**RateCity**

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**Borrowers not receiving full benefits from falling interest rates**

There’s a school of thought that Australia’s central bank, the Reserve Bank of Australia (RBA) has lost a level of control over interest rates.

Indeed financial comparison website, RateCity.com.au, reports that following the 25 basis point cut in June, only 32 lenders lopped their standard variable mortgage rates – with just 2 lenders – ANZ and Unicredit WA – passing on the 0.25 percent cut in full.

Generally speaking, changes in the official cash rates by the RBA have been something of an indicator of the direction and size of the cuts (and/or increases) that the lenders would pass onto their variable rate home loan customers.

But times have changed and in a speech to the National Press Club in May, Paul Howes, national secretary of the Australian Workers Union, argued that “the banks have effectively decided that they don’t need to listen to the RBA or anyone else when it comes to the setting of interest rates.”

The banks claim in their defence that they are working independently of the RBA as a consequence of the impacts of current global economic instability and the expenses associated with sourcing their funding.

"Our funding situation remains elevated due to high wholesale funding costs and strong competition for deposits, which has put interest paid to term deposit customers at an all time high relative to the RBA cash rate,” says Lisa Gray, Group Executive Personal Banking from the NAB, which passed on a 0.21 percent cut in June compared with the RBA’s 25 basis point cut.

Dr Rebecca Valenzuela, from the Department of Economics at Monash University is unconvinced.

“I believe that banks set their own lending rates because they can – there is simply not enough competition within the banking industry to make them fear a massive exodus of clients.”

“In Australia, this means promoting a more level playing field so that smaller lenders can compete with the bigger banks. The presence of foreign banks should also be encouraged,” says Dr Valenzuela.

Indeed, Michelle Hutchison, spokesperson for RateCity.com.au, advises, “Some smaller financial lenders are advertising several standard variable loans more than a full percent lower than the average big four banks.

“By switching to a better deal, you could produce a dollar saving far exceeding any recent interest rate cut determined by the RBA,” adds Hutchison.

If you are considering a home loan switch, visit [www.ratecity.com.au](http://www.ratecity.com.au), which has more than 2,000 competitive mortgages from Australia’s leading lenders.

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