

Banks hike rates as RBA mulls further cuts

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By Stuart Fagg, **ninemsn Money**

Australia's biggest banks have raised interest rates on fixed rate mortgages amid ongoing concerns that homeowners are not getting the full benefits of cuts in official rates.

None of the major banks passed on all of the Reserve Bank of Australia's 25 basis point cut in rates earlier this month and yesterday Commonwealth Bank and Westpac said they are hiking rates on fixed mortgages.



National Australia Bank confirmed today that it has raised interest rates on fixed home loans by 20 basis points carrying a two and three year term.

The moves to raise rates comes as the Reserve Bank mulls further cuts to the official cash rate, which stands at 3 percent, the lowest since 1960. Analysts expect the RBA to make further cuts, with some calling for rates to bottom at 2 percent.

The minutes of the RBA's April meeting, released today, did nothing to dampen expectations of further cuts in rates. "There is nothing in these minutes that requires a reassessment of our view that the Bank will pause in May, with an ultimate goal of a cash rate low of 2 percent sometime in the final quarter of 2009," said Bill Evans, chief economist at Westpac Institutional Bank.

Some observers have been concerned that as the economy slows, the failure the banks to pass on official interest rate cuts in full have undermined the Reserve Bank's attempts to stimulate the economy through rate cuts.

"We are concerned that interest rates on variable homeloans haven't been lowered," Christopher Zinn of Choice told ninemsn. However, he added that rates on fixed loans tend to be determined by longer term trends in the money markets rather than short term changes in the cash rate.

The banks have continually blamed higher funding costs for their inability to pass on rate cuts but have benefitted from a government guarantee on deposits.

Experts said the biggest impact of the rate hikes would be on property investors.

"Those most affected will be investors with property portfolios," Andrew Willink, managing director of RateCity.com.au told ninemsn. "They tend to be the biggest fixers." Mr Willink added that many people are looking at locking in low rates by fixing their mortgage.

Savanth Sebastian, economist at CommSec, said that cutting rates indefinitely to try and simulate the economy is not necessarily a good idea as only one-third of Australians have mortgages and rate cuts hurt those with savings.

Claims by the banks that higher funding costs have prevented them from passing on recent interest rates cuts have been shot down by analysts who point to burgeoning margins on margins and corporate loans.

An analysis, by brokers Goldman Sachs JB Were, and separately by Bank of America Merrill Lynch, says the banks will pocket the amount of interest rates not passed on as extra profit.

The higher rates on fixed mortgages will apply to new loans.

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