

## News & Views

### Aussies keep paying down the card

Australians are continuing to pay down their credit cards and borrow less according to the latest data from the Australian Bureau of Statistics. The value of all personal loans fell 2.9 per cent in May to just over \$6 billion, the lowest level of borrowing since November 2005. Total credit card borrowing fell 4.8 per cent. The average outstanding credit card balance is now just over \$3,000. CommSec economist Savanth Sebastian said improving consumer confidence would lead to people borrowing and spending more in coming months.

### Investors target 2010 to come back to property

There is growing optimism amongst property investors that property values in Australia will continue to increase into 2010 says property research firm rpdata. National research director of rpdata, Tim Lawless says that investors are venturing back into the market, lured by high rental yields and a general improvement in confidence and market conditions. Investor finance commitments have increased 18 per cent between February and May says Lawless. "Investors are also likely to be waiting for first home buyer activity to start winding back before returning to the market. There is a considerable overlap between investor and first home buyer buying preferences, with both segments often targeting similar properties," Mr Lawless said.

### Fixed rate home loans back in style

Fixed rate mortgages are coming back into fashion. More borrowers are betting that the interest rates cycle is at its bottom and that rates will start to rise again in the near future. Data from the Bureau of Statistics indicates that 6.5 per cent of all mortgages in May were fixed rate, the highest level in 11 months. Big mortgage broking group Mortgage Choice said the share of mortgages that were fixed rate climbed to 7.6 per cent in June, the highest rate since July 2008. Mortgage broker Loan Market Group said lenders were now increasing fixed rate mortgages, with the major banks offering 6.39 per cent to 6.59 per cent over three years. Loan Mortgage Group executive director John Kolenda said 'there's a strong possibility variable rates could rise above that over the next three to five years.'

### Fewer auctions produce more sales

There were just 219 residential property auctions held in Sydney on Saturday, down from 229 last week and 230 on the same weekend last year. The clearance rate of 69 per cent was an improvement over last week when 61 per cent of properties put up for auction sold on the day. Melbourne auctions continued to do well with 72 per cent of 273 properties put up for auction on the weekend selling on the day. Those results were slightly down on last week when 80 per cent of auctions resulted in a sale, but well up on the same weekend last year when 52 per cent of properties sold on the day. In Brisbane there were 26 auctions with a clearance rate of 45 per cent.

## National Market Ranges

### Home Loans

|                     |              |
|---------------------|--------------|
| Standard Variable   | 4.79 - 6.20% |
| Basic Variable      | 4.78 - 5.69% |
| 1 Yr Intro          | 3.29 - 5.49% |
| 3 Yr Fixed          | 5.99 - 7.69% |
| Investment Variable | 4.79 - 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 - 4.60% |
| 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 - 4.61% |
| \$10,000, 3 Years | 1.75 - 6.00% |

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### Home lending boom continues

Low interest rates and the boosted first home owners grant are propping up the mortgage market. Mortgage lending was up 3 per cent in May according to data released by the Australian Bureau of Statistics to more than \$17 billion. Mortgage lending has been going up since last October. Official interest rates are now at a 49 year low of three per cent. The Reserve Bank has signalled that it is prepared to cut rates further if economic conditions deteriorate.

### Banks crack down on mortgage brokers

The major banks are getting tougher with mortgage brokers. About 35 per cent of mortgages are sold through mortgage brokers. The Commonwealth Bank has written to 8,000 brokers advising them of tougher new minimum requirements if they wish to remain accredited to sell Commonwealth Bank mortgage products this financial year. Westpac has also introduced tougher new rules for brokers who wish to market and sell Westpac loans. National Australia Bank has introduced a star ratings system for brokers, according to the quality of the loans applications received. ANZ Bank has no minimum performance criteria. The Real Estate Institute of Australia said Commonwealth Bank was taking advantage of its dominant market position and called on the federal government to monitor the impact of the new requirements on competition in the mortgage market.

## Ubank attracting term deposits

National Australia Bank says its online banking brand, UBank, is enjoying good growth in customer numbers and deposits. As part of NAB Personal Banking's multi brand and multi channel strategy, UBank is aimed at self directed customer segments that prefer to manage their own finances rather than seek advice. UBank's customer advocacy and satisfaction levels are amongst the highest of any institution in Australia. UBank's initial offering of personal term deposits has enjoyed strong consumer interest with sales performance above expectations. UBank expanded its product set in February 2009 to also serve self managed super funds. UBank is currently in the process of planning additional products for future release.

## The bad news may be coming to an end

CommSec estimate that the average Australian's total wealth has declined by \$33,500 over the last year. Using figures from Federal Treasury and the Australian Bureau of Statistics, CommSec says the average Australian is now worth \$217,000, down 13 per cent over 12 months. Falls in the value of property, shares and other assets have fallen for five straight quarters, with dividend income falling by a record 27 per cent in the last year. CommSec economist Savanth Sebastian says the worst of the global financial crisis seems to be over, with average wealth probably actually rising in the last few months. "House prices have risen over the last few months, while equity markets have improved substantially. The bottom line is the slide in wealth is over."

## Interest Rates & The Economy

### Central banks hold rate steady

When the Reserve Bank kept interest rates at 3 per cent last week, it recognised that the global economy is stabilising, after a sharp contraction in demand during the December and March quarters. This seems to be the view taken by most central banks around the world, with the UK's Bank of England holding rates steady at 0.5 per cent this week followed by the Bank of Japan which kept its overnight call rate at 0.1 per cent.

In Japan, economic conditions have stopped deteriorating. Business sentiment has stabilised, public investment is increasing and exports and production are picking up. Signs of a rebound in global economic growth are very positive for Australia because we rely so heavily on, our economic trading partners for growth.

On the Australian front, the flow of positive news also continued this week, with two separate surveys indicating business conditions are rebounding from the lows seen earlier this year. A survey conducted by one major Australian bank found that business confidence has turned positive for the first time since 2007, with sentiment up 6 points in June from the last survey in May. Business conditions rose 12 points on a monthly basis to minus two points, while the labour market component of the index rose 18 points to minus 7 in June, its largest monthly movement in the survey's history.

Meanwhile, the New South Wales Chamber business survey also found an improvement in sentiment, with just 43 of businesses stating the performance of the New South Wales economy was somewhat or much weaker in the current quarter, compared to 65 per cent in April. Going forward, 30 per cent of businesses expect better conditions in the coming quarter, while 47 per cent expected conditions to stay the

same. Just 23 per cent of businesses expect a further deterioration in the economic climate.

This pick up in business confidence adds to recent evidence that shows that Australia's downturn may turn out to be less severe than many expected. However, while the surveys are positive, challenges remain. In particular, there is some uncertainty about whether the improvement can be sustained in the second half of 2009, especially as the impact of cash handouts and first home owner grants is likely to fade. If the employment and income situation was to worsen, that could further weaken private consumption which would ultimately slow economic growth.

While the RBA has some flexibility to lower rates further, the current 3 per cent cash rate level seems to be working well for the economy. Any pick up in global economic activity in the next few months would further strengthen the pace of our own economic recovery.

## Next Week's Announcements

|     |        |                                                                               |
|-----|--------|-------------------------------------------------------------------------------|
| Mon | 20 Jul | Aust Producer Price Index (2nd Quarter)                                       |
| Tue | 21 Jul | Aust New Motor Vehicle Sales (June)                                           |
| Wed | 22 Jul | Aust Consumer Price Index (2nd Quarter)<br>Aust DEWR Skilled Vacancies (July) |

## Industry Analysis

### Community Banks slowly losing money

The 238 Bendigo and Adelaide Bank community bank franchises produced an aggregate profit of \$20 million in 2008. As has been reported before, the trading position of some community bank franchises is consistently poor. According to the Australian 14 of the franchised community banks had negative equity. Another 32 had "poor working capital" and relied on working capital loans from Bendigo Bank. The study put loans from the bank to franchisees at \$10 million at June 2008. The newspaper's contact's study showed that more than 100 community banks opened before 2006 had lost "a good portion of their equity raised", though more than three quarters of these were profitable in 2008. Another 40 that opened between 2006 and 2008 made a loss, The Australian reported, though some had only opened in the last year.

### Investors concerned about fund conflicts

The Australian Investors Association is concerned that continuing consolidation in the wealth management industry is harming competition and adding to potential conflicts of interest for advisors. The competition regulator the ACCC is currently considering National Australia Bank's bid to purchase Aviva Australia. The deal would make NAB, who already own MLC, one of the leaders in wealth management alongside Commonwealth and Westpac. Commonwealth own Colonial First State. Westpac owns BT and Asgard. ANZ has a joint venture arrangement with ING Investment Management. AIA vice president Scott McKenzie said 'the huge fund managers have licensed dealerships underneath them and there is, of course, the tendency to recommend their own funds.'

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

## ATM activity is coming home

The effects of the Reserve Bank's changes to the country's ATM system earlier this year are starting to become clear. In the words of one finance industry executive "ATM activity is coming home" and the size of ATM networks is becoming a competitive issue.

ATM owners are looking at partnership and acquisition opportunities to extend their ATM networks and guarantee customers access to a free ATM service.

In one of the biggest moves so far, this week National Australian Bank linked its ATMs to Cuscal's redi ATM network. The move creates a fleet of 3100 cash machines that can be used without charge by NAB customers and the customers of the 50 other redi ATM network members.

NAB group executive for personal banking Lisa Gray says the bank has 1700 ATMs and plans to continue investing in the network. It will add another 100 machines in the next few months.

Most of the redi ATM members are credit unions and building societies but earlier this year AMP Banking joined the network.

The Reserve Bank wanted to introduce greater transparency in the pricing of ATM services. Under the old arrangement when consumers used an ATM owned by a financial institution that was not their institution the owner of the ATM would charge the consumer's financial institution a fee for the service. That fee would be passed on to the consumer and would appear in the account statement.

Under the direct charging system that came into operation in March, the consumer is made aware of the "foreign ATM" fee at the time of the transaction and is given the option of proceeding with the transaction or cancelling.

This change has had the effect of raising awareness and, based on anecdotal evidence, has led to a reduction in the use of foreign ATMs and a demand for greater access to free ATM services.

The change that is occurring is significant. Payment data shows that prior to the change to direct charging 47 per cent of ATM transactions were done of foreign machines. The move by customers to "come home" has the potential to be a big realignment.

### Multiple networks an option

To meet this demand some institutions are joining more than one network. Maritime, Mining and Power Credit Union signed a one-way card acceptance agreement with Cashcard, allowing its members to use Cashcard ATMs with no direct charge.

MMPCU, which has 22,000 members, already had access to the redi ATM network. The new arrangement gives its members fee-free access to more than 8,000 ATMs.

Fee based one-way arrangements were included as part of the RBA's new ATM access regime, introduced on March 3. Unlike a network or sub-network arrangement, such as the redi ATM network, institutions entering into a one-way arrangement cannot provide reciprocal arrangements to the ATM owner.

Cashcard is one of the big independent ATM operators in the Australian market. The other is Customer, which has 5400 machines, with a heavy concentration in pubs and clubs, petrol stations and convenience stores.

In other moves Westpac signed up HSBC Bank and GE Money to its ATM network. Customers of those financial institutions are able to use any of Westpac's 1,700 ATMs without charge.

### The customer wants convenience

Other big banks are going it alone but are picking up the pace of ATM expansion. ANZ has 2500 across Australia. It claims the highest number of machines per customer and will have another 100 in place by September.

ANZ managing director of strategy and marketing David Lindberg says convenience was the word that came up most often when the bank asked retail customers what was most important to them.

Lindberg said: "There are three pillars of convenience: access, time and transparency. Access is about call centres, branches, online and ATMs.

"Customers tell us it is very important to be able to find an ATM wherever they are, and that feeling has become stronger with the move to direct charging. That is why we keep adding machines to our network."

ATMs have taken centre stage in ANZ's retail bank marketing in recent times, with a cash machine on legs (named Kevin within the bank) featured in TV ads popping up to help customers in need of cash.

### Even business bankers rate ATMs

Business customers rate their access to ATMs highly. In a survey of business banking customers conducted by the banking industry research group East & Partners, ATMs ranked as the third most frequently used banking channel, after online banking and contact with a business banker but ahead of branches and call centres.

East & Partners also found that when business banking customers were asked to rate their satisfaction with different banking channels, ATMs got top marks, ahead of business bankers and online. Branches and call centres were way behind.

The humble cash machine is an important piece of banking infrastructure and the ATM reforms have made it even more important.

Cuscal managing director Craig Kennedy says: "As a result of direct charging ATM activity is coming home. Since March transactions on our machines by our members are up 30 per cent, while foreign usage of redi ATMs is down 10 per cent.

"Since these reforms the last thing you want is for your members to have to use a foreign machine."

## This Week's Rate Movements

### Home Loans - 1 Year Fixed Rates

| Institution                          | Product                  | Old Value | New Value | Date of Change | Change Value |
|--------------------------------------|--------------------------|-----------|-----------|----------------|--------------|
| Bankwest                             | Fixed Loan               | 5.59      | 5.34      | 17-07-2009     | -0.25        |
| Homeloans Ltd                        | Easy Saver Fixed         | 6.06      | 5.93      | 14-07-2009     | -0.13        |
| Illawarra Credit Union               | Fixed Rate Loans         | 5.25      | 5.40      | 13-07-2009     | 0.15         |
| ING DIRECT                           | Fixed Rate Loan          | 5.29      | 5.49      | 13-07-2009     | 0.20         |
| MyRate.com.au                        | MyRate.com.au Fixed Loan | 5.13      | 5.33      | 13-07-2009     | 0.20         |
| Newcastle Permanent Building Society | Fixed Rate Home Loan     | 4.89      | 4.99      | 13-07-2009     | 0.10         |
| Unicom Credit Union                  | Fixed Rate Home Loan     | 5.25      | 5.40      | 13-07-2009     | 0.15         |

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

### Home Loans - 2 Year Fixed Rates

| Institution                          | Product                  | Old Value | New Value | Date of Change | Change Value |
|--------------------------------------|--------------------------|-----------|-----------|----------------|--------------|
| Bankwest                             | Fixed Loan               | 6.09      | 5.94      | 17-07-2009     | -0.15        |
| Homeloans Ltd                        | Easy Saver Fixed         | 6.83      | 6.59      | 14-07-2009     | -0.24        |
| Illawarra Credit Union               | Fixed Rate Loans         | 5.55      | 5.90      | 13-07-2009     | 0.35         |
| ING DIRECT                           | Fixed Rate Loan          | 5.99      | 6.19      | 13-07-2009     | 0.20         |
| MyRate.com.au                        | MyRate.com.au Fixed Loan | 5.98      | 6.18      | 13-07-2009     | 0.20         |
| Newcastle Permanent Building Society | Fixed Rate Home Loan     | 5.54      | 5.69      | 13-07-2009     | 0.15         |
| Unicom Credit Union                  | Fixed Rate Home Loan     | 5.55      | 5.90      | 13-07-2009     | 0.35         |

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

### Home Loans - 3 Year Fixed Rates

| Institution                          | Product                              | Old Value | New Value | Date of Change | Change Value |
|--------------------------------------|--------------------------------------|-----------|-----------|----------------|--------------|
| Bankwest                             | Fixed Loan                           | 6.69      | 6.54      | 17-07-2009     | -0.15        |
| Community First Credit Union         | True Fixed Home Loan                 | 5.99      | 6.29      | 14-07-2009     | 0.30         |
| Easy Street Financial Services       | EasyHome Fixed                       | 5.99      | 6.29      | 14-07-2009     | 0.30         |
| Homeloans Ltd                        | Easy Saver Fixed                     | 7.44      | 7.12      | 14-07-2009     | -0.32        |
| Illawarra Credit Union               | Fixed Rate Loans                     | 5.95      | 6.45      | 13-07-2009     | 0.50         |
| ING DIRECT                           | Fixed Rate Loan                      | 6.69      | 6.89      | 13-07-2009     | 0.20         |
| MyRate.com.au                        | MyRate.com.au Fixed Loan             | 6.53      | 6.73      | 13-07-2009     | 0.20         |
| Newcastle Permanent Building Society | Fixed Rate Home Loan                 | 6.24      | 6.34      | 13-07-2009     | 0.10         |
| Unicom Credit Union                  | Fixed Rate Home Loan                 | 5.95      | 6.45      | 13-07-2009     | 0.50         |
| Victoria Teachers Credit Union       | Standard Home Loan (with fixed rate) | 6.09      | 6.29      | 17-07-2009     | 0.20         |

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

### Home Loans - 5 Year Fixed Rates

| Institution                    | Product                              | Old Value | New Value | Date of Change | Change Value |
|--------------------------------|--------------------------------------|-----------|-----------|----------------|--------------|
| AMP                            | Fixed Rate Loan                      | 7.39      | 7.59      | 13-07-2009     | 0.20         |
| Bankwest                       | Fixed Loan                           | 7.39      | 7.29      | 17-07-2009     | -0.10        |
| Homeloans Ltd                  | Easy Saver Fixed                     | 8.13      | 7.77      | 14-07-2009     | -0.36        |
| Illawarra Credit Union         | Fixed Rate Loans                     | 6.68      | 7.18      | 13-07-2009     | 0.50         |
| MyRate.com.au                  | MyRate.com.au Fixed Loan             | 7.23      | 7.43      | 13-07-2009     | 0.20         |
| SERVICE ONE Members Banking    | Fixed Home Loans                     | 6.75      | 7.10      | 13-07-2009     | 0.35         |
| Unicom Credit Union            | Fixed Rate Home Loan                 | 6.68      | 7.18      | 13-07-2009     | 0.50         |
| Victoria Teachers Credit Union | Standard Home Loan (with fixed rate) | 6.69      | 7.19      | 17-07-2009     | 0.50         |

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

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