A note about a banks RISK of providing a loan to buy a home to live in.

Risk is the short term of what is common to all for profit business that is referred to as :

" THE RISK OF DOING BUSINESS FOR REWARD "

REWARD is the profit produced by providing a superior product and/or service at a competitive price while competing with other like businesses.

RISK in the banking industry risk has two components :

RISK A The risk that a customer will not be able to repay the loan provided by the bank for some unforeseen event such as becoming unemployed as a result of accident , sickness or redundancy etc. Risk A is assessed and provided for in the banks financial accounts as " Loan Impairment" and provides for recovery of realised losses as a result of a risk A event. The provision is monitored and adjusted in line with current and historic accounting results and forward budgeting. Recent published accounts by Commbank indicate an adequate provision for realised losses is between 1.60 % to 1.80% of total interest bearing assets and reflects a responsible and well administered lending policy .

RISK B Is the risk that the value of a property held for security will fall in the market place and the bank will not recover the loan as the result of a Risk A event. Risk B is borne by the banks customer and the dollar value of the risk is the deposit paid.

" BASELINE INTEREST RATE "

The big4banks have assessed and agreed (collusion) that the risk of a properties value falling in the market place by 40% (Risk B) of the contracted sale price is highly unlikely and have established a base line interest rate that includes a component to recover the dollar value of the provision for Loan impairment expense (Risk A) as provided for in the banks financial accounts . As the deposit paid by the customer reduces from 40% to 5% the banks ratio of loan compared to the contracted sale price <LVR ratio> the bank adds a loading to the loan impairment charge included in the the base interest rate to provide for the banks increased exposure to a risk A event .The banks appetite for risk does not extend beyond a minimum deposit of 20% of the contracted sale price and will not provide a loan unless the banks exposure to risk is recoverable from either Lenders Mortgage Insurance or the Government First Home Buyers guarantee that enables a bank to loan 90% to 95% of the contracted sale price of the property without risk of loss to the bank as a result of a Risk A event. The home buyers risk of loss (risk B) is reduced to 5% or 10% of any shortfall in repayment of the loan after the sale of the secured property. *"THAT PRESENTS SOME PROBLEMS " ?*

A bank may now provide a loan to 95% of the value of a property held for security and stretch a loan to a customers absolute ability to repay such loan without any risk of loss to the bank , despite that the customers interest rate includes a charge for loan impairment and risk loading . (Price gouging ?)

The interest rate charged to a loan protected by LMI or Govt Guarantee should revert to :

The base line interest rate 6.34% less loan impairment 1.60% = 4.74%

QED:	Revised Interest charged	4.74 %	(banks 1.6% impairment removed by LMI and Govt G/tee
	less banks target interest margin	2.00 %	(Big 4 banks contrived interest margin) COLLUSION ?
	banks cost of interest	2.74 %	(net bank standard variable rate is 1.55%)

(Inspection of a banks cash flows including return and re investment of mortgage principal would confirm the 2.74 % estimate)

Questions for the treasurer.

The Commonwealth banks published accounts indicate the banks risk of loss as a result of a RISK A event is (3 %). The home buyers share of risk is RISK B (5.30% of the loan) and the Government Insurance is (15%) = Total provision for loss is 23.30% of the loan outstanding including accrued interest and recovery costs.

QUESTION 1: When the assessed risk of the bank and the home buyer combined is 8.30 % why is the Government increasing the total provision for loss to 23.30% ? (A Government guarantee of 3.00 % would remove the banks assessed risk)

NOTE : The excessive provision for loss of 23.30 % allows the banks to relax lending criteria and extend credit to a home buyer and meet inflated market prices while protecting themselves should house prices crash

QUESTION 2: To protect the Government and home buyers should all loans be subject to an independent licensed valuation provided to the bank and the home buyer. YES / NO

PROBLEM The Deposit and 15% Govt guarantee combined exceeds and removes the banks assessed risk of doing business. The bank is not constrained by risk and is free to value the security property to meet the market and drive prices upwards . < THE PROPERTY LADDER > **That is not how business is done in a free market !**

The bank is free to secretly value the security property to meet the market and drive prices upwards without the risk of doing business. < THE PROPERTY LADDER >

SOLUTION All loans guaranteed by the Government and LMI insurer must be subject to a certified valuers certificate provided to the bank and the buyer of the property.

Refer to explanatory notes at www.bankingbandits.net

The banks are driven by greed and are very bad corporate citizens

I SUPPORT " A FAIR GO FOR ALL AUSSIES " how about you ?