

News & Views

ANZ number one in customer satisfaction

ANZ chief executive Mike Smith was keen to report on Wednesday that the bank was the top performer in the Roy Morgan retail customer satisfaction survey, having overtaken its longstanding rival for the number one spot, St George. Smith linked the improved performance in customer satisfaction with growth in retail market share. The bank estimates its share of retail customers at more than 20 per cent, putting it in second place. In contrast to National Australia Bank, which reported some dismal retail banking performance numbers on Tuesday, ANZ grew its Australian mortgage book by 13 per cent to \$136 billion and its credit card and unsecured loan book by eight per cent to \$9.3 billion. Retail deposits were up 28 per cent to \$60 billion. The bank is claiming retail mortgage market share of 12.7 per cent, up from 12.3 per cent in September and 11.9 per cent last March. It claims an 11.1 per cent share of household deposits, up from 10.5 per cent in September and 10.6 per cent last March.

House prices to crash by 20 per cent

The Australian 'property bubble' will deflate over the next two years and drag house prices down by about 20 per cent according to a university economist. Professor Quentin Grafton from ANU said house prices could not continue to grow faster than incomes and consumer prices. "First home buyers who don't have much of a deposit and can barely afford their mortgage payments on the current interest rates, they'll be in trouble," Grafton said that house prices had grown 50 per cent faster than incomes and consumer prices over the last ten years. House prices grew 2.4 per cent in Melbourne in 2008 and 1.6 per cent nationally according to data released yesterday by RP Data/Rismark.

Sydney house prices falling

The median house price in Sydney dropped 0.2 per cent in the three months to the end of March, taking the yearly fall to 4.1 per cent according to a report released today by Australian Property Monitors. Unit prices went up 1 per cent in the first quarter, but are down 1.2 per cent for the year to March. The median Sydney home price dropped to \$529,926 from \$552,816, the median apartment price dropped from \$372,378 to \$367,751.

First home buyers hold up auction clearances

The number of properties auctioned on the ANZAC day weekend was down but clearance rates in Sydney and Melbourne were strong at more than 65 per cent. Fierce competition is reported by agents from first home buyers looking to buy in the \$350,000 - \$550,000 before the boosted grant of \$14,000 for existing homes reverts to \$7,000 on the first day of July. Many commentators now expect the boosted grant of \$21,000 for first home buyers purchasing a brand new home from a developer to remain in place after the end of June, despite comments by the prime minister last week suggesting the grant would end.

National Market Ranges

Home Loans

| | |
|---------------------|--------------|
| Standard Variable | 4.89 - 6.44% |
| Basic Variable | 4.78 - 6.09% |
| 1 Yr Intro | 3.99 - 5.94% |
| 3 Yr Fixed | 4.99 - 7.01% |
| Investment Variable | 4.89 - 6.45% |

Deposit Accounts

| | |
|-------------------------|--------------|
| Cash Mgmt \$10,000 | 0.01 - 4.25% |
| Cash Mgmt \$50,000+ | 0.25 - 4.25% |
| Online Savings >\$5,000 | 0.10 - 4.75% |
| Savings >\$2,000 | 0.01 - 4.00% |

Investment Accounts

Interest paid at maturity or per annum

| | |
|-------------------|--------------|
| \$10,000, 90 Days | 1.00 - 4.50% |
| \$10,000, 1 Year | 1.50 - 4.50% |
| \$10,000, 3 Years | 1.75 - 5.20% |

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON THE BIG BANKS

Grant boosts new home sales

Sales of new homes have jumped up in March to their highest level for more than a year. The federal government's economic stimulus package, lower interest rates and the boosted first home buyers grant have pushed sales up 4.2 per cent in March, the third consecutive month of growth. Sales were up in all mainland states. Housing industry lobbyists said the first home buyers grant was driving 12,000 new home sales per month and this was expected to continue in April as buyers look to take advantage of the boosted grant before it expires on June 30.

Consumers and businesses stop borrowing

Annual credit growth slowed to 4.9 per cent in March according to figures released yesterday by the Reserve Bank of Australia. Private sector credit outstanding grew 0.1 per cent in March compared with market expectations of 0.3 per cent. Business and consumer lending was down with only lending to buy a house driving the mild growth rates. "The main drag on credit growth in March was again a sizeable contraction in business lending," said JP Morgan economist Helen Kevans, "The pool of outstanding credit to businesses should shrink further, given anecdotal evidence that investment plans are being put on the back burner."

ANZ extends hardship help to business

ANZ Bank said it will extend its hardship package to small business customers who are experiencing difficulties making their repayments. ANZ has also committed to providing \$8 billion worth of new funding for small business lending in 2009. ANZ will support small business customers who are experiencing financial difficulty by providing access to small business banking specialists on 1800 252 845. The bank will consider deferred or reduced repayments for periods of up to 12 months (with interest capitalised into the loan), fee waivers, repayment extension periods and temporary adjustments to customer lending limits including business credit cards and overdrafts.

Super to be reviewed

The federal government on Tuesday announced the establishment of an inquiry into the Australian superannuation system. The review will focus on fees, commissions and costs that funds pass on to their members. Also expected to come under scrutiny are conflicts of interest, investment design, administration of funds and legacy products. The review will coincide with the Henry review into tax which is investigating the adequacy of the retirement savings system.

New Products, Rates & Fees

CBA gets into net payments

Commonwealth Bank has entered the market for online payments platforms with the launch of its eVolve platform for small and medium businesses. The CBA system allows businesses to create their own transactional websites that accept credit, American Express and scheme debit card payments. eVolve does not allow merchants to accept payments via direct debit or direct credit from a customer's bank account. Fees start from \$65/month but the banks say it is prepared to do deals and waive fees for new customers. Commbank confirmed that the system provides protection for merchants from the new PCIDSS data security standards being imposed by Visa and MasterCard.

Interest Rates & The Economy

RBA unlikely to move again until after May

While markets have been distracted by the global outbreak of swine flu this week, there was some good economic news for Australia. US gross domestic product data for the March quarter was released on Wednesday and signs are emerging that the US economy is stabilising. Market participants have been anxiously waiting for the release of this indicator after data for the December quarter showed that the US economy contracted by a shock annual rate of 6.3 per cent.

In contrast, the first quarter GDP figures showed the US economy contracting by a more modest annual rate of 6.1 per cent. There's no doubt that three consecutive quarterly contractions are not great news from an economic point of view. However, the March quarter data is significant because it has given economists a small glimmer of hope that the US recession is easing.

Data from the US Commerce Department showed that consumer spending increased by 2.2 per cent which is positive for the US economy given it accounts for nearly two-thirds of economic activity. As a result, the US Federal Reserve kept interest rates unchanged. They are currently sitting in a range between 0 and 0.25 per cent.

While this type of overseas economic news will give the Reserve Bank some comfort that the deterioration in global conditions is slowing, Australia still needs to get through the difficult 12-18 month period ahead. While the outlook for Australia is looking grim and an economic recovery is not forecast until 2010-11, the RBA is still likely to keep rates on hold when it meets on May 5. The reality is that it can't really move again until it has greater clarity about the Federal Government's fiscal policy intentions. These will be announced by the Treasurer in the upcoming Federal Budget on May 12.

There is more talk of additional fiscal stimulus which will have a big impact on the Reserve Bank's decision making process. The official cash rate in Australia is now 3 per cent and market analysts expect it to drop to 2 per cent by the end of 2009.

New Zealand's central bank cut interest rates this week by 50 basis points, which is a record low 2.5 per cent.

Next Week's Announcements

| | | |
|-----|-------|---|
| Mon | 4 May | Aust TD Securities (April) Aust House Price Index (1st Quarter) Aust ANZ Job Advertisements (April) |
| Tue | 5 May | Aust Building Approvals (March) Aust RBA Rate Decision |
| Wed | 6 May | Aust Retail Sales (March) Aust Trade Balance (March) Aust AiG Performance of Construction Index (April) |
| Thu | 7 May | Aust Labour Force (April) Aust Foreign Reserves (April) |
| Fri | 8 May | Aust RBA Quarterly Monetary Policy Statement |

Industry Analysis

Big four banks healthy and able

The big four banks are in strong financial positions and are among the elite of the world's banks in enjoying AA credit ratings from international credit rating agencies. National Australia Bank will announce half yearly profit results tomorrow (Tuesday) with Westpac and ANZ also due to report within the next two weeks. Results are expected to show rising bad debts but increased margins. Combined profit for the big four is expected to be about \$7.6 billion, 3.5 per cent down on the 2008 first half results.

Depositors turn away from Bankwest

Bankwest continues to lose retail deposits as term deposits mature and customers walk away from the Commonwealth bank subsidiary. Bankwest's retail deposits fell more than five per cent, or \$821 million, in March according to the prudential regulator APRA, despite all other locally owned banks increasing their share of retail deposits. Commonwealth Bank says that more than 38,000 new customers had joined the bank since the CBA takeover on December 19 last year. Bankwest continues to grow market share in credit cards and small business banking.

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

Big banks not getting it all their own way

The sense most people in the retail financial services market have is that the big banks are sweeping all before them. They benefit from the government guarantee to a greater extent than smaller financial institutions, they have watched some rivals leave the market and they have taken over others. They will probably take over some more.

The financial reports published by ANZ and National Australia Bank this week, covering the six months to the end of March, provide a reality check. The big banks are not getting it all their own way.

They are struggling with sharply rising bad debt charges and this will have an impact on their pricing.

And in some areas of their retail businesses they are not taking advantage of the opportunities being offered to them to take share. This is particularly true of NAB, which is losing market share in home lending.

NAB's Australian mortgage portfolio grew by a little over five per cent in the year to the end of March. The bank acknowledged that volumes were below system and attributed this to a number of factors.

NAB chief executive Cameron Clyne said a lot of system growth during the period was driven by first home buyers, a group who do not see NAB as their first port of call.

The bank said it had "repositioned" its mortgage broker business, without specifying what that meant, and during a transition period volume growth through the channel fell below system.

Sales through the proprietary mortgage channel also fell below system. The bank made an investment in sales capabilities and things have started to turn around.

Share in housing lending fell from 13.2 per cent in March 2008 to 13 per cent a year later.

Another of NAB's problems is that it is having trouble getting its new online business, UBank, off the ground. UBank was launched with a single product, a term deposit range, last October and is yet to add any more product to its offering.

Reasons given for the delay are that the bank is waiting for market conditions to improve before committing to any new launch budgets and that it is having trouble integrating the planned online offerings with its core banking platform.

NAB's credit card outstandings barely changed over the year to March, increasing from \$5.17 billion to \$5.2 billion.

ANZ's performance in retail banking was much more like what one would expect in the current climate. It grew its Australian mortgage book by 13 per cent to \$136 billion and its credit card and unsecured loan book by eight per cent to \$9.3 billion.

The bank is claiming retail mortgage market share of 12.7 per cent, up

from 12.3 per cent in September and 11.9 per cent last March.

Strong deposit growth

The two banks may have had varying performances in home lending but they were both successful in attracting deposits.

NAB's retail deposits were up more than 14 per cent to \$48 billion over the year to March. The bank increased its share of retail deposits, up from 14.4 per cent in March last year to 15.1 per cent in the latest half.

ANZ's retail deposits were up 28 per cent. Asia has proved to be a goldmine for deposits, which were up more than 50 per cent in the half to \$20 billion. The bank has an 11.1 per cent share of Australian household deposits, up from 10.5 per cent in September and 10.6 per cent last March.

Re-pricing risks a customer backlash

The news reports about these results all focused the big increases in bad debt charges - \$1.4 billion in ANZ's case and \$1.8 billion for NAB. Both banks reported that they expect the bad debt experience to worsen for another half year, maybe a full year.

The flow-on effect of these charges in the retail market is that the banks have little room to move on rates. Their cost of funds is still going up, as low-cost long term funding continues to mature and has to be replaced at higher spreads, and rising bad debts are hitting their bottom lines hard.

In NAB's case it appears that Australian borrowers are paying higher rates because the bank does not have the same scope to re-price in markets such as New Zealand, where the bad debt performance is even worse.

In New Zealand the ratio of gross impaired assets to gross loans and acceptances jumped from 0.1 per cent in March 2008 to 0.75 per cent in the latest half. But over that period the bank increased its lending margin by a modest 12 basis points.

In the Australian banking market, where the ratio of gross impaired assets to gross loans and acceptances increased from 0.37 per cent in March last year to 0.56 per cent in the latest half, the lending margin went up 27 basis points.

In the Australian market, where assets performed better, borrowers were asked to pay more. If local borrowers come to the view that they are subsidising NAB's operations in New Zealand and also the United Kingdom they may vote with their feet.

The evidence of these financial reports is that the big banks are having mixed success in capitalising on their strong position. For smaller players this suggests that there is still room for competition.

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 | 5.89 | 5.79 | 24/04/2009 | -0.10 |
| Bank of Queensland | Standard Variable | B | 5.99 | 5.89 | 24/04/2009 | -0.10 |
| Heritage Building Society | Standard Variable | B | 5.55 | 5.30 | 24/04/2009 | -0.25 |
| MyState Financial | Variable Home Loan | OO | 5.91 | 5.81 | 27/04/2009 | -0.10 |
| Victoria Teachers Credit Union | Offset Home Loan | B | 5.57 | 5.47 | 27/04/2009 | -0.10 |

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 |
|---------------------------------|--------------------------------------|-------|-----------|-----------|----------------|--------------|
| ANZ Bank | ANZ Fixed Loan | OO | 5.99 | 5.45 | 27/04/2009 | -0.54 |
| Australian Central Credit Union | Fixed Rate Home Loan | B | 5.69 | 5.79 | 24/04/2009 | 0.10 |
| Encompass Credit Union | Fixed Interest Rate Home Loan | B | 5.35 | 4.99 | 24/04/2009 | -0.36 |
| Illawarra Credit Union | Fixed Rate Loans | B | 4.95 | 5.25 | 30/04/2009 | 0.30 |
| mecu | Fixed Home Loan | B | 5.49 | 5.19 | 27/04/2009 | -0.30 |
| one direct | one direct fixed loan | B | 5.15 | 4.99 | 27/04/2009 | -0.16 |
| RAMS Home Loans | RAMS Fixed Rate | B | 5.29 | 4.99 | 24/04/2009 | -0.30 |
| St. George Bank | Fixed Loan | B | 5.44 | 5.34 | 29/04/2009 | -0.10 |
| Victoria Teachers Credit Union | Standard Home Loan (with fixed rate) | B | 5.82 | 4.97 | 27/04/2009 | -0.85 |

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 |
|--------------------------------------|--------------------------------------|-------|-----------|-----------|----------------|--------------|
| Adelaide Bank | Fixed Loan | B | 5.59 | 5.99 | 30/04/2009 | 0.40 |
| Aussie | Aussie Standard Fixed Loan | B | 5.99 | 6.19 | 28/04/2009 | 0.20 |
| Australian Central Credit Union | Fixed Rate Home Loan | B | 5.99 | 6.19 | 24/04/2009 | 0.20 |
| Bank of Queensland | Fixed Loan | B | 6.14 | 5.79 | 24/04/2009 | -0.35 |
| Bendigo Bank | Fixed | OO | 5.59 | 5.99 | 30/04/2009 | 0.40 |
| Encompass Credit Union | Fixed Interest Rate Home Loan | B | 6.09 | 6.19 | 24/04/2009 | 0.10 |
| Greater Building Society | Getaways Fixed Home Loan | B | 5.65 | 5.85 | 30/04/2009 | 0.20 |
| Newcastle Permanent Building Society | Fixed Rate Home Loan | B | 5.09 | 5.19 | 24/04/2009 | 0.10 |
| RAMS Home Loans | RAMS Fixed Rate | B | 5.59 | 5.79 | 24/04/2009 | 0.20 |
| St. George Bank | Fixed Loan | B | 5.34 | 5.69 | 29/04/2009 | 0.35 |
| Victoria Teachers Credit Union | Standard Home Loan (with fixed rate) | B | 6.19 | 5.75 | 27/04/2009 | -0.44 |

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 |
|---------------------------------|----------------------------|-------|-----------|-----------|----------------|--------------|
| Adelaide Bank | Fixed Loan | B | 6.39 | 6.64 | 30/04/2009 | 0.25 |
| Aussie | Aussie Standard Fixed Loan | B | 6.49 | 6.79 | 28/04/2009 | 0.30 |
| Australian Central Credit Union | Fixed Rate Home Loan | B | 6.59 | 6.79 | 24/04/2009 | 0.20 |
| Bank of Queensland | Fixed Loan | B | 6.64 | 6.59 | 24/04/2009 | -0.05 |
| Bendigo Bank | Fixed | OO | 6.39 | 6.64 | 30/04/2009 | 0.25 |
| Greater Building Society | Getaways Fixed Home Loan | B | 6.50 | 6.65 | 30/04/2009 | 0.15 |
| RAMS Home Loans | RAMS Fixed Rate | B | 5.99 | 6.49 | 24/04/2009 | 0.50 |
| St. George Bank | Fixed Loan | B | 5.94 | 6.34 | 29/04/2009 | 0.40 |

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

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