



Aussie home dream in downward trend

By **KARINA BARRYMORE**

IT MIGHT be steady-as-she-goes for official interest rates but a host of other issues are starting to play out in "mortgage land".

Banks are gearing up for rate rises of their own, a new fee watchdog has been unleashed and a surge in the size of mortgages are all set to keep the heat on lenders and borrowers.

At the same time younger homebuyers appear to be opting out, as applications for new mortgages plunge 20 per cent from a year ago.

And just to confuse things further, the gap between fixed and variable mortgage rates is rapidly narrowing.

So, is it time to fix or float? Why are interest rates still likely to rise even if the Reserve Bank keeps its rate steady? And just what's going on with borrowers — some mortgages are getting bigger while other people are not borrowing at all?

UNOFFICIAL RATE RISES

Speculation continues to ramp up that banks and lenders are planning to raise interest rates themselves, regardless of what the Reserve Bank of Australia decides on Tuesday.

This is because Australian lenders source about 30 per cent of their money from overseas where interest rates and costs are higher.

According to forecasts, the major banks could forego up to \$700 million in additional profits this year if they do not raise their interest rates independent of any RBA increase.

The August 21 federal election looks set to be the trigger point for these out-of-cycle rate rises.

"An early election is a good outcome for Australian banks as it will allow them to re-price variable rate home loans sooner rather than later," Morgan Stanley analyst Richard Wiles says.

A rise of between 10 and 15 basis

points to standard variable rates, independent of the RBA, is needed to offset the higher funding costs this year and maintain profit levels from home loans, Mr Wiles says.

FIX OR FLOAT

The gap between fixed and floating home loans has rapidly closed, as fixed rates have been on a steady decline during the past few months.

In fact, for the first time since April last year, the four major bank standard variable rates are almost the

same as the average three-year fixed rate — just a slim 0.01 of a per cent difference, Canstar Cannex financial analyst Mitchell Watson says.

"However, there are still variable products out there which are being advertised at lower than the three year fixed rate — which is about \$100 difference in monthly repayments."

But the decision to fix or float needs to be based on individual circumstances, the analyst says.

"Fixed rates offer certainty of home loan repayments and a potential buffer if rates increase.

"Historically, variable loans have generally been the safer bet but there have been exceptions over the past 24 months were a fixed rate would have been a better option," Mr Watson says.

BIGGER MORTGAGES

The number of Australians borrowing more than \$500,000 to buy property

increased by 30 per cent during the past year and not because house prices are rising.

LoanMarket chief operating officer Dean Rushton said an average of the five capital city markets found a year ago 42 per cent of loans were more than \$500,000 but today 56 per cent are in this price range.

Melbourne borrowers had the biggest rise in the number of half-million dollar mortgages. A year ago

were more than \$500,000 while today 69 per cent are.

"There are a couple of reasons for the increase, mainly because of the strong activity of first home buyers last year. Their activity of buying smaller properties had the flow-on effect to sellers of those homes who decided to upgrade in to bigger properties," Mr Rushton says.

FEWER BORROWERS

Credit agency Veda Advantage says the withdrawal of first home buyers — as government grants and concessions dried up last year — has had a big impact on borrowing demand.

Mortgage applications during the three months to June were down 20 per cent compared with 12 months ago — the biggest drop in demand for six years.

"The first home owner market has cooled considerably in the first half of 2010. This follows on from a 15 per cent fall in the March 2010 quarter year on year," Veda spokesman Chris Gration says.

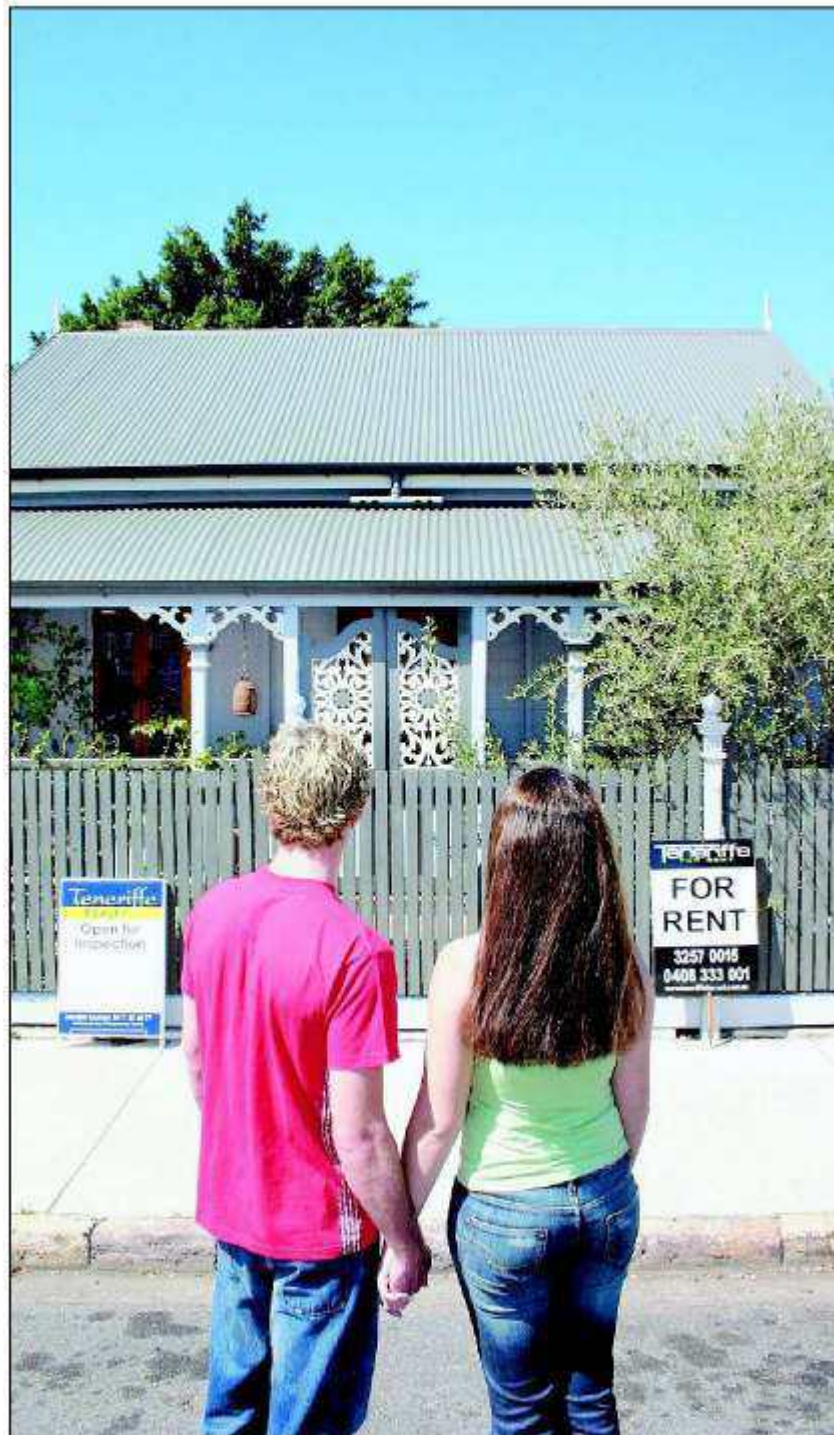
Unlike investors or existing home owners, first homebuyers are more likely to be applying for new loans, while established borrowers often have a line of credit or redraw facility to draw on.

EXIT STRATEGY

National mortgage broker eChoice says it is expecting a "flood of refinancing activity" in the next year or so, following new consumer laws.

The Australian Securities and Investments Commission has taken on a new role to review and play watchdog over mortgage fees, including exit fees, which is expected to give consumers more confidence and ability to switch their loans.

eChoice spokesman Rob DeSoza said almost two in five new mortgages during May were refinancing existing mortgages.



UNDECIDED: Younger homebuyers appear to be opting out, as applications for new mortgages plunge 20 per cent