Little respite in store for home owners

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The big banks continue to replace tens of billions of dollars of cheaper-priced debt at much higher rates. **Borrowers are unlikely to get any respite from lower borrowing costs for the foreseeable future as the big banks continue to replace tens of billions of dollars of cheaper-priced debt at much higher rates.** That was underlined by ANZ yesterday when it disclosed that the new long-term debt it is taking on is costing 20 per cent more than the average price across its $90 billion portfolio of borrowings that extend to the 2014 financial year. ANZ told investors in London that while funding costs had dropped since the peak of the global financial crisis, pricing remained high and would continue to rise as the bank looked to replace another quarter of its long-term loan book. Like its big four counterparts, ANZ has been paying as much as one full percentage point more than such debt was costing in the economic boom years before late 2007. At the height of the crisis and when the federal government's AAA credit rating was required to guarantee new bank lending, the industry was paying as much as double that to keep wholesale financing sources open. That situation has eased and the big banks have been able to cut their reliance on government-guaranteed debt - and the price they pay to use it - by using their own AA credit ratings to obtain replacement funding as their borrowings have matured. Banks have typically borrowed from domestic and overseas investors for two to three years but have been extending these times to about five years to lock in secured funding at fixed rates. ANZ said yesterday that five years was now the average compared with 3.9 years in 2009, though this would come at a higher cost. At the same time, it had raised 70 per cent of its target of $25 billion for the 2010 financial year, which it estimates it will need to meet customers' loan requirements in the next year or so. But the high price of the debt will continue to feed through to interest rates on individual loans such as mortgages, personal loans and business credit, market watchers say. According to figures compiled by BusinessDay, between now and September next year the banks need to replace long-term funding of the equivalent of $125 billion in pre-financial crisis terms. Such an amount leaves little scope for loan rates to be eased with the banks looking at any opportunity to pass on higher funding costs to customers. But after some banks' controversial decisions of the past two years to increase the price of standard variable mortgages above the cash rate, the big four have kept their increases in line with the rises in official interest rates.