ING DIRECT
FINANCIAL WELLBEING INDEX
Q4 2010

ING DIRECT

It's your money

*"**As we head into 2011, Australian homeowners are faring well despite a combination of official rate rises coupled with independent rate hikes. But frustration is building among the nation's home owners, and almost one in three are planning to switch lenders or are in the process of doing so.***

These are the findings of ING DIRECT'S latest quarterly Financial Wellbeing Index, delivering unique and holistic insights into how ordinary Australian households are faring financially.

The Index looks at six key issues of personal money management including short and long term debt, personal savings, investments, income and ability to meet regular bills, to provide an encompassing view of whether we're forging ahead, losing ground or maintaining our financial position."

Don Koch
CEO, ING DIRECT Australia

Index holds steady between Q3 and Q4

In the final quarter of 2010 (Q4), household financial wellbeing around the nation remained stable, with the Index unchanged at 108.

But if we look at the six components of financial wellbeing it's clear that while confidence in personal savings is rising, households are increasingly uncomfortable with their mortgage.

For many Australians, their home loan is the household's single biggest debt, so any deterioration in comfort levels here is significant. Fewer than one in two mortgage holders (46%) are happy with their mortgage, and an unprecedented number of home owners are thinking about refinancing. First home owners are leading the charge, and in states such as Victoria, 13% of Gen Y home owners (aged 18 to 34) are in the process of switching their home loan.

In this issue of the ING DIRECT Household Financial Wellbeing Index we discover how home owners are responding to the challenge of higher home loan interest rates, and why Australian lenders should heed the message from disgruntled borrowers.

The ING DIRECT Household Financial Wellbeing Index

Measuring the nation's financial health

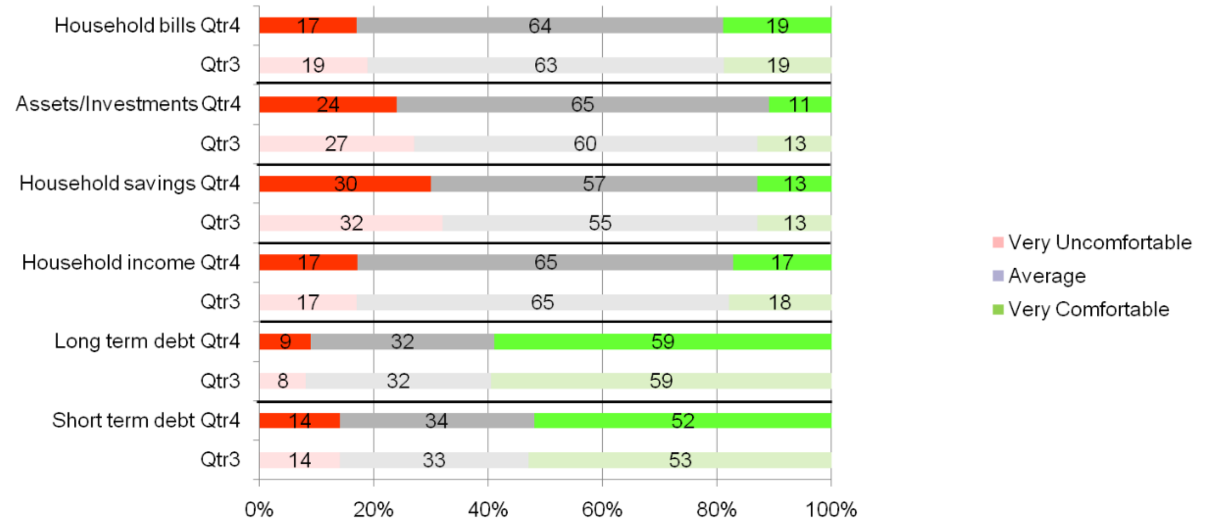
The ING Direct Financial Wellbeing Index rates household comfort levels across the six key aspects of personal financial wellbeing as noted below.

Our respondents rated their personal comfort level for each of these aspects on a scale from 1 ('very uncomfortable') to 7('very comfortable').

Six key focus areas	Qtr 3	Qtr 4
	(Median score out of 7)	
Short term debt – in particular credit cards	5.7	5.6
Long term debt – mortgages and personal loans	6.3	6.2
Household income	4.2	4.1
Short term credit – savings and term deposits	3.5	3.6
Long term assets – net home equity and other investments	3.9	3.8
Comfort meeting household bills	3.9	3.9

The average of these scores is indexed to the scale midpoint, so that a score of 4 has an Index value of 100. By comparing the Index scores between quarters we can see if household financial wellbeing is improving or deteriorating.

Household comfort levels



Events that helped shape sentiment

In the fourth quarter of 2010:

- The Reserve Bank of Australia (RBA) left interest rates on hold in October and December but raised cash interest rates by 0.25% in November.
- A number of banks increase mortgage rates beyond this RBA increase.

Key findings

- Comfort levels with mortgages dropped from 6.3 (out of a possible 7) in Q3 to 6.2 in Q4.
- Fewer than one in two homeowners (46%) are happy with their current mortgage.
- 31% of home owners are thinking of refinancing or are in the process of doing so.
- Up to 13% of Gen Y home owners (aged 18 to 34) are currently switching to a different lender.
- One in three home owners say there isn't enough difference between lenders to make refinancing worthwhile.

One in three home owners keen to refinance

Over the last quarter comfort levels for mortgages have dropped from 6.3 (out of 7) to 6.2. This small drop masks soaring levels of dissatisfaction among home owners following last November's rate hikes.

The proportion of home owners who are unhappy with their mortgage (47%) now outweighs those who are satisfied with their loan (46%). Already, one in three home owners (31%) are thinking of refinancing, and while a small proportion (2%) are actively engaged in switching their home loan, this figure rises to 5% among Gen Y borrowers – those most likely to be paying off their first home. In Victoria, where property prices escalated in 2010, 13% of Gen Y home owners are actively refinancing.

Fees, paperwork and a view that 'all lenders are the same' block better deals

Despite widespread dissatisfaction, a powerful combination of factors is preventing many Australians securing a better deal on their home loan.

The impost of exit fees and other switching costs is the key disincentive for the majority (65%) of home owners. However almost one in two (46%) nominate the paperwork involved as a barrier to refinancing.

One third (30%) of households believe there's no difference between lenders, yet a similar proportion (31%) are put off by the sheer complexity of choice.

Don Koch, CEO of ING DIRECT, says "It's worrying that dissatisfaction is so rife among home owners, and the results of ING DIRECT's latest Financial Wellbeing Index should send a clear message to the mortgage industry. The year ahead could see a significant backlash as borrowers take their business elsewhere."

He notes, "Home owners who are not satisfied with their current lender should check exactly what they could be up for in switching costs and compare this to the savings available through refinancing. With the right loan and lender, you could find that over time you will come out significantly in front."

"The key is to consider lenders outside the big four banks, which dominate Australia's home loan market. Beyond the major banks, home owners will find a smorgasbord of lenders and loans offering competitive rates and innovative features" adds Don.

Saving – the new habit of a nation

Household comfort levels for personal savings (cash in cheque/savings accounts and term deposits) improved in Q4, rising to 3.6 - up from 3.5 in Q3. Nationally, median household savings total $9,238 - ranging from $7,789 among Gen Y households to $12,651 for the Baby Boomers.

GFC changes savings goals for 55% of Australians

Our new love of saving can be partly explained by the global financial crisis (GFC). The majority (55%) of Australians say their savings goals have changed since the economic crisis, and one in three households (31%) are paying down their credit card and mortgage debt as fast as possible.

One in four (24%) Australian households are saving more than they did prior to the GFC, and 7% of households plan to invest in a property or upgrade their existing home. Only 17% of households are spending as much as they did prior to the downturn.

Recovering from the festive season spending binge

One in four Australians admit to overspending at Christmas, but the majority took a sensible approach, saving for the festive season or cutting back on other areas of spending.

- One in four (24%) specifically saved for Christmas or cut back on 2010 festive season spending
- 20% spent more and will have to cut back for a while
- 44% of households say Christmas spending didn't dramatically impact their bank balance
- 11% specifically saved for Christmas

Retailers may have been right to complain about a more frugal festive season - 14% of households say they cut back on spending in December. This sensible approach at the check-out means the majority of Australians (84%) won't have to dip into savings to repay Christmas debts.

Financial wellbeing around the nation

NSW

NSW credit cardholders are offloading their credit cards and slashing card debt. The state's median level of card debt has fallen from $2,103 in Q3 to $1,651 in Q4 – a drop of 21%. In addition to paying off their cards, NSW households are trimming back on the number of cards held – down from 2.1 per household in Q3 to 1.8 in Q4.

The credit card clamp down highlights the lingering effects of the global financial crisis (GFC). One in three NSW households say the downturn was a reminder of the importance of paying off debt as quickly as possible.

VIC/TAS

In the fourth quarter of 2010, financial wellbeing overall improved in Victoria as the Index rose from 108 in Q3 to 112 in Q4. However declines in comfort levels were noted across several aspects of household finances. In particular, last year's property boom coupled with rising interest rates is putting first home owners under intense financial pressure. Almost one in five (18%) Gen Y home owners (aged 18 to 34) report being 'very' uncomfortable with their mortgage. Only 36% of Gen Y home owners are happy with their home loan, and 13% have already started the process of refinancing.

Western Australia

In the fourth quarter of 2010, the ING DIRECT Household Financial Wellbeing Index for Western Australia fell to 104, down from 108 in Q3. WA is the only state where financial wellbeing is below the national Index score of 108.

The mining boom is boosting the financial wellbeing of residents in WA's regional areas, and households in the bush are ahead of Perth residents on several key financial fronts. Regional households rate their comfort with credit card debt at 5.13 compared to 5.11 by Perth residents; household income earns a comfort rating of 4.31 in the bush versus 3.98 in Perth metro. Home loan dissatisfaction is rife among Perth households - only 52% are happy with their mortgage compared to 71% of regional home owners.

South Australia

In the fourth quarter of 2010, household financial wellbeing in SA plunged to 108 down from 112 in Q3, and on a number of financial fronts SA is increasingly lagging behind other mainland states.

Median household income in SA is $55,655 - below the national median of $69,630. One in ten SA households is finding it "impossible" to manage regular household bills. Families are hardest hit – among households aged 35 to 49, one in three (29%) say they are struggling with living expenses.

Queensland

In the fourth quarter of 2010, financial wellbeing in Queensland leapt ahead, rising to 108, up from 104 in Q3. This progress now looks vulnerable following the state's devastating floods.

Don Koch says, "Queensland households were forging ahead financially before the floods hit, but right now many are under enormous financial pressure as they face the cost of rebuilding." Don is urging Queenslanders who are struggling with their finances to avoid anyone offering a quick fix solution. "Instead, get in touch with your lender", advises Don. "Many financial institutions have introduced special provisions to assist flood-affected Queenslanders, and it's vital that households take advantage of these measures to get back on their feet."

Financial Wellbeing – state by state snapshot

Aspect of financial wellbeing	NSW/ACT	Vic/Tas	Qld	SA	WA
Credit card debt					
Comfort level (rated out of 7)	5.8	5.6	5.6	5.1	5.1
Ave no of credit cards per household	1.8	2.0	1.8	1.9	2.0
Median card balance	$1,651	$1,724	$1,833	$1,760	$2,351
Pay off card in full each month	62%	66%	53%	56%	60%
Long term debt incl mortgages					
Comfort level	6.0	6.1	6.3	6.4	6.1
Happy with mortgage	46%	39%	48%	51%	56%
Fast-tracking mortgage repayments	44%	48%	43%	47%	47%
Median mortgage balance	$246,259	$211,974	$183,196	$156,058	$183,112
Household income					
Comfort level	3.9	4.0	4.0	3.8	3.9
Median income	$75,634	$69,864	$58,551	$55,655	$71,892
Savings					
Comfort level	3.6	3.6	3.6	3.5	3.5
Median household savings	$12,335	$8,752	$7,468	$5,464	$16,107
Household savings below $1,674	23%	26%	33%	31%	26%
Investments					
Comfort level	3.8	4.0	3.7	3.7	3.8
Rental property	12%	20%	14%	14%	20%
Shares	37%	33%	29%	24%	34%
Median value of investments	$188,535	$343,351	$240,132	$182,472	$343,096
Managing household bills					
Comfort level	3.8	3.9	4.2	3.9	3.8
Finding it impossible to manage bills when they arise	5%	6%	4%	10%	8%
Overall comfort level	4.3	4.5	4.3	4.3	4.1
Index score	108	112	108	108	104

About ING DIRECT

ING DIRECT began operating in Australia in 1999. By doing business online, over the phone and through intermediaries, ING DIRECT keeps it overheads low and passes the savings onto customers in the form of competitive rates. Today, ING Direct has grown to become Australia's fifth largest retail bank, with around $22 billion in deposits, more than $36 billion in mortgages and more than 1.45 million customers.

Research methodology

The ING DIRECT Household Financial Wellbeing Index was complied by Galaxy Research from the online responses of 1,005 households recorded between 5-11 January 2011 (Q4) and September 2010 and October 2010 (Q3).

The data was weighted by region and household size to reflect the Australian household population based on the 2006 census. The level of savings reported in the study is also calibrated to APRA national bank total deposits (households), ABS data and RBA credit card and debt statistics to ensure accuracy of household savings levels.