen as something of an unofficial pledge not to gouge. Westpac has kept the possibility open, saying lending rates could outpace official movements because of higher funding costs on global markets. You would imagine that opens the door for other banks to follow on that line. Treasurer Wayne Swan has been pressuring banks for the past 18 months, saying the Government would be angry if they moved outside the official rate. His frustration is understandable given that the Government guaranteed all bank deposits during the global financial crisis, and banks have been using the Government's AAA credit rating to raise money on global markets during the crisis. But Mr Swan can only twist arms so far and the real issue now and has been over the past year, is dwindling competition in the mortgage sector. Now that the big four banks control 80 per cent of mortgages compared to the 60 per cent before the crisis hit, the strategy now is to pump another \$8 billion into residential mortgage-backed securities to help small lenders compete in a much tighter mortgage market. The idea is to free the market up to buy and sell residential mortgage-backed securities on the open market to provide extra movement and liquidity in the market itself. This will breathe some life into the smaller players; building societies, credit unions and regional banks which used to play a much bigger role in the mortgage industry.