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# Rates of the Nation

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# Commentary Rates of the Nation



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RateCity.com.au

The cash rate remained on hold at 1.50 per cent during the December quarter, yet a growing number of economic indicators suggested we'd reached the end of the rate-easing cycle.

Notably, the banks began to hike their home loan rates with close to two-thirds of lenders increasing rates on fixed loans and a smaller number lifting variable rates.

Previously, banks were betting on lower rates in the future but we saw those expectations change daily during the past quarter. The 'Under 4 Club' for fixed rates contracted by 15 per cent over the quarter; that's around 100 less sub-4 per cent fixed rates on offer now compared to three months ago.

Consumers quickly responded and appetite shifted towards fixed rates. We saw interest through RateCity for fixing rise by close to 30 per cent towards the end of the year.

Meanwhile warnings came from leading international forecasters, which said the hikes were needed to "unwind tensions from the low-interest environment, notably in the housing markets".

There were two upsets in the domestic housing market; new house sales dropped to their lowest level in two years, and support grew to review negative gearing tax rules.

Looking abroad, the Federal Reserve lifted US rates in December, and while the move eased pressure on the RBA to lift the cash rate when it meets in February, the outlook for higher rates in 2017 remains.

Some banks took the opportunity to lift rates on credit cards during the quarter, with increases made at both ends of the rate spectrum. Two of the lowest-rate cards on the market increased purchase rates from 8.99 per cent to 12.99 per cent, while the highest rate in the market lifted by 1 percentage point to 24.5 per cent – the highest on record.

Deposit rates on the other hand, began to slide during the second quarter of the financial year as banks moved to further protect their profit margins.

Looking ahead to 2017, consumers should expect more rate rises and an even tougher time finding a good rate on their savings. While there are still plenty of home loan rates under 4 per cent, those deals are less prevalent now. It's unlikely that we'll see rates return to the long term average of around 7 per cent just yet, but competition at the low-rate end of the market is slowing.

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

A handwritten signature in black ink, appearing to be 'Peter Arnold', written in a cursive style.

Peter Arnold, Data Insights Director  
RateCity.com.au

# Financial Product Rate Review **FY17 Q2**

## Key Findings

Interest rate movements across all categories, despite no change to the cash rate in Q2.



### Home Loans

Home loan rates lifted during Q2. Notably, two-thirds of lenders hiked fixed rates while a smaller number of lenders lifted variable rates, with more set to follow in 2017.



### Credit Cards

Banks lifted some credit card rates during the December quarter, including hikes to the lowest rates and highest rates in the market.



### Deposit Accounts

The December quarter brought more pain for savers as deposit rates fell as banks continued to move to protect their profit margins.

# Home Loans

## Overview

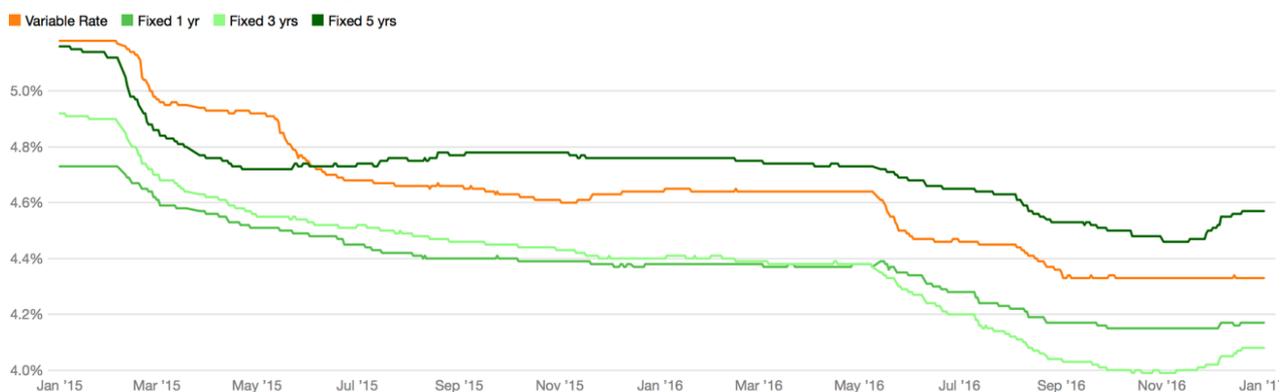
Home loan rates began to rise towards the end of the December quarter, despite no change to the cash rate. Banks initially lifted fixed rates, betting on where rates would be in the future. Later, some banks began to lift variable home loan rates. Longer-term fixed rates are sitting higher than variable rates and rising by the biggest margins, which indicates that banks don't expect low rates will last forever.

## Quarter-on-quarter view of home loan rate movements

Metric	Date	Variable	1 Year Fixed	3 Year Fixed	5 Year Fixed
Owner-Occ	Oct. 1, 2016	4.34%	4.15%	4.00%	4.50%
Owner-Occ	Jan. 1, 2017	4.33%	4.17%	4.08%	4.57%
	Change	-0.01%	0.02%	0.08%	0.07%
Investors	Oct. 1, 2016	4.57%	4.35%	4.21%	4.63%
Investors	Jan. 1, 2017	4.6%	4.34%	4.26%	4.70%
	Change	0.03%	-0.01%	0.05%	0.07%
Investor Margin	Oct. 1, 2016	0.23%	0.20%	0.20%	0.13%
Investor Margin	Jan. 1, 2017	0.27%	0.17%	0.18%	0.14%
	Change	0.04%	-0.03%	-0.02%	0.01%

## Movements in interest rates over a 24-month view

Fixed vs Variable rates - last 2 years



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

[Get the data](#)

## Movements in interest rates over Q2

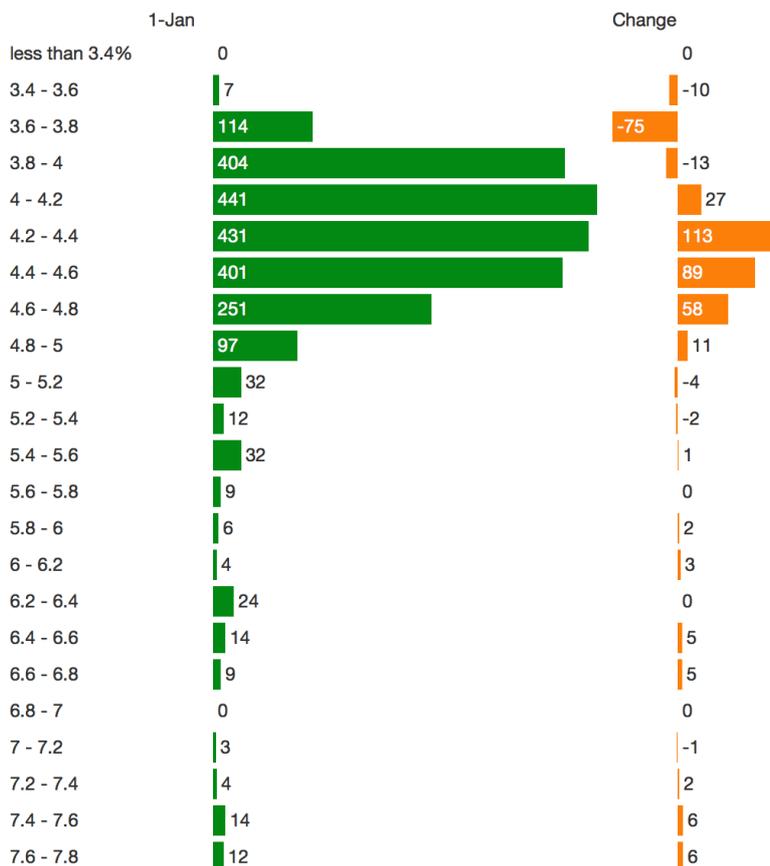
	No. of Companies	No. of Increases	Average Increase
Variable	18	125	0.11%
Fixed	65	1276	0.19%

## Fewer fixed rates available under 4 per cent

The number of loans with a rate under 4 per cent dropped significantly during the December quarter, as 98 fixed loans pushed to 4 per cent or higher. However, 525 fixed home loans remain in the 'Under 4 Club', while the majority of home loan rates sit in the range of 3.8 per cent to 4.6 per cent.

## Distribution of fixed rates - deals under 4% getting harder to find

Number of loans in each rate band. Change is since 1 October and includes new product listings.

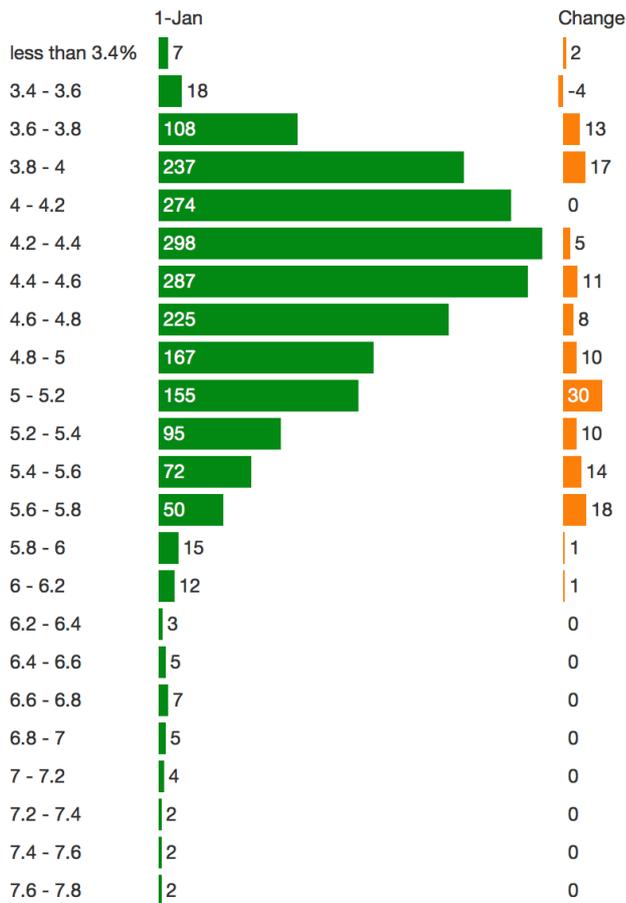


Based on all variable rates from approx. 100 lenders. Includes non-standard rates such as low doc and intro rates.

Source: [RateCity](#) [Get the data](#)

# Distribution of variable rates

Number of loans in each rate band. Change is since 1 October and includes new product listings.



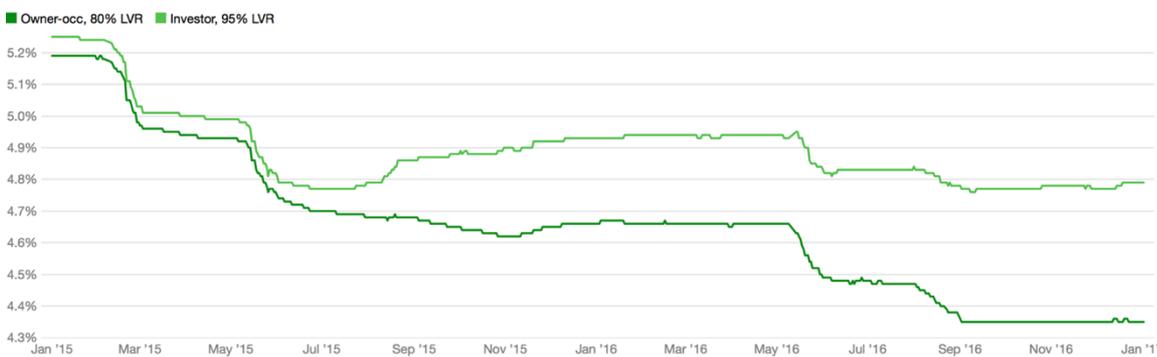
Based on all variable rates from approx. 100 lenders. Includes non-standard rates such as low doc and intro rates.

Source: [RateCity](#) [Get the data](#)

## The 'ideal borrower' and investor-pricing premium

Investor borrowers are still being charged higher rates on average compared to owner-occupiers – particularly those with big deposits. However, the most notable change to the 'investor-pricing premium' during the past quarter was that the growth in the margin between those rates has plateaued and is expected to remain steady into 2017.

'Ideal borrower' discount



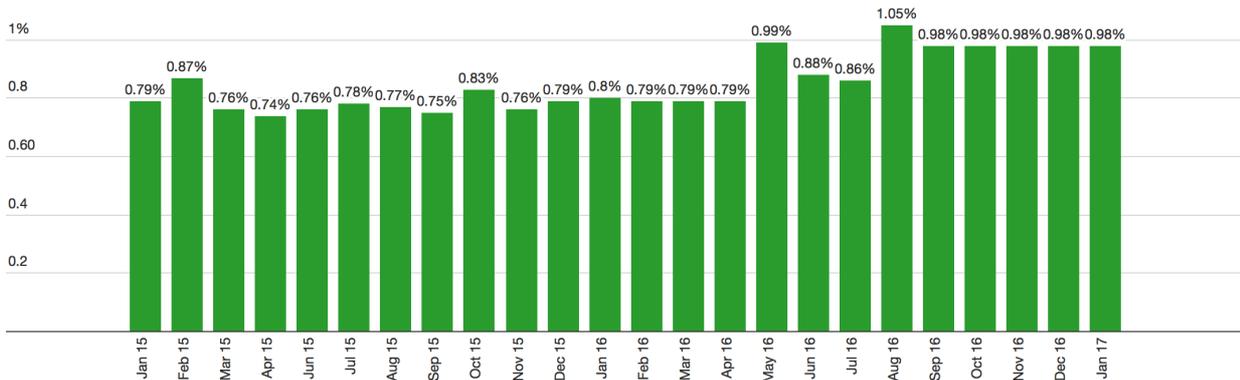
Based on average variable rates each day for approx. 100 lenders.

[Get the data](#)

## The cost of complacency

The cost to borrowers, who stay with one of the Big 4 banks rather than negotiating or switching to a lower rate home loan, remains high. Yet, the gap between the average rate and the lowest rate has remained mostly steady over the past 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 a 24-month view.

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

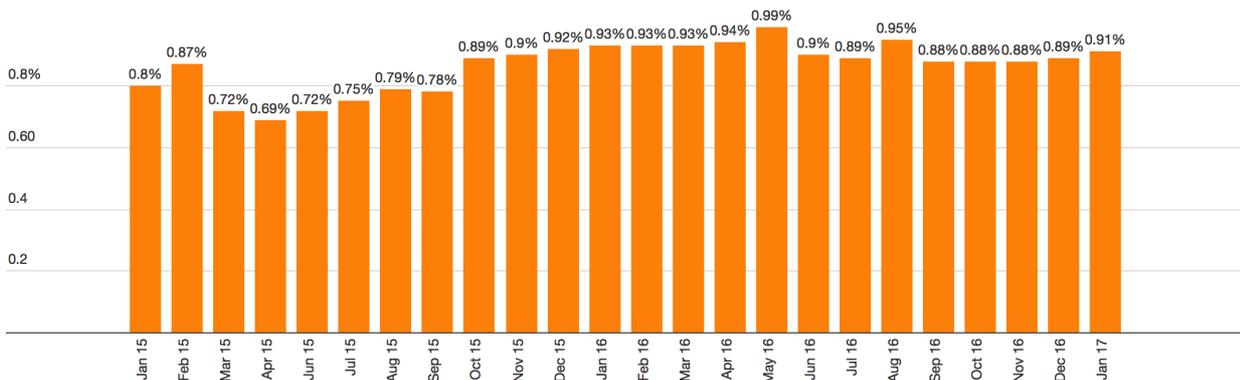


Based on average variable rates each day for approx. 100 lenders.

Source: [RateCity Get the data](#)

The below graph illustrates the change in the gap between the average rate and lowest rate offered to investors over a 24-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

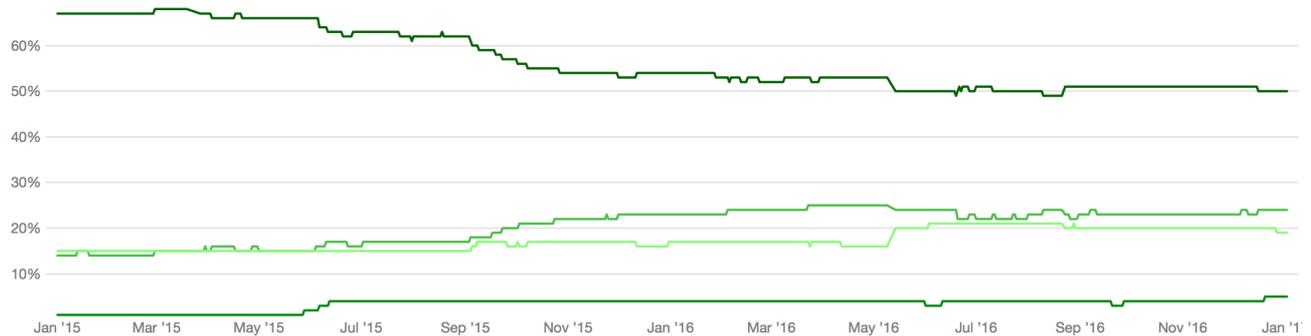
Over the past 24 months, the 'LVR pricing' has shifted. The share of loans available to borrowers with a 5 per cent deposit has decreased from 61 per cent of all loans to just 50 per cent, and there is now a greater prevalence of loans requiring a minimum of 20 per cent deposit.

The below graph illustrates the change in the share of loans available to borrowers depending on deposit size over an 24-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)

■ <71% max LVR (30%+ deposit) ■ 80% max LVR (20% dep) ■ 90% max LVR (10% dep) ■ 95% max LVR (5% dep)



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

Source: [RateCity](#) [Get the data](#)

# Credit Cards

## Overview

The average purchase rate on credit cards lifted slightly this quarter with hikes made at both ends of the rate spectrum. Two out of three of the lowest-rate cards on the market had their rates lifted, while the highest rate in the market increased by 1 percentage point to 24.5 per cent – the highest on record.

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

Date	Average Purchase Rate	Minimum Purchase Rate	Average Annual Fee	Longest 0% Balance Transfer
Oct. 1, 2016	17.05%	8.99%	\$102.06	24 months
Jan. 1, 2017	17.08%	8.99%	\$103.18	24 months
<b>Change</b>	<b>0.03%</b>	<b>No change</b>	<b>\$1.12</b>	<b>No change</b>

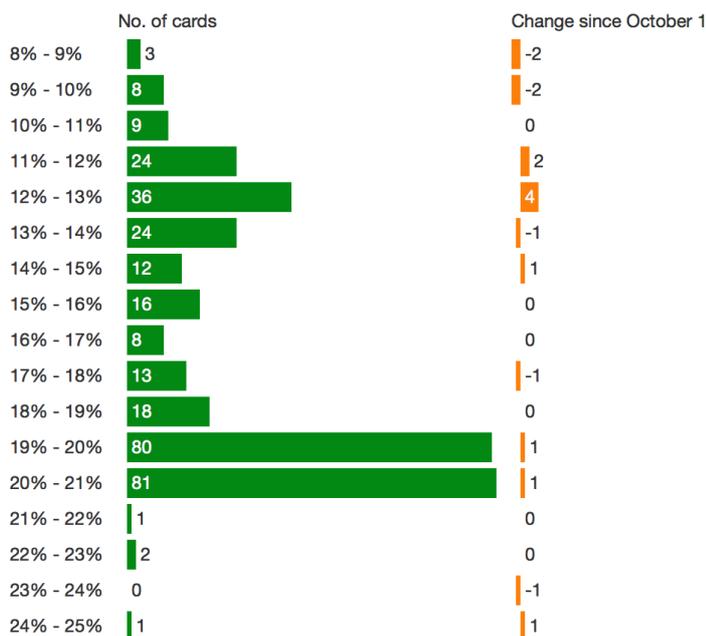
Based on approx. 300 credit cards

## Fewer rates under 10 per cent

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. However, the number of cards available in this bracket fell in the past quarter. 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 October and includes new listings.



Based on approx. 300 credit cards, includes business cards

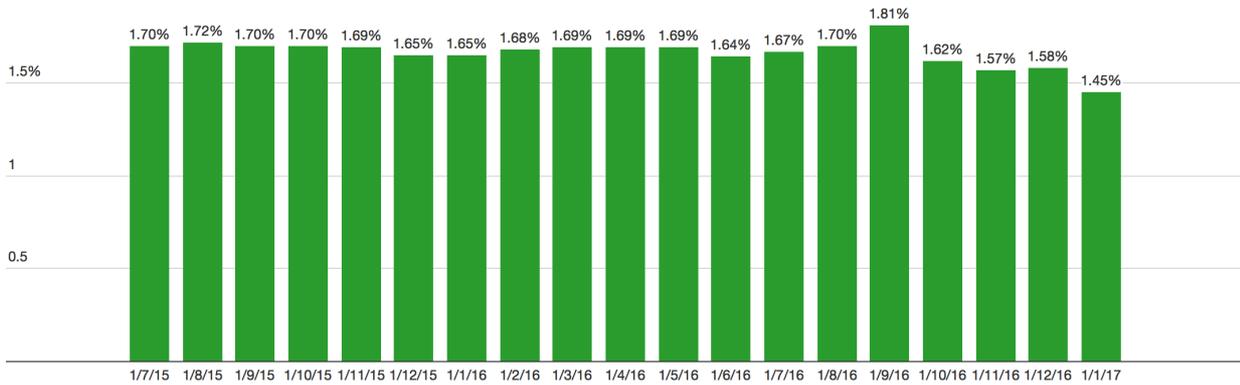
Source: [RateCity](#) [Get the data](#)



## 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, though this margin has closed in the past quarter as max rates took a dive. The below graph illustrates the change in the gap between the average rate and highest rate offered on bonus saver accounts over a 24-month view.

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

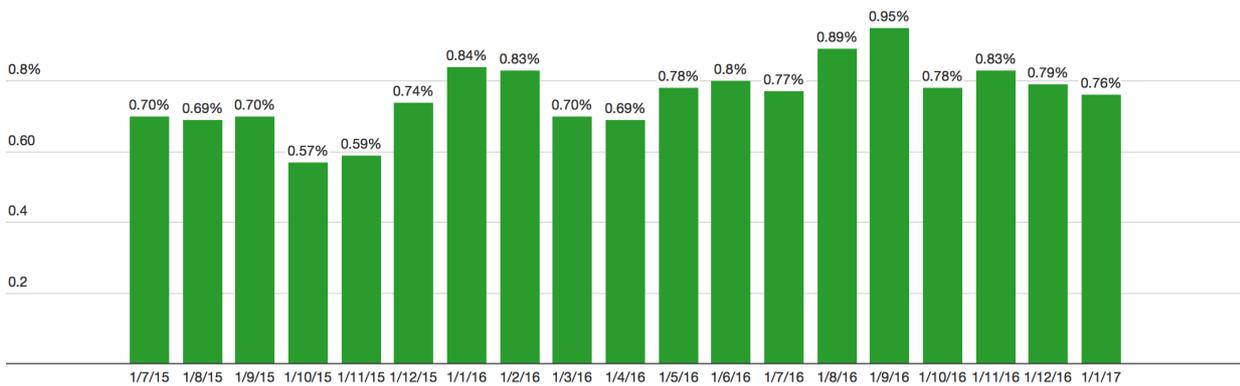


Based on average and maximum rates each day for approx. 90 providers.

Source: [RateCity](#) [Get the data](#)

Interest rates on 3-month term deposit accounts dropped during the past quarter, with average and maximum rates falling by 8 and 10 basis points respectively. However, compared with 18 months ago the margin is slightly higher now. 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.

### 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](mailto:laine.gordon@ratecity.com.au).



## About RateCity.com.au

RateCity.com.au is Australia's leading financial comparison website, where Australians can easily search, compare and apply for over 13,000 financial products – from credit cards to home loans to car insurance – from over 200 institutions.

Our job is to take the hassle out of finding the right financial products online – saving our users both money and time.

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

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