



Small banks win wholesale fee review

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The Rudd government's controversial bank guarantees should be reviewed to balance the treatment of big and small banks, a Senate inquiry has urged in a finding backed by all sides.

In a win for regional banks, Labor senators backed a Senate committee report that noted the pressure on smaller institutions that had to pay a higher fee to gain the benefit of the guarantee on wholesale funding.

Two Labor senators called for a review of the arrangement, while three coalition senators called specifically for a review of the higher fees for smaller banks.

South Australian independent Nick Xenophon concluded that smaller banks should pay the same fee as their larger rivals.

The coalition senators recommended the government introduce a guarantee scheme for residential, mortgage-backed securities, but Labor senators did not support to that idea.

The result demonstrated the suc-

cess of the second-tier banks in arguing against rules that require those with an A credit rating to pay a 1 per cent annual fee on any funds raised under the guarantee, while the Big Four banks with AA credit ratings pay 0.7 per cent per year.

Although some banks have raised funds on their own, all have used the wholesale funding guarantee to raise more than \$120 billion since Treasurer Wayne Swan introduced the regime late last year.

Suncorp, the Bank of Queensland and others praised the government intervention to protect the banking sector during the global financial crisis but said the fees harmed competition by adding to their costs.

The Australian Bankers' Association resolved a difficult internal debate between big and small banks in recent months by suggesting the government narrow the difference in the fees.

Treasury officials played down the need to change the fees and emphasised the importance of encouraging banks to stop using the guarantee as global financial markets returned to normal.

The issue is to be discussed when

Prime Minister Kevin Rudd attends the Group of 20 summit in the US next week, but no agreement is expected on a timetable to phase out government guarantees for bank lending.

The chair of the Senate select committee on economics, Senator Alan Eggleston, issued a report backed by Liberal colleague David Bushby and the Nationals' Barnaby Joyce that noted the pressures on smaller banks.

"The committee recommends that, in view of the experience of markets not pricing all guaranteed debt identically, the government review the need to apply differential premia for authorised deposit-taking institutions with different ratings for the wholesale funding guarantee," he wrote.

KEY POINTS

- The outcome is a win for regional banks over the Big Four.
- The report notes the pressure on smaller institutions.