

News & Views

Housing getting affordable again

Big cuts in interest rates and the boost to the First Home Owners Grant pushed housing affordability conditions to the best level in five years, according to the HIA-CBA First Home Buyer Affordability Index. Over the December 2008 quarter the average home loan repayment fell by 26 per cent to \$2,056 per month, significantly lower than the previous amount of \$2,796. Further reductions in mortgage interest rates in the first quarter of this year are expected to yield another improvement in housing affordability in the next report. HIA economic modelling based on the Australian Bureau of Statistics, Survey of Income and Housing 2005/06 confirms that 135,000 households on mortgages have come out of mortgage stress since December 2008. "Previously a household would have to be earning in the order of \$85,000 per annum to afford a modestly priced home without going into severe mortgage stress. The improvement in housing affordability means those on a more modest income can now consider a home of their own," said Chris Lamont, HIA's Chief Executive. The HIA-CBA First Home Buyer Affordability Report showed that affordability improved over the December quarter in all capital cities and regional areas, with the largest improvement occurring for Perth, Brisbane, and Regional Western Australia.

Banks favour their own small business customers

The bank margin on a loan to small business has increased by about 0.10 per cent as the banks have delivered less than 3 per cent on average in rate cuts to their small business customers as the RBA has cut by four per cent. The major banks have left up to 35 per cent of small businesses struggling to find a lender as non-banks and finance companies have exited the lending market. The big banks have taken up only a small portion of the business abandoned by the second tier lenders when global wholesale funding markets dried up. In a climate of rising bad debts, banks are favouring their own existing customers rather than taking on new customers. Lenders are also asking for more security than before.

\$5 ATM fees coming

NAB, Westpac, ANZ and St George have all confirmed that they will be charging customers who use ATMs owned by their competitors a 'disloyalty' fee. NAB has confirmed that the fee levied on its own customers will be fifty cents. Banks have also confirmed that they will charge ATM customers for balance inquiries and could charge customers twice for checking their balance and then making a cash withdrawal. Together the two fees could be as high as \$5. "This system punishes the careful customer who checks their balance to make sure they do not incur penalty fees," Choice spokeswoman Elissa Freeman said. "It flies in the face of everything we have been told over the years - the idea of paying to check that you have enough money is absurd." Commonwealth bank has yet to confirm the fees it will charge its customers for using an ATM. Community bank deposits are held directly by the bank.

National Market Ranges

Home Loans

Standard Variable	4.98 - 6.95%
Basic Variable	4.88 - 6.32%
1 Yr Intro	3.45 - 6.25%
3 Yr Fixed	5.39 - 7.00%
Investment Variable	4.98 - 6.95%

Deposit Accounts

Cash Mgmt \$10,000	0.01 - 5.50%
Cash Mgmt \$50,000+	0.25 - 5.50%
Online Savings >\$5,000	0.01 - 5.30%
Savings >\$2,000	0.01 - 4.75%

Investment Accounts

Interest paid at maturity or per annum

\$10,000, 90 Days	1.00 - 5.10%
\$10,000, 1 Year	1.60 - 4.75%
\$10,000, 3 Years	1.50 - 4.80%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON CREDIT CARD REPAYMENTS

RediATM network set for expansion

The RediATM network of 1,400 machines owned and operated by CUSCAL, a provider of financial services mainly to credit unions, plans to double in size and attract new partner institutions to the network. Under the direct charging regime to be introduced next month, customers will be charged a fee directly by the owner of the ATM. Last month Cuscal signed up AMP Banking to the network. Cuscal managing director, Craig Kennedy, said on Thursday the group had a number of deals in the pipeline. He said the ATM market was more competitive than he had seen for some time. "We have had trouble getting some of the sites we were after."

Aussie targets cards and loans

Credit cards and personal loans are key areas for growth for Aussie Home Loans in 2009 says executive chairman John Symonds. Aussie is currently integrating the Wizard franchise network which was purchased before Christmas in a deal backed by the Commonwealth Bank. Both Aussie and Wizard have struggled to maintain market share over since the onset of the credit crisis and increased cost of wholesale funding. Wizard franchisees have been in dispute with former owner GE Money over cuts to commissions. Symonds said he would continue to criticise the big banks if necessary.

Personal lending growing again

New lending commitments increased by 3.5 per cent in December according to the Australian Bureau of Statistics. Loan refinancing, as well as borrowing for homes, cars and land drove the first increase in lending commitments in three months. Personal lending, including car loans, rose 4.1 per cent in December, while home loan borrowing by owner occupiers was up 7.1 per cent. Demand for commercial credit remained weak. Analysts said recent interest rate cuts and the federal government's economic stimulus payments, delivered in the first half of December, were having an impact an encouraging people to spend.

New Products, Rates & Fees

Card holders like mobile phone payments

Shoppers and merchants have delivered good feedback on the mobile phone based contactless payments system recently trialled in the Docklands area of Melbourne. The trial, by National Australia Bank, Telstra and Visa allowed shoppers to pay for small items by swiping mobile phone near the merchant's card reader. Ninety percent of participants were very or extremely satisfied with the system, 95 percent said they were likely or extremely likely to use this technology in the future and 78 percent said paying using a mobile phone was better than cash.

Online account rewards savers with gifts

ANZ Banks' smartypig account is offering bonuses of up to 8 per cent when funds are redeemed at a major retailer as a gift card. The online account allows Facebook and MySpace friends to deposit into the account which pays 5 per cent interest. As SmartyPig customers reach their savings goals they can also receive "value boosts" of between 4 per cent and 8 per cent from a range of major retailers, announced yesterday, including David Jones, Myer, Freedom, Harvey Norman, Virgin Blue holidays, Rebel Sport, Target and JB HiFi. The minimum opening balance in a smartypig account is \$10. Each account is structured to achieve savings goals.

Interest Rates & The Economy

RBA to proceed with caution

The big news this week was the release of the Reserve Bank's minutes from its February 3 board meeting. Governor Glenn Stevens signed off on another 100 basis point cut to the official cash rate at this meeting, bringing rates to 3.25 per cent which is a 45-year low.

The minutes showed that the board's key focus continues to be the rapid deterioration in world economic conditions which started late last year. Members noted the sharp slump in household and business confidence, slowdown in China and the IMF's global growth forecasts which are expected to be the weakest in 60 years.

The minutes acknowledged that the latest 100 basis point cut and the government's \$42 billion stimulus plan would both have a significant impact on the economy during 2009. These comments suggest that the RBA is signalling the end of its aggressive monetary policy easing cycle which started in September last year.

The minutes noted: "This stimulus would take time to be effective and could be expected to have only a modest effect on the near-term outlook in Australia. Given the speed at which the global contraction had occurred, short-term prospects were thus still for weakness in demand and output. Nonetheless, the substantial measures taken

would help to cushion the economy from the contractionary forces coming from abroad and, over time, work to establish conditions conducive to stronger demand later in the year."

While the fiscal and monetary policy measures go to work in the domestic economy, the RBA will continue to scrutinise the data for signs that Australia is heading for serious trouble. The economy has probably deteriorated even further since the February 3 board meeting and the latest economic news from Japan suggests that Australian exporters are going to have a tough time going forward. Japan is Australia's largest export market and the latest data shows that the country is currently experiencing the worst economic conditions for 50 years.

Market participants will be looking for clues about the RBA's next move when Governor Glenn Stevens appears before the House of Representatives Standing Committee on Economics on Friday. A number of economists are already predicting a cut of 25 to 75 basis points when the Board meets again in March.

Next Week's Announcements

Mon	23 Feb	Aust New Motor Vehicle Sales (January)
Wed	25 Feb	Aust DEWR Skilled Vacancies (February) Aust Preliminary Construction Work (4th Quarter) Aust Wage Price Index (4th Quarter)
Thur	26 Feb	Aust CBA/HIA Housing Affordability (4th Quarter) Aust Average Weekly Earnings (November) Aust Capital Expenditure (4th Quarter)
Fri	27 Feb	Aust Private Sector Credit (January)

Industry Analysis

Consumers get protection against fees

High bank penalty fees for overdrafts, late credit card payments or direct debit dishonours could be outlawed by new commonwealth consumer rules to be introduced next year. The new laws, which will replace the state based consumer protection laws, will ban unfair terms in 'take it or leave it' contracts like bank account or loan terms and conditions as well as mobile phone contracts. The new protections will not apply to negotiated contracts. Fees that far outweigh the costs will be scrutinised under the new rules said the minister for consumer affairs Chris Bowen.

Consumer lender tightens up loan criteria

Flexigroup, who provide credit instore for computer and home appliances says it has tightened credit criteria for loan applicants and has warned investors that it faces a tough outlook in 2009. Net profit was down for the first half of the financial year by 13 per cent to \$14.6 million. Flexigroup said it was increasing provisions for loss making loans by 30 per cent to \$12 million. Lending losses were up 24 per cent in the first half to \$10.3 million, compared to the previous corresponding period. Loans that are behind by 90 days or more have remained stable at about 0.8 per cent of the company's total loan book.

Sources: InfoChoice, Daily Telegraph, eCommerce Report, Herald Sun, Housing Industry Association, IT News, The Australian Financial Review, The Sheet

Minimum credit card account payments

Commonwealth Bank created some interest in the issue of minimum credit card repayments last week when it reported that it had experienced a spike in arrears in its credit card book after increasing the minimum monthly repayment.

Last July the bank increased the minimum monthly payment across its range of cards from 1.5 to 2 per cent a month or \$25, whichever is the greater amount.

When the bank reported its results for the six months to December 31 it noted that arrears on credit card payments jumped from around 0.9 per cent of outstandings, which was the arrears rate that prevailed from late 2007 through to September last year, to around 1.2 per cent in December.

Commonwealth Bank chief financial officer David Craig said the bank viewed the spike as a one-off event, reflecting an adjustment to higher monthly payments.

The bank did not report how many of its customers pay the minimum each month or what the average payment is.

A search of the Infochoice database reveals that minimum repayments range from 1.5 per cent to 5 per cent a month.

Macquarie Bank is the only card issuer with a minimum repayment of 1.5 per cent a month, on its RateSaver card. Macquarie also issues a Platinum card, which has a minimum repayment of 2 per cent.

GE Money issues three cards with a minimum monthly repayment of 2.2 per cent.

Of 138 cards on the Infochoice database 64 have a minimum monthly repayment of 2 per cent, 29 have a minimum repayment of 2.5 per cent and 39 have a minimum of 3 per cent.

Savings & Loans Credit Union has a minimum monthly repayment of 5 per cent on its Visa card.

The minimum dollar amount can be anywhere between \$5 and \$30 a month.

Consumer groups have long argued that the minimums are too low. Card users who pay the minimum each month will spend a long time and pay a lot of interest reducing their credit balances. The accompanying tables show the different outcomes given different repayment rates.

For most card issuers it is a matter of providing customers with a convenient credit product. The head of cards at Macquarie Bank, Julian Potter, said only a small number of the bank's card customers pay the minimum.

That experience will vary from one issuer to another but most issuers report that a minority of customers pay only the minimum.

Potter says: "The key factor in setting the minimum repayment is to make sure that customers are amortising their outstanding balances. Our RateSaver card has a rate of 11.95 per cent and a \$50 annual fee. Assuming an average balance of \$5,000 the fee would add an extra 1 per cent to the rate.

"A 1.5 per cent a month the annual repayment rate is 18 per cent, so our RateSaver customers are amortising at a rate of around 5 per cent a year.

"Card issuers with a 2 per cent minimum monthly repayment, interest rates of 20 per cent or more and large fees would have come close to negative amortisation last year."

Potter says minimum repayment levels do not usually figure in a consumer's calculation of what card they prefer. However, there is one situation where a low minimum repayment might offer a competitive advantage.

"People who take up a balance transfer offer at a low introductory rate would tend to view that as a long-term payment mechanism. The longer you are able to leave the balance in a low rate account the better.

"But for people who are paying in excess of the minimum each month the minimum rate is irrelevant."

Credit Card Comparison (\$10k Balance)

Macquarie Bank RateSaver Card

* 11.95% purchase rate, 18.95% cash advance rate

* Minimum Repayment 1.5% or \$20

* Annual Fee = \$50

Repayment Amount	Time to pay off	Interest Paid	Difference
Minimum	More than 40 years	\$20,498	n/a
\$150.75	9 years, 9 months	\$6,890	\$13,608
\$175	7 years, 6 months	\$5,118	\$15,380
\$200	6 years, 2 months	\$4,068	\$16,430
\$225	5 years, 2 months	\$3,386	\$17,112
\$250	4 years, 6 months	\$2,905	\$17,593

Victoria Teachers Credit Union Visa Credit Card

* 12.74% purchase rate, 12.74% cash advance rate

* Minimum Repayment 5.0% or \$30

* Annual Fee = \$0

Repayment Amount	Time to pay off	Interest Paid	Difference
Minimum	7 years, 9 months	\$2,612	n/a
\$500	2 years, 0 months	\$1,301	\$1,311
\$525	1 year, 11 months	\$1,232	\$1,380
\$550	1 year, 10 months	\$1,170	\$1,442
\$575	1 year, 9 months	\$1,115	\$1,497

This Week's Rate Movements

Home Loans - Standard Variable Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Adelaide Bank	Standard Variable	B	6.80	5.90	16/02/2009	-0.90
AIMS Home Loans	Gold Standard Variable Home Loan	B	6.63	5.63	17/02/2009	-1.00
Bendigo Bank	Residential Variable Loan	B	6.80	5.90	16/02/2009	-0.90
Cairns Penny Savings and Loans	Home Loan	B	6.70	5.70	16/02/2009	-1.00
Citibank	Standard Variable	B	7.19	5.99	19/02/2009	-1.20
ING Direct	Mortgage Simplifier	B	6.19	5.19	16/02/2009	-1.00
Members Equity Bank	SMHL Standard	B	6.24	5.49	15/02/2009	-0.75
MyLoan MyWay	Advantage Rate Home Loan	B	6.06	5.06	16/02/2009	-1.00
Pacific Mortgage Corporation	Full Doc Standard Variable Rate Home Loan	B	6.49	5.49	17/02/2009	-1.00
Queensland Teachers Credit Union	Home Loan Variable	OO	6.74	5.74	16/02/2009	-1.00
United Credit Union	Premium Home Loan	OO	7.06	6.06	18/02/2009	-1.00
Yes Home Loans	Equity Access Standard Variable	B	6.54	5.54	18/02/2009	-1.00

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

Home Loans - 1 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
A M O	AMO Fixed Rate Home Loan	B	5.25	5.23	16/02/2009	-0.02
Cairns Penny Savings and Loans	Home Loan	B	6.00	5.90	16/02/2009	-0.10
HomeSide Lending	Homeside HomePlus	B	5.99	5.49	16/02/2009	-0.50
Queensland Teachers Credit Union	Home Loan Fixed	OO	5.99	5.79	16/02/2009	-0.20
Suncorp	Fixed Loan	B	7.19	5.79	18/02/2009	-1.40
United Credit Union	Premium Home Loan Fixed	OO	6.13	6.14	19/02/2009	0.01
Yes Home Loans	Equity Access Fixed Rates	B	4.82	5.34	18/02/2009	0.52

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

Home Loans - 3 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
A M O	AMO Fixed Rate Home Loan	B	6.00	5.85	16/02/2009	-0.15
Adelaide Bank	Fixed Loan	B	6.49	6.14	16/02/2009	-0.35
Cairns Penny Savings and Loans	Home Loan	B	6.50	6.20	16/02/2009	-0.30
Easy Street Financial Services	EasyHome Fixed	B	7.19	5.99	19/02/2009	-1.20
HomeSide Lending	Homeside HomePlus	B	6.69	6.09	16/02/2009	-0.60
Suncorp	Fixed Loan	B	7.04	6.39	18/02/2009	-0.65
Yes Home Loans	Equity Access Fixed Rates	B	5.63	5.96	18/02/2009	0.33

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

Home Loans - 5 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
A M O	AMO Fixed Rate Home Loan	B	6.45	6.30	16/02/2009	-0.15
Adelaide Bank	Fixed Loan	B	6.99	6.49	16/02/2009	-0.50
HomeSide Lending	Homeside HomePlus	B	6.99	6.49	16/02/2009	-0.50
Suncorp	Fixed Loan	B	7.89	6.99	18/02/2009	-0.90
Yes Home Loans	Equity Access Fixed Rates	B	6.10	6.41	18/02/2009	0.31

Key: (OO) - Owner Occupied (I) - Investment (B) - Both

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