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interest rates story

Mortgage respite in sight for homeowners

- **EXCLUSIVE** by John Rolfe
- From: **The Daily Telegraph**
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Sarah Emms and Strathmore Meurer with their son Louis, 15 months, at their Petersham home.
Picture: Kristi Miller

Source: The Daily Telegraph

- 'Banks will raise rates less than RBA hikes'
- RBA forecast to raise rates by 1% in 2010
- 'Banks will continue to undercut in 2011'

BANKS will not pass on the full increases in interest rates this year in a reversal which would save home loan customers a combined \$150 million a month.

Australia's top macroeconomist Chris Richardson yesterday said that increasing competition for new customers and lower funding costs would cause major lenders to absorb about 30 basis points of Reserve Bank increases during the second half of 2010.

Futures markets predict the Reserve will raise official interest rates by 1 per cent this year, beginning with a 25 basis point increase in February or March.

If lenders passed on only 70 basis points in 2010, as Mr Richardson expected, homeowners repaying a \$300,000 mortgage would save more than \$60 a month.

And with an estimated 80 per cent of Australians' \$900 billion worth of home loans being at variable rates, the overall benefit would be about \$150 million a month.

Should banks begin to undercut the Reserve it would bring to an end a near three-year assault on borrowers, a time in which the margin between variable home loan rates and official interest rates

has risen from just 1.8 per cent to as much as 3 per cent.

"That's going to go into reverse," Mr Richardson, director of Canberra-based Access Economics, said. "We are probably looking at 30 basis points in 2010 and another 30 or 40 points in 2011."

Leading market economist AMP Capital Investors chief Shane Oliver agreed.

"Banks will be raising rates less than the RBA by year's end," he said.

Mr Richardson's forecast that lenders would undercut by a further 40 basis points in 2011 would potentially save typical home loan customers an additional \$80 a month, bringing the total saving to \$140 a month.

That would be great news for new homeowners such as Strathmore Meurer and Sarah Emms. The St George customers, who bought a Petersham house, have already been hit by repayment increases of \$300 a month.

"It would make a real difference to our budget," Ms Emms said, as she watched 15-month-old son Louis play yesterday. "Rate rises are already having an effect on our plans to have another baby."

Mr Richardson anticipated a race between banks to be the first to go lower.

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