

## News & Views

### Auction results improve, slightly

The auction clearance rate in Sydney improved slightly on the weekend to 63.2 per cent but numbers were still subdued. 127 properties sold at 229 auctions in Sydney on Saturday, down from 132 successful auctions last week and 252 on the same weekend last year. In Melbourne 99 properties sold from 396 listed for sale with many results as yet unreported. On the same weekend last year, 734 properties sold from 1,265 listed for auction in Melbourne. The results were an improvement on last week's Melbourne figures of 67 sales from 133 listed for auction. Six properties sold at auction in Adelaide on Saturday and five in Brisbane.

### Next housing boom beginning now

After five quarters of decline, twenty one thousand mortgages were started in the December quarter, a rise of 12 per cent, says figures from the Market Intelligence Strategy Centre. Analysts are predicting the beginning of a new housing boom in late 2009. "If you combine the last rate decrease with news that there's going to be another decrease, rental yields going through the roof, shortage of supply of property and the first-home owner's grant, it's a perfect storm of a positive nature," Mr Forsyth said. "We're creating the next housing boom, or bubble potentially."

### Amex improves Membership Rewards

The Qantas Frequent Flyer move to a direct earn points system has sparked plenty of re-positioning in the reward program market. While some card issuers have beefed up their offerings to keep customers in their proprietary programs and stop too much leakage to QFF, others (most notably National Australia Bank) have dropped out of the loyalty market altogether. The latest to move is American Express, which announced last week that it had added Air New Zealand to its Membership Rewards program. According to Amex vice president for brand, loyalty and rewards, Corrina Davison, the ability to convert points to Air New Zealand's Airpoints Dollars program should be popular; New Zealand is the most popular overseas destination for Australian travellers. Amex has Membership Rewards partnerships with Virgin, Emirates, Cathay Pacific, Thai International, Singapore Airlines and Malaysia Airlines. Amex says Membership Rewards members can still fly Qantas if they want to.

### Saving is the new black

The average Australian household saved 8.5 per cent of its' after tax income during the last three months to December 31 2008. 18 months ago the average household saved none of its income. While a few years ago households were 'dissaving' at a rate of about 4 per cent of their after tax income, meaning people were spending more than they earned. Despite the big recent falls in interest rates, the rate of growth of new term deposits has jumped up by more than half over the last year.

## 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	4.99 - 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 - 4.35%

### 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	2.00 - 4.70%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON THE EARLY TERMINATION FEES

## Card repayments skyrocket

The federal government's economic stimulus payments are cutting into interest income from consumer credit for banks and lenders. As consumers prepare for a recession, personal credit growth has slowed to levels seen in the 1991/92 recession. Repayments on credit cards rose by 22.2 per cent in December, when the first-round of thousand dollar cash handouts were made to families. Debt counsellors say Citibank has been particularly easy to deal with lately and will cut generous deals with indebted consumers. On the other hand the major banks, ANZ and Westpac in particular, are maintaining harder lines. "Citibank has been great to cut deals with this year, Westpac is harder to deal with," said one Melbourne-based debt counsellor.

## Customers reject nasty ATMs

Customers Limited, owner of the largest non-bank network of automatic teller machines, said transaction levels declined 12 per cent over first two weeks of the new system of operation of the so-called convenience charge. "Due to bad press and what the banks are telling customers, people are saying, 'I'm not even going to use an ATM because they've got a nasty feel about them'" the firm's managing director, Tim Wildash, said. He said average withdrawal levels remained steady. Customers charges \$2 each time to users consistent with the median level of the "foreign" ATM fee the new charges replace.

## Business needs bad debt market

Australia needs a distressed debt market to allow banks to offload their bad debts to businesses and keep capital for lending to viable companies says a report by accounting firm Price Waterhouse Coopers (PWC) and law firm Blake Dawson. "A 15-year boom time has meant Australian banks have never needed to participate in the global distressed debt market, which has an estimated \$US50 billion (\$76.34 billion) to \$US100 billion of capital to invest," Price Waterhouse Coopers partner Michael McCreddie said in the statement. "Banks now have the opportunity to unlock capital tied up in non-performing loans and to start lending by making good loans to people and businesses."

## No guarantees about Aussie banks

John Laker, chairman of the Australian Prudential Regulatory Authority, said that the regulator could guarantee that an Australian bank would not fail during the current global financial crisis. "We in APRA cannot guarantee that no Australian financial institution will fail on our watch," said Laker who stressed that APRA was "firmly on guard" and that Australian institutions had "weathered the global financial turbulence well to date". Laker also said that the financial crisis had some way to run yet and was of "uncertain scale and duration."

## New Products, Rates & Fees

### Suncorp goes mobile

Suncorp internet banking customers can now access their bank via an Apple iPhone or Google Android HTC Dream mobile phone handset, both of which use touch screen technology. Suncorp is also developing a more capable iPhone application for the Apple. ANZ has also developed a mobile phone compatible internet banking service. Commonwealth have abandoned their mobile banking project which was begun in 2004. The Suncorp banking platform can be readily accessed via any device with internet capability.

### ANZ/Esanda offer premium term deposits

Esanda managing director Moray McDonald said it was business as usual after the finance company's parent, ANZ, announced yesterday that it would absorb the company, transforming it from a wholly owned subsidiary to a division of the bank. McDonald said the change, which will happen over the next three months, was prompted by the Australian government's decision not to include debentures in its list of guaranteed deposits when it introduced the guarantee scheme last October. Esanda is a big issuer of debentures. Under its new structure it will stop issuing debentures and replace them with term deposits, issued on its behalf by ANZ. The term deposits will be supported by the government guarantee on deposits. Esanda stopped issuing debentures following yesterday's announcement. McDonald said Esanda and ANZ term deposits would have different rate structures. Esanda would tend to pay a premium, particularly for terms of 12 months and longer.

## Interest Rates & The Economy

### RBA to keep its powder dry

The big news this week was the release of the Reserve Bank's minutes from its March 3 meeting. The minutes suggested that the RBA wants to keep some of its fire power in reserve, so that it still has room to move in the event that the economy slips into a deep and protracted recession.

The minutes said: "The question for policy was whether further stimulus should be added at this meeting, or whether, having reduced rates at each meeting since September, the Board should pause for a further evaluation of the situation. Members could see reasonable cases for both courses of action. On balance, they judged that, having made a major change to monetary policy over the preceding several meetings in anticipation of weak economic conditions, the best course for this meeting was to leave the cash rate unchanged. Members believed this would leave adequate flexibility for policy at future meetings."

The board meeting minutes showed that central bank still wants to assess how the economy responds to previous rate cuts and the federal government's sizeable stimulus packages. The board noted that the economy is already starting to show some positive, but early signs of recovery.

"Early indications were that the monetary and fiscal stimulus that had been applied to the economy was having an expansionary effect, but the size of this remained unclear and it would take some time for the full impact to come through," the minutes said.

The RBA has cut the official cash rate by 400 basis points since September, bringing rates to a 45-year low. At 3.25 per cent, the market knows that the RBA really only has room to move another 100 basis points before it starts to hit the bottom of the rate cutting cycle.

Commentators are suggesting that for another rate cut to have bite, it would need to be at least 50 basis points. This means that the central bank probably only has two more cuts up its sleeve. As a result, many pundits are predicting that the RBA will now sit tight in April.

The RBA's decision will really depend on the strength of the next round of domestic economic data. Key indicators on the labour market, business conditions and household income growth will be critical.

While it is true that there are some indications that the economy is starting to stabilise, the reality is that it's unlikely that the aftershocks from the global financial crisis have finished hitting our shores. Australia's economic outlook still looks weak and economies in the US, Europe and China look far from robust.

## Next Week's Announcements

Thu	26 Mar	Aust RBA Financial Stability Review
Fri	27 Mar	Aust Financial Accounts (4th Quarter)

## Industry Analysis

### DJs Amex card popular with shoppers

Premium retailer David Jones says its co-branded American Express credit card launched in August is a big success and very popular with its customers. The chief executive of David Jones, Mark McInnes, would not be drawn on Wednesday on exactly how many people had joined the card program but said customers were "taking it up in droves". David Jones recorded an increased profit result on Wednesday, largely as a result of the transferring of more than \$300 million in debt to the Amex card venture.

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

## Mortgage lenders will have to justify their early termination fees

The Financial Ombudsman Service has put early termination fees back on the finance industry's agenda, announcing that it has set up a project team to deal with a sharp increase in disputes arising from break fees on fixed rate home loan contracts.

The banking and finance division of FOS received 5,085 new disputes in the six months to December. This was more than double the number received in the six months to December 2007.

Banking and finance ombudsman, Philip Field, said in a newsletter issued this month that a large number of those disputes were about break fees on fixed rate loan contracts.

In addition to setting up a project team, Field has issued a guide to the approach the FOS takes in disputes involving break fees on fixed rate loans.

The ombudsman will consider whether the fee has been properly disclosed to the customer, whether the fee has been charged in accordance with the borrower's contract and whether the size of the fee conforms to any scale of charges applied by the lender.

If the loan is regulated by the Consumer Credit Code the ombudsman will look at whether the fee exceeds "a reasonable estimate of the credit provider's loss arising from the early termination."

The most common complaint is that the lender did not inform the borrower that an early repayment fee would be charged if they paid out their loan before the expiry of the fixed rate period, or if some explanation was given it did not adequately describe the manner in which the early repayment fee would be calculated.

The ombudsman has set out a formula for estimating the cost to the lender of an early repayment, which it may apply if there is a dispute about the amount.

The approximate amount of a loss suffered by a lender can be estimated by multiplying the amount of the loan by the remaining term of the

fixed interest period and the movement in the lender's cost of funds.

For example, the economic cost to the lender of a borrower repaying a loan of \$100,000 that had two and a half years to run, with a movement of one per cent in the cost of funds, would be \$2,500 ( $\$100,000 \times 2.5 \times 1\%$ ). This amount would be discounted to reflect the present value of receiving projected future cash flows in advance.

The guide says: "The ombudsman accepts that how a financial services provider determines its cost of funds is commercially sensitive and it is under no obligation to disclose that information to its customers."

If lenders supply their internal cost of funds the ombudsman will use those in its calculation. Otherwise it will use a formula involving the bank bill rate and the appropriate swap rate.

A decision by borrowers to repay their loans would not prevent them pursuing a dispute. Where the ombudsman concludes that the fee or any portion of the fee has been charged incorrectly it would require the lender to refund the amount incorrectly charged.

### Commonwealth consumer credit regulation on the way

The broader issue of mortgage entry and exit fees remains on the Australian government's agenda. Treasurer Wayne Swan has said that these fees will be a matter for the Australian Securities and Investments Commission to police when it takes over as the regulator of consumer credit later this year.

Last year the Council of Australian Governments agreed to pass regulation of consumer credit from the states to the Commonwealth. New legislation is due in June.

Last year, when the Minister released an ASIC report on mortgage entry and exit fees, he said one of the aims of the new Commonwealth regulation of consumer credit would be to "shine a light" on high exit fees and boost competition in the banking sector.

**Table 1. Sample of early termination charges imposed by lenders**

Institution	Product Name	Fixed Fee			Percentage Based Fee			Other
		1 Year	3 Year	5 Year	1 Year	3 Year	5 Year	
ANZ	Standard Variable Loan	\$700	\$700	-				
Bank of Queensland	Standard Variable				0.50	0.50	-	
Citibank	Standard Variable	\$1,500	\$1,000	-				
Commonwealth Bank	Complete Home Loan	\$700	\$700	-				
CUA	Standard Variable Loan	\$950	\$950	-				
Heritage Building Society	Premium Variable	\$800	\$800	-				
Homeloans Ltd	Homeloans Premium Full Doc							1.5 x monthly repayment if loan discharged within 5 years
IMB	Standard Variable Home Loan	\$1,500	\$1,500	-				
ING DIRECT	Mortgage Simplifier	\$1,400	\$700	-				
NAB	Tailored Home Loan	\$900	\$900	-				
RAMS Home Loans	Standard Variable				1.00	1.00	-	
RESI Mortgage Corporation	Complete Home Loan							1 x monthly repayment (if loan <\$500k) 2x monthly repayment (if loan >\$500k) if loan discharged within 5 years
Westpac	Premium Option Home Loan	\$900	\$900	-				

Source: Infochoice.com.au

## 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	5.22	4.93	16/03/2009	-0.29
BankWest	Fixed Loan	B	5.79	5.39	18/03/2009	-0.40
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.44	5.29	13/03/2009	-0.15
Commonwealth Bank	Complete Home Loan Standard	OO	5.59	5.39	16/03/2009	-0.20
Homeloans Ltd	Easy Saver Fixed	B	5.31	5.81	18/03/2009	0.50
HomeSide Lending	Homeside HomePlus	B	5.49	5.09	17/03/2009	-0.40
Yes Home Loans	Equity Access Fixed Rates	B	5.33	5.04	19/03/2009	-0.29

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	5.36	5.22	16/03/2009	-0.14
BankWest	Fixed Loan	B	5.79	5.39	18/03/2009	-0.40
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.44	5.29	13/03/2009	-0.15
Commonwealth Bank	Complete Home Loan Standard	OO	5.84	5.39	16/03/2009	-0.45
Greater Building Society	Getaways Home Loan	B	5.40	5.35	19/03/2009	-0.05
Homeloans Ltd	Easy Saver Fixed	B	5.76	5.88	18/03/2009	0.12
HomeSide Lending	Homeside HomePlus	B	5.49	4.99	17/03/2009	-0.50
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.09	4.99	13/03/2009	-0.10
Yes Home Loans	Equity Access Fixed Rates	B	5.47	5.33	19/03/2009	-0.14

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	5.67	5.63	16/03/2009	-0.04
BankWest	Fixed Loan	B	6.19	5.79	18/03/2009	-0.40
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.34	5.19	13/03/2009	-0.15
Commonwealth Bank	Complete Home Loan Standard	OO	6.14	5.75	16/03/2009	-0.39
Greater Building Society	Getaways Home Loan	B	5.55	5.35	19/03/2009	-0.20
Homeloans Ltd	Easy Saver Fixed	B	6.07	6.21	18/03/2009	0.14
HomeSide Lending	Homeside HomePlus	B	6.09	5.19	17/03/2009	-0.90
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.19	4.99	13/03/2009	-0.20
Police and Nurses Credit Society	Fixed Rate Home Loan	B	5.89	5.24	16/03/2009	-0.65
Yes Home Loans	Equity Access Fixed Rates	B	5.78	5.74	19/03/2009	-0.04

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
BankWest	Fixed Loan	B	6.59	6.49	18/03/2009	-0.10
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.94	5.79	13/03/2009	-0.15
Commonwealth Bank	Complete Home Loan Standard	OO	6.64	6.39	16/03/2009	-0.25
Homeloans Ltd	Easy Saver Fixed	B	6.54	6.67	18/03/2009	0.13
HomeSide Lending	Homeside HomePlus	B	6.49	6.29	17/03/2009	-0.20

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

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