

Investors pressured NAB chief on rates

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National Australia Bank chief executive Cameron Clyne was pressured by some of his biggest shareholders to increase interest rates by more than major competitors, before it raised home and business lending rates.

NAB joined Commonwealth Bank of Australia, Bankwest and Bendigo and Adelaide Bank yesterday in lifting interest rates independent of the Reserve Bank of Australia.

Institutional investors met Mr Clyne last week and raised concerns that NAB's discount strategy was reducing profits on home loans, sources familiar with the talks said.

Banks were accused of putting "rich" institutional shareholders and bonuses before staff by the finance union, after ANZ Banking Group yesterday confirmed plans to axe 1000 jobs and 150 offshore roles.

Senior fund managers met Mr Clyne and chief financial officer Mark Joiner last week in Sydney and Melbourne after NAB reported a 7.7 per cent rise in first quarter cash earnings to \$1.4 billion, but profit margins earned from home loans declined.

Sources familiar with the talks told *The Australian Financial Review* that serious questions were raised about the sustainability of the bank's deep home loan discounting through its contentious "break up" campaign launched a year ago. Analysts believe the bank, which has consistently had the cheapest standard variable mortgage rate of the big four, is losing money on new home loans written in recent months because of its reluctance to fully pass through higher offshore funding costs.

Westpac Banking Corp chief Gail Kelly told the *Financial Review* it was "unfortunate that bank bashing has tended to be so prevalent in Australia". She said criticism that banks were putting shareholders ahead of customers was very "shallow" as the focus on mortgage holders ignored the larger number of business borrowers and depositors.

"Everyone seems to focus . . . on the mortgage rate as if it's the only rate there is, but we have business customers as well," Mrs Kelly said. "And so a number of our customers have benefited enormously over recent times with very, very high deposit rates because of the attractiveness of deposits as a relative source of funding."

She also countered claims that Australian banks had among the highest return on equity (ROE) in the world, an argument regularly used by Treasurer Wayne Swan.

"ROE and what's the right level of ROE or profitability is also . . . sometimes misunderstood," Mrs Kelly said. "And I mean, there's no doubt that banking ROE has come down quite materially over recent times.

"We actually want to make sure that we have a decent ROE and above the cost of capital, which is clearly not the case in other jurisdictions around the world," she added.

The Labor government defended its right to strongly criticise interest rate rises by the big banks, even as smaller lenders Bankwest and Bendigo and Adelaide Bank raised rates.

Financial Services Minister Bill Shorten acknowledged yesterday that funding costs were rising for the banks, but insisted on the government's right to urge banks to keep rates low.

"It is appropriate that we sound the bell, that we ring the bell on behalf of mortgage holders who are feeling the stress," Mr Shorten said.

"Some in the business community say that members of Parliament are not allowed to pass a view on the conduct of banks. I don't share that – we're elected by the people."



NAB chief executive Cameron Clyne . . . confident his strategy is right. **Photo:**

Luis Ascui

Over-rated

Key home loan interest rate moves

Bank	Increase (%)	Rate (%)
Bendigo	0.15	7.45
CBA	0.10	7.41
Westpac	0.10	7.46
Bankwest	0.10	7.30
NAB	0.09	7.31
ANZ	0.06	7.36

Unchanged

St George, Bank of Melbourne (7.3%)

SOURCE: FINANCIAL REVIEW

Commonwealth Bank said yesterday it will lift its standard variable home loan rate by 0.10 of a percentage point to 7.41 per cent and raise its six-month term deposit account rate by 0.20 of a percentage point, from Monday February 20.

NAB quickly followed, confirming plans to raise its standard variable home loan interest rate and business rate by 0.09 of a percentage point to 7.31 per cent, the lowest of the big four banks, also from next Monday. NAB deposit and credit card interest rates will remain unchanged. NAB still has the cheapest home loan rate of the big four banks, followed by ANZ at 7.36 per cent, then Commonwealth Bank at 7.41 per cent and Westpac 7.46 per cent.

Bank of Melbourne is offering new home loan customers a 6.3 per cent rate. Both the ANZ and Westpac lifted their rates on Friday.

Commonwealth Bank group executive of retail banking Ross McEwan said the change in home loan rates reflect a sustained increase in both wholesale and deposit funding costs, as reflected in the Reserve Bank's *Statement on Monetary Policy* published last Friday.

"In making this decision, we have been cognisant of our total funding costs, of which the official cash rate is only one factor," Mr McEwan said.

"The Commonwealth Bank believes Australian banks should continue to price sensibly, taking into account factors both on and offshore, rather than experience similar problems to those that many banks overseas have experienced.

"There is always a requirement to consider all customer groups, while at the same time also balancing the needs of shareholders, including 800,000 Australians who own shares directly and millions more who hold our shares through their superannuation funds and rely on our returns."

Shadow treasurer Joe Hockey attacked the government for not understanding the cost pressures on the banks. "The decision of ANZ, Westpac, Commonwealth Bank, NAB and Bendigo and Adelaide Bank to increase their residential variable home loan rates outside of policy changes by the Reserve Bank makes a mockery of Wayne Swan's claim that unhappy banking customers should 'shop around' and 'go down the road'," Mr Hockey said.

Yellow Brick Road executive chairman Mark Bouris and funding partner Gateway Credit Union committed to not changing its 6.84 per cent standard variable home loan rate before the March monetary policy meeting.

"Now with all of the major banks hitting customers with out-of-cycle rate hikes, mortgage holders are feeling more confused and nervous than ever before," Mr Bouris said.

Yellow Brick Road wants to assure consumers that the actions of the major banks are not supported by the industry as a whole and that there is a real choice out there when it comes to getting competitive rates with service to match."

with David Crowe

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