

Weekly Banking Bulletin

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

14 August 2009

News & Views

ME Bank opens new branches

ME Bank, formerly known as Members Equity Bank, has recently opened three new branches, two in Canberra and one in the Melbourne CBD. In addition to having access to regular banking services, you can also meet with Financial Planning and Business Banking consultants by appointment. ME Bank customers now have access to personalised financial planning services through Industry Fund Financial Planning. IFFP operates on a flat fee for service basis and can provide professional advice on a range of financial topics, no matter what your situation.

Housing cycle nears peak

There were 65,000 new home loans approved for owner occupiers in June, up 1.4 per cent on the month earlier. It is the ninth straight month of increasing demand for housing finance. The number of new loans for investment purposes was also up by 1.9 per cent. Nomura Australia chief economist Stephen Roberts said demand for mortgages was likely to peak in the next month or so as the boosted first home buyers grant tapers down. "We are very close to the peak now for this cycle and I probably expect to see some stepping back as we go into the later part of the year."

Houses set to become more affordable

Housing is now much more affordable than it was 12 months ago, despite deteriorating affordability over the last two months. The Housing Industry Association and Commonwealth Bank First Home Buyer Affordability index is now 41 per cent higher than it was last year. However the index declined five per cent over the three months to June 30. HIA chief economist Harley Dale said the market was neither in boom or bust conditions. "A step-down in the first home owner grant boost and a lengthening pipeline of new housing supply will help to keep established house prices in check, while low interest rates will keep affordability close to seven-year highs through the second half of 2009," he said.

Sydney, Brisbane auction results improving

Almost 70 per cent of 248 residential properties put up for auction in Sydney on Saturday sold on the day. That result was an improvement on last week's results when the auction clearance rate was 67 per cent of 205 properties. On the same weekend last year, just 48 per cent of 248 properties sold. In Melbourne, 79 per cent of 437 properties put up for auction sold on the day, continuing the very good results for Melbourne auctions that have been recorded over the last few months. Last week, 85 per cent of 413 properties sold at auction. On the same weekend last year, just 50 per cent of 400 properties listed for auction sold on the day. The Brisbane auction market shows signs of improvement, with 40 per cent of 65 properties sold at auction on the weekend, up from 31 per cent of 37 properties last week and 25 per cent of 75 properties on the same weekend last year.

National Market Ranges

Home Loans

Standard Variable	4.79 - 6.20%
Basic Variable	4.78 - 5.69%
1 Yr Intro	3.49 - 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	1.95 - 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 FIXED RATE LOANS

Panic and punches at auctions

Panic in the lower end of the property market is intensifying as the deadline for the end of the boosted first home buyers grant approaches. Agents are reporting that auctions for lower priced homes are producing sales well over the reserve and tens of thousands of dollars more than the advertised asking prices. Punches were thrown at a recent auction in Sydney's west as 19 bidders competed for a \$550,000 home. Many offers made prior to auction were collapsing because banks would not approve finance for homes at above valuation.

Huge mortgages now the norm

The average new mortgage lodged in Australia rose to \$354,000 in July – the highest figure on record, according to AFG, Australia's largest mortgage broker. AFG's Mortgage Index shows that average mortgage sizes have been on the rise since May this year, after falling to a low of \$339,000 in January. As other institutions report rises in house prices, the AFG data shows that borrowers in New South Wales, Queensland and Victoria are especially willing to take on more debt. Queensland's average mortgage size hit a new record of just over \$339,000. The average mortgage sizes for New South Wales (\$407,000) and Victoria (\$321,000), though lower than some of the peaks recorded in late 2008, are the highest for 2009, well up on figures for earlier this year.

Investors flocking back to property

Australia's biggest mortgage broking group, AFG is reporting that the number of loans issued to property investors is rising fast. AFG data confirmed the trend of investors returning to market, with 30 per cent of all mortgages arranged for investors – up from a low of 24.5 per cent in March. The investment trend was particularly high in New South Wales and Queensland, where 34 per cent and 33 per cent respectively of all loans arranged were for investors. The share of first home buyers remained steady at 19 per cent of the mortgage market. Mark Hewitt, AFG's General Manager Sales and Operations says: 'As every week goes by we're seeing growing signs of confidence in the property market. Recent reports of house price increases are stimulating the market as a whole, and encouraging investors in particular. That said, because interest rates remain at forty year lows, we'd encourage buyers to take into account the fact that their mortgages will almost certainly cost more to service as the overall economy picks up.'

Debt puts 1 in 4 marriages under stress

ING's International Savings Census, shows 1 in 4 Australian marriages are struggling to survive tough economic times. Australian love lives have been hit hard with 24 per cent saying the downturn has "strained" or "added stress" to their relationship. Couples in other countries are holding up much better with only 12 per cent feeling the strain in Germany, 18 per cent in Spain and 18 per cent in the UK. Australians are taking a more practical approach to their finances by cutting back on credit card spending (63 per cent), cooking more at home (50 per cent) and putting off retirement plans by up to five years to survive the downturn.

Interest Rates & The Economy

The only way is up?

The Reserve Bank said this week it will start raising interest rates if evidence of an economic recovery continues to emerge. "The recent stronger than expected economic data and the general improvement in sentiment both in Australia and abroad have reduced the likelihood that a further reduction will be required," the bank said in its August statement on monetary policy. "With the cash rate at an unusually low level and the global economy stabilising, movement towards a more normal setting of monetary policy could be expected at some point if further signs of a durable recovery emerge."

In an effort to fend off the worst of the financial crisis, the RBA cut the cash rate by 4¼ percentage points between September last year and April, bringing interest rates to their lowest level in 49 years. However, since then, our economy has performed better than expected. After months of positive news, the RBA now expects growth in 2009 to hit 1 per cent, instead of the 1 per cent contraction it anticipated in May. Looking ahead, it expects our economy to gradually strengthen, reaching growth rates of around 3¾ per cent by the end of 2011.

This positive outlook was echoed by a number of business and consumer confidence surveys published this week. According to one survey published by an Australian bank, business confidence rose six index points to plus 10 points in July, its highest level since August 2007. The survey's measure of business conditions rose three index points to plus-one point in July. Meanwhile, an index of consumer sentiment published by a rival bank shows consumer confidence between July and August rose 3.7 per cent to hit 113.4 points, its highest level since October 2007. In annual terms the consumer

sentiment index rose a seasonally adjusted 31.6 per cent. This is good news, as consumer spending is important to sustain the recovery of our economy.

However, the RBA has cautioned against too much optimism, pointing out that the outlook for our economy remains subject to considerable uncertainty. Although the risks are more balanced than they have been for some time and the global outlook is improving, it is too soon to celebrate. "With confidence globally still fragile, it remains possible that the outlook could again weaken," the RBA said. Although the RBA will keep a close eye on our economy to avoid any signs of overheating and inflation spiralling out of control, it is likely the central bank will try to stick to its current policy setting for the moment. "For the time being, the Board's judgment is that the present accommodative setting of monetary policy is appropriate given the economy's circumstances," the RBA said.

Next Week's Announcements

Mon	17 Aug	-
Tue	18 Aug	RBA Board Minutes for August
Wed	19 Aug	Aust Treasury Secretary Ken Henry speaks in Sydney Aust RBA Assistant Gov. Philip Lowe speaks in Sydney
Thu	20 Aug	Aust International Merchant Imports (July) Aust RBA Bulletin (August)
Fri	21 Aug	-

Industry Analysis

Big credit unions to merge

Members of Australian Central Credit Union and Savings & Loans CU will vote on a merger proposal that will create Australia's second biggest credit union, just behind the biggest Australian mutual financial institution, Credit Union Australia. The two Adelaide based credit unions will have a combined weight of \$7.4 billion in assets and 350,000 members with operations in five states. Members of the two credit unions will vote on the proposal in November with the merged operation due to commence on December 1.

CBA benefits from branch, netbank upgrades

Commonwealth Bank chief executive Ralph Norris was happy to acknowledge yesterday that the bank had benefited from a "flight to quality" in the banking market, as customers gave more of their business to the big, highly rated institutions. In its 2008/09 financial results announcement the bank reported that it had a 30 per cent increase in personal account openings, 21 per cent growth in its home loan balances (against system growth of seven per cent) and 16 per cent growth in retail deposits. But Norris was quick to point out that it was not simply a matter of being the default bank. Commonwealth has priced products like home loans competitively and worked hard on the standard of service in its branches and the broker channel. He said that three years ago the standard of service in the branches was pretty ordinary and it had come a long way since then. Online services have also been upgraded.

Sources: InfoChoice, AFG, Australian Property Monitors, Herald Sun, The Australian, The Daily Telegraph

Demand for fixed rate loans jumps

Housing finance figures published this week by the Australian Bureau of Statistics show that demand for fixed rate home loans has risen sharply over the past few months. All the talk of rates having bottomed and the next round of increases coming sooner rather than later has had an impact on borrowers.

Fixed rate loans (with terms of two years or more) made up eight per cent of all dwellings financed in June. The proportion of borrowers opting for fixed rates rose from 6.2 per cent in May, four per cent in April and 2.5 per cent in March.

Demand for fixed rate loans reached a low in December last year when only 1,100 of them were written – just 1.9 per cent of dwellings financed that month.

The average size of fixed rate loans written in June was \$252,400, compared to the \$264,300 average size of all dwellings financed.

Picking the wrong time to fix

A review of the fixed rate loan data in the Infochoice database shows a couple of interesting trends. Once again borrowers have picked the wrong time to fix. Average three and five year fixed rates bottomed in March and have risen quite sharply since then.

Three and five year bond and swap rates moved up in recent months, as investors in the financial markets factored in economic recovery and the possibility of a pick-up in inflation. Fixed rate mortgage pricing has responded to this movement.

The gap between variable rates, which are below six per cent, and fixed rates (five year rates are up around 7.5 per cent) is the widest the market has seen since 2002.

The average three year fixed rate of the big four banks peaked at 9.42 per cent in July last year. It then reached a low of 5.66 per cent in March and is currently 6.74 per cent.

The average five year fixed rate of the big four peaked at 9.39 per cent

in July last year. Its low was 6.45 per cent in March and the current average is 7.45 per cent.

The average standard variable rate for the big four is 5.78. Borrowers will have to figure out whether that gap will narrow as a result of fixed rates coming back down or variable rates starting to rise again.

One economist with a view on this question is AMP Capital Investors chief economist Shane Oliver, who says long bond yields were low earlier this year, reflecting the general gloom about the economy, but have picked up in the past couple of months. In the space of about six months the 10 year Commonwealth bond yield moved from four to six per cent.

Oliver says: "We have gone from thinking about an endless recession to focusing on green shoots and recovery, and what we are seeing in bond markets now is an expectation that may be some renewal of inflationary pressure as the economy recovers."

Oliver expects long rates to moderate in the period ahead.

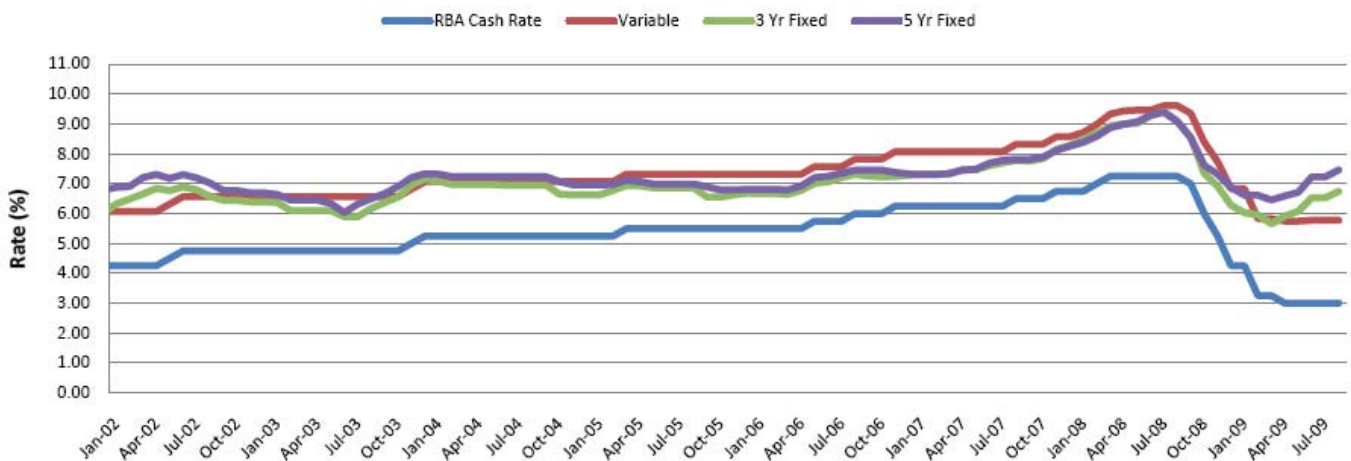
Big banks no longer dominate fixed rate pricing

The other interesting observation that can be made from a review of the Infochoice data is that the big banks no longer dominate the pricing of fixed rates. For many years it was assumed that the big banks were the natural price leaders in the fixed rate segment because they could use their big treasury operations to get the best swap prices when they put a fixed rate contract in place.

Not any longer, or not currently at any rate. None of the big four feature in the list of the best one year rates and only ANZ features in the list of the best two and three year rates. ANZ and National Australia Bank feature in the list of the best four year rates and none of the big four are in the list of the best five year rates.

Prominent among those offering sharp rates are Newcastle Permanent Building Society, Mortgage Ezy, Better Option Home Loans and

Average Rate Movements



This Week's Rate Movements

Home Loans - 3 Year Fixed Rates

Institution	Product	Old Value	New Value	Change Value	Date of Change
A M O	AMO Fixed Rate Home Loan	6.54	6.94	11-08-2009	0.40
Adelaide Bank	Fixed Loan	6.59	6.99	12-08-2009	0.40
AMP	Fixed Rate Loan	6.89	6.99	09-08-2009	0.10
Bank of Queensland	Fixed Loan	6.59	6.74	11-08-2009	0.15
Bendigo Bank	Fixed	6.59	6.99	12-08-2009	0.40
BMC Mortgage Corp	Home Loan- Fixed	7.00	7.25	11-08-2009	0.25
Cairns Penny Savings and Loans	Home Loan	6.35	6.60	11-08-2009	0.25
Citibank	Fixed Rate Loan	7.09	7.49	10-08-2009	0.40
Commonwealth Bank	Complete Home Loan Standard	6.69	7.14	10-08-2009	0.45
FCCS Credit Union	Value Plus Home Loan	6.50	7.45	10-08-2009	0.95
Homeloans Ltd	Smart Saver Fixed	7.29	7.49	10-08-2009	0.20
LoanAustralia	Flexi-Plus Loan	7.13	7.50	13-08-2009	0.37
mecu	Fixed Home Loan	6.09	6.29	10-08-2009	0.20
Nationwide Mortgage	Fixed Rate Loan	6.56	6.98	13-08-2009	0.42
one direct	one direct fixed loan	6.19	6.84	13-08-2009	0.65
QuickDirect	Fixed	6.90	7.10	11-08-2009	0.20
Reduce Home Loans	Reduce Standard Variable	6.44	6.74	12-08-2009	0.30
Savings & Loans Credit Union	Fixed Rate Loan	6.79	7.09	13-08-2009	0.30
SERVICE ONE Members Banking	Fixed Home Loans	6.25	6.50	10-08-2009	0.25
Sydney Credit Union	Fixed Interest Rate Loan	6.49	6.69	13-08-2009	0.20

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

Home Loans - 5 Year Fixed Rates

Institution	Product	Old Value	New Value	Change Value	Date of Change
A M O	AMO Fixed Rate Home Loan	7.14	7.59	11-08-2009	0.45
Adelaide Bank	Fixed Loan	7.19	7.64	12-08-2009	0.45
AMP	Fixed Rate Loan	7.79	7.99	09-08-2009	0.20
Bank of Queensland	Fixed Loan	7.29	7.39	11-08-2009	0.10
Bendigo Bank	Fixed	7.19	7.64	12-08-2009	0.45
BMC Mortgage Corp	Home Loan- Fixed	7.60	7.95	11-08-2009	0.35
Citibank	Fixed Rate Loan	7.59	7.99	10-08-2009	0.40
Commonwealth Bank	Complete Home Loan Standard	7.34	7.79	10-08-2009	0.45
FCCS Credit Union	Value Plus Home Loan	7.15	8.00	10-08-2009	0.85
Homeloans Ltd	Smart Saver Fixed	7.79	8.14	10-08-2009	0.35
LoanAustralia	Flexi-Plus Loan	7.80	8.20	13-08-2009	0.40
Nationwide Mortgage	Fixed Rate Loan	6.91	7.68	13-08-2009	0.77
one direct	one direct fixed loan	6.99	7.54	13-08-2009	0.55
QuickDirect	Fixed	7.40	7.75	11-08-2009	0.35
Reduce Home Loans	Reduce Standard Variable	7.04	7.49	12-08-2009	0.45
Savings & Loans Credit Union	Fixed Rate Loan	7.44	7.79	13-08-2009	0.35
SERVICE ONE Members Banking	Fixed Home Loans	7.10	7.50	10-08-2009	0.40

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

InfoChoice Ltd

Phone: 02 8507 7196

Fax: 02 8507 7197

PO Box R145 Royal Exchange NSW 1225

Marcus Gock - Research Manager

Email: banking-team@infochoice.com.au

www.infochoice.com.au

On The Web : More details on these news stories can be found at : <http://www.infochoice.com.au>