

News & Views

Credit card debts hurt homeowners

Seventy one per cent of home owners struggling to repay a mortgage are also carry over unpaid credit card debts according to big mortgage insurer Genworth. On average 52 per cent of card holders carry over debt with the rest paying off their card debts on time. That is despite average mortgage interest rates falling 3.7 per cent since the RBA starting its aggressive rate cutting campaign last year. Credit card rates have fallen only 1.2 per cent in that same period of time.

Brace for flurry of credit card offers

Credit card companies have been told they are not allowed to send people credit cards that haven't been applied for but they are still allowed to send letters to consumers offering them pre-approved credit cards. ASIC has issued a regulatory guide to credit card issuers ahead of expected changes to the law that will require lenders to comply with responsible lending provisions of the new national consumer laws. The new laws are still 18 months away and consumer groups expect a lot of marketing activity by card companies before then.

Melbourne auction boom continues

The number of auctions held in Sydney on the weekend was down again to 226, with 74 per cent resulting in a sale on the day. Last week 67 per cent of 247 properties put up for auction in Sydney sold on the day. Melbourne auction results continued to shine with 75 per cent of 485 properties put up for auction selling on the day. Last week in Melbourne, 80 per cent of 438 properties sold at auction. The Adelaide market shows signs of improvement with 65 per cent of 31 properties put up for auction selling on Saturday, up from 40 per cent of 25 properties last week. 49 residential properties were put up for auction in Brisbane on the weekend with 48 per cent selling, compared to 36 per cent of 67 properties the week before.

Brokers don't sell NAB loans

National Australia Bank, by choice and practice, sources very few loans from mortgage brokers, leaving the lion's share of new business from that source to waft toward Commonwealth Bank (mainly) and also Westpac. Aggregator data suggests CBA is winning as much as 40 per cent of all new business sourced through the broker channel, including business from BankWest. (And coincidentally, CBA says about 40 per cent of its new business is sourced through the broker channel, up from 38 per cent a year ago). Westpac's share through the broker channel is about 20 per cent (including St George and Rams). Even ANZ, which is otherwise the also-ran of the mortgage sector among the big four, is generating almost as much new business through brokers as Westpac. NAB's market share is somewhere between five per cent and 10 per cent, depending on the broker, with most of this sourced under its HomeSide brand rather than the NAB brand. HomeSide, in theory, is NAB's brand for the broker channel.

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	6.04 - 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 - 4.80%
\$10,000, 1 Year	2.00 - 5.05%
\$10,000, 3 Years	1.91 - 6.20%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON CREDIT CARDS

Bank margins widen as rates set to rise

Over the last five years, retail variable mortgage interest rates have averaged about 1.32 to 1.9 per cent above the official cash rate set by the Reserve Bank of Australia. This year the lending margin has widened to 2.8 per cent in June as banks and other lenders attempt to recoup costs brought on during the global financial crisis. The Reserve Bank governor Glenn Stevens told a parliamentary committee this week that official interest rates could be expected to normalise over the next year or so at around five per cent, up from three per cent currently.

At last banks take eftpos online

Banks are said to be moving to develop an online Eftpos product called MAMBO – Me And My Bank Online, in response to demands from the Reserve Bank to revamp the Eftpos system and make it functional for online shoppers. Centricom's POLi is Australia's existing online payments service that uses online banking functions. POLi has some significant limitations, including only working with two browsers - Internet Explorer v.6.0 & above and Mozilla Firefox v.3.0 & above. Macintosh is also not supported. In Australia POLi works with the major banks and Bank of Queensland, BankWest, St.George and Suncorp only. A Centricom related company is launching an online bill paying service using the POLi system called Flycke. The system is due to go live this week.

USaver leads market in on-call savings

The USaver online savings account is offering a market leading rate of 5.11 per cent or 5.21 per cent with a monthly savings plan. USaver is offered by UBank, an online bank owned by National Australia Bank. The USaver account features no fees, interest calculated daily and paid monthly, pay anyone transfers and no minimum balance. The bonus 0.10 per cent interest is paid when the customer sets up a monthly payments from another account of at least \$100.

ASIC says ban financial commissions

The financial and corporate regulator, the Australian Securities and Investment Commission has recommended to government that commissions paid by financial institutions to financial advisors be outlawed. Four years ago ASIC found that many AMP financial planners did not act in the best interests of their clients when they signed them up to AMP financial investment products. The Financial Planning Association says that the financial "advice" industry is unlikely to survive in its current shape if ASIC's proposals are adopted.

Interest Rates & The Economy

RBA hints that rate rises are on the agenda

The Reserve Bank has given its strongest signal yet that if the economy continues to recover at its current pace, then its next move on interest rates will be up. After aggressively easing monetary policy since the global financial crisis unfolded last year, the central bank has cut the official cash rate by more than 400 basis points. It now stands at just 3 per cent, a 49 year low.

The minutes from its latest board meeting on August 4 were released this week and showed that the central bank has officially ended its easing cycle and has now shifted to a neutral stance.

The minutes said: "In recent months, members had left open the possibility of further reductions in the cash rate should further downside risks to the economy emerge. Given the recent improvement in the global and domestic outlooks, it now appeared unlikely that this would be necessary. In fact, if the economy evolved as anticipated in the forecasts, the Bank would in due course need to adopt a less expansionary policy stance."

RBA Governor Glenn Stevens was reported to have said last week that interest rates were currently at an "emergency" setting in light of the devastating impact of the global financial crisis. A normal setting for the official cash rate would be "a good deal north" of 3 per cent.

The consensus in the market is that the RBA is likely to wait a few more months before it does anything. Most commentators are suggesting that it is likely to move towards the end of the year, with November flagged as a possible date.

The minutes suggested that the board was still not clear whether the recent growth in household spending was due to the Federal Government's stimulus measures. Given the benefits from these temporary fiscal measures will inevitably fade during the remainder of the year, the RBA needs to take a careful look at the underlying resilience of the economy.

"In discussing the timing and process of removing some of the current expansionary policy setting, members noted that it would, when it began, involve balancing two risks. There was a risk of overstaying a very accommodative setting in a recovering economy, particularly

when underlying inflation still needed to decline to reach the target. On the other hand, there was a risk of an early tightening choking off confidence and demand prematurely," said the minutes.

Changing the direction of monetary policy is a serious matter and if the RBA gets it wrong, it could spell disaster for the Australian economy. A move too early would very quickly put the brakes on any economic growth and squash consumer and business confidence.

Next Week's Announcements

Mon	24 Aug	Aust New Motor Vehicle Sales (July)
Tue	25 Aug	-
Wed	26 Aug	Aust DEWR Skilled Vacancies (August) Aust Preliminary Construction Work Done (2nd Qtr)
Thu	27 Aug	Aust CAPEX (2nd Qtr) Aust HIA New Home Sales (July)
Fri	28 Aug	-

Industry Analysis

NAB grabs Challenger home loans

NAB will boost its share of the mortgage market by buying Challenger Home Loans for \$385 million. The deal will add \$110 billion worth of home loans to NAB's books. The deal will add to concerns regarding the concentration of market share in the hands of the big four banks.

MyState members vote for shares

MyState Financial will demutualise with support from 84 per cent of members voting at a special meeting of the credit union in Hobart on Tuesday. MyState will merge with Tasmanian Perpetual Trustees, an ASX listed company, assuming shareholders in the latter agree at a special meeting today in Launceston. PKF Corporate Advisory 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. Credit union demutualisations are rare in Australia. An effort by Connect Financial, a predecessor of MyState, failed narrowly in 2003.

Industry Analysis

Beware new wave of online crime

An unprecedented wave of crime is sweeping the internet say authorities. The Australian Computer Emergency Response Team (AusCERT) says thousands of Australian computers are being infected with malware every day with millions of credit card numbers being stolen and traded online. AusCERT says there is so much crime online now that it threatens Australia's economy. Spy agency ASIO is also concerned about security threats from the new wave of cyber attacks and says criminal groups and terrorists are using freelance hackers.

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

Credit usage continues its steady decline

Consumers put a little more on their credit cards in June but the long term trend continues to be for shoppers to cut back on their use of credit.

The latest credit card data from the Reserve Bank, published this week, shows that the average card balance rose from \$3,094 in May to \$3,127 in June but that June figure is down 0.2 per cent on a year ago.

Total spending on cards for the year to June was \$221.2 billion. The growth rate was 3.1 per cent – a record low. The value of purchases in June was \$18.4 billion.

The big news is the growth in scheme debit. The value of purchases made on debit cards in June was 40 per cent higher than in the same period last year.

Debit now makes up 35.8 per cent of non-cash purchases. Debit accounts are increasing at more than twice the rate of credit and charge accounts.

Scheme debit a winner

The impetus behind the growth in debit owes a significant amount to the performance of the scheme debit component. Scheme debit has increased from a 21.3 per cent share of the value of debit purchases in March 2008, when data commenced, to 26.7 in June this year. Share rose 24 per cent over the past 12 months and the trend shows no signs of abating.

The growth of debit's share of card purchases has come at the expense of credit, while charge cards have remained more stable. Over the past three years, as debit has moved up from 31.6 to 35.8 per cent of card purchases, credit has fallen from 56.5 to 52.3 per cent. Charge card share was 11.9 per cent in June 2006 and was 11.9 per cent in the latest figures.

Growth in the use of debit has given Visa and MasterCard and greater share of the card market. According to MWE Consulting Visa and MasterCard share has moved up steadily from 82.7 per cent in June 2006, to 82.9 per cent in 2007, 83.8 per cent in 2008 and 85.1 per cent now. Over the same period the share held by American Express and Diners charge cards has fallen from 17.3 to 14.9 per cent.

As to the use of credit, banks reporting their financial results during the past couple of weeks have noted that card payment arrears are down, which they attribute to consumers using their stimulus package handouts to get their affairs in order.

Bankers expect that consumers will continue to be cautious about taking on new debt. And credit card figures in financial reports show that lenders are equally cautious about writing new credit card business.

MWE Consulting has used APRA and Reserve Bank data to look at bank share of consumer card balances. What it shows is that the big banks

have increased their share, as they have in most market segments. Commonwealth Bank increased its share from 16.5 to 17.3 per cent over the year, ANZ was up from 15.5 to 16.3 per cent, St George was up from 3.6 to 4.1 per cent, NAB was up from 10.9 to 11 per cent and Westpac was up from 16.4 to 16.6 per cent.

Among the smaller banks, BankWest increased its share from 2.3 to 2.5 per cent, Bendigo went from 0.3 to 0.6 per cent and Citibank went from 7.8 to 8.5 per cent.

Balances across all cards stood at \$44.8 billion at the end of June. Balances accruing interest, worth \$31.7 billion, fell throughout the June quarter. The average balance accruing interest, \$2,120 in June, fell by three per cent over 12 months.

Credit card transaction numbers were up 7.2 per cent in June over the previous month, and were up 3.4 per cent over 12 months.

Consumers are still spending on their cards but trying hard not to accrue outstanding balances. The average spend in June was \$1,353, up from \$1,241 a month earlier and up three per cent over 12 months. Credit limits have also gone up. A year ago the average limit was \$8,511 and today the average is \$8,699.

The average value of individual credit card purchases was \$131.87. This is little changed over the past year and up only slightly over the past few years. The individual purchase amount on charge cards, which are more often held by commercial users, was \$269.12.

Cash advances too pricey

Consumers took out \$998 million of cash advances in June, which was up 14.2 per cent on the previous month but down 13.1 per cent over 12 months. The number of cash advances was down 11 per cent over the year.

The higher rates for cash advances charged by a number of card issuers must also be a factor contributing to a fall in the use of the facility. The average cash advance, as a proportion of monthly card spend, has fallen by 14.5 per cent over the past year. Still, consumers drew down a total of \$12.2 billion of cash advances in the year to June – not an insignificant amount.

This Week's Rate Movements

Home Loans - 1 Year Fixed Rates

Institution	Product	Old Value	New Value	Date of Change	Change Value
ANZ	ANZ Fixed Loan	5.35	5.45	17-08-2009	0.10
Australian Central Credit Union	Fixed Rate Home Loan	5.59	5.69	17-08-2009	0.10
Bananacoast Community Credit Union	Residential Standard Fixed	5.59	5.79	18-08-2009	0.20
HomeSide Lending	Homeside HomePlus	5.19	5.69	18-08-2009	0.50
homestar	HomeStar Fixed Rate Loan	5.49	5.70	17-08-2009	0.21
IMB	IMB Fixed Rate Home Loans	5.39	5.54	17-08-2009	0.15
ING DIRECT	Fixed Rate Loan	5.69	5.89	21-08-2009	0.20
NAB	NAB Tailored Home Loan - Fixed Rate	5.29	5.79	17-08-2009	0.50
Newcastle Permanent Building Society	Fixed Rate Home Loan	5.19	5.39	18-08-2009	0.20
Police Credit	Housing Loan	4.99	5.39	18-08-2009	0.40
Suncorp	Fixed Loan	5.39	5.69	20-08-2009	0.30

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
ANZ	ANZ Fixed Loan	6.34	6.99	17-08-2009	0.65
Australian Central Credit Union	Fixed Rate Home Loan	6.69	7.09	17-08-2009	0.40
Bananacoast Community Credit Union	Residential Standard Fixed	6.69	6.99	18-08-2009	0.30
Big Sky Credit Union	Fixed Rate Loans	6.49	6.99	19-08-2009	0.50
BMC Mortgage Corp	Home Loan- Fixed	7.25	7.45	18-08-2009	0.20
Defcredit	Flexi Choice Fixed	7.10	7.20	19-08-2009	0.10
HomeSide Lending	Homeside HomePlus	6.39	6.89	18-08-2009	0.50
homestar	HomeStar Fixed Rate Loan	6.19	7.10	17-08-2009	0.91
IMB	IMB Fixed Rate Home Loans	6.49	6.94	17-08-2009	0.45
mecu	Fixed Home Loan	6.29	6.49	18-08-2009	0.20
MyState Financial	Fixed Rate Loan	6.64	7.09	18-08-2009	0.45
NAB	NAB Tailored Home Loan - Fixed Rate	6.49	6.99	17-08-2009	0.50
Newcastle Permanent Building Society	Fixed Rate Home Loan	6.34	6.69	18-08-2009	0.35
Police Credit	Housing Loan	6.39	6.89	18-08-2009	0.50
Suncorp	Fixed Loan	6.49	6.99	20-08-2009	0.50

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
ANZ	ANZ Fixed Loan	7.19	7.74	17-08-2009	0.55
Australian Central Credit Union	Fixed Rate Home Loan	7.29	7.79	17-08-2009	0.50
Bananacoast Community Credit Union	Residential Standard Fixed	7.49	7.99	18-08-2009	0.50
BMC Mortgage Corp	Home Loan- Fixed	7.95	8.20	18-08-2009	0.25
homestar	HomeStar Fixed Rate Loan	6.69	7.75	17-08-2009	1.06
IMB	IMB Fixed Rate Home Loans	7.09	7.49	17-08-2009	0.40
MyState Financial	Fixed Rate Loan	7.24	7.69	18-08-2009	0.45
Police Credit	Housing Loan	7.19	7.29	18-08-2009	0.10
Suncorp	Fixed Loan	7.19	7.74	20-08-2009	0.55

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