

## News & Views

### Average home loan rises fast for new starters

The average size of a home loan to a first home buyer increased by \$11,400 over the three months to February 2009. Loans to first home buyers had increased by \$18,100 over the three months to November 2008. Over two years the average home loan for a first-home buyer average loan size increased by \$52,000 to \$280,600 in the two years to February 2009. In February first home buyers accounted for 26.9 per cent of all new home loans up from 17.3 per cent in February 2008. One reason for the rise is the federal government's First Home Owner's Boost scheme - which provides up to \$21,000 for new homes and \$14,000 for established homes. This scheme is progressively phased out, and will cut out altogether after the end of this year.

### Builders offer incentives to first buyers

4,500 Victorian first home buyers took advantage of Australia's most generous first home buyer grants to enter the house buying market in April. Melbourne's western suburbs were the most popular locations for people buying or building their first home. Victorian first home buyers can now get \$26,000 for buying a new home and \$32,000 after the state government grants are increased from July 1. Builders, including Devine homes, are offering buyers \$32,000 worth of incentives between now the end of June in a bid to avoid a drop-off in demand.

### Broker loans take longer to process

Over the past six months lenders have reduced their maximum loan to valuation ratio to 95 per cent. More recently the maximum loan to value ratio with most lenders is now down to 90 per cent. Mortgage brokers tend pitch home loan applications to lenders with the most aggressive lending policies which at present are, just, Commonwealth and Westpac. However, service standards for home loans submitted through brokers are patchy as can take as long as 10 to 15 days which may be due to banks seeking to deliberately have lower service standards for broker submitted-loans.

### Battellino tells the critics to wait a while

Reserve Bank deputy governor Ric Battellino offered a word of caution to all the commentators offering their verdicts on the deposits and funding guarantees, AOFM market support, RBA liquidity facilities and other measures to support the financial system: judgement is premature. Speaking at the Securities and Derivatives Industry Association conference in Sydney yesterday, Battellino said: "As with normal monetary policy the impact of these various unconventional measures is likely to take quite some time to become apparent." "Given the relatively limited time that most of these measures have been in place, it is premature at this stage to draw any firm conclusions about their effectiveness." He reminded his audience that measures taken by the Bank of Japan to increase banks' reserve balances in 2001 had effects that played out over the next five years.

## National Market Ranges

### Home Loans

Standard Variable	4.81 - 6.44%
Basic Variable	4.78 - 6.09%
1 Yr Intro	2.99 - 5.94%
3 Yr Fixed	5.39 - 7.01%
Investment Variable	4.81 - 6.44%

### Deposit Accounts

Cash Mgmt \$10,000	0.01 - 4.00%
Cash Mgmt \$50,000+	0.25 - 4.00%
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 - 4.51%
\$10,000, 1 Year	1.50 - 4.25%
\$10,000, 3 Years	1.75 - 5.20%

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SEE PAGE 3 FOR A FEATURE ON PRIVATE BANKING

### ACCC grumbles over lack of banking competition

Graeme Samuel, chair of the Australian Competition and Consumer Commission, said he would be "gravely concerned" about any merger that strengthens the position of one of the big banks at the expense of regional and non-bank lenders. Speaking to ABC Television, Samuel described the current level of competition as "little better than workable". Speaking of the prospect of takeovers by big banks of the retail business of regional banks, foreign banks or credit unions Samuel said: There would be grave concerns about any further significant consolidation that saw the position of the big four banks apropos or relative to the regional banks and the non-bank financial institutions ... move any further away."

### Fees excessive for lost super

"Lost" superannuation accounts increased by 12 per cent or 660,000 to bring the total to around 5.9 million research by SuperRatings shows. Lost super emerges when someone changes employers and neglects to consolidate super accounts. Lost super ends up in designated retirement funds after a period of inactivity. In theory these funds are low cost but SuperRatings agrees the fees are excessive at an average of 2.25 per cent (though average balances may be low). The Australian Taxation Office requires super funds with balances of \$200 or less to transfer the funds to the ATO.

## Customers walk to avoid ATM fees

About 160,000 people a day changed their choice of automatic teller machine at which to withdraw cash during the month of March 2009, Reserve Bank of Australia payments data suggests. The proportion of people who collected cash at an ATM owned by another bank (or an independent) fell to 40.0 per cent during March, down from an average proportion of 46.8 per cent at another bank's ATM in the three preceding months, according to analysis of the data by MWE Consulting in their monthly report. Under new industry practices introduced in early March owners of ATMs must highlight the fee the owner of that ATM will charge to a customer. These "convenience" fees replaced the "foreign" ATM fees that used to apply.

## New Products, Rates & Fees

### St George waits for banking revamp

Westpac will invest in an upgraded internet banking platform to cater to all its banking business. The new platform will be implemented first at Westpac's retail bank, which uses an older system than St George. The bank will move St George and Bank of South Australia customers onto the new internet banking platform "over time". Westpac will also move to the St George teller system in the branches. The timing of these changes is not clear.

## Interest Rates & The Economy

### Rates set to stay on hold next week

Reserve Bank deputy governor Ric Battellino spoke at a finance industry function this week and suggested that central banks around the world will not hesitate to start raising rates again at the first hint of inflation.

There is growing nervousness among a number of economists about the risk of inflation emerging once the global economy starts to recover. While the large fiscal stimulus measures and record low interest rates over the last nine months are designed to kick start economies and prevent them from falling into protracted recessions, there is a real risk of going too far.

Some commentators are worried that central banks won't be able to hike up interest rates fast enough in order to stop inflation getting out of control. The challenge for central banks is to pull the right lever, at just the right time. Picking the bottom of the downturn and starting to reverse the huge cuts to date is a big task.

Mr Battellino said: "With central banks doing unconventional things, it is not surprising that there is considerable debate about the effectiveness and consequences of the various measures. On the one hand, some argue that the measures will be ineffective. On the other side of the debate, others argue that they will eventually result in higher inflation."

At the end of his speech, he concluded that given there is already considerable awareness about the risks of central banks being too slow, then it's unlikely that they'll get it wrong.

The RBA has followed other central banks around the world and aggressively cut interest rates in an effort to protect Australia from the worst of the global financial crisis. Australia's official cash rate has been slashed by 425 basis points since September last year, with the official cash rate now sitting at just 3 per cent. This represents a 49-year low.

Other news out this week on business activity showed that business investment fell by 8.9 per cent in the first quarter of 2009 which is apparently the largest drop in more than 12 years. Analysts had been expecting a fall of only 6 per cent. As a result of this slump in activity, unemployment is set to worsen in the coming months. Many are predicting it will go as high as 9 per cent by 2010.

With Australia now officially in recession, the RBA is not likely to move on interest rates for another few months until a clearer picture of the economy emerges. The federal government's stimulus measures are still winding their way through the economy and their full impact remains to be seen.

## Next Week's Announcements

Mon	1 Jun	Aust TD Securities Inflation (May) Aust Retail Sales (April) Aust Inventories (1st Quarter) Aust Company Operating Profit (1st Quarter) Aust RBA Commodity Index SDR (May)
Tue	2 Jun	Aust RBA Rate Decision Aust Current Account Balance (1st Quarter) Aust Building Approvals (April) Aust AiG Performance of Service Index (May)
Wed	3 Jun	Aust Gross Domestic Product (1st Quarter)
Thu	4 Jun	Aust Trade Balance (April) Aust AiG Performance of Construction Index (May)

## Industry Analysis

### Maroondah and mecu merge

The board of Maroondah Credit Union yesterday said it recommended to its members that it merge with mecu, the expansionary credit union also based in Melbourne eastern suburbs. Maroondah is a minnow with only \$100 million in receivables. mecu has assets of around \$2.2 billion and \$220 million in capital following its merger with RegionalOne, a credit union based in northern Victoria. mecu has created one of Australia's largest and strongest credit unions with, 30 branches located throughout the country and around 300 staff.

## Scam Watch

### Card details compromised

The Australian reported that thousands on credit card details of customers of Australian banks are accessible through an unidentified blogging site. The site includes Visa, MasterCard and American Express numbers, including expiry dates, together with home addresses, phone numbers and email addresses. A number of the records appeared to have been taken from a holiday accommodation database, the newspaper reported, with entries such as "Ensuite Villa, 2br" included alongside cardholders' details. Others were from a courier organisation, including detailed delivery instructions for packages if the cardholder was not at home.

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

## A new model for private banking

One area where Australian financial institutions have struggled to establish a strong presence is in private banking - services provided to the wealthiest clients.

Foreign banks have tended to dominate at that end of the market and the private banking offerings of the local banks have been in a fairly constant state of flux as they look for the right formula.

One problem for the locals is that they find it hard to match the offerings of big global banks like Citibank, UBS and HSBC. Another is that they have trouble persuading wealthy Australians to use a private bank.

Last year St George Bank put out some research that said only 30 per cent of Australians eligible for private banking chose to become private bank clients.

According to the research, many people mistakenly see private banking as a more prestigious version of the services they already get. They don't see the need.

In the past, and in the case of some banks, that may have been the case. Some private banks were known in the industry as "red carpet retail".

Over the past few years the banks have been moving away from that model and developing a private bank product set that includes wealth management, estate planning, private custody, trustee services and philanthropy, interest rate and foreign exchange management services.

They are still refining the model. Last week National Australia Bank announced the creation of a new wealth services division within NAB Private Wealth.

NAB invites customers with investable assets of more than \$1 million or income above \$250,000 a year to join the private bank.

NAB Private Wealth head of strategy, Tim Chilvers, says the idea was to package a group of capabilities, some already on offer and some new. Private custody is an administration service that handles things like dividend reinvestment, rights issues and reporting of returns.

The trustee service has been expanded to cover superannuation. Clients can set up a superannuation power of attorney that will be effective in certain circumstances in facilitating the payment of death benefits with incurring tax.

NAB has appointed a Private Wealth chief investment officer. Chilvers says the view of private banking clients on assets may vary from time to time from the NAB house view.

Chilvers says: "Banks are good at building capability but not always as good at putting those capabilities together in offerings for different client segments. We have addressed that with these changes.

"It would be fair to say that private banking has not yet come of age in the commercial banking market. The customer needs were changing faster than the banks could provide the solutions.

"The approach we are taking now is a highly personalised advice model that you would find in the US or Europe."

The model will always be different from the US and European versions because with fewer billionaires and multi-millionaires to go around the local version of private banking has to be a bit more mass market.

### Bank accounts going global

One area where the local banks have not been able to match service offerings of their global rivals is in the provision of banking and wealth management services overseas.

HSBC's Premier and Citibank's Citigold, while neither is strictly speaking a private bank offering, make it easier for frequent travellers and expatriates to do their banking and investing in two or more countries.

Both banks say there is demand for the combination of multi-currency transactions and investments, cross-border credit, relationship management, global support and pre-approval of accounts that these accounts offer.

The relationship manager can, for example, arrange to have a bank account set up in advance in a foreign city where the customer is planning to spend some time. Citigold customers can invest in seven currencies.

The manager can also arrange for the transfer of credit and employment histories between countries to facilitate the establishment of credit cards and other loan accounts.

Advisers who work with expatriate executives say one of the biggest problems they face when they move overseas is that they become "credit ghosts". When they move to a new country their credit, transaction and employment histories do not travel with them. This makes it hard for them to set up bank accounts and even harder to arrange loans.

### Private banking a growth area

A report by Boston Consulting Group, Creating Value in Banking 2009, says that around the world retail-oriented banks have done better than wholesale oriented and credit monoline competitors.

It forecasts that banks that maintain that strategy will emerge from the global financial crisis in a strong position. Private banking fits within that retail-oriented approach.

The report says: "Banks need to be much more discerning about the assets they generate."

Local investment banks, such as Macquarie Bank, were quicker to adapt the European and US style of private banking to the local market. Some of those organisations have been forced by the global financial crisis to cut back on things like structured investment products that made up part of their private bank offerings.

The banks see an opportunity to increase share in a part of the market where they have lagged up to now.

## This Week's Rate Movements

### Home Loans - 1 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Bank of South Australia	Standard Fixed Rate	B	5.44	5.34	26/05/2009	-0.10
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	4.99	4.69	27/05/2009	-0.30

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
Bank of South Australia	Standard Fixed Rate	B	5.44	5.74	27/05/2009	0.30
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.29	5.19	27/05/2009	-0.10
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.09	5.19	22/05/2009	0.10
St. George Bank	Fixed Loan	B	5.44	5.74	27/05/2009	0.30

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
Bank of South Australia	Standard Fixed Rate	B	5.69	5.99	27/05/2009	0.30
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.19	5.34	27/05/2009	0.15
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.29	5.39	22/05/2009	0.10

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
Bank of South Australia	Standard Fixed Rate	B	6.34	6.64	27/05/2009	0.30
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.79	5.94	27/05/2009	0.15
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.94	5.99	22/05/2009	0.05
RegionalOne Credit Union	Fixed Loan	OO	6.69	6.79	26/05/2009	0.10
St. George Bank	Fixed Loan	B	6.34	6.64	27/05/2009	0.30

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
Bank of South Australia	Standard Fixed Rate	B	6.34	6.64	27/05/2009	0.30
Better Option Home Loans	BetterOption Fixed Rate Home Loan	B	5.79	6.04	27/05/2009	0.25
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	5.94	6.09	22/05/2009	0.15
RegionalOne Credit Union	Fixed Loan	OO	6.89	6.99	26/05/2009	0.10
St. George Bank	Fixed Loan	B	6.34	6.64	27/05/2009	0.30

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

### Credit Cards - Purchase Rates

Institution	Product	Old Value	New Value	Date of Change	Change Value
Citibank	Citibank Clear Platinum Card	11.99	10.99	26/05/2009	-1.00
Suncorp	Suncorp Clear Options Standard	11.99	11.24	23/05/2009	-0.75

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