

Weekly Banking Bulletin

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

24 July 2009

News & Views

Melbourne, Brisbane auction results shine

Auction clearance rates remained high in Sydney on the weekend with almost 75 per cent of properties selling on the day, although the number of auctions remained relatively low at just 196 auctions held. The results were a big improvement on the results from the same weekend last year, when 46 per cent of 225 properties sold at auction and broadly in line with last week's results when 69 per cent of 213 properties sold on the day. Melbourne continued to deliver spectacular auction clearance rates with 81 per cent of 353 properties put up for auction on Saturday selling on the day. The results were an improvement on last week when 77 per cent of 271 properties sold, although volumes were well down on the numbers from the same weekend last year when 58 per cent of 490 residential properties sold at auction in Melbourne. In Adelaide, 48 per cent of 31 properties sold at auction on the weekend, compared to 61 per cent of 20 properties last week and 30 per cent of 35 properties on the same weekend last year. Auction results in Brisbane continued to improve with 57 per cent of 53 properties selling on Saturday, up from 50 per cent of 27 properties last week. On the same weekend last year, 31 per cent of 62 properties sold at auction in Brisbane.

Vendors face fines for underquoting

People selling their homes and their real estate agents have been warned by Graeme Samuel, the chairman of the competition regulator, the ACCC, and the consumer affairs minister Craig Emerson, not to understate the the estimated selling price of their home. Vendors face fines of up to \$220,000 and agents face fines of up to \$1.1 million for underquoting the expected auction price of their property under new laws that will come into effect from the first of January 2010. Unsuccessful bidders will be able to claim back their pre-purchase costs from sellers if the agent and or vendor can be shown to have underquoted. "The new law will allow the courts to order the offender to pay restitution and penalise the offender," said Samuel. The changes to the Trade Practices Act will be voted on by the senate in August. A spokesperson for the minister said the bill had enjoyed bi-partison support 'so far'.

ANZ mortgage service standards on the mend

ANZ are getting their mortgage approval turnaround times back to normal after a blowout in recent months that saw some banks taking weeks to approve a home loan. ANZ general manager mortgages, Michael Bock, said the big banks did not budget for the recent strong revival in demand for home loans or the amount of business that would flow their way, and were short of troops in their mortgage processing centres. Bock said ANZ's approval times for broker originated loans went out to nine days, compared to the two or three day turnaround that brokers expect. He said ANZ is getting back to normal approval times but is not there yet. Bock dismissed suggestions that the big banks were using their market power to put the brakes on brokers and siphon business into the direct channels.

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 - 4.70%

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%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON MORTGAGE INSURERS

Credit Unions complain about preferential guarantee

Credit Unions released research from KPMG suggesting that the differential pricing of the government guarantee on wholesale funding is hurting competition. Whilst fundamentals are strong for the mutual ADI sector, KPMG noted that the retention of the retail deposit guarantee is important to support competition. However, the pricing on the wholesale funding guarantee disadvantages smaller institutions. It's time for the Government to consider improvements to the scheme pricing and to provide better access to wholesale funds to support competition in retail banking," said Louise Petschler of Abacus, the industry association representing credit unions.

Bankruptcy getting easy

Total insolvency activity is up eleven per cent in the year to June 2009, despite a dip in the numbers following the economic stimulus payments that went out to households last summer. Queensland is overtaking Victoria as second only to New South Wales as the state with most people going bankrupt or declaring themselves insolvent. One third of bankrupts and insolvent consumers have debts of less than \$20,000 that they cannot afford to repay, according to the Insolvency Trustee Service of Australia. Proposed law reforms raise the level of unsecured consumer debt allowed to be covered by a part ten debt agreement up over \$100,000.

New Products, Rates & Fees

Innovation cycle a slow one at ANZ

ANZ launched a new loan on Monday, a rare event in a market that has seen little product development in the past 18 months. The Portfolio loan is a line of credit for property investors and will allow borrowers to open as many as 12 sub-accounts, with different payment conditions (fixed, variable, interest only) and in different borrower names. The bank will discount its standard variable rate (currently 5.81 per cent) by up to 70 basis points, depending on the size of the credit line. ANZ is anticipating strong demand from property investors. The loan is a lot like the Viridian loan introduced by Colonial State Bank in the late 1990s and still marketed by Commonwealth Bank.

Two ANZ cards for price of one

ANZ will issue a Frequent Flyer American Express credit card as well as a frequent flyer Visa credit card to every customer who from today successfully applies for an ANZ Frequent Flyer credit card account to give them the ability to earn more Qantas Frequent Flyer points. Under the new arrangement, customers will have the convenience of using either their ANZ Visa card or their ANZ American Express card when making purchases. The two cards will have one interest rate, one annual fee, one statement and one credit limit. The ANZ frequent flyer American Express card offers a minimum 1 point per \$1 spent on the entry-level card, which is more than will be available under the Visa scheme, and there are no caps on the number of points that can be earned each month.

Interest Rates & The Economy

Steady as it goes

Minutes from this month's Reserve Bank rate meeting showed that Australia has weathered the global recession remarkably well. "Recent information on the domestic economy suggested that economic activity was not as weak as had been expected. Exports have been surprisingly strong, which primarily reflected demand from China," said governor Glenn Stevens and fellow RBA board members at the rate meeting earlier this month. Indeed, while other economies have suffered export declines of up to 20 per cent or more, Australian exports expanded by 2 per cent over the December and March quarters.

Meanwhile, the government's stimulus package and low interest rates have boosted Australian household spending. According to the RBA, retail sales figures for May showed a strong increase and were up 6 per cent from September last year, while housing loan approvals have also increased and house prices have begun to pick up. Such figures show that consumer confidence has improved which is important to keep our economy out of recession. "The early and substantial easing of both monetary and fiscal policy have been effective in supporting demand, which, if anything, has been more resilient than expected," said the RBA.

While it is clear the RBA's decision to lower rates to 3 per cent has had a positive effect on the economy, this does not mean the Australian economy is out of the woods. In particular, at 5.7 per cent and rising, unemployment remains an issue. According to the skilled vacancy index, vacancies across Australia decreased by 1.7 per cent to 35 in July. That brings the total number of vacancies over the year down by 68.8 per cent in Western Australia, 66.3 per cent in New South Wales, 61.9 per cent in Queensland and 55.8 per cent in Victoria. While firms have tried to limit job losses by cutting working hours, a

further deterioration in the job market could have a negative impact on consumer confidence.

On balance, it appears the central bank has got the interest rate balance about right. Figures from the Australian Bureau of Statistics show headline consumer price inflation rose 0.5 per cent compared with the March quarter, and by 1.5 per cent in the year to June. Core inflation, however, was slightly higher than the government's 2-3 per cent target range, up 0.8 per cent quarter-on-quarter, below a 1.1 per cent increase in the March quarter, but still up 3.9 per cent in the year.

"Members judged the current stance of monetary policy to be consistent with fostering sustainable growth and low inflation, while leaving adequate flexibility to respond to developments as needed over the period ahead," the minutes read. This means the RBA is comfortable keeping the cash rate at 3 per cent, but believes the inflation outlook is docile enough to allow another cash rate cut if this becomes necessary.

Next Week's Announcements

Mon	27 Jul	-
Tue	28 Jul	Aust Conference Board Leading Index (July)
Wed	29 Jul	-
Thu	30 Jul	Aust Building Approvals (June) Aust HIA New Home Sales (June)
Fri	31 Jul	Aust Private Sector Credit (June)

Industry Analysis

Demutualisation worth \$1,160 to MyState members

PKF Corporate Advisory produced a slightly higher estimate on the value arising from the merger of MyState Financial, the largest credit union in Tasmania, with Tasmanian Perpetual Trustees. PKF estimated the value of the merged entity at between \$200 million and \$211 million, which gives a theoretical value per MyState Limited share of between \$2.97 and \$3.14, or approximately \$1129 to \$1193 for a parcel of 380 MyState Limited shares. MyState published the estimate in the information booklet for members of the credit union on Monday. Deloitte, in a corresponding report to shareholders in TPT two weeks ago, effectively valued the merged entity at \$194 million. Members of MyState and shareholders in TPT will vote on the proposed merger in a month. For members of MyState the proposal requires that they first agree to demutualise the credit union. MyState was formed from the merger of Connect Financial and Island State in June 2007.

NAB needs another \$2.75B

National Australia Bank wants investors to support its second major share placement since November. The bank wants \$2.75 billion, on top of the \$3 billion raised in November, to shore up its capital position and fund 'small' acquisitions and growth opportunities said NAB in a statement on Tuesday. Two billion will be sold to institutional investors with \$750 million to be raised from a non-underwritten share purchase plan. The money from institutions will improve NAB's Tier 1 ratio position from 8.2 per cent to 8.8 per cent.

Sources: InfoChoice, Australian Property Monitors, Herald Sun
Sydney Morning Herald

Mortgage insurers not ready to loosen reins yet

Tighter mortgage insurance underwriting standards, which have placed constraints on lenders since late last year, are not likely to get any tougher but there is little prospect they will be loosened in the near term.

Over the past nine months mortgage insurers Genworth and QBE LMI have cut the maximum loan to valuation ratio they will cover, first to 95 per cent and then to 90 per cent more recently, they have increased the information requirements for low doc borrowers and they have imposed a requirement for deposits to include some "genuine" savings.

Genworth's US parent disclosed in an investor briefing in May that the Australian group had taken steps to reduce new business volumes in "recession sensitive geographies".

Genworth chief executive Martin Barter said this week that there might still be some fine-tuning but the tightening cycle was close to its end.

Barter said there were some positive signs in the mortgage market but in the face of rising unemployment there was little prospect that current settings would be eased.

Genworth is also concerned about the prospect that the first home buyers who have rushed into the market this year may find themselves overexposed to high levels of debt when rates start to rise again.

First home buyers a cause for concern

According to the latest Genworth Mortgage Trends Report the household debt burden has eased and fewer people are reporting that they are stressed.

The proportion of people who report that 50 per cent or more of their income goes to debt servicing has come down from 25 per cent in 2008 to 17 per cent in the latest survey.

The number of people who struggled to make mortgage payments "during some months" fell from 23 per cent last year to 17 per cent.

Barter said these positive indicators were offset by forecasts of rising unemployment through to 2011.

He said it was also a matter of concern that first home buyers, in their rush to take advantage of the First Home Owners Boost, were taking on bigger debts.

"The average loan size for first home buyers has increased by \$16,800, or 6.4 per cent, since the FHOB was introduced in October last year."

According to the Mortgage Trends Report, 19 per cent of first home buyers expect to have problems servicing their loans in the year ahead.

Insurers reflect changes in the market

Mortgage insurers say they work with lenders to set appropriate underwriting policies. The tightening started in September last year when QBE LMI told lenders it would not provide mortgage insurance

for loans with LVRs higher than 95 per cent (the insurer's rules allow the lender to capitalise the insurance premium, effectively taking the maximum LVR to 97 per cent). Genworth followed suit in December.

According to the Genworth Mortgage Trends Report, borrowers had been shifting to higher LVR mortgages, with 35 per cent of respondents saying their loans were on LVRs of 90 per cent or higher.

Among the other changes QBE LMI and Genworth have introduced are requirements for low doc borrowers to supply more information with their applications. New borrowers have to provide a business activity statement and low doc borrowers who are refinancing will have to show bank statements.

At the time the change was made Genworth's then country executive Peter Hall explained the low doc changes, saying: "When low doc came in the late 1990s it was a loan for self-employed borrowers who had cash flow in their business but did not have up-to-date financial statements.

"In recent years it has been used for purposes it was not designed for, such as providing development finance. Over time the documentation requirements were watered down.

"We said let's take it back to what it used to be. When we told lenders we were going to make these changes they endorsed them. The market has changed. We are reflecting that."

The mortgage insurers say they work with lenders on these changes. QBE LMI chief executive Ian Graham says getting LVRs down and asking borrowers to contribute genuine savings was something many in the industry wanted to do.

Graham says: "In this market there is not much incentive to lend when the borrower has not contributed any equity. The level of equity is a good indicator of discipline and commitment.

"Lenders are being very considered in their approach. We can only write the business that lenders want to write."

Insurers push for govt assistance on mortgage stress

One of the other findings in the Genworth Mortgage Trends Report is that people are reluctant to contact their lender when they start experiencing financial hardship. According to the report, 20 per cent of borrowers would only contact their lender as a last resort.

This finding has prompted Genworth to push for the establishment of an independent body staffed by financial counsellors to act as a point of contact for borrowers who are struggling to make payments.

Genworth hosted a roundtable in Canberra in June with industry and government representatives, at which it presented an outline for what it calls the National Unemployment Mortgage Assistance Program.

The idea is that the government would offer an income contingent loan for a fixed period for mortgage borrowers who lose their jobs.

The loan would go towards covering mortgage payments and would be repayable once income was restored.

This Week's Rate Movements

Home Loans - 1 Year Fixed Rates

Institution	Product	Old Value	New Value	Date of Change	Change Value
Greater Building Society	Getaways Fixed Home Loan	5.65	5.60	20-07-2009	-0.05

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
Greater Building Society	Getaways Fixed Home Loan	6.40	6.25	20-07-2009	-0.15
Sydney Credit Union	Fixed Interest Rate Loan	5.79	5.60	17-07-2009	-0.19

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
Greater Building Society	Getaways Fixed Home Loan	7.00	6.80	20-07-2009	-0.20
Police and Nurses Credit Society	Fixed Rate Home Loan	6.49	6.69	21-07-2009	0.20
Sydney Credit Union	Fixed Interest Rate Loan	6.49	5.99	17-07-2009	-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 - 4 Year Fixed Rates

Institution	Product	Old Value	New Value	Date of Change	Change Value
Greater Building Society	Getaways Fixed Home Loan	7.45	7.25	20-07-2009	-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
Greater Building Society	Getaways Fixed Home Loan	7.70	7.50	20-07-2009	-0.20
Police and Nurses Credit Society	Fixed Rate Home Loan	7.19	7.39	21-07-2009	0.20
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

Unsecured Personal Loans

Institution	Product	Old Value	New Value	Date of Change	Change Value
Bankwest	Unsecured Basic Personal Loan	13.99	13.49	20-07-2009	-0.50