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Rates of the Nation

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Commentary Rates of the Nation

Peter Arnold
Data Insights Director
RateCity.com.au

With the cash rate cut to 1.50 per cent in August, there was a lot of interest rate action during the past quarter – particularly in the mortgage and deposit spaces, yet little movement in credit card rates.

A lower cash rate was partly a result of the sluggish inflation figures, volatility in the dollar and a labour market that undershot expectations. However, lower home loan rates were largely due to continued competition among a handful of bullish mortgage lenders vying to offer the best rates.

Evidently, while less than half of the RBA's August cut was handed down to mortgage holders on average, there was a race to the bottom from low-rate lenders, with the lowest variable rate in the market recorded at 3.35 per cent. Fixed rates are now as low as 3.59 per cent for three years.

As borrowing has become cheaper, however, the share of loans available to borrowers with a 5 per cent deposit has fallen by a third in the past 18 months. At the start of last year, a borrower with a 5 per cent deposit had the choice of more than two-thirds of all home loan rates in the market. That's shrunk to just half of all rates and we expect the trend to continue as lenders increasingly favour 'ideal borrowers'. Notably, the gap between rates offered to owner-occupiers and investors continued to widen during the quarter – growing to 0.24 per cent.

In the deposit space, online and bonus saver rates continued to slide. Term deposits spiked temporarily, taking some of the heat out of the big banks' decision to withhold part of the August rate cut handed down to mortgage customers. But TD rates have since fallen to pre-August lows.

The outlook for the rest of the calendar year is for the low rates to remain or fall further. Mortgage lenders have continued to cut rates out of cycle in October and we anticipate that the cash rate will remain steady until 2017.

For further commentary or more detailed rate analysis, please get in touch.

Peter Arnold, Data Insights Director
RateCity.com.au

Financial Product Rate Review FY17 Q1

Key Findings

Interest rates cut across all categories, largely led by a 0.25 per cent cash rate cut in August.

Home Loans

Home loan rates trended down during Q1, following an RBA rate cut in August and continued competition among lenders. One in five mortgages now has a rate under 4 per cent.

Credit Cards

Rates fell by just 4 basis points in Q1, yet remain comparatively high against other lending products and 11 times the cash rate – little change since the Senate hearing in 2015.

Deposit Accounts

On average, deposit rates continued to fall in the first quarter, with the exception of some 3-year term deposit accounts, which spiked temporarily following the August RBA cut.

Home Loans

Overview

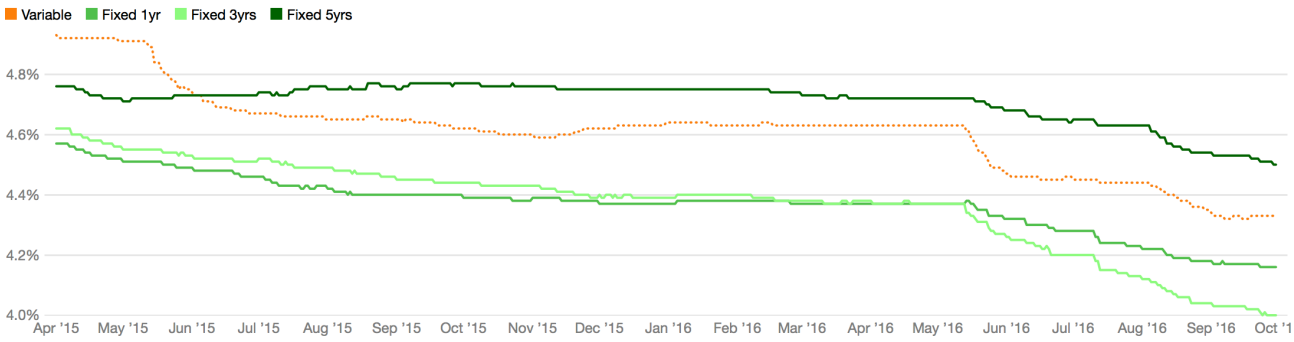
Home loan rates continued to trend downward after two RBA cuts in 2016, and a total of four cuts since February 2015, following a period of 18-months with rates on hold. Shorter-term fixed rates are sitting significantly lower than variable rates on average, suggesting there may be some room for rates to go lower in the easing cycle. Longer-term fixed rates are above variable, which suggests the low rates won't last for ever.

Quarter-on-quarter view of home loan rate movements

Metric	Date	Variable	1 Year Fixed	3 Year Fixed	5 Year Fixed
Owner-Occ	1st of July	4.45%	4.28%	4.20%	4.65%
Owner-Occ	1st of Oct.	4.33%	4.16%	4.00%	4.50%
	Change	-0.12%	-0.12%	-0.20%	-0.15%
Investors	1st of July	4.68%	4.47%	4.40%	4.80%
Investors	1st of Oct.	4.57%	4.35%	4.20%	4.63%
	Change	-0.11%	-0.12%	-0.20%	-0.17%
Investor Margin	1st of July	0.23%	0.19%	0.20%	0.15%
Investor Margin	1st of Oct.	0.24%	0.19%	0.20%	0.13%
	Change	0.01%	0.00%	0.00%	-0.02%

Movements in interest rates over an 18-month view – the downward trend continues

Fixed vs Variable rates - past 18 months



Based on average owner-occupier rates each day for approx. 100 lenders.

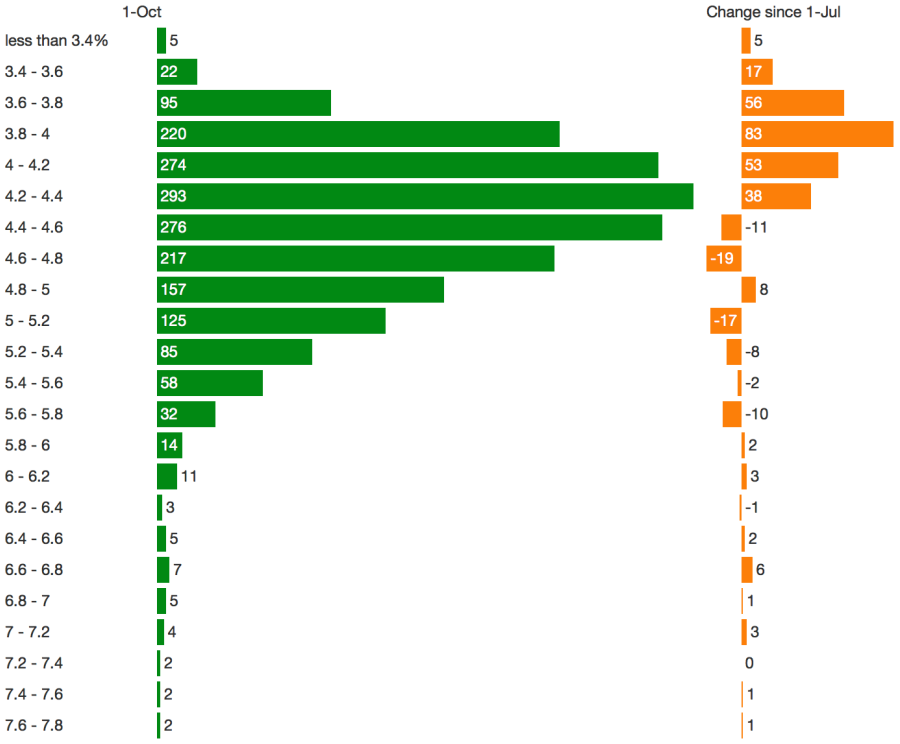
Source: RateCity Get the data

More rates available under 4 per cent

The August RBA cut brought another 161 variable rate home loans under the 4 per cent mark. As a result, 18 per cent of all variable home loan products now sit in the 'Under 4 Club', up from around 10 per cent in July. Rates under 3.8 per cent are widely available for those owner-occupier borrowers with a minimum of 20 per cent equity or deposit.

Distribution of variable rates

Number of loans in each rate band. Change is since 1 July and includes August RBA cuts

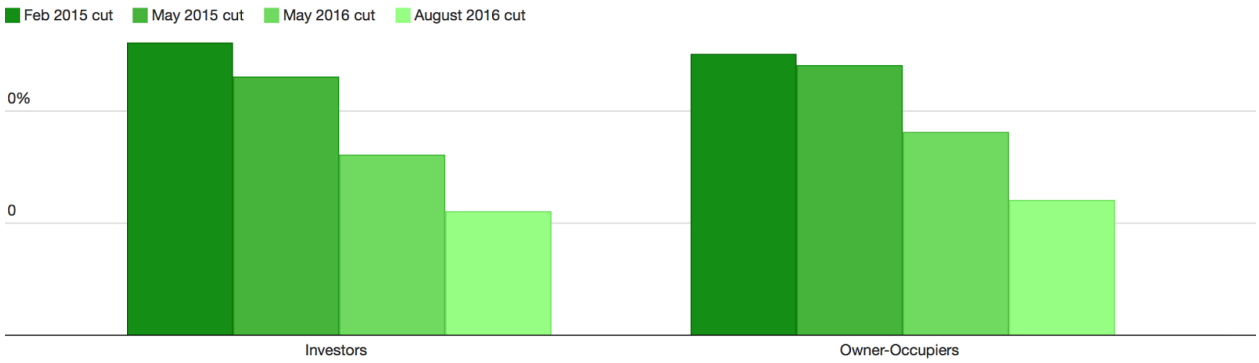


Based on all variable rates from approx. 100 lenders. Includes non-standard rates such as low doc and intro rates.

Source: RateCity Get the data

As the cash rate approaches 0 per cent, lenders are continuing to pass on a smaller proportion of each RBA-led cut to customers. Owner-occupiers are faring slightly better than investors.

Share of RBA cuts passed on to borrowers (%)

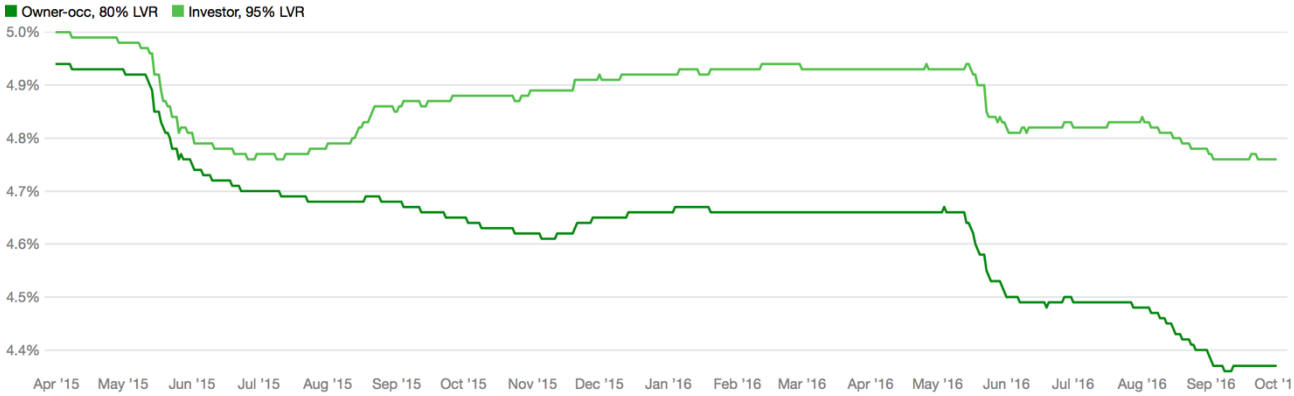


Source: RateCity Get the data

The ‘ideal borrower’ and investor-pricing premium

Now more than a year since the emergence of investor pricing and the ‘ideal borrower’ and the rate gap has continued to widen. As a result of regulatory pressure from APRA to rein in investor lending and bolster balance sheets in line with new international standards, lenders are charging more for investors and for borrowers with a small deposit. By comparison, the best deals on the market are available to owner-occupier borrowers with a large deposit. While these factors have always been great bargaining tools for borrowers when negotiating, large discounts are now being actively advertised to new customers. The below graph illustrates the change in average rates offered over an 18-month view.

'Ideal borrower' discounts emerge



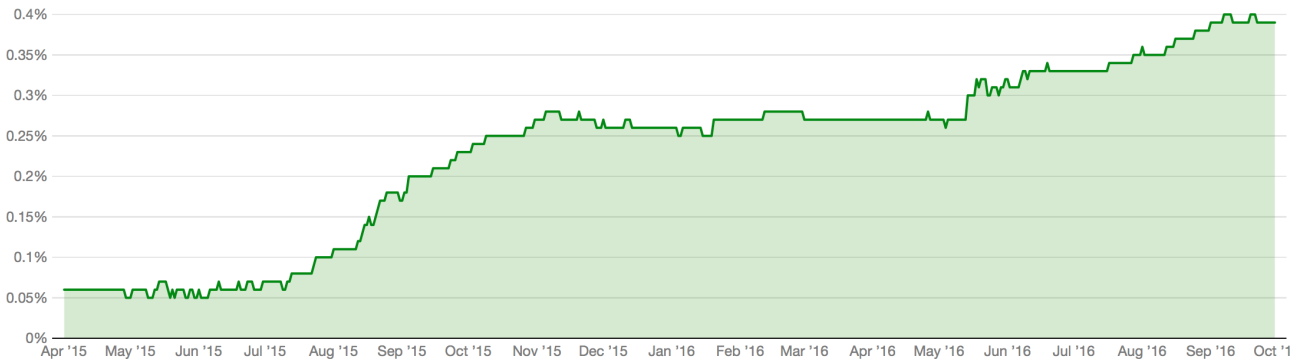
Based on average variable rates each day for approx. 100 lenders.

Get the data

The margin between rates offered to an ideal borrower and an investor without a big deposit has been steadily increasing. The trend took off when investor pricing set in around June 2015 and has since crept up with each successive RBA cut, as lenders withhold slightly more of each cut for investors or those with a small deposit, or offering bigger discounts to the ideal borrowers. The below graph illustrates the change in the gap between ideal borrower and investor rates offered over an 18-month view.

'Ideal Borrower' margin increasing

Based on the gap between the average rates for an owner-occupier with a 20% deposit, and an investor with 5%.



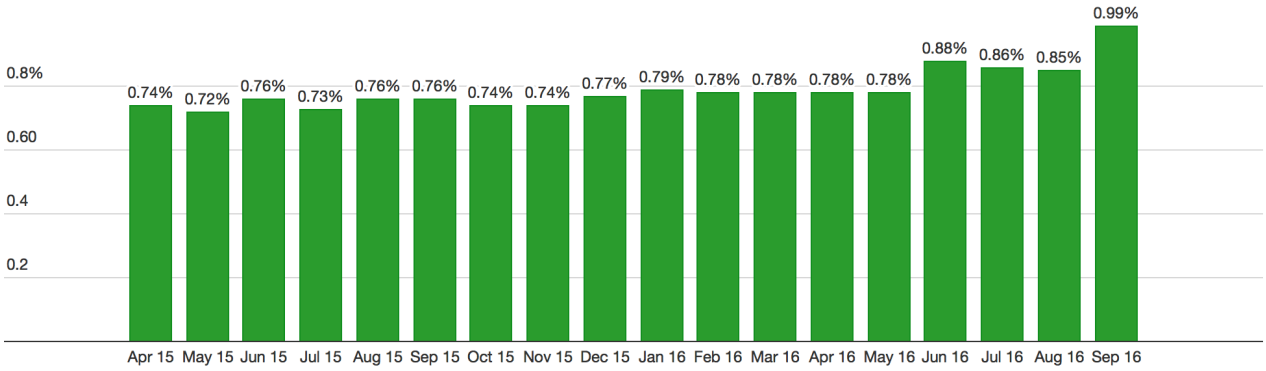
Based on average variable rates each day for approx. 100 lenders.

Source: RateCity Get the data

The cost of complacency

The cost of being complacent and not negotiating or switching to a low rate home loan is getting bigger for people living in their home, with the gap between the average rate and lowest rates growing over the recent quarter. A typical borrower stands to save several hundred dollars per month by switching. The below graph illustrates the change in the gap between the average rate and lowest rate offered to owner-occupiers over an 18-month view.

Gap between the average rate and the lowest rate (owner-occupiers)

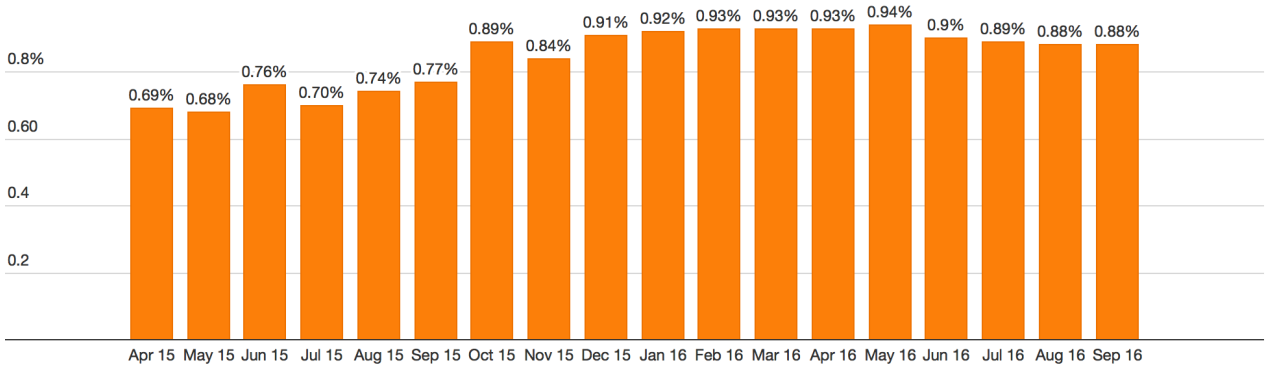


Based on average variable rates each day for approx. 100 lenders.

Source: RateCity Get the data

Competition among lenders for investor loans wasn't as fierce in the past quarter as it has for owner occupier lending. However, the gap between average and lowest investor rates has widened over the past 18 months. This came as a result of investor pricing premiums charged by most, but not all, lenders on the back of pressure from the watchdog. Many lenders that were growing their investor loan book beyond APRA's guidelines have successfully cooled their growth, leaving room to offer better deals to investors. The below graph illustrates the change in the gap between the average rate and lowest rate offered to investors over an 18-month view.

Gap between the average rate and the lowest rate (investors)



Based on average variable rates each day for approx. 100 lenders.

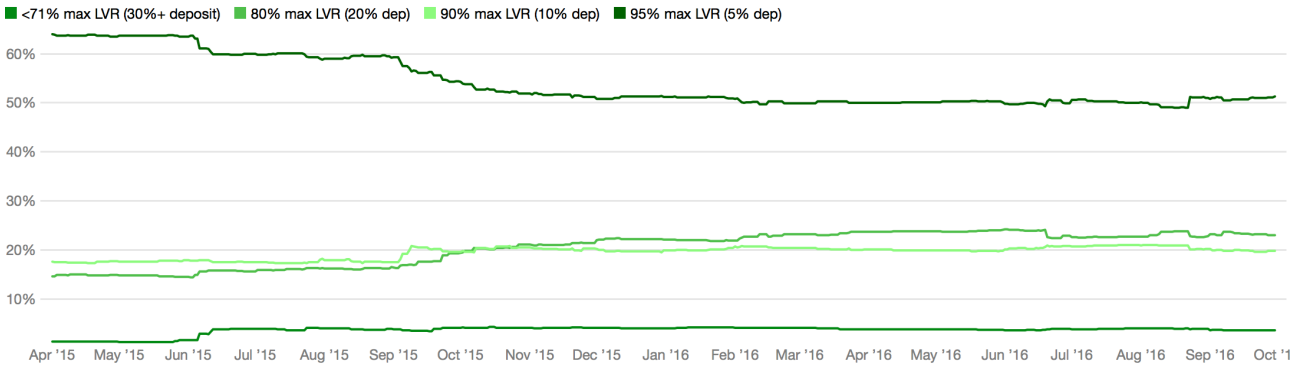
Source: RateCity Get the data

LVR pricing – share of loans available depending on deposit size

Over the past 18 months, the 'LVR pricing' has shifted. The share of loans available to borrowers with a 5 per cent deposit has decreased from 61 per cent of all loans to just 51 per cent, and there is now a greater prevalence of loans requiring a minimum of 20 per cent deposit.
The below graph illustrates the change in the share of loans available to borrowers depending on deposit size over an 18-month view.

Share of rates on offer for different deposit sizes

Measures the share of loans with the most popular maximum Loan to Value Ratios (LVR)



Based on variable, owner-occupier loan rates from approx. 100 lenders

Source: RateCity Get the data

Credit Cards

Overview

As expected, the August RBA cut had a negligible impact on credit card rates, with few rate cuts made by card providers and the average rate remaining mostly unchanged. The market continues to be dominated by fully-featured premium cards with rates ranging between 19 – 21 per cent, yet there are over 100 cards available with rates under 15 per cent.

Quarter-on-quarter view of credit card rates and fee movements

Date	Avg. Purchase Rate	Min. Purchase Rate	Average Annual Fee	Longest 0% Balance
1st of July	17.06%	8.99%	$100.07	24 months
1st of October	17.02%	8.99%	$102.02	24 months
Change	-0.04%	No change	$1.95	No change

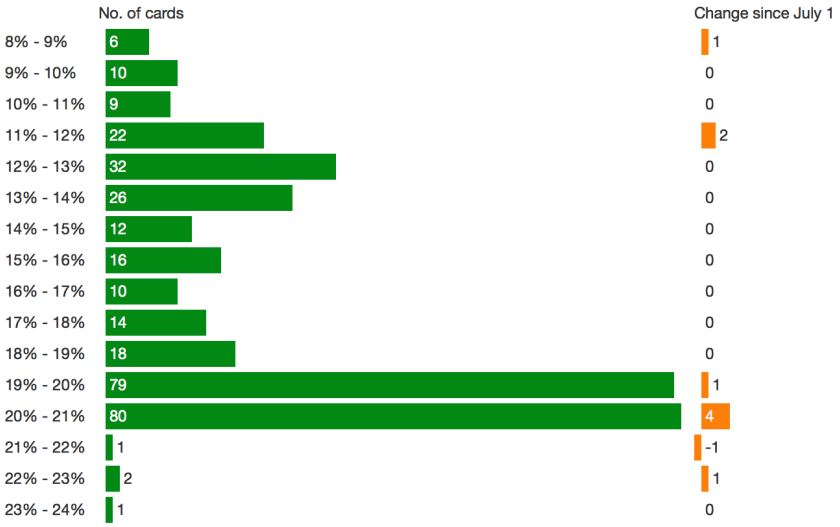
Based on approx. 300 credit cards

Credit cards remain immune to RBA cuts

Around half of the credit card market is made up of card with rates of 19 per cent and over. At the other end of the spectrum, several providers are undercutting the common 12 – 14 per cent low rate range with offers under 10 per cent. Many of these offers are from non-banks, or are limited to new-customer deals. The below graph illustrates the rate spread over the past quarter.

Distribution of credit card rates

Number of cards in each rate band. Change is since 1 July and includes August RBA cuts and new listings.



Based on approx. 300 credit cards, includes business cards

Source: RateCity Get the data

Deposit Accounts

Overview

Interest rates on deposit accounts remained low across the board, with some of the most competitive rates available on bonus saver accounts. Term deposits spiked temporarily, taking some of the heat out of the big banks' decision to withhold part of the August rate cut handed down to mortgage customers. But TD rates have since fallen to pre-August lows.

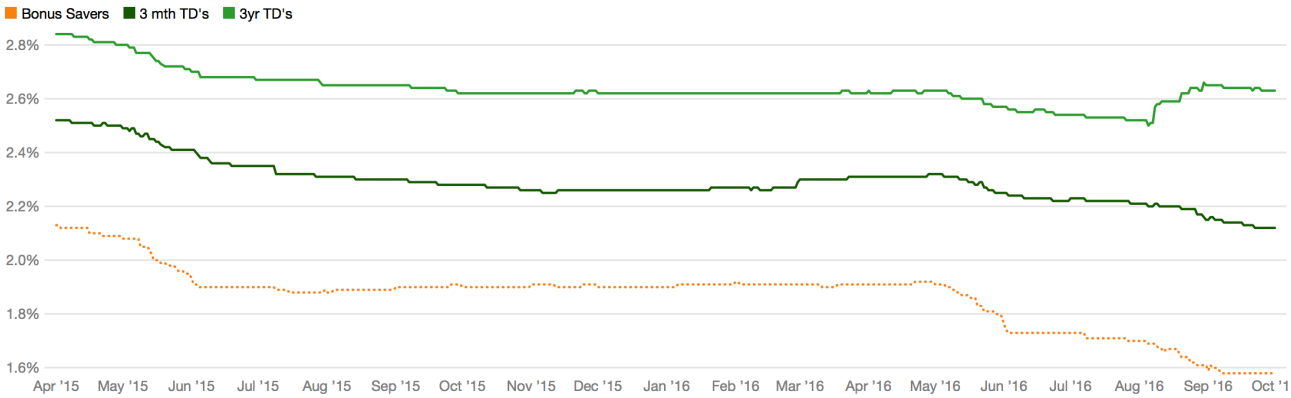
Quarter-on-quarter view of deposit account rate movements

Metric	Date	3 Months	1 Year	3 Year	5 Year	Bonus Savers
Average Rates	1st of July	2.23%	2.41%	2.54%	2.69%	1.73%
Average Rates	1st of Oct.	2.12%	2.45%	2.63%	2.61%	1.58%
	Change	-0.11%	0.04%	0.09%	-0.08%	-0.15%
Max Rates	1st of July	3.00%	3.05%	3.20%	3.20%	3.40%
Max Rates	1st of Oct.	2.90%	3.05%	3.25%	3.25%	3.20%
	Change	-0.10%	0.00%	0.05%	0.05%	-0.20%

August sees brief reprieve from deposit downtrend

Most term deposits have continued their downward trend. While 3-years term deposit rates saw a brief turnaround with some higher rates on offer following the August RBA rate cut, the average fell again towards the end of the quarter. The below graph illustrates the change in average rates offered over an 18-month view.

Term Deposit vs Bonus Saver rates - past 18 months



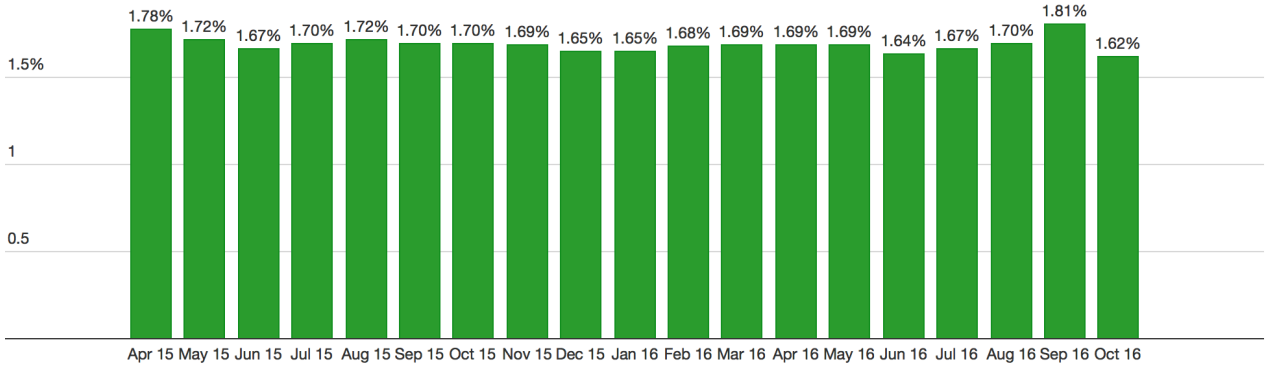
Based on average rates each day for approx. 90 providers.

Source: RateCity Get the data

Promotional rates continue to offer best rate of return

Savers willing to shop for the best rates are being rewarded with rates that are around twice as high as the average rate. Sticking to an average rate will see money going backwards once tax and inflation is taken into account. The below graph illustrates the change in the gap between the average rate and highest rate offered on bonus saver accounts over an 18-month view.

Gap between the average rate and the highest rate (bonus savers)

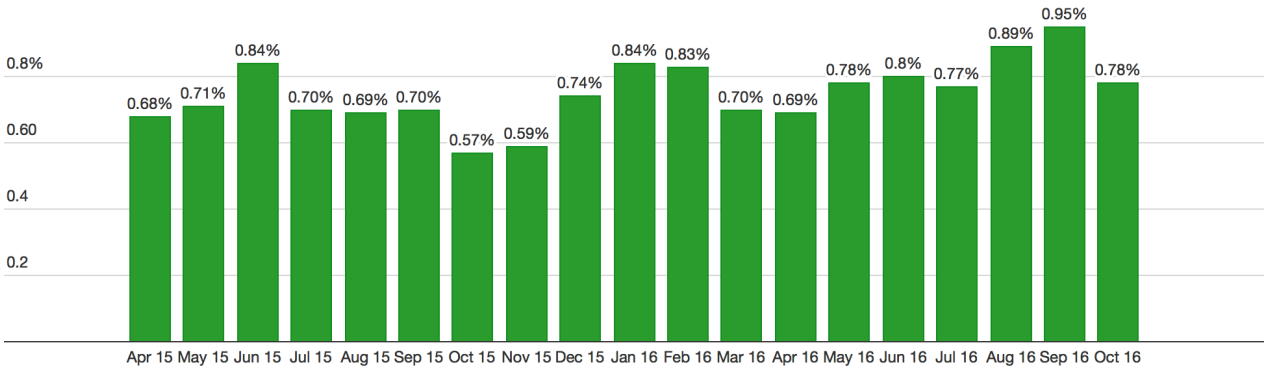


Based on average and maximum rates each day for approx. 90 providers.

Source: RateCity Get the data

The 3-month term deposit market has remained competitive, with the highest rates on offer dropping by 0.30 percentage points in 18 months, despite three RBA cuts. The below graph illustrates the change in the gap between the average rate and highest rate offered on three-month term deposit accounts over an 18-month view.

Gap between the average rate and the highest rate (3 mth TD's)



Based on average and maximum rates each day for approx. 90 providers.

Source: RateCity Get the data

Research Methodology

Overview

Our Rates of the Nation report is based on daily rate movements over the past 18 months, with additional focus on the overall changes from the start of the quarter to the end of it. Quarterly numbers are rounded to two decimal places, in some cases this may result in numbers listed that do not add or subtract for 2 decimal places. We will update and expand on the analysis on an ongoing basis.
Ut eu ligula et libero pretium auctor.

Home Loans

Graphs based on daily average or lowest rates for the specified criteria from all lenders on RateCity. Major Banks refers to the four major banks (ANZ, Commonwealth Bank, NAB, Westpac).

Deposit Accounts

Rates listed are average advertised or maximum rates. For bonus savers, rates listed include promotional introductory only rates, which are generally only available for new customers. Graphs based on daily average rates for stated deposit types.

Credit Cards

Rates, fees and deals listed in tables are based on the approximately 300 personal and business credit cards listed on RateCity. Deals are promotional introductory only rates, which are generally only available for new customers.

For further commentary, more detailed rate analysis, or suggestions for the next report, please contact Laine Gordon: 02 8096 9491 or laine.gordon@ratecity.com.au.

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For further commentary, more detailed rate analysis, or suggestions for the next report, please get in touch.

w: ratecity.com.au e: media@ratecity.com.au p: 02 8096 9491