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Media Release

Banks Residential Lending Portfolios Kick Into Gear

(21 October 2013 – Australia) The resurgent property market is driving falling debt to deposit ratios at leading Australian mortgage lenders according to the latest research from industry analysts East & Partners.

Over 70 percent of Australian domestic loans are geared towards the household sector, with the Big Four accounting for 85 percent retail lending market share. This gives further impetus to the argument for more competition amongst lenders, undoubtedly impacting deposit to loan ratios as incumbent mortgage lending heavy weights fiercely defend their hard fought market positions.

East's Deposit Funding and Deb Index (DFDI) measures the ratio of deposits to lending in the banking system. The most recent results for September reveals significant variance between retail and business DFDI ratios as the Big Four converge on a total DFDI ratio of 0.60. This infers that borrowers are depositing 60 cents for every dollar borrowed, broadly assuming a net borrower status.

Suncorp and 'Other' non-bank ADI's are also balancing deposit and lending volumes at a DFDI ratio approaching 0.60. Macquarie and regionals BOQ and Bendigo Adelaide operate relatively higher total DFDI ratios closer to 0.90 due to their higher deposit balance requirement relative to loans. The below DFDI ratios illustrate the constrictive requirements placed on smaller banks to maintain larger volumes of reserve capital against residential home lending.

Total Deposit Balances / Total Lending Balances

	Bank Ratios		
	2011	**2012**	**2013**
ANZ	0.68	0.51	0.51
CBA	0.74	0.62	0.60
NAB	0.68	0.56	0.55
WBC	0.66	0.55	0.58
MQG	2.76	1.67	0.90
BOQ	0.81	0.82	0.88
BEN	0.97	0.88	0.86
SUN	0.59	0.54	0.58
Other	0.50	0.62	0.64
TOTAL	0.70	0.57	0.58

Source: East & Partners Deposit Funding & Debt Index – September 2013

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The RBA has warned banks not to lower lending standards in the face of slow credit growth, particularly given the risks of rising interest rates pricing out potentially overleveraged residential property borrowers. The prevalence of investment property demand underpinning rising house prices is also noted by the RBA and APRA as a point of concern, given their higher liquidity relative to first home buyers and owner-occupiers.

Households are more reluctant than businesses to increase leverage, with saving and borrowing behaviours irrevocably altered by the GFC over five years ago. Historically low interest rates and competitive mortgage lending offers from banks outside of the Big Four are slowly changing the face of the property finance market. Business markets on the other hand are more reactive to changes in underlying lending conditions, especially Micro and SME segments that have altered their borrowing demand faster than at any time in the last three years.

The SME segment has recapitalised the fastest, rapidly transforming their funding base in the current low interest rate environment as lending markets slowly kick into gear. The SME DFDI ratio has plunged from 2.38 in 2012 to 1.36 today. Where SME's were depositing $2.38 for every $1 borrowed last year, they are now depositing a mere $1.36 per dollar borrowed.

East & Partners Senior Markets Analyst Martin Smith comments: "Australian banks have significant cash reserves which they are eager to deploy to the highest growth markets yielding the highest return and most consistent revenue stream"

"Residential loan growth has been the most responsive to declining interest rates, although whether this is the spark that broader credit markets have been looking for will depend on how resilient lending growth remains in the face of a more hawkish RBA tone as early as 2014"

"Calls to level the playing field and allow smaller banks greater latitude in how they leverage mortgage portfolios are justified in a competitive sense, but must be balanced against the regulatory requirement of controlling systemic default risks."

About the East & Partners Deposit Funding & Debt Index

East & Partners monthly Deposit Funding and Debt Index (DFDI) provides insightful research supporting the implementation of bank funding strategies within a constrained and competitive lending market. The industry benchmarks are based on monthly deposit and lending data released by the Australian Prudential Regulation Authority (ARPA). Capturing trending data across core deposit funding and lending metrics allows unique insights to be derived, including business to retail deposit volume ratios, deposit and lending market share, rate triggers for deposit switching, deposit churn levels and tenure of term deposits.

Note: Business Depositor Segments
- Institutional – A$725 million plus
- Corporate – A$20-725 million
- SME – A$5-20 million
- Micro – A$1-5 million

For more information or for further interview based insights from East & Partners on this DFDI, please contact:

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