

News & Views

Sydney, Melbourne auctions still sick

The Sydney auction market continued to recover very slowly on the weekend with 156 properties selling at auction out of a total of 301 residential homes sold under the hammer on Saturday. The clearance rate of about 64 per cent was about the same as last weekend when 120 properties sold in Sydney auctions. On the same weekend in 2008, 286 properties sold at 524 auctions. Melbourne auctions figures were affected by late reporting but indicate a strong clearance rate over 73 per cent, compared to seventy per cent on the same weekend last year when more than 600 properties sold at over 1,000 auctions.

Commbank, NAB, ANZ tighten up on first home buyers

The Commonwealth Bank is now requiring first home buyers to contribute no less than three per cent of the purchase price of the property from out of their own savings. "Customers who have skin in the game in terms of their own funds are more committed to continue their repayments," said CBA group executive retail banking services, Ross McEwan. "So in the next couple of weeks, we're implementing a policy to require borrowers to contribute a minimum of 3 per cent (of the purchase price) on top of any government grant." First home buyers can receive \$14,000 from the federal government towards the purchase of an existing property or \$21,000 towards a new home. NAB has cut its maximum loan-to-valuation ratio from 100 to 95 per cent. ANZ reduced the LVR's to mortgagees from 95 to 90 per cent.

ANZ wants to lend more to small business

ANZ has announced it will increase lending to small and medium businesses by \$8 billion, equal to the total amount of new lending to SME's in 2008. ANZ Group managing director commercial, David Hisco, said the lending would help sound businesses manage through the economic downturn. "The vast majority of those businesses are well managed and in a sound financial position," he said. Residentially secured small business variable lending rates decreased 180 basis points while the RBA decreased the official cash rate by 300 basis points. Australian Chamber of Commerce and Industry chief executive Peter Anderson said "Business must be able to invest and have access to credit at competitively priced levels in order to underpin growth and employment opportunities, lenders must now play their part in dealing with our current difficult circumstances."

Households look to get debt under control

The average household debt to income ratio fell sharply in the December quarter from 160 per cent to 156 per cent as people paid down their cards and loans. Merrill Lynch economist Peter Osbourne said that the debt to income ratio would need to fall further to about 140 per cent before there would be a significant pick up in borrowing and spending. "The ratio needs to fall significantly over the next two to three years to return household balance sheets to a healthy state."

National Market Ranges

Home Loans

Standard Variable	4.98 - 6.95%
Basic Variable	4.88 - 6.29%
1 Yr Intro	3.99 - 6.24%
3 Yr Fixed	5.34 - 7.01%
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 - 4.55%
\$10,000, 1 Year	1.60 - 4.00%
\$10,000, 3 Years	1.50 - 4.80%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON SMALL BUSINESS LENDING

Credit card holders pay down debt

Repayments on credit card debt surged in December by 22 per cent according to figures released by the Reserve Bank of Australia. Credit card debt is growing at its slowest pace on record. CommSec says the average credit card balance increased by 0.1 per cent in the month of December. The figures suggest that the first economic stimulus payments made by the federal government in mid December not only contributed to a big spike in the number of card transactions over the Christmas period, they also allowed card holders to pay down their existing debts.

Perth suburb is richest in Australia

Peppermint Grove in Perth is the wealthiest suburb in the nation with an average household worth of \$1.9 million. The national average level of household wealth is \$467,000, incorporating property values, business assets, superannuation, shares and debt, according to the Bureau of Infrastructure, Transport and Regional Economics. The wealthiest 20 per cent of households own about 60 per cent of total household wealth. The least wealthy 20 per cent own 1 per cent. Hunters Hill, Woollahra, Pittwater, Manly Willoughby and Ku-ring-gai are among the wealthiest in Australia. Blacktown and Campbelltown had the lowest average household wealth in Sydney.

St George still favourite bank for business

Almost eighty per cent of business banking customers are satisfied with their main bank according to TNS Communications, but satisfaction levels seem to have plateaued. Over the last six months, the level of satisfaction among clients of the big four banks has declined by a combined 5.2 per cent to 74.8 per cent. St George Bank has the highest level of satisfaction from business customers said TNS. ANZ has the highest level of satisfaction among the majors at 81.6 per cent. Commonwealth Bank rose its business customer satisfaction rating by 8.6 per cent to 75.8 per cent.

New Products, Rates & Fees

CBA, Citi grant fee relief to ATM customers

Commonwealth Bank and Citibank say they will not charge their customers foreign ATM fees when the new direct charging regime begins on the 2nd of March. The Commonwealth has added another 700 machines to its fleet to take the total number of ATMs deployed to more than 4,000. Citibank has joined the Westpac ATM network of 1,700 machines. National Australia Bank, Westpac, ANZ Bank and St George Bank will continue to charge foreign ATM fees. National Australia Bank will charge its customers a 50 cent fee when they use another bank's ATM.

ATM fee free networks emerge

Westpac, Cashcard and credit union and building societies are striking agreements with owners of small ATM fleets – mainly small banks – and working out fee-free arrangements for the use of each other's ATMs. Westpac has attracted GE, HSBC, Members Equity Bank and a dozen others to share ATM machines, and to maximise the "fee free" option for customers. Cuscal said last week it aimed to double the number of ATMs under the rediATM banner. Commonwealth Bank has got the BankWest machines as part of its fee-free network.

Interest Rates & The Economy

Chances of rate cut fall

The market's expectations of another rate cut in early March have fallen. Reserve Bank (RBA) Governor Glenn Stevens gave a reasonably upbeat presentation to the parliamentary economic committee on Friday last week. Analysts have since lowered the chance of another cut after Stevens highlighted that there was no reason for any downturn in Australia to be a deep one.

In his speech, Stevens said: "There are reasonable grounds at this stage to think that the Australian economy will come through this very difficult episode – certainly not unscathed, but well placed to benefit from a renewed expansion. Things will be difficult over the next year. But as I have said before, the long-run prospects for Australia have not deteriorated by as much as we may all be feeling just now.

"China's emergence, for example, has not finished. It has years to run and Australia will benefit from it. We should not lose sight of that or other positives. We can have confidence in our long-run future and in our demonstrated ability to adapt to changing circumstances."

With the official cash rate at just 3.25 per cent, it looks like Stevens is flagging that we're at the end of the interest rate cutting cycle. The key question is how long the downturn will last.

The RBA's task is to continue watching the deterioration of the

global economy and its effect on Australia. The data looks mixed at the moment with business confidence still looking shaky and the employment market looking grim. For example, the Department of Employment, Education and Workplace Relations skilled vacancies index fell by 11 per cent, its lowest level in 25 years.

On the other hand, the strength of construction activity during the December quarter in Australia surprised the market this week. According to the Australian Bureau of Statistics total construction work carried out was valued at \$35.4 billion, which is up 1.7 per cent in volume terms, seasonally adjusted. The market was braced for a drop of about 2.7 per cent.

This data is good news for the economy as it suggests that Australia may be shielded to some extent from the global recession hitting Europe, the United States and China. The issue is that if the economy starts to seriously falter, the RBA will have to make more cuts. Some analysts are predicting that protracted recessionary conditions could push rates down to as low as 2 per cent.

The RBA board next meets on Tuesday 3 March.

Next Week's Announcements

Mon	2 Mar	Aust Inventories (4th Quarter) Aust Company Operating Profit (4th Quarter)
Tue	3 Mar	Aust RBA Cash Rate Decision (March) Aust Retail Sales (January) Aust Current Account Balance (4th Quarter) Aust AiG Performance of Service Index (February)
Wed	4 Mar	Aust Gross Domestic Product (4th Quarter)
Thur	5 Mar	Aust Building Approvals (January) Aust Trade Balance (January) Aust AiG Performance of Construction Index (February)

Industry Analysis

Mortgage Choice says housing will bounce

The housing market is unlikely to experience a prolonged downturn says Paul Lahiff, chief executive of Australia's biggest listed mortgage broker chain Mortgage Choice. Mortgage Choice announced a 22 per cent fall in net profit for the six months to December and a lower dividend. Lahiff said home loan approvals were down 20–25 per cent over the six month period. Mortgage Choice warned that 30 per cent cuts to bank commissions were yet to fully filter through to the company's results.

Building societies deny negative outlook

Mutual building societies and credit unions will suffer from rising funding costs and deteriorating credit quality due to the global economic crisis. Ratings agency Moody's Financial Services raised concerns about the ongoing health of Australian credit unions and building societies last week, saying the outlook for the industry sector was 'negative' for 2009. Newcastle Permanent Building Society says they have had no increase in loan arrears. Heritage Building Society says Moody's used outdated data. The Rock Building Society said it may link with financial advisors to offer deposit products.

Sources: InfoChoice, The Sheet, Australian Property Monitors, Geelong Advertiser, Sydney Morning Herald, The Australian, The Australian Financial Review

Small business lending

News this week that the Federal Small Business Minister, Craig Emerson, has called a summit of bankers and small business representatives to discuss small business complaints that the banks are imposing a credit squeeze, highlights the ongoing uncertainty about the approach banks are taking to providing finance to business.

Banks have made no secret of the fact that they are pulling back on personal lending, including credit cards. Unsecured lending is one of the areas of highest risk in a lender's asset portfolio during an economic downturn.

Many of them have also said they are pulling back from the corporate end of the market, where there has been a lot of competition and margins are very fine. Earlier this week Suncorp said it had stopped lending to corporate customers altogether and had put a significant part of its loan book into runoff.

Other lenders have not taken such drastic action but they have said they are concentrating on corporate relationships where there is more than just a loan involved. Cash management, trade credit, asset finance, risk management and other services provide banks with good fee income, which compensates for the low margin on corporate loans.

But the picture in relation to commercial finance is not so clear. Lenders say they are still open to do business with small business and middle market customers but they also say they are re-pricing their loans to better reflect the risks involved in lending to business.

Commonwealth Bank chief executive Ralph Norris said at the bank's recent half year results briefing that risk premia in business lending had been competed away in the years before the global financial crisis and that lenders were now restoring prudent pricing for risk.

National Australia Bank's executive general manager business banking, Joseph Healy, says the risk premium on business loans is going up by 30 to 100 per cent. He says the process of re-rating business loans is only half way through because many loan facilities will not roll over until later this year or next.

This has created the impression among many business borrowers that business lending rates have not come down. But that is not the case.

The Infochoice database reveals that all lenders have cut their business loans and overdraft rates, although the reductions cover a wide range.

Since September, when the Reserve Bank started cutting rates, the official cash rate has come down four percentage points to 3.25 per cent.

Some lenders have come close to matching that. Heritage Building Society's Fully Drawn Loan has come down 3.83 percentage points during that period, Savings & Loans Credit Unions Business Loan has come down 3.71 percentage points, AMP's Classic Variable Rate Business Loan has come down 3.68 per cent age points and Commonwealth Bank's Better Business Loan has come down 3.43

percentage points.

ANZ, Westpac, Suncorp, St George, National Australia Bank, Members Equity Bank, IMB, and BankWest have all cut their business loan rates by between 2 and 3.3 percentage points.

Adelaide Bank, Bank of Queensland, Citibank and RESI Mortgage Corp have cut by between 1 and 2 percentage points. Changes to business overdraft rates follow a similar pattern.

A complication in this analysis is that some lenders passed on all or most of the four 25 basis point official rate increases between August 2007 and March 2008, while others were more restrained. This needs to be factored in when looking at the extent of the recent cuts.

How these rate changes flow through to business borrowers depends on how much of a risk premium they pay.

Business lending rates can be very hard to compare. Some banks quote a base rate and will add a margin for riskier borrowers. Some quote a maximum rate and will discount for better quality borrowers (ANZ claims to do this).

But all lenders argue they have money available for small business and middle market borrowers. ANZ issued a statement on February 20 that it was making \$8 billion of new lending available during 2009 to support existing and new business customers.

NAB chief executive Cameron Clyne gave a briefing to analysts earlier this month when he said the bank was growing its commercial loan book at 1.3 times system growth and hoped to continue at that pace.

Current Business Lending (Secured) Rates

Institution	Product Name	Variable Rate (%)
Heritage Building Society	Fully Drawn Loan	5.70
AMP	Classic Variable Rate Loan	5.99
Bananacoast Community Credit Union	Commercial / Business Loan	6.00
Community CPS Australia	SMALLBiz Investment Loan	6.16
Savings & Loans Credit Union	Business Loan P&I (> \$100,000)	6.41
Commonwealth Bank	BetterBusiness Loan (Residential)	6.49
Members Equity Bank	Residentially Secured Business Loan	6.59
Bankwest	BankWest Business Edge Loan (R)	7.10
ANZ	ANZ Business Saver Express Loan	7.17
St. George Bank	Business Loan	7.22

Source: Infochoice.com.au

Current as at 26 February 2009

This Week's Rate Movements

Home Loans - Standard Variable Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Australian Central Credit Union	Standard Variable Rate Home Loan	B	6.89	5.89	26/02/2009	-1.00
Savings & Loans Credit Union	Home Loan	OO	6.91	5.91	23/02/2009	-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	5.23	5.38	24/02/2009	0.15
Bananacoast Community Credit Union	Residential Standard Fixed	OO	5.18	5.12	26/02/2009	-0.06
Community CPS Australia	Home & Investment Loan	B	5.99	5.89	24/02/2009	-0.10
CUA	Fixed Loan	B	6.09	4.50	24/02/2009	-1.59
QuickDirect	Fixed	B	4.99	5.05	23/02/2009	0.06
St. George Bank	Fixed Loan	B	5.94	5.44	25/02/2009	-0.50
Yes Home Loans	Equity Access Fixed Rates	B	5.34	5.49	25/02/2009	0.15

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

Home Loans - 2 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
A M O	AMO Fixed Rate Home Loan	B	5.47	5.62	24/02/2009	0.15
Bananacoast Community Credit Union	Residential Standard Fixed	OO	5.43	5.46	26/02/2009	0.03
CUA	Fixed Loan	B	5.99	5.65	24/02/2009	-0.34
QuickDirect	Fixed	B	5.54	5.60	23/02/2009	0.06
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.09	5.59	23/02/2009	-0.50
St. George Bank	Fixed Loan	B	5.74	5.44	25/02/2009	-0.30
Yes Home Loans	Equity Access Fixed Rates	B	5.58	5.73	25/02/2009	0.15

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	5.85	5.95	24/02/2009	0.10
Bananacoast Community Credit Union	Residential Standard Fixed	OO	5.91	5.93	26/02/2009	0.02
Community CPS Australia	Home & Investment Loan	B	6.49	6.09	24/02/2009	-0.40
QuickDirect	Fixed	B	5.99	6.05	23/02/2009	0.06
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.49	6.19	23/02/2009	-0.30
St. George Bank	Fixed Loan	B	5.64	5.34	25/02/2009	-0.30
Yes Home Loans	Equity Access Fixed Rates	B	5.96	6.06	25/02/2009	0.10

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	6.30	6.50	24/02/2009	0.20
Bananacoast Community Credit Union	Residential Standard Fixed	OO	6.71	6.84	26/02/2009	0.13
QuickDirect	Fixed	B	6.64	6.70	23/02/2009	0.06
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.79	6.59	23/02/2009	-0.20
St. George Bank	Fixed Loan	B	6.44	5.94	25/02/2009	-0.50
Yes Home Loans	Equity Access Fixed Rates	B	6.41	6.61	25/02/2009	0.20

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

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