ANALYSIS OF MORTGAGE OFFSET ACCOUNT INTEREST and BANKS CASH POSITION

Mortgage $	MORTGAGE Interest Rate %	CUSTOMER AVERAGE Offset balance	BANK Annual Interest	CUSTOMER Interest saved Per month	CUSTOMER Interest saved Per annum	Average offset Balance $	BANK Annual Interest reduced to	INTEREST Rate reduced	COST OF CASH ON HAND
$400,000.00	6.70%	$10,000	$26,800.00	$56	$670.00	$10,000.00	$26,130	6.53%	0.17% less than 1%
$500,000.00	6.70%	$10,000	$33,500.00	$56	$670.00	$10,000.00	$32,830	6.57%	0.13% less than 1%
$600,000.00	6.70%	$10,000	$40,200.00	$56	$670.00	$10,000.00	$39,530	6.59%	0.11%

NOTES

The revised interest rate received by the bank varies according to the size of the mortgage
The banks customers interest on the mortgage is reduced by 6.70% pa of the amount held in an offset account.
The monthly loan repayment remains fixed .The principal in the repayment is increased by $670 and the banks interest is reduced by $670.
There is no change in payments to the bank and many customers believe the arrangement is for a reduction in interest only.
The banks customer is not informed that the cost of the offset interest is amortised across the total mortgage
and impacts very little on the net interest received by the bank .
EG : If an average of $10,000 was held in a customers offset account for 12 months the effective rate of interest the bank collects is reduced
from 6.7% to 6.53 % a reduction of .017%(less than 1%)
In effect the bank is encouraging customers to deposit funds in offset accounts that may be used
to fund mortgages at a cost to the bank of .17 of 1% . Wealth packages provide fluidity in banks funds and lock customers in.
Further the bank is charging a wealth package fee which includes access to offset accounts.
If the savings to the customer is $670 per annum less say $350 cost of wealth package = $320 or $6 per week
If the banks current interest rates offered on term deposits is for example 4% and the bank states in its financial reports
that net interest margin is around 2% to arrive at a VARIABLE mortgage interest rate of 6% then
that margin would not seem to compute with principal returned at a cost of less than 1% plus the banks stated interest margin
of 2% to arrive at a variable rate interest of 3%. The interest margin on offset funds costing 0 .17% is 5.83% to arrive at 6%.
That is more than double the banks stated margin of around 2% and needs to be examined in conjunction with statements of cash flow.
The ACCC needs to examine the relationship between product disclosure statements and Loan offer statements . A pdf is not a pds.
NOTE: When the monthly instalment including the reduced interest and increased principal the savings made is negated
until more funds are deposited in the offset account. Offset accounts more importantly allow the bank to monitor the finances of the mortgagee.
THE ACCC IS NOT DOING ITS JOB !!!!
Customers understand they are saving mortgage interest but are not aware they are providing the bank with funds at less than
1% that are being loaned at 6.53% in the example. The Bank is guilty of price gouging and deception .
The bank customer should be compensated for the difference in the banks cost of funds on term deposits (around 4%)
less in the example the funds provided to the bank at 0.17% = 3.83 % on the average offset deposits over 12 months.
THAT IS GROUNDS FOR A CLASS ACTION....The bank should credit the offset interest to the customers offset account
by doing so the customer is receiving the correct interest on funds deposited . It is the customers option to reduce the mortgage .

ANALYSIS OF MORTGAGE OFFSET ACCOUNT INTEREST and BANKS CASH POSITION

THE BANKS BALANCE SHEET ,PROFIT AND LOSS and STATEMENT OF CASH FLOW needs to be inspected
in relation to statements made by the bank.
COMMBANK STATEMENT OF CASH FLOWS DOES NOT INCLUDE THE FOLLOWING
TOTAL MORTGAGES AT THE START OF THE YEAR LESS PRINCIPAL REPAID PLUS NEW MORTGAGES ISSUED.
TOTAL MORTGAGES OUTSTANDING AT THE END OF THE FINANCIAL YEAR
TOTAL FUNDS HELD IN OFFSET ACCOUNTS SHOULD APPEAR ON THE BALANCE SHEET .
COMMBANK states that more than 70% OF MORTGAGE loans in this financial year are financed by increased deposits.
That statement needs to be confirmed by inspecting the statement of cash flows.
After tax profits, dividends , share buy backs and capital raising all effect the statement of cash flows and creative accounting can
skew the outcomes regarding interest margins .
BOTTOM LINE IS : Interest rate adjustments is driving a huge proportion of the economic value produced by Australia's
workers to the banks who in turn are redistributing that value as they see fit. It is time for the Government to take control .

ADJUSTING THE ECONOMY

The adjustment of the economy and distribution of wealth needs to be analysed.
The changes recommended below do not effect the operations of the banks or their profitabilty.

SET AN RBA INTEREST BASE RATE OF 2% FOR INTERNATIONAL AND DOMESTIC LOANS
CHANGES TO THE BASE RATE WILL BE A : INTERNATIONAL and B : DOMESTIC.

A: For example INTERNATIONAL RATE increased by 50 basis points = 2.5% interest rate to align with international rates .
B : For example. 2% DOMESTIC BASE RATE FIXED . BASIS POINTS CHANGES TO THE EST INDEX WILL BE LEVIED ON MORTGAGES.
That is base RBA rate 2% plus EST INDEX CHANGE 50 basis points = 2.5% add banks required margin 2% = adjusted variable rate is 4.5%
Fixed interest rate loans have a built in buffer to account for rises and falls in the EST Index. A fixed interest rate loan at 6% will not change.
That is changes in the EST Index will be levied on fixed rate mortgages as a charge to the bank. A 6% rate = 5.5% for the bank .5% to ato

POINTS TO CONSIDER

The bank sets its margin between cost of funds and interest on loans. No change.
The bank is not obliged to adhere to RBA rates which are advisory only.
The RBA FIXED BASE RATE IS ADJUSTED UP OR DOWN BY BASIS POINTS CHANGES TO THE EST INDEX.(replacing RBA adjustments)
The bank may well set a rate of 2.5% on deposits and add a required margin of 2% = 4.5% variable mortgage interest rate.
Add EST (Economic Sustainability Tax) 50 basis points = TOTAL CHARGED TO MORTGAGEE = 5% .

THE TIME FOR CHANGE IS NOW !

Billions of dollars of taxpayers take home pay previously channeled through the banks will now go to the Governments to fund
services and infrastructure including affordable housing .
Adjustments to the economy will be according to changes in the EST Index and will be quarterly or 6 monthly to align with bas reporting
Negative gearing : in 3 years negative gearing of rental properties will no longer apply and a 3 year amnesty on cgt will apply.
At the introduction of EST CGT on disposal of shares will no longer apply. DRIVING INVESTMENT IN AUSTRALIAN CORPORATIONS.
The banks will collect the EST adjustment send billions of dollar in cash to the Government.
Combined with the reduction of GST to EST at less than 5% and no churning of taxes fraud the Government will have a windfall

To summarise

The bank infers that it is reducing the interest it charges on the customers mortgage by 6.7%
In reality the bank is reducing the interest rate it charges to 6.53 or 0.17% a reduction of less than 1 %.
How can this be ? It is because the reduction in cost to the bank is amortised across the total loan.
The amount of the ongoing monthly mortgage payment does not change . The interest component is reduced while the principal payment is increased. That interest payment is a return of capital to the bank to fund future loans .
In the example the cost of those funds to the bank is 0.17% to be re loaned at the current variable interest rate.