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# Banking royal commission may trigger credit crunch, flatten house prices

Royal commission is 'uncomfortable': Westpac CEO



One of Australia's biggest lenders has warned against a return to manual home loan assessments saying it would raise interest rates while a leading bank analyst has warned of a looming credit crunch.

by [James Frost](#)

Westpac CEO Brian Hartzler told attendees at [The Australian Financial Review Banking & Wealth Summit](#) said any move to step back from automated decision making would be an overreaction and have immediate impact on borrowers.

"It's going to have a consequence for cost and efficiency. It's going to have a consequence for the availability of credit and that is most likely going to hit the people who are at the lower end of the spectrum," Mr Hartzler said.

The [spectre of tighter lending standards](#) has been flagged by the [Hayne royal commission](#) which spent two weeks [exploring examples of loose lending standards](#) at the banks.

Mr Hartzler defended the track record of Westpac and the industry, saying it was not in the interests of the bank to write bad loans and said the bank had as few as 340 homes that it had repossessed from its customers.

Mr Hartzler said while processes needed to be tightened and the royal commission had exposed some sloppy record keeping, the performance of the bank's credit portfolio over a long period of time did not reveal any problems.

Former prime minister Paul Keating said during a panel session on the second day that any recommendations from the royal commission would create an additional burden for the bank following the imposition of APRA's new capital requirements.

"I'm surprised they've been found wanting... it's going to make life harder for the banks," Mr Keating said.

Mr Hartzler's comments built on [a warning from Australian Banking Association CEO Anna Bligh](#) on the first day of the conference where she warned of unintended consequences that could flow from stricter lending assessments.

"Tightening access to small amounts of credit can push more vulnerable customers out of the regulated banking sector and into the far riskier world of payday lenders and the like," Ms Bligh said.

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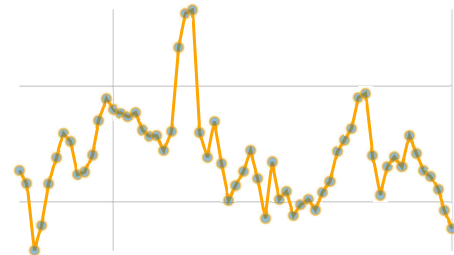
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Westpac's CEO said the automated credit processes adopted by the industry over the last 20 years had vastly improved the process and lowered the cost of credit for customers and small businesses.

"So we've become much more automated, credit has become more available, people don't have to go and beg for credit from Captain Mainwaring behind his desk like they did 30 years ago," Mr Hartzler said.

UBS analyst Jonathan Mott was even more bearish. On Thursday he said believed the banking royal commission was likely to recommend a much higher level of due diligence from the banks which would translate into fewer loans being written and potentially a credit crunch.

"This could lead to Australia's Minsky moment. Our economic base case is a modest fall in home lending seeing house prices flatten to down 3 per cent year-on-year in 2018 and 2019. A credit tightening scenario would see larger and sustained price falls," Mr Mott said in a note to clients.

He noted that Westpac - which [ASIC has launched civil proceedings against](#) over a series of breaches of responsible lending laws - had [doubled the number of expense categories](#) for borrower assessments as an example of tightening that was already taking place.

Under a scenario where banks adopted a tighter definition of what constituted "reasonable inquiries" about a borrower's income and expenses Mr Mott assumes home loans are roughly flat in 2018 before falling 20 per cent in 2019.

Under a more extreme credit crunch scenario, Mr Mott says home loans would fall 8 per cent in 2018, 25 per cent in 2019 and a further 10 per cent in 2020 in a development he says would not be inconsistent with the GFC.

Mr Hartzler also used his speech to call for greater transparency among mortgage brokers, which had been a key theme of day one.

Mr Hartzler said banking and financial services customers needed to know what they were signing up for and how the person they were dealing with was being paid "at a minimum".

He also said the need to remove or reduce conflicts of interest in pay structures was a key theme to emerge from the Hayne royal commission so far but mortgage brokers, car dealers, [non-bank financiers and others](#) had a role in ensuring the system was fair and resilient.

"The customer issues that have been raised are broader than just the banks" Mr Hartzler said.

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