# Mortgage Rates to Rise: Good Luck Selling That

Wouldn’t you love to be working in the PR department of one of the big four this week? You already had your work cut out. Not passing on the RBA rate cut was never going to look good and the papers were already salivating at the abuse they were going to hurl at your employer.

Then big Glenn Stevens drops a bomb: the RBA won’t be cutting rates at all. Some say Stevens is actually Jim Grant in disguise. He certainly sings a different tune to 'Zero Percent' Bernanke and the markets, where a rate cut was predicted by every single bank’s economist.

Wishful thinking perhaps. In any case, Stevens has left you with a problem. Your bank now needs to put rates up to recover rising funding costs. That’s a PR disaster of an altogether different magnitude.

The funny thing is that, for once, it’s actually true. NAB Chief Financial Officer Mark Joiner explained yesterday that the bank’s funding cost in the December quarter was 195 basis points (a margin of 1.95%). That’s 70 basis points higher than its current average cost of funding and about the same as they are making on mortgage lending. You don’t need to be a CFO to know that lending money out for the same that it costs you isn’t going to generate much profit.

The winners are depositors. You don’t read much about this rare species in the papers but the combination of Stevens surprise non-move and banks’ funding woes is good news for those with cash in the bank. There’s plenty of competition for cash right now and, alongside mortgage rates, deposit rates should be on the rise. Good luck selling that to the newspapers.