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As A Matter Of Interest, Are The Banks Stupid Or Just Plain Greedy?

If it wasn't bad enough that the Reserve Bank of Australia (RBA) went way too far with 12 consecutive interest rate rises (hurting those who could least afford it), it's no longer the RBA we need be concerned with. Now our so called customer focussed 'big four + one' banks are at it again . . . raising interest rates independently of the RBA.

"Am I missing something here or are the banks stupid?" said Garry Macdonald – Director of Real Estate Buyers Agency **Invest For Your Life**. *"Apart from the fact that they can't justify interest rate rises, have our banks considered the likely impact on 'every-day, hard-working' Australians? When people simply can no longer afford to fork-out the increased mortgage costs, the so-called clever banks had better be ready to significantly increase their bad debt write-offs. And guess what . . . if the focus is on protecting shareholder wealth, when bad debt increases, shareholders also wear the ramifications"*.

While some commentators are suggesting that the banks need to raise their rates or risk diminished profits, imagine the goodwill one of the major banks might generate by demonstrating their commitment to serving existing and potential customers rather than penalising them.

Let's just consider how the banks are travelling by looking at profit levels over the past 9 years:

Bank	1998 Net Profit (\$ Million)	2007 Net Profit (\$ Million)	Increase (%)
CBA	1,090	4,415	405
ANZ	1,106	4,143	375
Westpac	1,248	3,451	276
NAB	2,014	4,295	213
St George	222	1,163	523

Source: Aspect Financial Pty Ltd

Not bad increases for organisations supposedly struggling to maintain profit levels. It will be interesting when the 'big four + one' post profits for 2008, although it's a pretty safe bet profit levels will look more than healthy.

So far this year we have seen independent (of the RBA) rate rises of 37 basis points by CBA, 40 basis points by ANZ, 40 basis points by Westpac, 39 basis points by NAB and 40 basis points by St George . . . **AND** here we go again – St George has just raised rates by another 20 basis points, CBA by 14 basis points, ANZ and NAB by 15 basis points each AND now Westpac by 14 basis points.

"I understand the banks have to balance the interests of shareholders with those of its customers, however they have just got it totally wrong. If the banks are not stupid, they're just plain greedy. You can bet 2008 and 2009 profits will be (at the very least), substantial" Garry said. *"The pendulum has swung way too far in favour of shareholders who incidentally, are also about to wear the ramifications of increased bank write-offs resulting from rate rises. If one of the banks wises up to the fact that they need to service the people who ultimately keep them in business – their customers – it seems logical to me that they will undoubtedly gain significant market share"*.

If banks are looking to increase profits, there are only two ways to do it: (i) increase income and/or (ii) reduce costs. In terms of increasing income, there is a huge opportunity right now – develop a unique buying advantage to gain new business – simply by running against the trend and **not raising rates**. BUT that might be far too sensible.

You have to ask the question . . . *when will all this financial institution madness stop?*

We can only hope and pray that when all this turns around (and it will turn around), 'every-day, hard-working' Australians remember how greedy (or stupid) the banks were.

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