Why Richard Di Natale's 'people's bank' could make housing affordability worse

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Richard Di Natale's people's bank a woolly-headed solution in search of a problem. It will do little to improve housing affordability. In reality, it could make it a lot worse. **Nic Walker**

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by **Jacob Greber**

Richard Di Natale's people's bank - no doubt at risk of becoming reality given the previous examples of once-fringe Green proposals being adopted by the major parties - is a woolly-headed solution in search of a problem.
And the baby-boomers are going love it. It will do little to improve housing affordability, one of its stated aims. In practice, it could make things far worse.

Imagine a policy, as this one is, that makes it easier for home buyers to borrow more money cheaper than they can at today's record-low interest rates.

Then let them loose with their extra cash into a market where demand chronically outstrips supply.

There's a hint in the policy document distributed to media outlets, which provides the example of first-time buyers "Sam and Ashley".

They've saved $90,000 for a deposit they'll use for a $600,000 house in "Pleasantville", (a mysterious patchouli-and-pashmina-scented Bermuda Triangle somewhere between Northcote, Fitzroy and Collingwood).

The newly formed "Aussie Dick's" branch of the Reserve Bank of Australia will give Sam and Ashley up to 60 per cent of the value of the home, with a regular bank providing another 20 per cent.

The low-cost bank's mortgage rates will be set by law at a minimum of 3 per cent, plus an admin fee of 0.5 per cent, rising once the official cash rate (now at 1.5 per cent) goes above 3 per cent.

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The happy couple will now pay 3.5 per cent on 60 per cent of their purchase, compared to today's prevailing rate of 4.5 per cent.

A quick glance at the Australian Securities and Investments Commission website mortgage calculator shows what would happen next.

Sam and Ashley will figure out that instead of being able to prudently borrow $306,027 (for the 60 per cent portion) - they'll now have access to $339,776 - with the same $1711 monthly repayment.

The pair now front to the next auction with an extra $33,749 burning a hole in their pockets. No doubt their competition will have done the same calculation. And away we go.

No doubt governor Philip Lowe can't wait to get into the business of delivering the tough love of foreclosure against busted borrowers. **Nicholas Rider**

From a vendor's point of view, giving buyers even more fire power is a policy dream that would continue the tradition in recent years of government intervention in the housing market that ends up driving prices higher. Think first-home buyers' grants on steroids.

Baby-boomers looking to downsize should most certainly vote Green at the next election.

Many issues

Even more concerning is the policy's other justification; that the banking market has somehow failed and is in need of big-government solutions.

"In the face of ongoing misconduct and price gouging, it's time for government to step in and ensure there is a low-cost banking service, backed by the RBA, that is focused on the everyday savings and mortgage needs of customers," say the Greens.

There are so many issues with this idea it's hard to know where to start.

First off, the Reserve Bank or its offshoot will need to hire, or presumably poach from the private sector, tens of thousands of bank workers to run the mortgage business.

These are the people who check the credit quality of borrowers, manage the risks of dodgy customers, and chase up those who can no longer pay.

No doubt governor Philip Lowe can't wait to get into the business of delivering the tough love of foreclosure against busted borrowers.

What happens to those bad loans? Is that taxpayer capital going down the drain?

What of the bank's primary responsibility of maintaining price stability and sustainable employment? What if the Reserve Bank needs to hike interest rates to curb inflation, but finds this would damage its mortgage book?

And what about the problems associated with having one of the big three financial system regulators actively participating and competing in the mortgage market?

The Greens policy document is silent on many of these issues.

Big call

The party nostalgically harks back to a time when "thirty years ago, business lending was double that of property lending. Now it's the other way around".

Yes, and a big reason for that was because mortgages were heavily regulated. The supply of loans was suppressed by a lack of competition, and borrowers had to jump through more hoops to get their applications approved. Women, part-timers, casuals, or those with irregular incomes had little hope of getting a mortgage.

Next, the Greens maintain that "three decades of deregulation and privatisation has left us worse off, not better".

While nobody says there aren't serious issues in the banking sector, it's a big call to say Australian bank customers are worse off.

Reserve Bank figures show Australians' net wealth is close to seven times annual household disposable income, up from around 4.5 times 20 years ago.

The reality of a well-functioning banking system that has provided easy access to credit over the past three decades is further evidenced by the fact we now have a property market widely viewed as one of the world's most overvalued.

That tells you customers haven't had any problems with borrowing. If anything, they've had it too easy and taken up too much debt. Which is an argument for better financial literacy education and regulation, not direct government intervention.

Why you would make it even easier to access credit is stranger still.

Yes, commercial bank profits are super healthy. But the alternative universe – in which banks routinely go bust – is no great shakes either. Ask the victims of state bank collapses a generation ago.

At best, the Greens have opened a debate about why Australia might benefit from the kind of low-cost government-linked "savings" banks that exist in countries like Japan, Switzerland and Germany.

That's an idea worth considering. And we have a ready vehicle for that already in the form of Australia Post.

Just keep the Reserve Bank out of it.