



**Abacus**  
Australian Mutuals

Association of Building Societies and Credit Unions

29 April 2009

Mr Michael Crawford  
Committee Secretary  
Standing Committee on Infrastructure, Transport, Regional Development  
and Local Government  
House of Representatives  
Parliament House  
CANBERRA ACT 2600  
By email: [itrdlg.reps@aph.gov.au](mailto:itrdlg.reps@aph.gov.au)

Dear Mr Crawford

### **Impact of global financial crisis on regional Australia**

*Abacus – Australian Mutuals* is the industry body for credit unions, mutual building societies and friendly societies. Collectively, Abacus member institutions have more than \$70 billion in assets and serve more than 6 million members.

Abacus welcomes the Committee's inquiry into the impact of the current global financial crisis on regional Australia and the role of the Commonwealth Government in ensuring that regional Australia is equipped to respond, with particular focus on:

- the encouragement of economic development and employment; and
- the development of sustainable essential services and social infrastructure designed to enhance the liveability of regional Australia.

Building societies and credit unions are vitally important to regional economic development and the development of sustainable essential services and social infrastructure.

Building societies and credit unions are Authorised Deposit-taking Institutions (ADIs), subject to exactly the same prudential regulatory framework as banks. All ADIs meet the same, legally-enforceable standards on capital, liquidity, risk-management and governance administered by the Australian Prudential Regulation Authority (APRA) under the Commonwealth *Banking Act 1959*.

Mutual ADIs have a particularly strong presence in regional Australia and provide essential services in the form of basic banking services as well as important social infrastructure and critical competition and choice across the retail banking product range. (See **Attachment A** for an illustration of the range and diversity of regionally-based mutual ADIs.)

Mutual ADIs provide the full range of consumer banking services and many regionally-based mutual ADIs also provide business banking services.

The latest *Financial Stability Review* published by the Reserve Bank shows that building societies and credit unions are more strongly capitalised than banks and have lower non-performing loan ratios than banks. The credit union sector has an aggregate capital ratio of

16.25 per cent and the building society sector's ratio is 14.5 per cent, compared to the banks' ratio of 11.4 per cent. Non-performing housing loans for banks are 0.48 per cent, while the figure for building societies is 0.3 and for credit unions it is closer to 0.1.

These strong fundamentals position the mutual ADI sector well to weather the impact of the global financial crisis. (See **Attachment B Facts and figures at a glance** for more detail on the mutual ADI sector.)

However, some urgent policy action by Government is needed to ensure that mutual ADIs can put competitive pressure on the four major banks.

In this submission, Abacus makes the following recommendations to promote the economic development of regional Australia:

- Facilitate access to funding by mutual ADIs by:
  - removing anti-competitive aspects of the Government's fee arrangements for the guarantee of large deposits and wholesale funding; and
  - taking further action to resuscitate securitisation markets;
- Promote public understanding of the prudential regulatory framework and the status of mutual ADIs within that framework; and
- Reduce the regulatory compliance burden on prudentially-regulated and responsible lenders such as mutual ADIs.

## 1. Mutual ADIs & regional Australia

Mutual ADIs are part of the fabric of regional Australian communities. There are 60 mutual ADIs based outside capital cities.

Some of Abacus' largest members are based in regional Australia, including Newcastle Permanent Building Society, Greater Building Society, Heritage Building Society and IMB.

Around 76% of the population of the Hunter region and 60% in the Illawarra are members of a credit union or building society.

Area	% of population that are customers of a mutual
Northern NSW	54.6%
North Coast NSW	46.5%
South Coast NSW	42.3%
Central West NSW	40.8%
Ovens-Murray VIC	39.8%
Central Coast NSW	39.7%
Regional Tasmania	38.6%
Southern Tablelands NSW	37.1%
Regional SA	32.1%
Western NSW	31.8%
South West NSW	31.6%

Blue Mountains NSW	25.7%
Regional Queensland	22.1%
Gippsland	19.5%
Sunshine Coast QLD	17.6%
North Queensland	15.6%

Victoria’s largest regional credit union mecu Ltd is currently engaged in a proposed merger with Victoria’s second largest regional credit union, RegionalOne . Should the merger proceed mecu will have assets exceeding \$2 billion, over \$220 million in capital, 30 service centres located throughout the country and around 300 staff. The combined credit union will have more than 100,000 members living in Victoria alone with more than half of these members residing throughout regional Victoria.

Mutual ADIs strongly support their local and regional communities in many ways beyond their business activities. Many mutual ADIs have established foundations that invite funding applications and distribute grants to community organisations and charities. Mutual ADIs support local schools, sporting clubs, hospitals, service organisations, community projects, wildlife and environmental care, community assets such as parks and playgrounds, libraries, the arts, surf lifesaving, ambulance services and many other facilities, events and charities.

Traditional Credit Union, whose membership is drawn from remote and disadvantaged Aboriginal communities in the Top End of the Northern Territory, sponsors a local football club, a healthy lifestyle festival and university scholarships.

Mutual ADIs support individuals, businesses, community groups, clubs and other organisations in their regions. This support strengthens and reinforces the fabric of these regional communities.

Mutual ADIs are also important employers, providing valuable career paths and retaining important skills and knowledge in regional communities. As noted above, ADIs are subject to detailed prudential standards on capital, liquidity, risk management and governance and are subject to a range of licensing and reporting regimes, including those under the *Corporations Act 2001* and the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006*.

APRA’s prudential standard on Governance requires an ADI’s Board to ensure that directors and senior management, collectively, have the full range of skills needed for the effective and prudent operation of the regulated institution, and that each director has skills that allow them to make an effective contribution to Board deliberations and processes.

However, the most important role of mutual ADIs in their local and regional communities is to ensure that local capital is reinvested in local communities by collecting local savings and making local loans. Regional ADIs connect their communities to global payments systems but they keep local capital working at home.

Decisions by regional ADIs about lending, pricing of loans and deposits, location of branches and ATMs, grants and sponsorships and other forms of community support are all made in the region, not in Sydney or Melbourne.

Most mutual ADIs are overwhelmingly focused on consumer banking but many regionally-based mutual ADIs also compete in the small business banking market. These mutual ADIs have invested in the necessary expertise and product range to take on the major banks in servicing small businesses. According to the Australian Bureau of Statistics, approximately 35 per cent of small businesses operate in regional areas.

## **2. Access to funds**

The Government's guarantee of deposits of up to \$1 million and optional guarantee of large deposits and wholesale funding has delivered stability and confidence to the core of the Australian financial system – the ADI sector.

Abacus supports continuation of the deposit guarantee for deposits of up to \$1 million and looks forward to engaging with Government on transitional arrangements after the initial three year operation of the guarantee.

However, to better balance stability and competition objectives, we seek refinements to the arrangements applying to large deposits and wholesale funding.

Preserving competition and choice in retail banking is important for all Australians, but it is critical for consumers and small businesses in regional Australia because their banking needs have never been adequately met by the major banks. People in regional Australia have not forgotten the withdrawal of major banks from regional Australia and the wave of branch closures in country towns.

The differential pricing for the optional guarantee makes it impossible for mutual ADIs, or BBB rated regional banks, to compete effectively in the market for large depositors and wholesale investors who want the guarantee.

Mutual ADIs must pay a fee of 150 basis points compared to the fee for major banks of 70 basis points.

The differential has been amplified by the reduction in official interest rates by 400 basis points from 7 per cent in September 2008 to 3 per cent in April 2009. The fee for the optional guarantee for mutual ADIs (and any other ADIs, such as regional banks, rated BBB+ or below or Unrated) is now precisely half the official cash rate target.

The first problem that arises from the differential fee structure is that it is locking out mutual ADIs from accessing government guaranteed wholesale funding and guaranteed large deposits. The second problem is the signal it sends to all depositors about the prudential regulatory framework.

### *2.1 Wholesale funding*

Mutual ADIs rely heavily on deposits for funding but in recent years many mutual ADIs, and particularly larger mutual ADIs, have been able to increase their mortgage lending by tapping securitisation markets. The global financial crisis has virtually closed down securitisation markets.

Issuance of residential mortgage backed securities (RMBS) has averaged just \$2.5 billion per quarter since mid 2007, compared to a quarter average of \$15 billion over the previous two years. (The bulk of RMBS issued since the end of October 2008 has been purchased by the Australian Office of Financial Management.)<sup>1</sup>

Mutual ADIs would like to access wholesale funding markets, either directly in the case of large mutual ADIs, or indirectly through aggregation vehicles in the case of smaller mutual ADIs.

The ongoing disruption to funding markets caused by the global financial crisis and the response by governments around the globe means that mutual ADIs have no prospect of accessing wholesale funding without the guarantee.

Australian banks have raised \$85 billion in long term debt from wholesale markets since the guarantee has been in place and, of this, \$81 billion has been issued under the guarantee scheme.<sup>2</sup>

Lower rated ADIs that issue guaranteed debt in effect are penalised twice: firstly, they pay a guarantee fee of 150 or 100 basis points compared to the major bank fee of 70 basis points; and, secondly the market demands an additional premium despite the fact the debt is subject to the Australian Government's AAA rating.

On top of the 150 basis point guarantee fee, BBB issuers have had to pay around 50 basis points more than a major bank issuer. In total, BBB issuers are paying upwards of 120 basis points more for wholesale funding than a major bank.

This explains why major banks are responsible for the vast majority of funds raised using the guarantee of wholesale funding and why mutual ADIs to date have not raised any guaranteed wholesale funds.

An unintended consequence of the guarantee arrangements is a strengthening of the already formidable hand of the major banks.

## *2.2 Large depositors*

As noted above, the second problem with the differential fee structure is that the use of ratings by credit ratings agencies to determine the fee increases the competitive advantage of major banks by effectively equating the ratings system with the prudential regulatory framework. The implication, quite damaging to competition and choice, is that there are three tiers of ADIs.

The record of the ratings agencies in the lead up to the global financial crisis does not justify giving them status as arbiters of the prudential standing of Australian deposit-takers. Unrated Australian mutual ADIs have proven themselves to be prudentially stronger than highly rated global banks.

Most mutual ADIs do not have credit ratings because they have never needed a credit rating for their deposit-taking activities. A credit rating – being an opinion, purchased from an

---

<sup>1</sup> Financial Stability Review, March 2009. RBA

<sup>2</sup> Financial Stability Review, March 2009. RBA

external agency, about a company's creditworthiness for debt instruments – has to date only been necessary for gaining direct access to capital and wholesale debt markets.

There is now a growing risk that an agency rating will become a requirement for ADIs competing in the high value deposits market after the transition away from the current guarantee arrangements. This is a worrying development for competition in retail banking and will serve only to benefit the major banks.

In the meantime, the tiered fee structure means the major banks dominate the market for guaranteed large deposits. Mutual ADIs have been knocked out of markets for large deposits where the depositors require the guarantee.

### 2.3 Policy responses

The purpose of the guarantee scheme for large deposits and wholesale funding is to promote financial system stability and to promote confidence and certainty in Australian financial institutions.<sup>3</sup>

The scheme is not meant to give a massive competitive advantage to the big four banks.

The House of Representatives Standing Committee on Economics commented in a report last year that the big four banks "aggressively compete with other players in the market" but "there is some uncertainty as to whether the big four are actively competing with each other."<sup>4</sup>

The chairman of the Australian Competition and Consumer Commission, Mr Graeme Samuel, issued a public warning recently about the dominance of the big four banks. "We are becoming increasingly concerned that the banking system is becoming less and less competitive and that will ultimately reflect itself in costs to consumers in terms of interest rates, margins on loans and deposits," Mr Samuel said.<sup>5</sup>

Abacus understands the fee structure for the scheme specifically reflects advice from the Council of Australian Regulators – APRA, RBA, ASIC and Treasury.

We are concerned that the Council has focused entirely on the stability objective and has given little weight to the impact on competition of the fee structure.

This is perhaps not unexpected given that one of the RBA's major roles is financial system stability and APRA's chairman John Laker commented recently that APRA has "no mandate for market conduct or consumer matters so we can be single minded in pursuing our prudential objectives."<sup>6</sup>

Abacus recommends consideration of the following policy proposals to respond to the serious threat now posed to competition and choice in the retail banking market.

Facilitate access to funding by mutual ADIs by:

---

<sup>3</sup> Explanatory Memorandum, Guarantee Scheme for Large Deposits and Wholesale Funding Appropriation Bill 2008

<sup>4</sup> Inquiry into competition in the banking and non-banking sectors, November 2008

<sup>5</sup> Samuel warns on bank mergers AFR 14 April 2009.

<sup>6</sup> APRA: The year ahead. John Laker, 26 February 2009.

- removing anti-competitive aspects of the Government's fee arrangements for the guarantee of large deposits and wholesale funding; and
- taking further action to resuscitate securitisation markets.

Removing anti-competitive aspects of the fee could be achieved by changing the fee structure to:

- introduce a flat fee for the guarantee; or,
- introduce a flat fee for the guarantee of large deposits and reduce the differential between the fees for the guarantee of wholesale funding.

The guarantee scheme should be changed when circumstances demand change. It has already been altered to provide an exemption for statutory trust accounts. In other countries guarantee schemes have been altered since their introduction. In Canada, New Zealand and the United Kingdom, the fee has been revised lower from initial settings, while in the United States it has been revised higher.<sup>7</sup> In Canada, the "surcharge" for the guarantee for lower rated borrowers is 25 basis points, compared to the Australian scheme's 80 basis points.

The wholesale funding guarantee is a temporary measure. As the RBA Governor has commented, "when market conditions normalise, as we all trust they will eventually, the use of the guarantee will be too expensive in that world and the banks will stop using it and they will revert to issuing on their own, which is of course what we want to get back to."<sup>8</sup>

One of the major banks has already raised wholesale funds without the guarantee but market conditions have not yet normalised. Major banks are aggressively exploiting their funding advantage over other ADIs based on the guarantee scheme structure and Australian consumers and businesses are facing a much less competitive banking market.

The risk to consumers and businesses is higher than necessary loan interest rates, lower returns on savings, higher fees and a reduction in choice, convenience and service.

In other measures to enhance mutual ADIs' access to funding, Abacus recommends:

- Government facilitation of aggregation proposals by groups of ADIs to use their collective balance sheet strength; and
- Consideration of the Canadian Mortgage Bond (CMB) Scheme as a model for adopting in Australia.

Mutual ADIs, particularly credit unions, have traditionally relied on industry aggregators and co-operative action to gain access to wholesale markets for funding. Abacus urges the Government to engage positively with aggregation proposals, including proposals involving some modification of the guarantee scheme.

#### 2.4 CMB scheme

The Canadian Government launched the CMB scheme in 2001. Canada Mortgage Bonds are bonds issued by a special purpose trust, Canada Housing Trust (CHT), and guaranteed by a Canadian Government agency, Canada Mortgage and Housing Corporation (CMHC).

---

<sup>7</sup> Financial Stability Review, March 2009. RBA.

<sup>8</sup> House of Representative Economics Committee hearing 20 February 2009.

A June 2008 evaluation of the scheme by KPMG<sup>9</sup> found that the main impacts of the program have been as follows:

- it has provided lower cost mortgage funding to financial institutions;
- it has resulted in savings to mortgage borrowers as a result of the pass through by financial institutions of a large percentage of this cost of funds advantage;
- it has increased the availability of mortgage funding for smaller lenders, and this was probably a factor in enabling them to maintain their share of a rapidly growing market leading to more than doubling their annual volumes of mortgage approvals during the study period (2001-06); and
- it has provided a mechanism to access capital markets for residential mortgage funding and has helped to meet investor demand for high quality bonds.

In an “addendum” to the 2008 report, KPMG made the following key points about the CMB program and the disruption to markets caused by the onset of the global financial crisis:

- the cost of funds advantage of the CMB program has increased significantly since the evaluation study period;
- the program has played a stabilising role in Canadian mortgage markets since the Fall of 2007 by providing a reliable funding source, and this has been particularly important for smaller lenders who have fewer alternatives in this environment compared to the big five banks;
- demand for CMB funding has increased from all lenders, while issue size has stabilised, so the allocation process to provide funding to financial institutions has become an important factor in supporting and potentially influencing competition among lenders;
- mortgage spreads (relative to Government of Canada bonds) have widened, permitting new or expanded entrance into prime mortgage lending at profitable margins compared to pre-August, 2007, levels; and
- through its support for smaller lenders, the CMB program has enhanced the competitiveness of the mortgage market, and some smaller lenders have been price leaders in parts of the mortgage market in recent months, gradually reducing mortgage rates overall.

Like Australia, Canada has a strong mutual banking sector in a banking market dominated by five big banks. Canadian credit unions access the CMB program through an aggregator body and they have advised Abacus the program has been “extremely effective at easing liquidity concerns” and has become a “very significant” source of funding.

Abacus recommends urgent and positive consideration of adopting a well-designed CMB-type program in Australia to guarantee competition and choice in the home loan market.

### **3. Promote ADI status**

Effective consumer choice relies on consumers being well informed.

Given the enormous advantage major banks already have in terms of size and marketing power, and the impact of the global financial crisis on competition, Abacus sees a pressing need to educate the community about the prudential regulatory framework for deposit-taking and the ADI concept.

---

<sup>9</sup> Canada Mortgage Bonds Program Evaluation, KPMG, June 2008.

A decade since the implementation of the Wallis reforms put all deposit-takers on an equal regulatory footing, Abacus members still regularly encounter perceptions that banks are safer than other ADIs. This problem came sharply into focus during the widespread community anxiety about the safety of the financial system with the deepening of the global financial crisis in the second half of 2008.

Numerous “experts” engaging in public debate about the safety of customer deposits were frequently and alarmingly wrong about the Australian prudential regulatory framework for deposit-taking institutions.

Given that these public commentators did not understand the prudential status of ADIs, the general public’s level of understanding is a matter of significant concern. If consumers are not informed they can’t make informed choices about where to seek a home loan or a competitive return on a deposit.

Major banks are able to exploit community ignorance about the status of other deposit-takers and lenders to profit from a so-called “flight to quality”.

In our Pre-Budget submission to Treasury, Abacus recommended the allocation of funding for a public information campaign explaining the ADI concept and encouraging retail banking consumers to “shop around” with confidence in the ADI sector. Such a campaign would have particular value in the context of revisiting the current deposit guarantee in 2011.

Ideally, the campaign should be delivered by the key regulators, APRA and ASIC, though neither regulator has given priority to such an initiative to date.

APRA is not a high-profile, consumer-facing agency and, as noted above, its chairman, Dr Laker, commented recently that APRA has “no mandate for market conduct or consumer matters...”

#### **4. Regulatory compliance burden**

The regulatory compliance burden on mutual ADIs is significant and growing. This is unfortunate because mutual ADIs are ethical and customer-focused and strongly outperform their major competitors in independent customer satisfaction ratings.

Meeting the regulatory compliance burden is a significant factor in the steady consolidation of the credit union sector in recent years.

Regulatory compliance has fixed costs and therefore smaller ADIs are more adversely affected than major banks by new financial sector regulation.

A 2007 report<sup>10</sup> on compliance costs released by ASIC and the Finance Industry Council of Australia found that the main concerns of the financial sector with regulation are:

- poor implementation of some legislation;
- some regulation is seen to be unnecessary; and

---

<sup>10</sup> *A Report on Costs of Financial Services 2007* Chant Link & Associates. ASIC. December 2007.

- the volume of regulatory requirements is difficult to manage.

Major cost components were: staff costs; training; documentation; IT; outsourcing (legal, audit, consultants); procedures; monitoring and recording; and, opportunity cost. The opportunity cost of regulatory compliance includes staff time and the impact on business expansion and new product development.

The FSR laws introduced in 2001 were intended to benefit industry participants by “reducing administrative and compliance costs”<sup>11</sup>, but this good intention was not delivered and the FSR regime imposed a significant regulatory compliance burden on ADIs for little or no consumer benefit. The FSR regime has been subject to ongoing amendment and revision since it was introduced.

Abacus is currently concerned about the risk of an unnecessary increase in the regulatory compliance burden on responsible lenders, such as mutual ADIs, arising from the transfer of credit regulation from the States to the Commonwealth.

Abacus supports the Federal Government taking responsibility for the Uniform Consumer Credit Code but this should be achieved in a process that minimises disruption to responsible lenders. A burdensome new regulatory regime on lenders could hamper economic recovery in regional Australia and the wider economy.

Initial analysis of draft new consumer credit laws released on 27 April 2009 indicates a serious risk that some of the mistakes of the FSR regime are being repeated. For example, there is the same focus on disclosure documentation despite the widely held view that the FSR regime’s lengthy disclosure documents are of no help to consumers.

The last thing mutual ADIs and their borrowers need in an economic recession is more red tape, cost and paperwork clogging up the flow of credit.

New laws regulating credit are at the head of a long list of regulatory proposals confronting the retail banking sector, including the introduction of ‘unfair contract’ provisions in a new Australian Consumer Law, personal property securities reform, changes to the Privacy Act, revision of the EFT Code, and a further intervention in the payments card market by the RBA.

Abacus strongly urges policymakers to ensure that all new regulatory measures are absolutely necessary, proportionate, and carefully targeted.

## Conclusion

Mutual ADIs are critically important to encouraging economic development and employment and developing sustainable essential services and social infrastructure in regional Australia.

Government policies to stabilise the core of the financial system, the ADI sector, have been successful but the differential fee structure in the Government’s *Guarantee Scheme for Large Deposits and Wholesale Funding* is now posing a grave threat to competition in the retail banking market.

---

<sup>11</sup> Explanatory Memorandum to FSR Bill 2001.

Major banks are seizing the opportunity provided by the differential fee structure to expand market share from competitors such as mutual ADIs.

There is an urgent need to remove the unintended anti-competitive impact of the Guarantee Scheme before it is too late.

Mutual ADIs and the few remaining regional banks are the only competitive check on the four major banks across lending, deposits and payment product markets. If the competitive position of mutual ADIs is permanently damaged by current arrangements, regional Australian communities will pay the price through reduced choice and higher prices for their banking services.

Please don't hesitate to contact me on 02 8299 9036 or Luke Lawler on 02 6232 6666 to discuss any aspect of this submission.

Your sincerely

A handwritten signature in blue ink, appearing to read 'Louise', with a long horizontal flourish extending to the right.

**LOUISE PETSCHLER**  
Chief Executive

Attachment A



Welcome to your community banking alternative  
**ABS Building Society Ltd**

BSB 630-000



*Let's talk banking*





Proudly local - just like you



**CAPRICORNIA**  
A **different**  
KIND OF BANKING



Sustainable Banking

**GosfordCity**

CREDIT UNION

IMPROVING YOUR FINANCIAL FUTURE



**Companion**  
credit union



**HOLIDAYCOAST**  
credit union



Credit Union Limited

ABN 40 087 650 440



**WYONG COUNCIL**  
Credit Union

**Southern Cross**  
CREDIT UNION LTD

**South West Slopes**  
**Credit Union**



**first choice**  
CREDIT UNION



**HERITAGE ISLE**  
CREDIT UNION LTD



...a different kind of banking

**New England**  
Credit Union Ltd  
at the heart of our community





Goldfields Credit Union

Lysaght Credit Union Ltd.



# Australian Credit Unions & Mutual Building Societies

## FACTS AND FIGURES AT A GLANCE

SIZE	
<b>Numbers</b>	<ul style="list-style-type: none"> <li>&gt; 120 credit unions</li> <li>&gt; 9 mutual building societies</li> </ul>
<b>Assets and Growth</b>	<ul style="list-style-type: none"> <li>&gt; Collectively, our sector has more than \$71.6 billion in assets<sup>1</sup>.</li> <li>&gt; Credit unions' on-balance sheet assets reached \$45.4bn in December 2008, growing by 11% annually while mutual building societies' on-balance sheet assets amounted to \$18.3bn in the same period.</li> </ul>
<b>Market Share</b>	<ul style="list-style-type: none"> <li>&gt; Hold approximately 7% of the new home loan market and 12% of household deposits.</li> <li>&gt; Collectively, credit unions and mutual building societies are the third largest holder of household deposits in Australia.</li> </ul>
<b>Population Penetration</b>	<ul style="list-style-type: none"> <li>&gt; We serve over 4.5 million members - close to 1 in 4 of the total population</li> <li>&gt; Population penetration (members as a proportion of the total population) is highest in SA (36%), Tasmania (36%), and NSW (28%)</li> </ul>
STRENGTH	
<b>Customer Satisfaction</b>	<ul style="list-style-type: none"> <li>&gt; 85.7% of credit union and 86.4% of building society members reported high satisfaction in February 2009.</li> <li>&gt; Credit unions and mutual building societies consistently out-perform banks (majors 71.4% and total banks 73.2% in March 2009).</li> </ul>
<b>Competitive Advantages</b>	<ul style="list-style-type: none"> <li>&gt; Mutual structure means no tension between servicing customers and external shareholders – customers (members) are the owners</li> <li>&gt; Better placed than most to satisfy key needs of consumers, that is:               <ul style="list-style-type: none"> <li>- member focus</li> <li>- sense of community / belonging</li> <li>- honesty and integrity</li> <li>- guidance</li> <li>- simplicity</li> </ul> </li> <li>&gt; Competitively priced</li> <li>&gt; Close to half of all members are outside capital cities, approx. one quarter of which are in regional cities and three quarters in rural areas</li> </ul>
<b>Strong Regulation</b>	<ul style="list-style-type: none"> <li>&gt; All credit unions and building societies (and banks) are Authorised Deposit-taking Institutions (ADIs), regulated under the <i>Banking Act</i>. We meet the same high standards of prudential regulation as banks with full regulatory oversight by APRA, the prudential regulator.</li> <li>&gt; The Government has guaranteed all deposits of up to \$1 million at Australian credit unions and building societies (and banks) for at least three years. The guarantee for deposits of more than \$1 million is subject to a Government fee.</li> </ul>
PRODUCTS	
<b>Product Range</b>	<ul style="list-style-type: none"> <li>&gt; Mutual ADIs offer a full range of personal banking services; smaller ones provide more limited facilities</li> </ul>
<b>Product Usage</b>	<ul style="list-style-type: none"> <li>&gt; More members now using their CU as their main financial institution – 14.2% had six or more products with their CU in June 2001; by June 2008 this was up to 23.6% (i.e., a 60% increase in 7 years)</li> </ul>

<sup>1</sup> Based on June 2008 annual reports.

# Australian Credit Unions & Mutual Building Societies

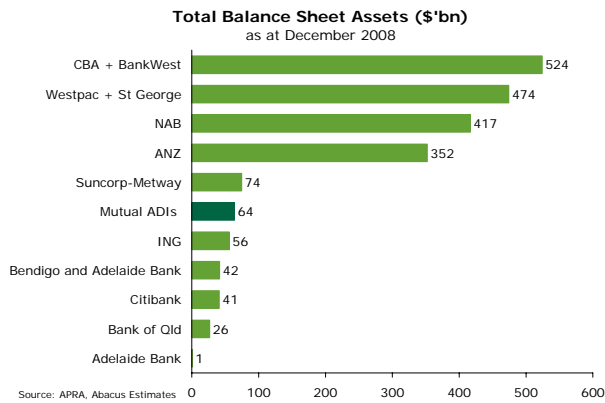
## Mutual ADIs

There are 120 credit unions and 9 mutual building societies in Australia – ranging from small ADIs through to the largest credit union with over \$6bn in assets. Collectively, the industry has \$71.6bn in assets.

Credit unions and mutual building societies are customer owned – operating under the mutual principles of one member one vote, an equal share in the say of the credit union, and with the purpose of member and community benefit at the forefront of their operations.

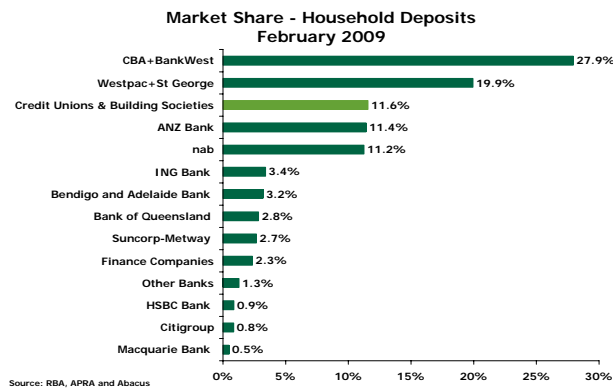
## Market Share

Collectively, credit unions and mutual building societies sit behind the five major banks and Suncorp-Metway in terms of total on-balance sheet assets.



(Source: APRA)

Mutual ADIs hold approximately 7% of the new home loan market. As a group, credit unions and mutual building societies are the third largest deposit gathering force after CBA and Westpac, reaching almost 12.0% market share.



(Source: APRA, RBA)

## Products and Services

Credit unions and mutual building societies offer a full range of personal banking services with smaller ones providing more limited facilities.

Credit unions and mutual building societies charge less than the major banks in interest rates as shown in the following table.

### Standard Variable Home Loan Rates by Lenders (as listed by CANNEX)

24-Apr-09	Average
Big Five	5.76%
Credit Unions	5.69%
Building Societies	5.43%

(Source: Canstar Cannex)

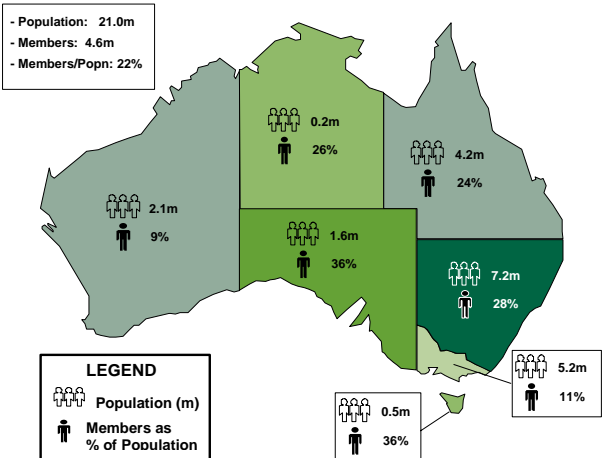
An ASIC survey released early in 2008 also reported that credit unions and mutual building societies charge, on average, the lowest overall loan fees in the lending market.

Similarly, we offer attractive deposit rates on saving investment accounts and 90-day term deposits as March 2009.

In March 2009, 85.7% of credit unions' and 86.4% of building societies members were satisfied, consistently out-perform banks (majors 71.4% and total banks 73.2% in March 2009).

## Strong country coverage

As at June 2007, Australia's total population was 21 million, of which 4.6 million (21%) were credit union or mutual building society members.



(Source: MMD)

Population penetration (members as a proportion of the total population) highest in SA (36%), Tasmania (36%), and NSW (28%)