

Weekly Banking Bulletin

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

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News & Views

Savers withdraw their cash

Household deposits held in the banking system fell around \$2.5 billion, to \$427 billion, in the month of June 2009, Australian Prudential Regulation Authority data published last Friday shows. It is the first dip in the measure of household deposits across the banking sector since the financial crisis emerged in 2007. Presumably household savings are flowing back into equities and perhaps other investment options, consistent with the rally in the Australian and world stock markets. In the context of reduced holdings of deposits it is interesting to note which banks reported the steepest decline. Commonwealth Bank saw household deposits decline by 1.6 per cent over the month, NAB by 0.6 per cent and ANZ and Westpac by 0.2 per cent. In the case of CBA's customer base, at least, it probably reflects the redirection of cash into equities through CommSec. Business deposits, on the other hand, increased over the month of June with ANZ reporting the strongest growth.

House prices and shares up

Median house prices surged up 4.2 per cent in the June quarter, the biggest rise since the boom of 2003, according to the Australian Bureau of Statistics. Melbourne prices were up 5.2 per cent and Sydney prices up 4.9 per cent. Australian Property Monitors and Rismark, have been showing that house prices have been rising at a rate of about 1 percentage point a month. Further big price rises are likely to lead to concerns that first home grants and historically low interest rates are creating a house price bubble, rather than creating more new homes. Share prices were up 10 per cent in the June quarter and have risen a further 10 per cent since June. Retail sales were down in June by 1.4 per cent after three months of strong results, probably due to economic stimulus payments to workers and families. Department store sales were down 8.8 per cent.

Aussies look to fix rates

Aussie Home Loans has recorded a dramatic rise in the number of customers looking to fix rates as the Reserve Bank of Australia has indicated any future interest rate moves could be upwards. Of those customers contacting Aussie's call centre in July to discuss their home loan options, just 15 per cent of them decided to follow through and fix their mortgage. In the first week of August, call volumes are already much higher and 53 per cent of customers who have inquired about fixed rates have moved their mortgage across from variable.

Banks delaying mortgage approvals

Banks are taking months to approve home loans and putting home buyers at risk of losing their deposits and missing out on the home of their choice. Many applicants for loans said they had received pre-approval on a mortgage application, only to wait months for final approval and settlement of the loan. Mortgage brokers say the big four banks are not coping with the big flood of loan applications.

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 - 5.11%
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 - 4.91%
\$10,000, 3 Years	2.55 - 6.20%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON FINANCIAL INSTITUTIONS

Auctions going out of fashion in Sydney

The auction clearance rate in Sydney improved this week with 73 per cent of properties put up for auction on Saturday selling on the day. However volumes were down with just 206 residential property auctions held in the city, down from 258 last week and 254 on the same weekend last year. Melbourne results continue to shine with 77 per cent of 416 properties put up for auction on Saturday selling on the day. That was broadly comparable with last week's results when 80 per cent of 429 properties sold and an improvement on the numbers for the same weekend last year when 56 per cent of 477 properties sold under the hammer.

Woolies card falling behind

HSBC Australia's newly appointed chief executive Paulo Maia said he was happy with the progress of the bank's credit card joint venture with Woolworths, dismissing reports that it has been a disappointment. Maia said: "It is in line with our expectations." The talk in the credit card industry is that take-up of the card has been poor. The responsibility appears to lie with Woolworths, which is handling distribution through its retail outlets but has not done a good enough job training frontline staff to sell the product. Sources compare the poor take-up of the Woolworths card with the much stronger acceptance of the David Jones American Express, which is also being distributed in-store.

New Products, Rates & Fees

UBank offers 5.11% on savings

National Australia Bank's online brand, UBank, has reached the milestone of becoming an operating, online banking platform 10 months after the bank introduced the brand to the market. UBank yesterday launched the USaver account, an at-call savings account featuring an impressive, and unsustainable, interest rate of 5.11 per cent. Gerd Schenkel, General Manager UBank, says it is a variable rate that may be adjusted in the future. UBank will cap deposits at \$1 million per customer. The UBank internet banking interface is described by Schenkel as "content rich" and features a visual calculator that plots and projects the customer's progress towards their savings goal.

Fee free ING wants to take on big 4

ING says while the big banks are scrapping penalty fees, its' new transaction account will go one step further and scrap almost all bank fees. ING says it plans to scrap monthly account fees, ATM charges and most international transactions fees from the new account which it hopes will see it capture a slice of the transaction account market. Latest figures from the prudential regulator APRA show that ING has largely recovered from the outflow of funds that it suffered last year as fear gripped many bank customers. ING's household deposits of \$16.3 billion are now largely in line with where they were last October. ING has 1.2 million customers with savings accounts, which is slightly less than Bendigo Bank's 1.3 million accounts. ING also has about 350,000 mortgage customers.

Interest Rates & The Economy

RBA holds rates steady for fourth month in a row

The big news this week was the Reserve Bank's decision to hold rates steady at 3 per cent, which is a 49-year low. "Economic conditions in Australia have been stronger than expected a few months ago, with both consumer spending and exports notable for their resilience," said RBA governor Glenn Stevens at the central bank's board meeting this week. "Measures of confidence have recovered a good deal of ground. This suggests that the risk of a severe contraction in the Australian economy has abated."

Indeed, recent economic figures have mostly been positive. According to the Australian Bureau of Statistics, retail sales in the second quarter expanded by 2 per cent, despite a 1.4 per cent contraction in June. Another industry survey found that manufacturing activity improved for the third month in a row during July, increasing by 6.1 points to 44.5 index points.

However, Mr Stevens hosed down the prospect of a sharp rebound in our economy. "The most likely outcome in the near term is a period of sluggish output, with consumer spending likely to slow somewhat and investment remaining weak," he said.

Meanwhile, underlying inflation, which rose by 0.8 per cent in the June quarter to 3.6 per cent year on year, is expected to level off going forward, with one leading inflation gauge provider predicting mean inflation will return to the RBA's 2-3 per cent target band in the first quarter of 2010.

This forecast was echoed by Mr Stevens: "Inflation is gradually moderating given the earlier decline in energy and commodity prices and the effects of weaker demand on prices and labour costs," he said.

"Given the current prospects for demand and output, this moderation should continue over the year ahead. The higher exchange rate over the recent months will assist in this moderation, at the margin."

Looking ahead, the RBA will pay close attention to a number of economic indicators, including unemployment levels and home prices, to determine when the time is right to raise rates. A survey of job advertisements, conducted by one major Australian bank, shows job advertisements continued to fall in July, but at a slower pace than the rate recorded in earlier months. The job advertisements series fell by 1.7 per cent in July, which is a much slower rate of decline than June's 6.7 per cent fall, but still down 51.9 per cent on the year to July.

The RBA will also continue to keep a close eye on housing prices in order to prevent low interest rates from fuelling a housing price bubble. According to the Australian Bureau of Statistics, home prices across our eight capital cities increased 4.2 per cent in the June quarter, but were still down 1.4 per cent on the year.

For the moment, it looks like the RBA is comfortable holding rates at 3 per cent but it will continue to keeping a close watch on any signs of overheating.

Next Week's Announcements

Mon	10 Aug	Aust Housing Finance (June)
Tue	11 Aug	Aust NAB Business Confidence / Conditions (July) Aust Lending Finance (June)
Wed	12 Aug	Aust MI / WBC Consumer Sentiment (August) Aust WPI (2nd Quarter)
Thu	13 Aug	Aust Average Weekly Earnings (May) Aust CBA-HIA Housing Affordability (2nd Quarter) Aust MI Unemployment Expectation (August) Aust MI Consumer Inflation Expectation (August)
Fri	14 Aug	Aust RBA Governor Stevens Parliamentary Testimony

Industry Analysis

Cashed up ANZ wants to 'bulk up'

ANZ chief executive Mike Smith says ANZ wants to "bulk up" and increase its 16 per cent market share. Smith said the bank may still try to buy a regional bank in Australia despite warnings from the head of the competition regulator, the ACCC, that further consolidation in banking would trigger a wide-ranging inquiry into the industry. ANZ still has \$4 billion from its recent \$4.7 billion capital raising to spend on acquisitions.

Profitable penalty fees disappearing

For every dollar a big bank takes from a customer in penalty fees, 87 cents is pure profit according to an industry analysis by Deutsche Bank. Banks raked in \$960 million in penalty fees from households and \$200 million from business customers during 2008 according to the Reserve Bank of Australia. Commonwealth Bank took \$370 million, followed by Westpac at \$300 million, then ANZ and NAB, both with \$230 million.

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

Smaller financial institutions profit, despite slow growth

The theme that has emerged from financial reports by a number of smaller financial institutions during the week is that funding and lending issues have constrained their growth over the past year but, despite this, they have been able to improve their bottom lines.

HSBC Australia reported its interim results, Elders Rural Bank and Heritage Building Society their full year results, and Bendigo and Adelaide bank updated its guidance ahead of next week's annual results announcement.

The constraints of the global financial crisis were apparent in every case. HSBC Australia reported a one per cent fall in net loans and advances to \$13.06 billion - a combination, according to chief executive Paulo Maia, of reduced demand for finance and a more prudent approach by the bank.

Heritage Building Society also reported modest asset growth - up 2.8 per cent to \$7.1 billion. The group has had to adjust to a significant change in its funding mix over the past year.

A year ago 48 per cent of the group's funding was off-balance sheet, sourced through securitisation and other capital market issues. At the end of June it had come down to 38 per cent.

Heritage chief executive John Minz predicted that the proportion of off-balance sheet funding would come down to around 30 per cent by the end of the current year. The group has had to source more deposits and has had some success in doing that.

Elders Rural Bank managed less than one per cent growth in its loan book in the year to June. The bank reported that a combination of good weather, higher commodity prices and lower input costs meant that farmers have enjoyed strong cash flow. But they have used it to pay down debt.

Elders Rural managing director Paul Hutchinson says the general economic climate was another factor; farmers held back from making capital investments.

Hutchinson says: "After a good season they might look at buying the farm next door but that has not happened this time."

Better margins, low arrears contribute to earnings

Despite the weak demand for finance these institutions have all turned in stronger profit results.

Elders Rural produced a 9.7 per cent increase in earnings for the 2008/09 year. Net profit was \$45.1 million, up from \$41.1 million in 2007/08.

The net interest margin on the \$3.6 billion loan portfolio went up from 2.05 to 2.07 per cent. Like the big banks, smaller institutions have been able to re-price their loans to improve margins

Non-performing loans increased from 0.33 to 0.62 per cent (net non-performing loans to gross loans). The increase was due to a single account.

Heritage made a net profit of \$25.5 million for the year to June, up 24.6 per cent on the previous year.

A significant part of deposit inflow was into low interest transaction accounts, which helped the group's margin. Another factor that contributed to the 24 per cent increase in profit was a reduction in mortgage broker fees.

Heritage established its own exchange settlement account with the Reserve Bank, which helped make its commercial paper more attractive to capital market investors and helped improve margins.

Arrears were low. Loan repayments overdue 30 days or more were only 0.29 per cent.

HSBC increased profit before tax by nine per cent to \$119 million for the six months to June. The bank was able to capitalise on financial market volatility, with a very strong showing from its global banking and markets division.

Bendigo and Adelaide Bank reported that performance was helped by improved arrears rates in all lending portfolios. The bank downgraded its earnings guidance, due to additional provisioning to cover its exposure to the agribusiness Great Southern and a small number of commercial properties, but it said overall credit quality had improved this year.

Bendigo and Adelaide managing director Mike Hirst put the improvement down to the Government's stimulus package. People are using the Government's handout to clear up any financial problems.

Bendigo and Adelaide's total provisions at June 30 were \$198.1 million, representing 0.51 per cent of total assets. This has increased from 0.41 per cent in the December half and 0.34 per cent in June last year.

Retail deposits keep flowing

Elders Rural Bank had strong deposit flow and at June 30 total deposits of \$3.7 billion exceeded loans. Elders Rural has pursued a marketing strategy of picking up deposits in the cities, using online and Elders Real Estate channels.

Hutchinson says the strategy is working, with 43 per cent of deposits coming from the cities during the year.

Heritage's retail deposits were up \$558 million, an increase of 20.8 per cent. Minz says there is no opportunity to expand the business through securitisation.

He says: "Funding will come through retail deposits and tapping into the wholesale deposit market. What we are about now is developing a very good mutual proposition so we can attract more members."

HSBC went against the trend, with customer accounts falling from \$14.4 to \$11.8 billion.

With the sharemarket recovering banks may not have the same success in raising deposits in the coming year.

This Week's Rate Movements

Home Loans - 1 Year Fixed Rates

Institution	Product	Old Value	New Value	Date of Change	Change Value
Arab Bank	Fixed Rate Home Loan	5.00	5.25	04-08-2009	0.25
B&E Ltd	FlexiChoice Fixed Rate Loan	6.19	6.29	05-08-2009	0.10
Bank of South Australia	Standard Fixed Rate	5.44	5.54	04-08-2009	0.10
Greater Building Society	Basic Fixed Home Loan	5.50	5.55	07-08-2009	0.05
Hunter United Credit Union	1 Year Fixed Rate	5.49	5.69	06-08-2009	0.20
ING DIRECT	Fixed Rate Loan	5.49	5.69	07-08-2009	0.20
MyLoan MyWay	Fixed Rate Loan	5.15	5.50	03-08-2009	0.35
Newcastle Permanent Building Society	Fixed Rate Home Loan	4.99	5.19	31-07-2009	0.20
RAMS Home Loans	RAMS Fixed Rate	5.09	5.29	05-08-2009	0.20
St. George Bank	Fixed Loan	5.44	5.54	04-08-2009	0.10
Westpac	Fixed Options Home Loan	5.49	5.59	04-08-2009	0.10

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
Arab Bank	Fixed Rate Home Loan	6.29	6.59	04-08-2009	0.30
B&E Ltd	FlexiChoice Fixed Rate Loan	6.79	7.09	05-08-2009	0.30
Bank of South Australia	Standard Fixed Rate	6.49	6.94	04-08-2009	0.45
Defcredit	Flexi Choice Fixed 3 years	6.95	7.10	06-08-2009	0.15
Greater Building Society	Basic Fixed Home Loan	6.70	6.80	07-08-2009	0.10
Hunter United Credit Union	3-Year Fixed Home Loan	6.69	6.99	06-08-2009	0.30
ING DIRECT	Fixed Rate Loan	6.89	7.09	07-08-2009	0.20
LoanAustralia	Flexi-Plus Loan	6.89	7.13	04-08-2009	0.24
MyLoan MyWay	Fixed Rate Loan	6.15	6.90	03-08-2009	0.75
RAMS Home Loans	RAMS Fixed Rate	6.29	6.74	05-08-2009	0.45
Savings & Loans Credit Union	Discounted Fixed Loan	6.39	6.69	07-08-2009	0.30
St. George Bank	Fixed Loan	6.49	6.94	04-08-2009	0.45
Sydney Credit Union	Fixed Interest Rate Loan	5.99	6.49	31-07-2009	0.50
Westpac	Fixed Options Home Loan	6.59	6.99	04-08-2009	0.40

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
Arab Bank	Fixed Rate Home Loan	7.19	7.29	04-08-2009	0.10
B&E Ltd	FlexiChoice Fixed Rate Loan	7.49	7.69	05-08-2009	0.20
Bank of South Australia	Standard Fixed Rate	7.14	7.59	04-08-2009	0.45
Greater Building Society	Basic Fixed Home Loan	7.35	7.40	07-08-2009	0.05
ING DIRECT	Fixed Rate Loan	7.39	7.74	07-08-2009	0.35
LoanAustralia	Flexi-Plus Loan	7.40	7.80	04-08-2009	0.40
MyLoan MyWay	Fixed Rate Loan	7.15	7.40	03-08-2009	0.25
Newcastle Permanent Building Society	Fixed Rate Home Loan	6.99	7.09	31-07-2009	0.10
RAMS Home Loans	RAMS Fixed Rate	6.99	7.44	05-08-2009	0.45
Savings & Loans Credit Union	Discounted Fixed Loan	7.19	7.34	07-08-2009	0.15
St. George Bank	Fixed Loan	7.14	7.59	04-08-2009	0.45
Westpac	Fixed Options Home Loan	7.19	7.64	04-08-2009	0.45

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

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