

News & Views

First home buyers flock to new homes

First home buyers surged back into the market over summer, lured by more affordable property and the increased federal government first home buyer's grant. 26.5 per cent of all home loans issued in January went to first home buyers, up from 25.7 per cent one month earlier and the highest proportion since records began in 1991. There was a 13 per cent rise in the number of loans for new homes, giving a boost to the construction sector said lobbyists. The housing minister Tanya Plibersek said the government was prepared to take further action to boost the housing sector.

Home loan applications take off

Mortgage Choice said new business was taking off thanks to the first home owners grant and also lower interest rates. Chief executive Paul Lahiff told the Herald Sun, "we are experiencing incredible growth in activity." Lahiff said his company record growth throughout February, with more than 25 per cent of all brokered loans being for new homes.

Queensland loan waiting times blow out

Loan applications from first home buyers in regional Queensland areas are taking about three weeks to assess through most lenders. Market expectations of a strong three per cent rise in housing commitments plus a dwindling pool of active lenders in the market are blowing out waiting times for new loan applicants, especially in areas outside the capital cities. 6,422 Queenslanders applied for the first home buyers grant between November and January. New building approvals went down in January by 5.1 per cent to 1,418 new homes approved, the lowest level in many years.

Investors turn on super, shares and property

The Westpac-Melbourne Institute Consumer Sentiment Index report shows that investor sentiment is continuing to turn against shares, superannuation and property, the traditional staples of Australian investing. Australians are turning to bank deposits as the confidence in the economic outlook deteriorates. Just 6.7 per cent of survey respondents said investing in shares was a wise move, 15 per cent said property, 2.9 per cent favoured superannuation. Australia's benchmark S&P/ASX 200 index is down more than 37 per cent in the past year but closed 1.9 per cent higher on Wednesday, at 3244.4.

Business slows bill payments

Companies, including government owned businesses, have slowed their account payment times significantly. Bank shares are falling because the outlook for business continues to decline. More insolvencies and high profile business failures are expected. Dun & Bradstreet reported that the number of companies rated as having a high risk of financial distress or failure was up 12 per cent on the previous year and was 20 per cent up on 2007 figures.

National Market Ranges

Home Loans

Standard Variable	4.98 - 6.45%
Basic Variable	4.88 - 6.09%
1 Yr Intro	3.99 - 5.99%
3 Yr Fixed	5.19 - 7.01%
Investment Variable	4.98 - 6.45%

Deposit Accounts

Cash Mgmt \$10,000	0.01 - 4.35%
Cash Mgmt \$50,000+	0.25 - 4.35%
Online Savings >\$5,000	0.01 - 5.00%
Savings >\$2,000	0.01 - 4.05%

Investment Accounts

Interest paid at maturity or per annum

\$10,000, 90 Days	1.00 - 4.65%
\$10,000, 1 Year	1.38 - 4.10%
\$10,000, 3 Years	1.60 - 4.70%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON THE HOME LOAN MARKET

Ombudsman role for ABA

The Australian Bankers Association may find itself providing a service as a type of ombudsman for businesses with a gripe against their bank. One outcome of a round table in Melbourne on Friday between the minister for small business, Craig Emerson, and bank and business representatives is that the minister is encouraging small business to bring their cases to the government. The government will pass them on to the ABA who will pass them on to the banks.

Now governments can't get a loan

Queensland Treasury Corporation may not be able to guarantee debt funding to local councils after the middle of the year, leaving councils free (and obliged) to seek funding from banks. QTC, which has an effective monopoly on meeting the debt funding requirements of the local government sector in Queensland, said it could only guarantee access to funds until June this year. Talks between state treasuries and the federal treasury over Commonwealth assistance to state financing plans, such as a guarantee over state debts, have not progressed. Tasmanian Public Finance Corp failed to attract sufficient bids on a \$100 million tender of six-year debt on Friday, forcing managers to call around investors to finally place the loan. As a result the spread over Commonwealth government bonds widened by 20 basis points.

Government widens lending support to banks

The Australian government may co-invest in commercial loans in any industry sector and will not confine its lending to commercial property and construction as first suggested by the government when confirming the Australian Business Investment Partnership policy in January. This means that plans for federal government aid for the corporate lending market will have a wider focus and in line with the original proposals from big banks first talked through in November and December last year. The background to setting up the scheme is the belief that foreign banks will progressively decline to refinance corporate loans as some have done in some circumstances over recent months, though only in a limited fashion. The enabling legislation for the Australian Business Investment Partnership clarifies that the first objective is to refinance commercial property loans and property development projects where finance is not available but which are not otherwise seen as viable. A second objective is to provide finance in other areas of commercial lending. The Australian government will tip in \$2 billion as a capital base for the fund and the four major banks \$500 million each, while the fund will aim to borrow \$26 billion.

ME customers recommend ME

Members Equity Bank customers are happier with and more likely to recommend ME's services to their family and friends than customers of any other Australian bank, according to the most recent CoreData Survey, Net Promoter Score (NPS). ME received the highest result with a NPS of + 61.6 compared to negative scores for Westpac, ANZ, CBA, NAB and St George. The Net Promoter Score, a survey of client satisfaction, is determined by taking the percentage of "promoters" who are highly likely to recommend the product or service, and subtracting the percentage of "detractors" who are unlikely to recommend.

Interest Rates & The Economy

Rise in employment will force RBA to cut

The case for another rate cut in April is building as the latest employment figures from the Australian Bureau of Statistics (ABS) show that the jobless rate has hit a four-year high.

The unemployment rate reached 5.2 per cent in February, up slightly from economists' predictions of 5 per cent. The data showed that the Australian economy experienced its biggest monthly fall in full-time jobs in 18 years, which leaves little doubt that the economic downturn is worsening.

Many economists are already predicting that unemployment will reach 9 per cent by the end of next year. One academic was reported to have said that Australia could lose up to 500,000 jobs by the end of 2010.

The Reserve Bank will have to carefully consider the implications of the ABS data as consumers start to face more stress and businesses continue to shelve plans for expansion. The official cash rate is currently sitting at 3.25 per cent after the RBA chose to sit tight at its board meeting earlier this month.

If the economy continues to deteriorate, then the RBA will be left with no choice but to cut rates again in an attempt to ease pressure on consumers and businesses. The key issue is that a rise in the unemployment rate means that consumers spend less, which in turn, prevents businesses from hiring more staff. Until consumer confidence recovers, the economic is likely to stay weak.

Conditions in other economies continue to deteriorate and this week New Zealand's central bank cut interest rates by 50 basis to a record low of 3 per cent. Globally the picture looks grim with some forecasters dropping the global financial crisis label in favour of the 'great recession'. The International Monetary Fund expects global growth to fall below zero this year which suggests that the outlook for Australia will remain bleak in the short term.

The RBA will also consider other economic data out this week which showed better than expected lending figures during January. The data revealed a fourth consecutive monthly increase in housing finance as home owners took advantage of the first home owners grant.

The results from a monthly consumer sentiment survey by a major bank showed that consumer sentiment fell 0.2 per cent in March to 85.6 points, which is its lowest since November. The index was at 85.8 points in February. Economists reported that sentiment actually held up relatively well despite the flood of negative news hitting consumers since the last survey.

The Reserve Bank next meets on Tuesday 7 April.

Next Week's Announcements

Mon	16 Mar	Aust Lending Finance (January)
Tue	17 Mar	RBA Board minutes for March
Wed	18 Mar	-
Thu	19 Mar	Aust Dwelling Commencements (4th Quarter) Aust International Merchant Imports (February) Aust RBA Bulletin (March) Aust New Motor Vehicle Sales (February) Aust Labour Force (4th Quarter)
Fri	20 Mar	-

Industry Analysis

Banks compete for small business

Westpac wants to be the biggest lender to small and medium sized business, overtaking long time market leader NAB in the \$60 billion market. NAB has 20 per cent of the SME market and will unveil its group strategy tomorrow. Westpac, with St George, are now running a close second. Westpac has set no internal limit on SME lending and extended \$15 billion to the segment in 2008. Last year Westpac announced it was adding 300 new business bankers and adding more business banking centres. NAB is adding 175 business lenders.

Westpac has highest loan standards

The big banks will raise their margins as their pricing power increases with the concentration of the marketplace since the onset of the global financial crisis. The earnings of all four big banks are holding up despite the economic downturn. Non-performing loans are worst at ANZ which has reported 1.18 per cent of its loan book as impaired. NAB is second at 1.08 per cent. CBA's loan book is slightly better with 0.98 per cent non performing. Westpac has the best loan book with just 0.6 per cent non-performing.

Sources: InfoChoice, The Sheet, Business Spectator, Herald Sun, The Age, The Australian Financial Review

Stirrings of life in the home loan market

Commentary about the home loan market over the past 12 months has focused on the re-emergence of the big banks as the dominant force in the sector. Smaller lenders have been notable for cutting back on their activity or withdrawing from the market.

But there have been signs of life from small banks, credit unions and mortgage originators. A search of the Infochoice database shows a small but growing number of lenders developing new products or entering the market for the first time.

In 2008 Laiki Bank, Defcredit (the Defence Forces Credit Union), Good Option Home Loans and State Custodians Mortgage Company have made their appearance on the Infochoice list of mortgage lenders. The big banks are writing 90 per cent of mortgages today but that is not the only activity going on.

Laiki Bank marketing manager Spiro Kanellakis said the bank, which is a subsidiary of Greek Cypriot bank Marfin Laiki Bank, said the group has operated in Australia as a full-service retail bank for a number of years.

Last year Laiki launched a new home loan, Options Plus, to position itself at the competitive end of the market on rates. Kanellakis said the bank, which has a home loan book worth about \$800 million, had a secure source of funding from deposits (it has not done any wholesale fund raising or capital market activity in Australia) and decided to capitalise on that by launching a product that could compete at the sharp end as well as retain some features of a standard variable loan, such as 100 per cent offset.

Part of the product strategy was to put the product details on Infochoice and other consumer websites. Kanellakis said that with a rate of 5.2 per cent, the consumer websites have driven quite a lot of inquiry traffic.

He said consumers were cautious, worried about who they were dealing with in light of the global financial crisis, but Laiki has experienced an increase in home lending activity as a result of the marketing strategy.

State Custodians Mortgage Company, which is based in the Hunter region of New South Wales, has been operating for the past three years. Principal David Westerman said the group has experienced strong growth in the past 12 months, going against the prevailing trend.

The company has its own portfolio of loans, funded by Challenger Mortgage Management, and also operates as a broker. Like Laiki, State Custodians, has attracted borrower attention with some very sharp pricing. It offers the choice of a variable rate loan at 4.98 per cent with a \$330 annual fee or a 5.08 rate with no annual fee. It also offers a loyalty rate, cutting 20 basis points off the rate after five years.

Westerman said the company kept its costs down by running a very tight operation. Sales are done over the phone, it does not have a

big marketing budget and it does not deal with brokers or financial planners.

Westerman said: "Our strategy is to be a niche provider selling direct to the public. We don't have a lot of people. We don't have shop fronts."

Like Laiki's Kanellakis, Westerman said some borrowers were nervous about dealing with a lender they have never heard of and that is why the company also provides a brokerage service, to give customers the option of taking a big bank loan if the State Custodians offerings do not appeal.

Challenger Mortgage Management general manager for distribution, Steve Weston, said the State Custodians business model was indicative of the trend away from supporting large-scale broker distribution towards low-cost retail.

Weston said there was still a negative perception about small lenders among borrowers but at the same time there was competing pressure for alternatives to the big banks. He said: "There is potential for these small guys but they need to operate on very low costs structures because margins are tight and volumes are still well down on the peak a couple of years ago."

A new lender pursuing a different approach is Opportune Home Loans, which started in February last year and has opened 13 branches of a planned 30 branch rollout.

The group's managing director Paul Ryan, a veteran of the industry who worked at Wizard from 1996 to 2005, said each branch was run by a regional director who holds a licence. Ryan said it was not a franchise system because there were no franchise fees.

Ryan said: "The regional director is free to work with accountants and independent brokers in their region. Our model gives them a lot of freedom.

"There are a lot of experienced loan writers out there and at the moment they are all writing business for the banks. They are looking for alternatives and so are their customers."

Opportune gets its funding from ING Direct and Challenger. The group's strategy is to keep rates below the majors and pay high commission rates.

Ryan said mortgage originators could compete with banks if they get their business model right. "We don't have fixed costs and we don't have big advertising and marketing budgets.

Ryan said a factor that will help small lenders is the way the big banks are approaching the market. "As the majors have come to the view that they dominate the market again they have become harder to deal with and slower with their approvals. Some groups, such as the self-employed, are not getting good service."

This Week's Rate Movements

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	5.16	5.22	10/03/2009	0.06
Arab Bank	Fixed Rate Home Loan	B	5.79	4.90	12/03/2009	-0.89
Aussie	Aussie Standard Fixed Loan	B	5.79	5.59	12/03/2009	-0.20
Bank of Queensland	Fixed Loan	B	5.69	4.95	9/03/2009	-0.74
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.09	5.79	6/03/2009	-0.30
Yes Home Loans	Equity Access Fixed Rates	B	5.70	5.33	10/03/2009	-0.37

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	5.71	5.36	10/03/2009	-0.35
Aussie	Aussie Standard Fixed Loan	B	5.79	5.64	12/03/2009	-0.15
Yes Home Loans	Equity Access Fixed Rates	B	6.02	5.47	10/03/2009	-0.55

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	6.16	5.67	10/03/2009	-0.49
Aussie	Aussie Standard Fixed Loan	B	6.09	5.99	12/03/2009	-0.10
Police and Nurses Credit Society	Fixed Rate Home Loan	B	6.24	5.89	9/03/2009	-0.35
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.19	5.99	6/03/2009	-0.20
Yes Home Loans	Equity Access Fixed Rates	B	6.45	5.78	10/03/2009	-0.67

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

Home Loans - 4 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
A M O	AMO Fixed Rate Home Loan	B	6.66	6.03	10/03/2009	-0.63
Aussie	Aussie Standard Fixed Loan	B	6.49	6.44	12/03/2009	-0.05
Community CPS Australia	Home & Investment Loan	B	6.99	6.59	6/03/2009	-0.40
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.59	6.39	6/03/2009	-0.20
United Credit Union	Home & Investment Loan	B	6.99	6.59	6/03/2009	-0.40
Yes Home Loans	Equity Access Fixed Rates	B	6.82	6.14	10/03/2009	-0.68

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	6.81	6.30	10/03/2009	-0.51
Community CPS Australia	Home & Investment Loan	B	6.99	6.59	6/03/2009	-0.40
Savings & Loans Credit Union	Fixed Rate Loan	OO	6.59	6.49	6/03/2009	-0.10
United Credit Union	Home & Investment Loan	B	6.99	6.59	6/03/2009	-0.40
Yes Home Loans	Equity Access Fixed Rates	B	6.98	6.41	10/03/2009	-0.57

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

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