

TITLE: Report shows Big Four banks are scoring off household mortgages

AUTHOR: Stephen McMahon

PUBLICATION: Herald Sun

PUBLICATION DATE: 25/05/12

LINK: <http://www.news.com.au/realestate/buying/report-shows-big-four-banks-are-scoring-off-household-mortgages/story-fndban6l-1226457700400>

THE big banks are creaming off almost \$100,000 in profit from struggling home owners in our major capital cities, data shows.

The banks' profit levels on the average 25-year mortgage more than doubled in the past 12 years as property prices rose.

The numbers raise questions about claims from the banks that higher funding costs are crimping profits and preventing them from passing on the full benefits of Reserve Bank rate cuts.

Data compiled for News Limited by the Australian Institute shows nationally the Big Four Banks earn almost \$75,000 over the lifespan of the average home loan of \$293,000.

This is up 120 per cent from the \$33,540 in profits earned on a similar mortgage taken out in 2000. In the same period, inflation rose by only 39 per cent.

The biggest pay packet for the banks lies in the capital cities, with mortgage holders in Sydney and Canberra boosting banks' profits more than \$107,000.

In Melbourne, the banks earn \$98,598 in riches over the life of a 25-year mortgage, based on a loan for 80 per cent of house price.

The Australian Banks Association said the profit levels calculated by the Australian Institute didn't factor in fixed costs such as ATMs, staff, branches and technology.

"These figures are way out," ABA chief executive Steven Munchenberg said.

But Australian Institute senior research fellow David Richardson defended the numbers as being "conservative" as they were based on the major banks' profit margins of 1.61 per cent and did not include fees for home loans, which were \$1.2 billion last year.

The competition between the big banks has seen fixed rate home loans drop to their lowest level in three years, but property prices remain in the doldrums.

Mr Richardson said it was "staggering" how much the banks made from home loan customers.

"It is a monopoly environment and it time for some regulation as the rate of return generated by Commonwealth Bank of 18.6 per cent is excessive and needs to be reined in."

The Big Four are on target to earn about \$25 billion in profits this year.

New CBA boss Ian Narev said he was "proud, not ashamed" after it last week clocked an annual profit of almost \$7.1 billion.

"It is a big number but we are a big business," Mr Narev said.

BANK PROFITS ON MORTGAGES

2000/2012

National average property price: \$132,000/\$293,000

Weekly profit: \$40.77/\$90.50

Profit year 1: \$2120/\$4705

Profit over 25-year span of loan: \$33,540/\$74,450

Major Cities 2012

City: median loan/profit per week/profits first year/25-year profit

Sydney: \$421,600/\$130/\$6771/\$107,127

Melbourne: \$388,000/\$119/\$6,231/\$98,589

Brisbane: \$346,000/\$106/\$5,557/\$87,917

Adelaide: \$308,400/\$95/\$4,953/\$78,363

Perth: \$384,800/\$118/\$6,180/\$97,776

Hobart: \$272,000/\$84/\$4,368/\$69,114

Darwin: \$404,000/\$124/\$6,488/\$102,654

Canberra: \$424,000/\$130/\$6,809/\$107,736

**Source Australian Institute data based on loan for 80 per cent of property value*

*David Richardson is a senior economist at The Australia Institute, a Canberra based think tank.
www.tai.org.au*