

Mark Bouris warns of hefty rate increases

By Jill Fraser

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Speaking to Lending Central about his push to benchmark the cost of banks' wholesale funding Yellow Brick Road chairman, Mark Bouris said that the four majors' recent move to increase their fixed rate is a worrying sign.

"That tells you they're taking the view that cost of funds is going to increase tremendously next year," he said.

Bouris has been maintaining for some time that an industry benchmark should be introduced to track the cost of banks' wholesale funding.

Last week NAB Chief Executive Cameron Clyne backed Bouris' proposal.

Bouris spoke to Lending Central about his concept.

LC: What benefits would be derived from publishing a benchmark funding rate for banks?

MB: It's never been easy to work out whether or not to fix rates. There's never been any indicator telling us whether the cost of wholesale funds is on a rising trend, a flat trend or a go slow trend and given it's such a huge decision to fix or not to fix we need guidance and the only people who can give us this sort of guidance are the banks.

LC: How would such a scheme work?

MB: What we're proposing is an index that shows the trend regarding the cost of funds. So assuming that banks are going to maintain their margin - and not margin creep - if say they're telling us that in 12 months time the wholesale cost of funds will be 7% and we know that their margin is 2% we'll know with some degree of certainty that the retail rate is going to be 9%.

LC: Why would banks support this sort of transparency?

MB: Why wouldn't they?

LC: Because consumers can work out the best course of action to take..

MB: That's precisely why banks should support it and NAB has done exactly that.

The only reason they wouldn't support it is if they have something to hide such as offering a fixed rate that has a premium in it over and above their margin - in other words, they're margin creeping.

LC: And they're not doing that?

MB: I don't think they do. From what I can see they simply apply their normal margin to what they think the cost of funds will be.

I don't believe there is any gouging.

This proposal is not about consumers finding out if the banks are gouging. I'm not making that assumption. I'm assuming they're not.

This is about consumers being able to work out if the fixed rate that's being offered is a good deal or not.

LC: Did you model this on an overseas concept?

MB: No.

LC: It seems very logical. Are you surprised that it hasn't been suggested before?

MB: No, because only 5% of Australians take fixed rates so there hasn't been a huge demand. We're a variable rate market because over time fixed rates have not outperformed variable.

It's become far more relevant today because we are enjoying the lowest cash rate in 50 years and there's only one way to go from here and that's up and everyone knows it.

LC: What is your next step?

MB: One bank said it's a good idea but it needs bank cooperation.

It either has to be produced by the banks or legislated under the Uniform Consumer Credit Code.

Many years ago I pushed for the Uniform Consumer Credit Code to be changed to have the comparison rate included and that was a fairly unpopular move but now it's part of the system.

This could either come under this legislation or the banks could do it willingly.

LC: Do you believe the other three banks will come in behind it?

MB: It needs more airplay. They're not going to do it unless there's popular demand.

To date I haven't seen any other bank rush to Cameron Clyne's side and say what a good idea.

To be frank, it would be a brilliant piece of public relations for all banks.

LC: Why would they publish a competitive note?

MB: The point is that most banks know what each other's cost of funds is. It doesn't need to be a precise number. It can be a range. No one's asking them to reveal how their treasury operates.

The wholesale cost of funds does get published occasionally. NAB has put theirs out a couple of times and if NAB can do it I don't see why others can't.

LC: Are you actively pushing for this?

MB: I'm trying! But I'm not getting much media attention.

The question of to fix or not to fix is always the same story and the poor consumers are none the wiser.

The answer is usually, get peace of mind and take part fixed and part variable. To me that's way to simplistic. There's got to be a better answer than that.

I maintain that banks have an obligation to let us in on the information.

The RBA can't tell us anymore. There's all this de-coupling going on and who knows what margin anyone is operating on today.

There are only four of them so they can charge what they like. But who cares if the margin is 3%. All we need to know is if the margin remains constant what is the cost of funds?

It's pretty simple. These are not State secrets!

Incidentally, I'm not suggesting that people should use this to beat the system. We'll never beat the system because banks will always add their margin to the cost of funds.