We look at how mortgage pricing compares with what Aussies pay for the same sort of loans. We find that 'advantages' we noted 18 months ago have disappeared as banks 'protect margins'

Posted in News January 19, 2017 **David Chaston**

Local news has plenty of items about rising interest rates, especially those that affect home owners.

Similarly in Australia, rising rates there are making the headlines too.

The expectation is that rising rates over the ditch may bring financial stress sooner than here. That makes it 'news'.

So it is time to compare rates between countries, especially for mortgage borrowers.

What this shows is that New Zealanders pay a premium interest rate for all terms. But the premium is smallest in the shorter terms.

Wholesale interest rates are lower in Australia, so a premium for New Zealand borrowing should not be surprising.

These wholesale costings show the premium is about +20 bps at the short end, and about +30 bps at the long end.

Aussies pay about 5.30% for floating rate mortgages whereas Kiwis pay about 5.60%. But the 90 day bank bill rate is only +20 bps higher here than there. That reinforces the idea that floating rate margins are better for these banks on this side of the ditch. It may also bolster the motivation for Kiwis to go for fixed terms, which we do far more freely that the Aussies do.

For a two year fixed rate, we pay about 4.70% on average, a +2.28% margin to swap.

If you were a borrower in Australia, that 2 year fixed would cost about 4.10% on average, a +2.06% margin to swap.

It might be fair to assume banks on this side of the ditch operate with slightly fatter margins than their parents do. Certainly, the profit results and other international benchmarking suggests the same.

In New Zealand there are about nine or ten active banks seeking mortgage business, but **96% of all business is being done by just five of them**.

There are **far more options in Australia** with well over 25 institutions with a home loan book over AU$1 bln, and the four majors with 'only' an 83% market share. But the sheer scale means that 17% not with the four pillar banks is a market of $261 bln, itself larger than the whole New Zealand home loan market.

We pay about +0.25% for being in a smaller market (the extra margin to swap), and another +0.30% for being in a less competitive market.

Here is the current comparison:

Residential mortgage interest rates						
January 19, 2017	**Floating**	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
New Zealand	%	%	%	%	%	%
ANZ	5.69	4.45	4.75	5.49	5.70	5.85
ASB	5.65	4.49	4.79	5.09	5.49	5.69
BNZ	5.64	4.49	4.79	5.09	5.69	5.79
HSBC	5.59	4.19	4.39	4.69	5.09	5.29
Kiwibank	5.40	4.35	4.54	4.99	5.45	5.55
Westpac	5.65	4.49	4.79	5.09	5.69	5.49
NZ average	**5.60**	**4.41**	**4.68**	**5.07**	**5.52**	**5.61**
Swap rates	1.99*	2.15	2.40	2.62	2.80	2.94
margin to swap	3.61	2.26	2.28	2.45	2.72	2.67
Australia						
ANZ	5.25	4.54	4.13	4.34	4.64	4.74
CBA (ASB's parent)	5.22	4.54	4.14	4.24	4.54	4.74
HSBC	5.23	3.85	3.95	4.19	4.49	4.59
NAB (BNZ's parent)	5.55	3.99	4.08	4.19	4.69	4.69
Suncorp	5.40	4.19	4.04	4.04		4.64
Westpac	5.29	4.59	4.19	4.29	4.79	4.59
AU average	**5.32**	**4.28**	**4.09**	**4.22**	**4.63**	**4.67**
Swap rates	1.78*	1.86	2.03	2.18	2.51	2.61
margin to swap	3.54	2.42	2.06	2.04	2.12	2.06
* 90 day bank bill rate						
differential (NZ-AU)	**+0.28**	**+0.13**	**+0.59**	**+0.86**	**+0.89**	**+0.94**

These are the carded rate differentials - negotiation can lower your actual rates, and your effective costs will be affected by incentives and fees. (Home loan fees are more pervasive in Australia, so much so that they require banks to declare "comparison rates". The above table does not account for those costs.)

We did a similar **comparison in February** 2015. And **another** in November 2015.

In the time since we last explored these comparatives, margins to swap have moved against New Zealand borrowers.

	Floating	**1 year**	**2 years**	**3 years**	**4 years**	**5 years**
	%	%	%	%	%	%
NZ margin to swap	**+3.61**	**+2.26**	**+2.28**	**+2.45**	**+2.72**	**+2.67**
AU margin to swap	+3.54	+2.42	+2.06	+2.04	+2.12	+2.06
Jan-17 differential (NZ-AU)	**+0.28**	**+0.13**	**+0.59**	**+0.86**	**+0.89**	**+0.94**
Aug-15 differential (NZ-AU)	+0.69	+0.26	+0.16	+0.56	+0.78	+0.83
Feb-15 differential (NZ-AU)	+1.02	+1.06	+0.92	+1.00	+1.01	+1.11