media release

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FOR IMMEDIATE RELEASE

U.S. defaults bite Aussie home owners

CANNEX releases *mortgage star ratings* report today.

Home borrowers across the country are picking up the tab for the extra costs lenders are being forced to pay on the U.S.-driven, volatile wholesale money market.

Dwindling wholesale money supplies, higher prices and more internal competition for that money has meant that interest rate rises on home loans are now not aligned with the official cash rate dictated by the Reserve Bank (RBA).

“As the global crisis deepens, lenders have seen their profit margins squeezed to such an extent they have been forced to take drastic action,” CANNEX financial analyst Frank Lopez said.

“Some of these costs have been passed on to borrowers in the form of new fees such as legal, administrative or loan servicing fees.”

A further rate cut or two is widely predicted to happen before the year is out but at this stage, banks are reluctant to commit to passing the rate cuts on to customers.

CANNEX notes that in July 2007, just prior to the onset of the credit crunch, the major banks’ average standard variable rates were 1.68% above the RBA cash rate. This has increased to 1.82% by the start of 2008, and has recently widened further to a 2.36% margin.

“Most lenders claim to be absorbing these added costs but they are increasingly being passed on to borrowers, as lenders focus on remaining viable in this volatile financial environment,” Mr Lopez said.

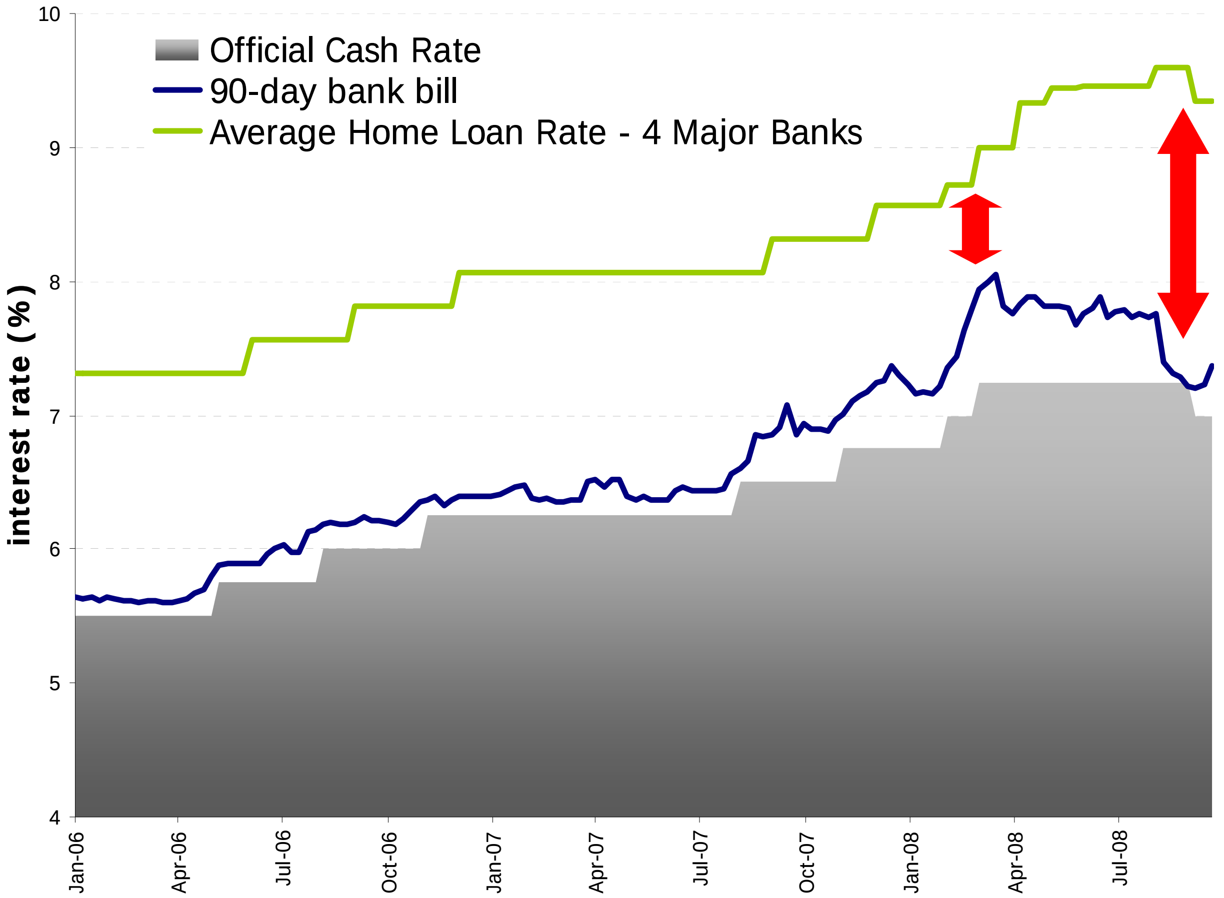
According to CANNEX, funding costs on the wholesale markets along with the increasing difficulty in obtaining those funds is proving a headache for our financial institutions which are busy trying to reduce the debt burden on their balance sheets.

Lenders tend to use the 90-day swap rates as a guideline on mortgage pricing, as this measure reflects the cost of funding for them. Early this year, the 90-day rate indicated the market expected the RBA to continue increasing the cash rate.

A sharp turnaround was experienced around July-August with 90-day rates showing expected decreases in the cash rate.

“Earlier in the year, the margin between mortgages rates and the 90-day swap rate was much narrower, suggesting lenders were absorbing some of the increased funding costs,” Mr Lopez said.

“In subsequent months we have seen lenders increase their rates in order to restore their long-term margins.”



Source: CANNEX September 2008

The chart above illustrates how volatile the relationship between the RBA cash rate, 90-day swap rates (or bank bills) and variable mortgage rates has become during recent months as the credit crunch tightens its grip on the economy.

“As bad and uncertain as the situation currently is for home owners, the fact that we have such a competitive banking system is protecting borrowers from regular and frequent rate rises,” Mr Lopez said.

CANNEX today released its *mortgage star ratings* report to provide consumers with a list of home loans which may be suitable for their purposes.

CANNEX researched and rated over 1,600 mortgages, awarding five stars to those offering superior value. Consumers can download the CANNEX *mortgage star ratings* report free on www.cannex.com.au

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About CANNEX:

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