

## [Opinion piece: A shot in the arm for local lenders](#)

The Government's commitment to buy prime mortgage-backed securities is a shot in the arm for local lenders, who have been hit hard by the lack of money in the market as a result of conditions overseas.

By adding liquidity to the market for smaller lenders and non-bank lenders, the Government has recognised the importance of a competitive mortgage market and the role that these lenders play in giving consumers choice.

It is important to understand that what has been happening in the United States is not a true representation of what is happening in the Australian market.

Our banking system is sound and the rate of arrears is still relatively low, but the US market has had a significant impact on Australian lenders and investment in mortgage-backed securities in Australia.

The credit crunch has been particularly difficult for non-bank lenders because, unlike banks, they don't have consumer deposits to fund their lending activities. They rely on residential mortgage-backed securities to stand alongside the big banks and offer competitive mortgage products to borrowers.

In the past six to 12 months a number of lenders have exited the mortgage market or scaled back their operations due to the simple fact that the credit markets internationally are so tight.

In recent months, the big banks have reclaimed a share of the mortgage market that hovers around 90 per cent. This has been at the expense of non-bank lenders, whose market share has been capitulated by the lack of funding available.

This new initiative will enable non-banks to get their hands on funding that hasn't been available for the past six to 12 months and consumers are set to be the big winners.

Non-banks play a vital role in applying competitive pressure on big banks. More lenders means greater competition as all the players aim to convey their point of difference - whether it may be a lower interest rate, greater variety of products or better service.

When the Australian lending market was deregulated in the 1990s and non-banks entered the market, competitive pressure forced banks to drop their rates by around 2 percentage points.

While there is a lot more than just interest rates to take into account when selecting a loan, the instant benefit of lower rates is of clear benefit to consumers.

For the past six months the Mortgage and Finance Association of Australia (MFAA) has been campaigning for the Federal Government to ease the pressure on the lending market by offering securitised sources of funding.

A few months ago, the House of Representatives Standing Committee on Economics hosted an inquiry into competition in the lending sector. The inquiry acknowledged the need for a diverse lending market to increase the number of home mortgage products available and offer a wider choice to the consumer.

The Government's purchase of \$4 billion worth of mortgage-backed securities goes some way to satisfying this need, providing a welcome reprieve for the short term survival of non-bank lenders.

But to ensure the sector's future the Government has to look beyond the short-term fix and identify the long-term solution. Until the lending sector secures additional, reliable sources of funding we can expect fewer players, fewer options, and the consumer will bear the ramifications.

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