

Weekly Banking Bulletin

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

28 August 2009

News & Views

Infochoice web traffic growth

Daily Unique Visitors per month for Infochoice has increased by 56 per cent during the half year period January to June 2009. Daily Unique Visitors are defined as a visitor's first visit to the site in a day. This excludes visitors to affiliate sites.

Aussies pay down their card debt

Analysis by the Australian Bankers' Association (ABA) of Reserve Bank of Australia (RBA) credit card data demonstrates customers are paying down debt and are sensibly managing their credit cards. For the first time, the amount of the credit card balance which is accruing interest has fallen over a one-year period. That is, over the year to the end of June 2009, the amount accruing interest was almost 1 per cent less than for the previous year. David Bell, Chief Executive of the ABA, said: "While this result stands out, if we look at the past three months, the amount accruing interest has fallen by a very large \$1 billion or 3 per cent. On a per card basis, it's a fall of \$83 or 3.7 per cent for every credit card account over that time."

Business banking customers vote for BoQ

There has been a decrease of 5.5 per cent in business customer satisfaction with the four major banks relative to the same period 12 months ago. ANZ's business customers remain the most satisfied (at 76.9 per cent) of the four major banks. Westpac's business banking customer satisfaction has seen the biggest decrease (-6.7 per cent), while NAB's customer satisfaction is the lowest at 70.1 per cent (down by 6.4 per cent). Relative to the other major banks, CBA's business banking satisfaction has remained steady compared to a year ago (down by 3.1 per cent to 72.3 per cent). St George's business banking customer satisfaction has decreased (-10.4 per cent) over the last 12 months (to 74.6 per cent), and remains in second position amongst the five majors. Bank of Queensland and Bendigo Bank have the highest customer satisfaction levels of any of the banks. In the last 12 months, Bank of Queensland's customer satisfaction has decreased by 0.2 per cent (to 91.1 per cent), leading all the banks, while Bendigo Bank's customer satisfaction levels have decreased by 3.8 per cent (to 89.6 per cent).

Housing shortage will only get worse

The Commonwealth Treasury estimates that 200,000 new homes are needed each year to meet demand but only 160,000 are being built. Westpac Bank also suggest that there is an annual shortfall of 40,000 homes. ANZ Bank says Australia currently is suffering from a shortfall of 200,000 homes and that will be 250,000 by next year. The RBA's August 2009 Statement of Monetary Policy stated that "The number of housing starts is likely to remain at levels well below most estimates of underlying demand." Glenn Stevens, governor of the Reserve Bank told a parliamentary inquiry last week that "we need more dwellings."

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	6.24 - 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 - 5.21%
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 - 6.50%

SEE PAGE 4 FOR THIS WEEK'S RATE MOVEMENTS

SEE PAGE 3 FOR A FEATURE ON MORTGAGE LENDERS

Borrowers head for brokers

Forty one per cent of new home loans are now sold through brokers. Mortgage Choice CEO Michael Russell said the big four banks' use of the brokers channel is continuing to rise. Commbank/Bankwest has grabbed 28 per cent of the market, Westpac/St George has 26 per cent, NAB and ANZ each have around 14 per cent. However the number of mortgage brokers is expected to fall dramatically as banks impose minimum volumes and new licensing requirements are introduced in 2011.

Melbourne auction results stand out

There were 285 residential property auctions held in Sydney on the weekend, with 73 per cent resulting in a sale on the day. Those results are a slight improvement on last week, when 73 per cent of 234 properties put up for auction sold on the day. On the same weekend last year, 47 per cent of 263 properties sold at auction in Sydney. There were 523 properties auctioned in Melbourne on Saturday, with 76 per cent selling. Last week 80 per cent of 489 properties sold at auction in Melbourne. On the same weekend last year, 54 per cent of 526 residential properties sold at auction. In Adelaide, 54 per cent of 32 properties sold at auction, slightly down from last week when 65 per cent of 32 properties were successfully auctioned. In Brisbane, 39 per cent of 46 properties sold at auction, down from last week when 46 per cent of 53 properties sold.

Rumours of rate rises next week

Rumours and unconfirmed reports persist that at least one of the big four banks will move to raise standard variable mortgage rates next week, despite most pundits expecting official rates to remain unchanged at 3.0 per cent. Regardless of what the Reserve Bank may or may not do, there is increasing speculation within banking circles that possibly Commonwealth Bank is considering leading the majors in a round of margin expanding rate rises. A move to raise rates on standard variable mortgages by 0.10 and 0.15 per cent is expected.

Young investors are clueless

Young 'generation Y' investors have unrealistic expectations about the level of returns they can expect and don't know how to invest to meet their high expectations says new research from RaboPlus. Gen Y respondents to the annual survey said they were expecting to achieve returns of 13.5 per cent per year, down from 14.1 per cent one year ago. Despite those high expectations, Gen Y investors had put 35 per cent of their money into cash, 13.5 per cent in shares and 16 per cent in property. Baby boomers have dropped their annual return expectations from 11.6 per cent 12 months ago, to 9.1 per cent now. Generation X investors (aged 30 to 44) have trimmed their expectations from 13.2 per cent to 9.5 per cent while retirees expected returns of 9.4 per cent.

New Products, Rates & Fees

Glenn McGrath's Visa card looks competitive

Former Australian cricket star Glenn McGrath has lent his name to the Community First Credit Union's McGrath Pink Visa Card. For every McGrath Pink Visa issued, the credit union will donate half the card's annual fee (\$20) to the McGrath Foundation. The money raised will go towards the placement of McGrath Breast Care Nurses who support women with breast cancer and their families. The card features a low interest rate of 10.50 per cent which applies to retail purchases, cash advances and balance transfers, a low annual fee of \$40, up to 55 days interest free and an additional card at no extra cost

Interest Rates & The Economy

Rates to stay on hold, for now

After months of falls in employment, there are some signs our job market may be turning the corner. This week the Department of Education, Employment and Workplace Relations's skilled vacancies index showed that skilled job vacancies rose by 1.0 per cent this month, the first monthly increase since November 2007. This is good news for the economy, as an improvement in employment conditions is an important component of our economic recovery.

Should employment figures continue to improve, it is likely the Reserve Bank will start raising rates sooner rather than later. While it is crucial the RBA continues to support the still fragile state of our economy, it must still keep a close eye on growth to ensure it is not overheating the economy. Higher inflation levels are not good because they devalue our currency.

The central bank has a difficult balance to strike. While our economy is faring better than most economies around the world, we are not out of the woods yet. On an annual basis, the skilled vacancy index, at 37.1 points, stood 55.7 per cent lower than in August 2008. Our construction

sector also continues to suffer from the economic downturn. Other data showed that total construction work done in Australia fell 0.1 per cent in the June quarter in chain volume terms, seasonally adjusted. The Australian Bureau of Statistics said total construction work done was valued at \$35.031 billion in the June quarter, compared with an upwardly revised \$35.062 billion in the March quarter.

Meanwhile, one private think-tank's Coincident Economic Index, which measures current economic conditions in our country, declined 0.1 percent for the month. The CEI was pushed lower by a decline in retail trade, with employed persons and retail trade declining in June and household disposable income and industrial production unchanged.

That means it is too early to be confident about an economic recovery. However, there are signs of optimism. The think-tank's Leading Economic Index, a key gauge of our economic outlook over the next two quarters, improved by 0.9 percent in June, entering positive territory for the first time since September 2008. The LEI increased for the fourth time in the last five months, with six of the seven measured components showing improvement in June. The largest gains were seen in building approvals, the yield spread, share prices and the money supply.

Taken together, the outlook for our economy is certainly brighter, which increases the probability of a rate hike at some point this year. However for the time being, it is likely the RBA will continue to support our economy and keep rates on hold.

Next Week's Announcements

Mon	31 Aug	Aust Company Profit (2nd Quarter) Aust Inventories (2nd Quarter) Aust TD Securities Inflation Gauge (August) Aust Private Sector Credit (July)
Tue	1 Sep	Aust RBA Cash Rate Decision Aust Current Account Balance (2nd Quarter) Aust Building Approvals (July) Aust RBA Commodity Index (August)
Wed	2 Sep	Aust Gross Domestic Product (2nd Quarter) Aust AiG Performance of Service Index (August)
Thu	3 Sep	Aust Trade Balance (July)

Industry Analysis

CUA keeps getting bigger

La Trobe Country Credit Co-operative members voted last week to merge with Credit Union Australia. Chairman of LCCC, Mr Richard Stanistreet, said the merger has many advantages for LCCC members: "Members will now have better access to a broader and competitive range of products and services compared with what LCCC was able to offer." CUA also brought with it a much broader range of competitive products with better rates; their own health fund; travel and financial planning services; a large 70-plus branch network and an Australian-based national phone and web banking system. The merger is effective from 1 September 2009 subject to regulatory approval.

Sources: InfoChoice, ABA, Australian Property Monitors, Business Spectator, Herald Sun, Sydney Morning Herald

Small lenders show signs of a comeback

While the official figures indicate that the big banks still dominate mortgage sales, data presented by broker Mortgage Choice at its results presentation last week suggest that smaller institutions may be making starting to make a comeback.

The broker reported that loans advanced by big four banks accounted for 75 per cent of its settlements in the December quarter but came back to 71 per cent in the March quarter and 60 per cent in the June quarter.

“Other bank” share rose from 21 to 33 per cent over the same period. Other banks on the Mortgage Choice books include Adelaide Bank, AMP Banking, BankWest, ING Direct, Macquarie Mortgages, St George Bank and Suncorp.

Building societies and “other lenders” also gained share. Others on the Mortgage Choice books include Collins Securities, FirstMac, GE Money, Keystart Loans, La Trobe Financial Services, Maxis Home Loans, Over Fifty Group and Rams

Mortgage Choice reported \$8.6 billion of loan settlements in the 2008/09 financial year, a fall of 9.8 per cent from the \$9.6 billion of settlements reported in 2007/08.

Mortgage Choice chief executive Michael Russell said some of the lenders doing more work with the group’s brokers were Suncorp, St George, BankWest, Heritage Building Society and Newcastle Permanent Building Society (St George and BankWest are owned by big banks but both claim to set their own pricing and product features).

Russell said some lenders had reactivated more aggressive products. For example, BankWest has reintroduced its Rate Tracker home loan, which offers a discount to the average variable rate of the big four.

Still plenty of restructuring going on

While the Mortgage Choice figures indicate a return to a greater level of competition in the home loan market, it is early days. Several regional banks reported their results over the past couple of weeks and it is clear that they are still working through issues thrown up by the global financial crisis.

AMP Banking reported that it had strong deposit growth during the six months to the end of June, thanks to the launch of a cash account for AMP superannuation fund members and a high-yield online transaction account. Deposit inflow was up by 30 per cent over the six months.

But lending growth was only two per cent, as the bank used most of the cash it raised to increase liquidity.

It was a similar story at Suncorp, where the balance of loans and advances fell 1.3 per cent to \$54.4 billion during the year to June.

Last year the Suncorp announced that it would split its banking assets into core and non-core portfolios. The non-core portfolio was made

up largely of corporate, property and development loans and was put into run-off. Suncorp said it could no longer raise capital at an appropriate price to fund these high risk or low margin activities.

In the core portfolio, which represents Suncorp’s ongoing banking business, home loan receivables grew 3.9 per cent, which was well below system.

Earlier this month Bendigo and Adelaide Bank reported that the size of its residential loan portfolio fell four per cent from \$29.8 to \$28.6 billion in the year to June 30. New residential loan approvals fell 1.8 per cent from \$6.5 to \$6.4 billion

HSBC Australia is another bank that has reported modest operating performance this year. In the June half net loans and advances fell from \$13.17 billion a year earlier to \$13.06 billion. Customer accounts fell from \$14.4 to \$11.8 billion.

The bank did pick up some share in home loans. The book grew 12.3 per cent to \$5.7 billion. The bank was a big winner in the home loan market.

Elders Rural Bank managed less than one per cent growth in its loan book in the year to June. The bank had strong deposit flow and at June 30 total deposits of \$3.7 billion exceeded loans, which stood at \$3.6 billion.

Compare these results to the Commonwealth Bank’s performance (the only one of the big four with a June 30 balance date). The bank reported that it had a 30 per cent increase in personal account openings, 21 per cent growth in its home loan balances and 16 per cent growth in retail deposits.

Its home loan share went from 19.3 to 21.9 per cent (25.1 per cent with BankWest included). The home loan portfolio stands at \$292 billion.

Small banks’ funding disadvantage gets worse

Suncorp acting chief executive Chris Skilton summed up the position of the regional banks when he said: “The Government guarantee has clearly provided good access to global liquidity and this mechanism is being widely used by all Australian banks.

“Unfortunately, for the regional banks debt investors are differentiating between AAA rated Government guaranteed paper issued by major banks and AAA rated Government guaranteed paper issued by regionals such as ours.

“When coupled with the differentiated fee scale applied by the Government, this puts sub-AA rated issuers at a distinct disadvantage.

“This funding disadvantage will be compounded as AA banks raise non-guaranteed funding at lower all-up cost than guaranteed issuance, as they have done from domestic sources and, more recently, from offshore markets.”

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	5.25	5.45	24-08-2009	0.20
Bank of Queensland	Fixed Loan	5.54	5.64	25-08-2009	0.10
Community CPS Australia	Home & Investment Loan	5.79	5.99	25-08-2009	0.20
CUA	Fixed Loan	4.99	5.49	26-08-2009	0.50
MyLoan MyWay	Fixed Rate Loan	5.70	5.90	24-08-2009	0.20
MyRate.com.au	MyRate.com.au Fixed Loan	5.68	5.88	24-08-2009	0.20
QuickDirect	Fixed	5.70	5.90	24-08-2009	0.20

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
AMP	Fixed Rate Loan	6.39	6.59	23-08-2009	0.20
Arab Bank	Fixed Rate Home Loan	5.94	6.35	24-08-2009	0.41
Bank of Queensland	Fixed Loan	6.19	6.44	25-08-2009	0.25
Community CPS Australia	Home & Investment Loan	5.99	6.39	25-08-2009	0.40
Community First Credit Union	True Fixed Home Loan	5.69	5.99	24-08-2009	0.30
CUA	Fixed Loan	5.69	5.99	26-08-2009	0.30
Defcredit	Flexi Choice Fixed	6.75	6.80	26-08-2009	0.05
Easy Street Financial Services	EasyHome Fixed	5.69	5.99	24-08-2009	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
AMP	Fixed Rate Loan	6.99	7.19	23-08-2009	0.20
Arab Bank	Fixed Rate Home Loan	6.59	6.99	24-08-2009	0.40
Bank of Queensland	Fixed Loan	6.74	6.99	25-08-2009	0.25
Community CPS Australia	Home & Investment Loan	6.59	6.99	25-08-2009	0.40
Community First Credit Union	True Fixed Home Loan	6.49	6.69	24-08-2009	0.20
CUA	Fixed Loan	6.39	6.79	26-08-2009	0.40
Defcredit	Flexi Choice Fixed	7.20	7.25	26-08-2009	0.05
Easy Street Financial Services	EasyHome Fixed	6.49	6.69	24-08-2009	0.20
Police and Nurses Credit Society	Fixed Rate Home Loan	6.69	6.99	25-08-2009	0.30
Queensland Teachers Credit Union	Home Loan Fixed	6.49	6.94	24-08-2009	0.45
Sydney Credit Union	Fixed Interest Rate Loan	6.69	6.99	26-08-2009	0.30

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	7.29	7.59	24-08-2009	0.30
Bank of Queensland	Fixed Loan	7.39	7.69	25-08-2009	0.30
Community CPS Australia	Home & Investment Loan	7.19	7.59	25-08-2009	0.40
CUA	Fixed Loan	7.29	7.79	26-08-2009	0.50
Police and Nurses Credit Society	Fixed Rate Home Loan	7.39	7.64	25-08-2009	0.25

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

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