

# Weekly Banking Bulletin

A regular industry round-up from the publishers of the Interest Rate Monitor

3 July 2009

## News & Views

### Customers happy to say 'it's me bank'

Members Equity Bank has changed its look and corporate logo. Members Equity now wants to be known as Me Bank. "We hope that the new brand identity will be a permanent reminder that it is your bank and that you will be happy to say "it's me bank!" said Head of Corporate Affairs Tony Beck. He said ME Bank remains in a financially strong position and the refreshed brand image comes at an opportune time despite the ongoing changes in the global financial market and the market consolidation of Australia's big banks. "We are proud of our growth and what we represent – a strong alternative in the banking industry for Australian consumers," he said. "Our customers enjoy much higher customer satisfaction rating than any other of the major banks."

### Personal lending in freefall

Housing credit grew strongly in May, pushed up by owner occupiers taking advantage of federal government first home grants, but personal and business credit went backwards. Figures released on Wednesday by the RBA indicate that the total stock of private sector credit fell 0.1 per cent in May, the first fall since December. Total personal lending has contracted 7.8 per cent in the last year as consumers have used government stimulus payments to pay down their credit card balances. Margin lending has declined along with the share market. Business lending fell 0.7 per cent in May. Large businesses have turned to the sharemarket to access finance, raising \$70 billion in the year to March.

### Regulator wants lending with care

Banks face a crack down on their lending policies by the prudential regulator the Australian Prudential Regulation Authority. APRA's views, set out in a speech by its general manager, David Lewis, last week, are that banks should be required to make provisions for losses that might occur throughout the life of a loan. That would effectively mean tighter lending criteria as banks would be forced to take into account any future economic downturns in assessing the likelihood of borrower's defaulting. APRA's approach is directly contrary to the international financial reporting standards adopted in Australia four years ago. These expressly prevent banks from making forward-looking loan loss provisions.

### Grants avoid property Armageddon

Twenty thousand borrowers received the federal government's first home buyer grant in May said the commonwealth Treasury. Demand for new homes fell 5.7 per cent in May after four months of strong results. Analysts said first home buyers would soon be joined in the market by investors and trade up buyers. New home sales are at 7,700 units in May, still twenty per cent up on the lows of mid last 2008. ANZ economist Alex Joiner said the latest housing data show that Australia will avoid the big property price falls of the USA. "the local property market is not headed for the Armageddon scenario foreshadowed by some."

## National Market Ranges

### Home Loans

Standard Variable	4.81 - 6.20%
Basic Variable	4.78 - 5.69%
1 Yr Intro	3.29 - 5.59%
3 Yr Fixed	5.69 - 7.69%
Investment Variable	4.81 - 6.20%

### Deposit Accounts

Cash Management \$10,000	0.01 - 4.00%
Cash Management \$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 - 4.55%
\$10,000, 1 Year	1.50 - 4.55%
\$10,000, 3 Years	1.75 - 6.00%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON REVERSE MORTGAGES

### Property sales hit new records

A record 5,834 properties have been sold so far in Victoria during the month of June, setting a new all time record according to the Real Estate Institute of Victoria. The June sales figures are 40 per cent above last year June figures and 20 per cent above the previous high month of June 2007, at the height of the last boom. Agents said the lower and middle price segments were showing the highest price growth on the back of strong buyer demand. After two months of depressed auction numbers, auctions were up strongly in June to new record high of 2,311.

### House and unit prices recovering

The median house price has climbed in every capital city except Perth since January and is now \$468,819 nationally, just \$520 less than the peak of the market in February 2008 according to figures from RP Data. "In the five months to May 2009, we can officially say the market has recovered," said Tim Lawless, head of research at RP Data. Unit prices were up 4.5 per cent and house prices were up 3.7 per cent in the first five months of 2009. Melbourne prices are leading the recovery with house prices growing 6.1 per cent and units up 4.5 per cent so far in 2009. Sydney house prices were up 5.1 per cent and units are up 5.4 per cent.

## New Products, Rates & Fees

### NAB deploys Voiceprint verification

NAB's telephone banking customers no longer need to remember PINs and passwords. Using the voice biometric functionality of VeSecure, once callers have registered their unique voiceprint, they simply need to recite their individual account number to have their identity verified. This follows the deployment of VeConnect® at the bank earlier this year to enhance the routing of telephone banking calls and the launch of a single telephone number (136 NAB) to cover all of the bank's customer enquiries. NAB Personal Banking's Program Manager, Direct Channels Speech Program, Sam Jackel said "Our objective is to provide customers with a more convenient, faster and easy-to-use telephone banking experience while simultaneously improving identity security".

## Interest Rates & The Economy

### Rates likely to stay on hold amid economic uncertainty

Mixed reports about the state of the Australian economy serve as a reminder that while the government's stimulus package has had some results, the battle is far from won.

On the plus side, retail sales in May far exceeded economists' expectations, rising by 1 per cent, instead of by 0.5 per cent as expected. Figures from the Australian Bureau of Statistics show department stores in particular clocked up strong figures, reporting a 5.5 per cent increase in sales from April, while clothing and soft good retailing was up by 2.9 per cent. This is good news for the economy, as strong retail activity will help to buttress our economy against recession.

Meanwhile, while manufacturing activity in Australia remains weak, the pace at which the industry is declining has slowed in June. The Australian PMI index, which monitors manufacturing activity across Australia, rose 0.9 per cent from May to 38.4. While this is the industry's thirteenth consecutive month of contraction, the index is moving closer to the 50 points level which separates contraction from expansion.

However, hopes for a speedy recovery were dampened this week by news that the housing sector hit a wall in May. An industry survey shows building approvals tumbled by 12.5 per cent from April, while new home sales decreased by 5.7 per cent. New South Wales was hardest hit, where residential dwelling approvals decreased by 25.6 per cent, while detached new home sales dropped by 9.9 per cent. This came as a shock to economists, who had been predicting a rise in building approvals. The drop in demand for housing is a reminder that we cannot rely on the first home buyers' boost alone to bring about economic recovery.

At the same time, skilled job vacancies fell by 3.7 per cent for the month of June, according to data from the Department of Education, Employment and Workplace Relations. Rising unemployment represents the most urgent threat to consumer confidence and consumer spending, and it could have a further negative effect on demand for housing.

Key indicators like unemployment and consumer confidence levels are critical to the health of the Australian economy. The results this week show that while the government's stimulus measures and lower interest rates are having some effect on the Australian economy, its recovery remains on shaky grounds. Such mixed results mean it is highly likely that the Reserve Bank will continue its easing bias by keeping the official cash rate at 3 per cent when it meets next week. However, should the economy start to deteriorate more rapidly, the Reserve Bank still has some flexibility to make another cut in rates.

## Next Week's Announcements

Mon	6 Jul	Aust ANZ Job Advertisements (June)
Tue	7 Jul	Aust RBA Cash Rate Decision
Wed	8 Jul	Aust Housing Finance (May) Aust MI/WBC Consumer Sentiment (July)
Thur	9 Jul	Aust Labour Force (June)
Fri	10 Jul	-

## Industry Analysis

### Credit Unions come together

IMB and Community Alliance Credit Union agreed to merge. The credit union will ask its members to vote on the proposal in September. (Shareholders in IMB won't need to vote since IMB's assets are more than 10 times those of CACU.) With \$5 billion in assets, the combined entity will have 50 branches and 80 ATMs concentrated in the Illawarra region, with some reach into the Sydney market. Community Alliance Credit Union will need to demutualise to fold into IMB, an option that is starting to become attractive to mid-sized credit unions looking for merger partners outside the mutual sector.

### ANZ winning the war for deposits

Using data on deposits published on Wednesday by the Australian Prudential Regulation Authority, the improvers in household deposits over two years are ANZ, with deposit growth of 43 per cent, Commonwealth, up 33 per cent, NAB, up 30 per cent and Westpac up 29 per cent. Bankwest produced growth rates of 23 per cent. St George tracked the growth rates of Westpac more closely at 25 per cent. Suncorp reported growth of 21 per cent. The takeover of Home Building Society and the renewal of its core branch network generated reported growth of 111 per cent in household deposits over two years at Bank of Queensland. The takeover of Adelaide Bank and the organic growth produced led to reported deposit growth for Bendigo Bank of 123 per cent. Elders Rural Bank chipped in with wholly organic growth of 115 per cent. Investec reported two-year deposit growth of 121 per cent. Macquarie, still a minor deposit taker, lapped the field with growth of 500 per cent, off a strangely low base. These are all two-year trend figures.

## Scam Watch

### Netbank under hacker attack

Commonwealth Bank confirmed on Wednesday that its' Netbank internet banking platform was under malicious attack from hackers. Tuesday was the third day of the attack. The bank said no customer accounts were compromised. The Netbank service has been intermittently offline for two days as a result of what now appears to be a massive denial of service attack (where hackers overwhelm a website with requests for information). "We are currently experiencing exceptionally high volumes of traffic, some of which appears to be malicious," CBA spokesperson Nichole Ismay wrote in an email on Wednesday afternoon. "The source and type of this is yet to be confirmed."

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

## Industry says ASIC wrong about reverse mortgages

The Australian Securities and Investments Commission chairman Tony D'Aloisio has sparked a debate about the benefits of reverse mortgages with some comments he made last week when he launched a consumer guide to the product.

D'Aloisio said people found the product hard to understand and also said there was a concern that people were being encouraged to borrow too much.

The reverse mortgage industry has responded, saying its research suggests there is an informed market for the product, which provides much-needed income support for many retirees.

ASIC has produced a booklet: Thinking of Using the Equity in Your Home? A New Independent Guide to Reverse Mortgages and Other Equity Release Products.

Speaking at the launch, D'Aloisio said: "Our research shows that people find it difficult to understand these products. One of the big challenges is how to estimate the long-term cost of reverse mortgages and ensure there is enough equity left to fund future needs.

"We're also concerned that people are sometimes encouraged to borrow more money than they actually need, ultimately at a greater cost to them."

### An increasingly sophisticated consumer group

The head of RBS Reverse Mortgages Martin Lynch says ASIC's views about the reverse mortgage market are informed by a small number of interviews conducted over a year ago.

Lynch said: "The market has moved on since then. Our own research tells us consumers have developed a sophisticated understanding of the product.

"We don't have any problem with the technical content of the ASIC guide but the case studies are one-sided. They all tend to be negative.

"ASIC's view of the market is based on 29 interviews it conducted 18 months ago.

"We did our own research, conducting 425 interviews last December, and found a well-informed consumer group making rational choices."

One view of reverse mortgages is that they are used by retired people to finance luxuries that their retirement incomes would not otherwise allow.

Lynch said: "The most common use (in 32.6 per cent of cases) was to fund home repairs."

Loans were taken out to provide income in 19 per cent of cases, to buy a car (15 per cent) and to assist family members (seven per cent of cases).

Under the "luxury" heading, travel made up 8.8 per cent of the use and

the purchase of a boat or caravan 0.9 per cent.

"As to the comment that people borrow too much, the average loan to valuation ratio is 18 per cent. The average age of our borrowers is 74 and at that age they are allowed to go up to a maximum LVR of 28 per cent.

"People are leaving taking 60 to 70 per cent of the facility as a lump sum and leaving the balance as an undrawn line of credit."

"Those figures suggest to us that there is no problem with excess borrowing."

The chief executive of the reverse mortgage industry association Sequa, Kevin Conlon, says: "ASIC's research shows that some people find it difficult to understand these products but there is clear evidence that reverse mortgages are being used wisely.

"The most recent market survey conducted by Deloitte confirmed that reverse mortgage customers drew only 70 per cent of the total facility approved and the most common use of funds was to supplement income, repay debt and modify the home to make it more suitable for elderly occupants."

### Slower lending growth and fewer lenders

Deloitte's figures show that loan growth in the reverse mortgage market has slowed. Settlements of \$141 million in the six months to December were down more than 20 per cent on the June half last year, a reflection of a more cautious approach by borrowers and constraints on lenders.

Settlements have fallen steadily from their peak in 2006. Conlon says one reason for the slowdown is that borrowers are limiting their use of reverse mortgage to needs, such as home repairs, rather than borrowing to fund lifestyle improvements, such as travel.

At the same time a number of lenders had struck problems with funding. Sequa membership fell from 14 to 11 last year and of the 11 only eight are active. The Infochoice database provides details of 10 lenders.

RBS is Australia's biggest reverse mortgage lender. Lynch estimates that it has a 40 per cent share of a new business, followed by Commonwealth Bank and St George, each with about 25 per cent.

BankWest, Australian Seniors Finance, Suncorp, Newcastle Permanent and Police & Nurses Credit Union, Police Department Employees Credit Union, Transcomm Credit Union and Vision Equity Living make up the balance.

Deloitte Actuaries and Consultants partner James Hickey says inquiry levels are up this year. "More self funded retirees are going to brokers because they need some diversification in their retirement incomes."

The total reverse mortgage loan book stood at \$2.5 billion at the end of last year, with 37,500 loans outstanding.

## This Week's Rate Movements

### Home Loans - 2 Year Fixed Rates

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Arab Bank	Fixed Rate Home Loan	B	5.69	5.79	30-06-2009	0.10
Community CPS Australia	Home & Investment Loan	B	5.79	5.99	30-06-2009	0.20
Homeloans Ltd	Smart Saver Fixed	B	6.19	6.34	29-06-2009	0.15
United Community	Home & Investment Loan	B	5.79	5.99	30-06-2009	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
Cairns Penny Savings and Loans	Home Loan	B	6.20	6.35	29-06-2009	0.15
Community CPS Australia	Home & Investment Loan	B	6.19	6.59	30-06-2009	0.40
Homeloans Ltd	Smart Saver Fixed	B	6.79	6.89	29-06-2009	0.10
MyState Financial	Fixed Rate Loan	OO	6.24	6.64	29-06-2009	0.40
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	6.14	6.24	02-07-2009	0.10
NSW Teachers Credit Union	Teachers Fixed Option Loan	B	6.18	6.29	01-07-2009	0.11
United Community	Home & Investment Loan	B	6.19	6.59	30-06-2009	0.40

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
Community CPS Australia	Home & Investment Loan	B	6.69	7.09	30-06-2009	0.40
Homeloans Ltd	Smart Saver Fixed	B	7.14	7.44	29-06-2009	0.30
United Community	Home & Investment Loan	B	6.69	7.09	30-06-2009	0.40

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
Arab Bank	Fixed Rate Home Loan	B	7.09	7.19	30-06-2009	0.10
Community CPS Australia	Home & Investment Loan	B	6.79	7.19	30-06-2009	0.40
Homeloans Ltd	Smart Saver Fixed	B	7.44	7.59	29-06-2009	0.15
MyState Financial	Fixed Rate Loan	OO	6.84	7.24	29-06-2009	0.40
Newcastle Permanent Building Society	Fixed Rate Home Loan	B	6.89	6.99	02-07-2009	0.10
United Community	Home & Investment Loan	B	6.79	7.19	30-06-2009	0.40

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

### Credit Cards - Purchase Rate

Institution	Product	Old Value	New Value	Date of Change	Change Value
Bankwest	Bankwest Lite / Lite Gold MasterCard	10.75	9.99	29-06-2009	-0.76

### Online Savings Accounts - Base Rates (\$10,000)

Institution	Product	Avail	Old Value	New Value	Date of Change	Change Value
Arab Bank	Online Savings Account		4.10	4.55	30-06-2009	0.45
Hunter United Credit Union	e-ZYNET Direct Account		2.50	3.00	30-06-2009	0.50
one direct	high interest saver		4.00	3.75	29-06-2009	-0.25

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