

## News & Views

### Long weekend auctions hold up

The auction clearance rate remained high in Sydney over the Queen's birthday weekend with more than 66 per cent of the 220 residential properties put up for auction selling on the day. The auction results were an improvement on the results from the same weekend last year, when 46 per cent of 171 properties selling at auction, but down on last week. Last week, 70 per cent of 409 properties sold in Sydney at auction. In Melbourne, over 70 per cent of 161 residential properties put up for auction sold on Saturday, down from 78 per cent of 649 properties the week before. On the same weekend last year in Melbourne, 50 per cent of 192 properties sold at auction.

### Investors coming back to property

The number of new mortgages written in Australia has fallen for the second month in a row, possibly signalling an end to the rush to buy homes and take advantage of the federal government's boosted first home buyers grant. The nation's biggest mortgage broker, Australian Finance Group, said 7,236 new mortgages were issued in April, down from 8,988 in March. The proportion of loans issued to investors was up to 28 per cent from 24 per cent, while first home buyers were down from 28 per cent to 24 per cent. Low interest rates, good rental yields and the strong performance of property compared to shares was driving renewed investor confidence said Mark Hewitt from AFG.

### Queenslanders losing their homes

Repossessions in Queensland have hit a new record high. Figures from the Justice Department show lenders lodged 176 claims to repossess homes or businesses in the state's courts during April, the highest monthly total since records began in 1992. Repossession claims have been climbing for the past 18 months. In 2008, a record 1,362 claims were filed against home and business owners in Queensland. More than 600 claims were filed between January and April. Analysts said the numbers are just the tip of the iceberg because most claims never make it to court. Social workers said the state government should provide financial help to people in danger of losing their home.

### NSW first home buyers borrowing \$300K

The size of the average mortgage taken out by first home buyers in NSW has grown by \$50,000 to \$299,000 in less than a year. The federal government claims that its boosted first home buyers grant is stimulating the housing market but experts warned of the potential danger of a housing bubble as young couples take on loans they will struggle to maintain. First-home buyers are taking out a record 28 per cent of the value of all home loans, Bureau of Statistics figures released on Wednesday showed. Julian Disney, an affordable housing expert from the University of NSW, said the surge in borrowing runs the risk of overinflating the lower end of the housing market. "We have just got to make sure that we don't get a recovery on the back of over-extended young couples."

## 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 - 4.40% |
| \$10,000, 3 Years | 1.75 - 5.75% |

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON HOUSING FINANCE RECOVERY

### Debt is good for you but...

The median household in Australia has debts that amount to just 8 per cent of total household assets. Claims of a debt crisis in Australia are unfounded says academic economist Mark Wooden but young people lured into debt by first home owners grants could get themselves into trouble. Unless there is a big rise in unemployment says Wooden, there will be no widespread debt problems in Australia. The bulk of household debt in Australia is held by wealthier families with a good capacity to repay. Less than 10 per cent of households had excessive debt in 2006, before the onset of the global economic crisis says Wooden.

### Don't harass me, I'm in debt

The companies regulator, ASIC and the competition regulator, the ACCC, say they have received more than 5,000 complaints in the last few years from indebted consumers concerned over the harassment or behaviour of debt collectors. Even if your debts are overdue, you have the right to complain about harassment by collectors says Graeme Samuel, chairman of the ACCC. Companies can be fined \$1.1 million and individuals up to \$220,000 for harassing indebted clients. Creditors and collectors can not call you many times per day, discuss your debts with other people such as work colleagues or family members, or turn up unannounced on your doorstep at night.

## Deposit guarantee drives DIY investors

The government guarantee on deposits and do it yourself attitude are driving renewed interest in self managed super. Good investment returns by big super funds in April still see them lagging well behind many self managed funds in the investment return stakes. In 2008, more than 32,000 new self managed superannuation funds were established says the tax office. Close to 800,000 Australians now do it themselves when it comes to super. The APRA research for return on investment within the superannuation fund industry in December 2007 hypothesised that SMSFs outperformed the other four superannuation sectors in seven out of nine financial years," says Andrea Slattery, chief executive of the SMSF Professionals Association of Australia. "In those seven years this outperformance ranged from 0 to 6.5 per cent." The Australian Prudential Regulatory Authority (APRA) found that funds with less than five members outperformed the big funds in seven of the nine years between 1997 and 2005.

## New Products, Rates & Fees

### Your voice is your PIN at NAB

The fuss over the security of remote banking has largely faded as a consumer issue but some banks continue to take an interest in extending the options to better secure transactions. National Australia Bank has this month introduced biometric voice verification for its telephone banking customers. Finextra reported that following an internal pilot involving 2,000 branch staff in May, the speech security function was now available to NAB's 3.3 million personal banking customers. Customers calling the bank's contact centre can now register their voice pattern, which NAB says is harder to steal than a password or PIN, improving authentication. ABN Amro was the first bank in the world to introduce an equivalent service.

## Interest Rates & The Economy

### Reserve Bank to hold rates steady

Economic news this week seems to suggest the government's stimulus measures are starting to have some effect. According to one leading industry construction group, the rate of decline in the Australian construction industry is slowing down. Its research suggests that levels of activity in the sector have improved by 10.4 points to 46.9 points over the course of May, just three points shy of the 50 point level that separates the industry's expansion from contraction.

The fall in job advertisements appears to have stabilised as well, despite economists' predictions that unemployment is set to reach 9 per cent. Statistics from one Australian bank show the total number of jobs advertised in major newspapers and on the internet fell by 0.2 per cent in May, taking the annual reduction in advertisements to 49.1 per cent.

These figures give rise to some cautious optimism, a conclusion clearly drawn by increasing numbers of Australians. This is evident from the results of a few recent surveys that analyse business and consumer confidence in the Australian market.

In another bank survey out this week, business confidence in May increased by 12 points to -2. While pessimists continue to outnumber optimists, this is the highest level of confidence recorded in the market since February 2008. The bank found the improvement in outlook was spread broadly across the economy, but it was particularly noticeable

in domestically-driven sectors such as construction, manufacturing and wholesale. These sectors are set to benefit from the federal government's proposed \$22 billion investment in infrastructure which was announced in the May budget.

Meanwhile, a consumer sentiment survey also released this week, reported a 12.7 per cent improvement in June from 88.8 in May to 100.1 in June, the largest increase in the index in 22 years. Economists are suggesting that the release of the March quarter national accounts figures last week have provided a major boost in confidence, as these figures registered a small but positive growth rate for the Australian economy, a sign that Australia has so far managed to avoid a recession.

While these figures are comforting, it means the RBA will have to keep a close watch on inflation. According to one bank's survey of consumer inflationary expectations, inflationary expectations rose to 2.8 per cent in June, up from 2.3 per cent in May. This increase was predominantly due to the larger than expected jump in March quarter GDP and the recent increase in petrol prices.

For the time being, these tentative signs of economic recovery mean the Reserve Bank is likely to hold rates steady at 3 per cent. This is assuming that inflation remains in the band between 2 to 3 per cent. This is partly to allow the market to absorb the impact of rate cuts implemented so far, and partly to avoid sending the economy into an inflationary spiral.

## Next Week's Announcements

|     |        |                                                                       |
|-----|--------|-----------------------------------------------------------------------|
| Mon | 15 Jun | Aust Lending Finance (April)                                          |
| Tue | 16 Jun | RBA Board minutes for June<br>NSW State Budget<br>QLD State Budget    |
| Wed | 17 Jun | Aust Dwelling Commencements (1st Quarter)                             |
| Thu | 18 Jun | Aust International Merchant Imports (May)<br>Aust RBA Bulletin (June) |

## Industry Analysis

### The Four Banks empire strikes back

The big four banks have increased their market share above 92 per cent of loans in April. Brokers have been encouraging their loan writers to favour non-bank lenders as a way of encouraging some competition and pushing the big banks to improve their service standards, the latest Australian Bureau of Statistics data on housing finance show that the banks still dominate. Yesterday's ABS numbers show that banks accounted for 88.9 per cent of the 60,395 owner-occupied housing finance commitments, seasonally adjusted, reported in April 2009. Bank share climbed from 85.4 per cent in April last year to a peak of 89.1 per cent in March. In terms of the value of housing finance commitments the banks are even more dominant. They accounted for 92.3 per cent of the \$16.05 billion of loans, seasonally adjusted, written in April. The 60,395 new loans represented a 14-month peak in activity but the pace of growth is slowing.

Sources: InfoChoice, Australian Property Monitors, Courier Mail, Herald Sun, News.com.au, Sydney Morning Herald, The Australian Financial Review

## A sustainable housing finance recovery

The latest round of official and industry lending figures indicate that the recovery in housing finance is becoming more broadly based and sustainable, but that businesses and consumers are still working to reduce their debts.

This week's Australian Bureau of Statistics housing finance figures show that the banks continue to dominate the market. Banks accounted for 88.9 per cent of the 60,395 owner-occupied housing finance commitments, seasonally adjusted, reported in July.

Bank share climbed from 85.4 per cent in April last year to a peak of 89.1 per cent in March.

In terms of the value of housing finance commitments the banks are even more dominant. They accounted for 92.3 per cent of the \$16.05 billion of loans, seasonally adjusted, written in April.

The 60,395 new loans represented 14 month peak in activity but the pace of growth is slowing. The 0.9 per cent rate of growth in April was the smallest increase in seven months.

Average loan size was \$264,700 in April, up from \$263,200 in March. In April last year the average loan size was \$236,600.

The latest data from mortgage aggregator AFG, also published this week, suggests that the slowing trend may be a result of reduced activity by first home buyers. AFG believes some of the steam has gone out of the first home buyer segment of the market.

AFG reported that first home buyers accounted for 28.1 per cent of new loans in March and came back to 24.8 per cent of new loans in May (AFG is a month ahead of the ABS data).

AFG says first home buyer share is still above trend but the easing suggests that the extension of the first home owner boost until the end of September has taken some of the heat out of the market.

It may also reflect tighter lending standards. Many banks are now demanding genuine deposits from first home buyers.

AFG puts the bank share of new lending at 92.5 per cent, more than three percentage points higher than the ABS figure.

An area of strength highlighted by the ABS numbers was construction. The 1.3 per cent increase in loans for new dwelling construction, seasonally adjusted, was a seven year high.

Economists have commented that the latest housing finance figures present a more broadly based picture of the recovery in housing finance. Not only is there more dwelling construction but investors are also becoming more active

The value of finance to investors jumped 8.9 per cent from March to April and 15 per cent from the low in February.

The AFG figures show a similar trend. Housing finance advanced to investors grew from 24.5 per cent of the total in March to 28 per cent in May.

## Credit card balances fall

While the housing finance continues to grow, if more slowly than in recent months, the most recent Reserve Bank credit card figures show that credit card balances are falling.

The average credit card balance stood at \$3,119 in March, down from \$3,152 in February. The average credit card balance rose by just one per cent over the year to March, the slowest annual rate of growth in the 14 years that the Reserve Bank has gathered the data.

The number of credit card cash advances fell by 8.3 per cent in the year to March.

The figures confirm the view of a number of economists that consumers would use the government handout to reduce their household debts.

Consumers actually used their cards more but they paid off their balances. The number of purchases made on credit cards rose 9.1 per cent in the year to March but repayments rose 17.5 per cent over the same period.

## Borrowers bet on rates going lower

Recent data suggests that borrowers are betting that the interest rate cycle has not yet bottomed. According to AFG, fixed rate mortgages made up only 6.5 per cent of all mortgages offered in May – in line with the 6.8 per cent reported in April.

Two-thirds of borrowers (66.4 per cent) opted for variable rate loans, 15.8 per cent took out an intro rate loan, and 10.9 per cent went for a home equity loan.

There is some support among economists for the view that rates have not bottomed. Westpac chief economist Bill Evans wrote in a commentary earlier this month that economic growth would be an average of 0.5 per cent for the next three quarters and only one per cent in 2010.

Evans said: "This is hardly an environment for the Reserve Bank to be tightening policy or seeing any substantial risk of over-easing in the second half of 2009-06-10

"The figuring behind our expectation of further rate cuts hinges on the signals from contracting demand and our leading indicators correctly pointing to a sharp rise in the unemployment rate,"

Looking outside the housing finance market, credit to the private sector expanded by only 1.1 per cent in the six months to April and 0.3 per cent in the three months to April. The April data shows the weakest annual growth in business credit, at 3.5 per cent, for seven years.

While housing credit has been strengthening, business credit contracted by 1.6 per cent over that three month period. Companies are cutting costs and reducing their debt levels.

## This Week's Rate Movements

### Home Loans - 1 Year Fixed Rates

| Institution | Product         | Avail | Old Value | New Value | Date of Change | Change Value |
|-------------|-----------------|-------|-----------|-----------|----------------|--------------|
| AMP         | Fixed Rate Loan | B     | 5.49      | 5.69      | 10/06/2009     | 0.20         |

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 |
|--------------------------|----------------------|-------|-----------|-----------|----------------|--------------|
| AMP                      | Fixed Rate Loan      | B     | 5.49      | 5.69      | 10/06/2009     | 0.20         |
| Illawarra Credit Union   | Fixed Rate Loans     | B     | 5.35      | 5.55      | 10/06/2009     | 0.20         |
| RegionalOne Credit Union | Fixed Loan           | OO    | 5.64      | 5.59      | 10/06/2009     | -0.05        |
| Unicom Credit Union      | Fixed Rate Home Loan | B     | 5.35      | 5.55      | 10/06/2009     | 0.20         |

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 |
|---------------------------------|-------------------------------------|-------|-----------|-----------|----------------|--------------|
| AMP                             | Fixed Rate Loan                     | B     | 6.19      | 6.39      | 10/06/2009     | 0.20         |
| Australian Central Credit Union | Fixed Rate Home Loan                | B     | 6.19      | 6.29      | 9/06/2009      | 0.10         |
| Illawarra Credit Union          | Fixed Rate Loans                    | B     | 5.70      | 5.95      | 10/06/2009     | 0.25         |
| NAB                             | NAB Tailored Home Loan - Fixed Rate | B     | 5.99      | 6.09      | 10/06/2009     | 0.10         |
| one direct                      | one direct fixed loan               | B     | 6.09      | 6.19      | 10/06/2009     | 0.10         |
| Unicom Credit Union             | Fixed Rate Home Loan                | B     | 5.70      | 5.95      | 10/06/2009     | 0.25         |

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 |
|---------------------------------|-------------------------------------|-------|-----------|-----------|----------------|--------------|
| Australian Central Credit Union | Fixed Rate Home Loan                | B     | 6.69      | 6.79      | 9/06/2009      | 0.10         |
| NAB                             | NAB Tailored Home Loan - Fixed Rate | B     | 6.49      | 6.54      | 10/06/2009     | 0.05         |
| one direct                      | one direct fixed loan               | B     | 6.44      | 6.59      | 10/06/2009     | 0.15         |
| RegionalOne Credit Union        | Fixed Loan                          | OO    | 6.84      | 7.25      | 10/06/2009     | 0.41         |

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 |
|---------------------------------|-------------------------------------|-------|-----------|-----------|----------------|--------------|
| AMP                             | Fixed Rate Loan                     | B     | 6.99      | 7.19      | 10/06/2009     | 0.20         |
| Australian Central Credit Union | Fixed Rate Home Loan                | B     | 6.79      | 6.89      | 9/06/2009      | 0.10         |
| Illawarra Credit Union          | Fixed Rate Loans                    | B     | 6.48      | 6.68      | 10/06/2009     | 0.20         |
| NAB                             | NAB Tailored Home Loan - Fixed Rate | B     | 6.69      | 6.89      | 10/06/2009     | 0.20         |
| one direct                      | one direct fixed loan               | B     | 6.79      | 6.99      | 10/06/2009     | 0.20         |
| RegionalOne Credit Union        | Fixed Loan                          | OO    | 7.09      | 7.55      | 10/06/2009     | 0.46         |
| Unicom Credit Union             | Fixed Rate Home Loan                | B     | 6.48      | 6.68      | 10/06/2009     | 0.20         |

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

### Cash Management Accounts

| Institution | Product                                   | Old Value | New Value | Date of Change | Change Value |
|-------------|-------------------------------------------|-----------|-----------|----------------|--------------|
| AMP         | eASYCash Management (all deposit amounts) | 3.75      | 4.00      | 10/06/2009     | 0.25         |

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