

News & Views

Sydneysiders struggle with debt

Almost one quarter of Sydney residents say they could not pay their electricity, gas or telephone bills on time compared with 13 per cent in 2006. According to a survey of people living in Sydney by the Wesley Mission conducted in December 2008, almost half had no savings and one in eight were on the verge of insolvency because they spend more than they earn. Thirty per cent said they would have difficulty raising \$2,000 in cash if they needed it. "More families are doing it tough and struggling to make ends meet," said the Reverend Keith Garner, superintendent of the Wesley Mission. "And they don't have the wherewithal to handle a crisis." Sole parents were worse off than others even though they were the household type most likely to have drawn up a budget.

Victorian first home buyers grants go up

The Victorian state government first home buyer grants will be extended for another year. The state government will also increase the amount of cash first home buyers can receive. Victorian first home buyers can get a \$7,000 basic grant. From the first of July they can also receive \$3,000 for an established home, \$5,000 for a new home and an extra \$3,000 for buying in rural Victoria. The Victorian state budget, delivered on Tuesday by treasurer John Lenders, claims Victoria has the most generous first buyers scheme in Australia. 12,900 new homes will also be built for low income earners.

Auction clearances holding up

Sydney's auction clearance rate remains above sixty per cent but sales volumes are still well down on last year. 124 properties were sold at auction in Sydney on Saturday for a combined value of \$73.2 million, down from the same weekend last year when 190 properties sold for \$138 million. Melbourne's auction clearance rate was above seventy per cent for the second week in a row. Just seven properties sold in Adelaide auctions on the weekend for a total value of just \$1.7 million. Brisbane was also a depressed auction market with just 11 properties selling.

House prices crumbling

Established detached house prices fell 2.2 per cent in the first three months of 2009 and almost seven per cent in the year to March 31 according to Australian Bureau of Statistics. Sydney prices fell 7.3 per cent for the year to March. Economist Savanth Sebastian of CommSec said more falls could be expected before a recovery in 2010. "Interest rates didn't start to come down until August last year ... now that rates are at record lows, prices will flatline over the next three to six months, before a decent recovery next year." The ABS index accounts only for detached houses, not terraces or apartments. Property analyst Monique Wakelin said the figures showed the market was stable. Professor Quentin Grafton, of the Australian National University, predicted house prices would fall by up to 20 per cent in two years.

National Market Ranges

Home Loans

Standard Variable	4.89 - 6.44%
Basic Variable	4.78 - 6.09%
1 Yr Intro	3.89 - 5.94%
3 Yr Fixed	5.19 - 7.01%
Investment Variable	4.89 - 6.44%

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 - 4.25%
\$10,000, 3 Years	1.75 - 5.20%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON NEW MARGIN LENDING LAWS

Melbourne property prices crash say agents

Melbourne house prices have experienced their biggest fall in more than forty years according to data released on the weekend by the Real Estate Institute of Victoria. The median house price has declined 15 per cent or \$75,000 in fifteen months. Prices fell \$13,000 in the three months to the end of March 2009. The median house price in Melbourne is now \$410,000. Prices are up however in the outer suburbs popular with first home buyers. Worst hit are suburbs at the top end of the market.

Term deposit deals need scrutiny

The Australian Securities and Investment Commission has released a guide on term deposits to help investors and consumers. ASIC will also be conducting a 'health check' in the form of a marketing and disclosure review of the term deposit market to be completed and released by the end of May. Term deposits have grown by 39 per cent from June 2007 to September 2008. ASIC Chairman, Mr Tony D'Aloisio said the growth of term deposits has prompted ASIC to do two things: first, to prepare a guide to remind investors and consumers and to alert new investors and consumers on issues to consider when investing in term deposits. Secondly, to do a health check on marketing and disclosure around term deposits to ensure it is proper and fair. The new guide appears on ASIC's investor and consumer website, FIDO.

Consumers love Visa/Mastercard debit

Scheme debit is continuing to eat away at the market share of credit cards and Eftpos cards. Debit transactions are growing at the expense of credit and within the debit transaction category, scheme debit transactions is gaining share from Eftpos according to RBA data analysed by MWE consulting. 23.7 per cent of all debit transactions were made with a Visa or Mastercard debit card in February 2009, up from 21.3 per cent in March 2008. The Eftpos system is under competitive pressure from the scheme debit cards and may eventually die if the system's owners, the banks and big retailers, do not invest in it say experts.

Suncorp gets out of property lending

Suncorp announced yesterday that it will move out of lending to the commercial property sector property developers and focus on retail banking, small business lending and agribusiness. Suncorp has identified \$16.8 billion worth of loans it considers non-core, including three billion worth of loans to the commercial property sector. This loan book which has been 90 per cent funded by wholesale debt, will be wound down over five years. Suncorp said it wanted to grow its' retail deposit base to reduce overall financing costs.

New Products, Rates & Fees

CBA cards going contactless

Commonwealth Bank will begin to rollout contactless card readers to merchants in June. Customers will simply have to wave their credit card in front of the reader to pay for purchases up to \$35. The bank will install 5,000 contactless readers by Christmas. The bank's merchant solutions general manager, Dominic White, said the stakeholders were working to increase the limit to \$100.

Interest Rates & The Economy

RBA leaves rates unchanged

It was no huge surprise that Governor Glenn Stevens and his team at the Reserve Bank chose to leave rates unchanged at today's monthly board meeting. The official cash rate will remain at 3 per cent which is almost a 50 year low in Australia.

In his statement on monetary policy, Governor Stevens highlighted that the effects of the RBA's aggressive approach to monetary policy and the federal Government's stimulus packages to date are still to be clearly seen in the Australian economy.

He said: "Monetary policy has been eased significantly. Market and mortgage rates are at very low levels by historical standards and business loan rates are below average, reducing debt servicing burdens considerably. Much of the effect of these changes is yet to be observed. The stance of monetary policy, together with the substantial fiscal initiatives, will provide significant support to domestic demand over the period ahead."

All this means is that the RBA doesn't want to cut rates again because it's worried about too much stimulation and the possible inflationary side effects. Governor Stevens noted that signs of stabilisation and early recovery in markets like China are positive for Australia's outlook.

"The Chinese economy in particular has picked up speed in recent

months and many commodity prices have firmed a little. The considerable economic policy stimulus in train in most countries should help contain the downturn and support an eventual recovery," he says.

The RBA appears to be optimistic about the second half of the year, which suggests that it will keep rates on hold over the coming months. However, if things do not transpire as expected in countries like China, which is Australia's largest trading partner, then the RBA may be forced to cut sooner than expected.

While an increase in unemployment in Australia and additional Federal Government fiscal stimulation measures will still be important considerations for the central bank, the biggest factors influencing the RBA's decision making processes throughout the rest of the year will be the further deterioration in the global economy. As a result, most market participants will remain firmly focused on the key economic indicators being released each month from the United States and China.

Next Week's Announcements

Mon	11 May	Aust NAB Business Confidence/Conditions (April)
Tue	12 May	Aust Housing Finance (March) Aust Federal Budget Announced
Thu	14 May	Aust Lending Finance (March)

Industry Analysis

St George grabs new customers

St George bank has increased customer numbers since the completion of its merger with Westpac last November, a result that suggests the group's multi-brand strategy has been accepted by customers. Total St George retail, small business and BankSA customer numbers rose from 2.56 million in September to 2.58 million in March. St George wealth and insurance customer numbers rose from 231,000 in September to 233,000 in March. Westpac CEO Gail Kelly said the merger integration was going to plan. The group has retained the Westpac and St George ATM and branch networks, with no net reduction in either.

Banks reap profits amid economic gloom

Australia's big four banks posted a half yearly profit of \$8.4 billion, six per cent down on last year's first half results. Academic Michael Peters said the banks had profited from less competition for deposits and by not passing on rate cuts in full. Despite banks claiming that costs are up, lending has become more profitable for banks over the six months to December 31. David Richardson from the Australia Institute said banks were taking 3 cents from every dollar spent. Pricewaterhouse Coopers said bank margins were up because loan defaults are up.

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

Note:

Infochoice would like to make a correction to the article "Depositors turn away from Bankwest" posted in last week's edition of the Banking Bulletin. The figure of \$821 million was misrepresented and should have been clearly specified as a quarterly figure.

We apologise for the inconvenience.

Government sets its watchdog on margin lenders

Financial institutions offering margin loans will soon have the corporate watchdog, the Australian Securities and Investments Commission, breathing down their necks. It is clear from comments accompanying the release of draft legislation this week that the Government expects its regulator to take a hard line in dealing with problems in this area.

Lenders providing margin loans will have to assess a borrower's capacity to service their loan, will have to comply with strict margin call notification rules and will need an Australian Financial Services Licence under changes outlined in the bill.

The Minister for Superannuation and Corporate Law, Nick Sherry, released an exposure draft of Corporations Legislation Amendment (Financial Services Modernisation) Bill 2009. It incorporates margin lending facilities as financial products for the purposes of the Corporations Act.

In addition to the responsible lending requirement and regulation of the notification of margin calls, new measures include rules for disclosure of terms and conditions and a requirement to give borrowers a copy of the lender's assessment of their capacity to service the loan.

A commentary published with the draft bill says: "Disclosure of the terms and conditions governing the loan is not currently regulated. It is not clear that investors are fully aware of the risks associated with a margin loan product."

"There have been serious concerns that not all margin borrowers are aware of the extent to which margin lending contracts place the risk of changes to market conditions on them."

For example, the lender may reserve the power to change the LVR of a security at any time.

Margin lending bad debts pile up

The risks involved in margin lending were brought home this week when Westpac reported its results for the six months to the end of March. The size of its margin loan portfolio fell from \$6.6 billion to \$4.07 billion – a fall of almost 40 per cent in six months.

The bank also reported that it has taken a charge of \$156 million for impaired loans in the margin lending portfolio, equivalent to almost four per cent of the portfolio. That is an extremely high failure rate for a bank that usually takes a conservative approach to its credit risks.

ASIC's consumer protection powers do not currently extend to credit products, although the regulator's power to police misleading and deceptive conduct in the financial services market does cover the sale of credit facilities.

The new law will give margin loans a specific definition in the Corporations Act. Complications have arisen in recent times because providers such as Opes Prime and Tricom used alternative legal structures not based on an explicit loan agreement. The commentary with the draft bill says: "The definition has been framed to include these alternative structures."

Providers will be subject to the licensing, conduct and disclosure

requirements of Chapter 7 of the Corporations Act. Lenders will have to have an AFS licence and be subject to ASIC supervision.

Under the new responsible lending rules lenders will be required to assess whether a proposed loan is suitable for a client. No responsible lending requirements apply under present law.

A loan would be unsuitable if, in the event of a margin call the client would not be able to service the loan or would only be able to do so with substantial hardship.

Borrowers' ability to service their loans must not be dependent on the expected returns available from the investments financed by the loan.

Lenders must inquire whether a second loan has been taken out to finance their equity contribution for the margin loan.

The commentary says: "There have been recent cases where clients who had entered into margin lending arrangements are at risk of losing their homes due to double gearing strategies. Double gearing arises where clients borrow funds against the equity in their homes and use the funds as an equity contribution to a margin loan."

Borrowers will be able to ask for a copy of the lender's assessment of their suitability for a margin loan.

The notification of margin calls will be regulated. "There have been situations where it has been unclear whether it was the lender or the borrower's financial planner who was responsible for notifying clients when a margin call occurred."

The new provision requires that lenders must notify clients unless clients explicitly agree to notifications being made by their planner.

The new law does not cover general investment lending, such as a loan secured against residential property and used to purchase securities, or margin loan used for personal or business purposes.

Government still looking for industry feedback

Lenders will have to ask their clients what the loan is for. The government has asked for feedback on how to address the issue of client intention.

The government has also asked for feedback on whether there should be a credit limit for a margin lending facility.

Total margin lending fell from a peak of \$37.7 billion in December 2007 to \$21 billion in December 2008, according to the Reserve Bank. The value of underlying securities supporting margin loan accounts fell from \$92 to \$41 billion over the same period.

The highest level of margin calls on margin loan accounts ever recorded was in the December quarter of 2008. The Reserve Bank reported that during that extremely volatile three-month period lenders made calls on 9.77 out of every 1,000 clients each day.

It is clear from these numbers that the margin lending market is under stress. It is also clear that the Government plans to regulate it much more tightly.

This Week's Rate Movements

Home Loans - 1 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
RTA Staff Credit Union	1 Year Fixed Home Loan	B	5.29	5.14	5/05/2009	-0.15
Tasmania Finance	Fixed Rate Home Loan	B	5.65	5.51	3/05/2009	-0.14

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
QuickDirect	Fixed	B	5.50	5.55	4/05/2009	0.05
Tasmania Finance	Fixed Rate Home Loan	B	6.15	5.96	3/05/2009	-0.19

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
HSBC	Fixed Rate Loan	B	4.99	5.29	4/05/2009	0.30
IMB	IMB Fixed Rate Home Loans	B	5.74	5.89	4/05/2009	0.15
Tasmania Finance	Fixed Rate Home Loan	B	6.55	6.40	3/05/2009	-0.15

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
HSBC	Fixed Rate Loan	B	5.50	5.80	4/05/2009	0.30
IMB	IMB Fixed Rate Home Loans	B	6.29	6.39	4/05/2009	0.10
Tasmania Finance	Fixed Rate Home Loan	B	6.85	6.79	3/05/2009	-0.06

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
HSBC	Fixed Rate Loan	B	5.70	6.00	4/05/2009	0.30
IMB	IMB Fixed Rate Home Loans	B	6.29	6.44	4/05/2009	0.15
Tasmania Finance	Fixed Rate Home Loan	B	6.95	6.97	3/05/2009	0.02

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

Credit Cards - Purchase Rates

Institution	Product	Old Value	New Value	Change Value	Date of Change
ANZ Bank	ANZ Balance Visa (V)	12.99	12.74	5/05/2009	-0.25
ANZ Bank	ANZ Low Rate MasterCard (M)	11.99	11.74	5/05/2009	-0.25
HSBC	HSBC Gold Credit Card (V)	19.99	17.99	3/05/2009	-2.00

Online Savings Accounts - \$10,000

Institution	Product	Old Value	New Value	Date of Change	Change Value
ANZ Bank	ANZ Online Saver	3.75	3.50	1/05/2009	-0.25
Bankstown City Credit Union	MoneyMAX Online Plus	2.00	1.75	5/05/2009	-0.25
BankWest	Bankwest Smart eSaver (Smart rate if no withdrawals)	5.00	4.75	1/05/2009	-0.25
NSW Teachers Credit Union	Online Savings Account	4.00	3.75	1/05/2009	-0.25

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