

Credit crunch may cast 4-year shadow

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A senior executive at Australia and New Zealand Banking Group has warned that the impact of the global credit crunch could last for up to four years, triggering further consolidation within the financial services industry.

Brian Hartzler, group managing director of ANZ's personal division, said wholesale funding costs for Australia's banks would remain high "for some time" and it would take three to four years for confidence to return to financial markets.

Earlier this week, ANZ revealed that its annual debt charge would hit \$2.2 billion this year, forcing the group to scale back its ambitious Asian expansion. Profits will fall by between 20 per cent and 25 per cent.

"It is going to take time," Mr Hartzler told an Australian Institute of Company Directors lunch in Perth yesterday. "It is going to be more challenging. We are going to see continued high borrowing costs for the medium term. Even if interest rates start to come down, I think the risk premium demanded from banks will remain high."

Mr Hartzler said the impact of tightening global financial markets would pose a significant challenge for the mortgage broking industry. "As

the margins in the lending business has compressed, mortgage brokers haven't worn most of that pain; it has been worn by the funders.

"But I think we are starting to see that pain being shared around a little bit. I think smaller mortgage brokers are going to find it increasingly challenging because they are going to have to pay more, there will be new regulations and the margins are going to be tougher.

"Well-run companies should still be OK but I think you will see some marginal players under pressure and perhaps a bit more consolidation going on."

He reinforced comments by ANZ chief executive Mike Smith earlier this week that the bank had no direct exposure to the credit crisis. But Mr Hartzler said the increasing funding costs, which have been volatile for about nine months would remain high and volatile for "some time".

"I think the premium that banks are being charged around the world will remain for some time."

He said an increase in funding costs by 50 basis points equated to \$400 million a year in additional interest costs for the bank.

But despite the doom and gloom he said the Australian financial system had weathered the impact of the credit crunch well, adding that



ANZ's Brian Hartzler . . . pain ahead for mortgage brokers.

Photo: ERIN JONASSON

the strength of the Australian system could attract attention from cashed-up Chinese institutions.

"If I was running an Asian bank right now that had very high deposits I would certainly be looking at an established landscape in banking and given the valuations I think [Australia] looks fairly attractive," Mr Hartzler said.

Mr Hartzler said he was unsure that the worst of the credit crisis was over but that because the major banks had strong balance sheets they were in a better position than most.

"I would be the last person to try and pick the bottom. That's a mug's game," he said.

■ The author has shares in ANZ.