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Industry calls for greater mortgage competition

Tuesday, 03 July 2012

Staff Reporter

One industry group is calling on the Federal Government to introduce a government-guaranteed, mortgage-backed securities market, similar to the Canadian system.

1300HomeLoan director Calvin Ng said the move would slash borrowing costs for home buyers by restoring real competition between the big banks and non-bank lenders.

"Ever since the Federal Government introduced the deposit guarantee during the GFC, the non-bank lending sector has withered under the weight of competition from the government-guaranteed banks," Mr Ng said.

"The time has come to level the playing field between the banks and non-banks so Australian home buyers can get what they really want which is more borrowing options to choose from and better rates."

Mr Ng said that although the deposit guarantee had now been removed, the structural effects on the market remained, with the banks increasing their market share from 79 per cent to 90 per cent during the deposit guarantee period.

"The period of the deposit guarantee was the era when many of the household names of the non-bank sector, like Rams and Wizard, were acquired by their government-backed bank competitors," Mr Ng said.

"But what the government did, the government can undo by using its strong balance sheet to restore the competitiveness of non-bank lenders in capital markets."

Under the proposed system, mortgage lenders would originate mortgages, pool them into groups and sell these pools as mortgage-backed securities to a special government authority. The authority would then on-sell the securities as Australia Mortgage Bonds with a government guarantee and use the money raised to buy more securities from lenders.

Mr Ng said the major banks should have restricted or higher-cost access to the system to prevent them using it to reinforce their current dominance, given their lower funding costs.

Mr Ng's comments come just days after the MFAA's chief executive Phil Naylor called for the Federal Government to adopt aspects of the Canadian mortgage securitisation system to increase competition.

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