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THE HEART OF THE NATION

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# US crisis hits local mortgages

Richard Gluyas  
David Uren

THE US mortgage crisis has hit Australian home buyers for the first time after one lender yesterday hiked its rates by up to double last week's official interest rate rise.

Bluestone, with about \$3 billion worth of loans on its books, yesterday blamed higher funding costs as a result of the global credit squeeze for its decision to lift its lending rates by between 17 and 55 basis points.

The rise comes on top of the 25-basis-point hike prompted by last week's rise in official rates, which may not be the last this year after the Reserve Bank warned yesterday that inflation was running at the top of its comfort zone.

Many economists believe the warning suggests official rates, which hit 6.5 per cent last week, will rise by a further 25 basis points before the end of the year, and possibly before the federal election.

Bluestone is a provider of so-called low-doc loans. About one-quarter of its customers have prior credit problems, placing them in the same category as the "sub-prime" sector in the US, where poor lending practices have caused a meltdown in capital markets around the world.

The company told customers yesterday that the increased cost of funding its own operations — in effect, interest rates charged by its own lenders — had made it necessary to lift its lending rates. Depending on a customer's credit history, Bluestone now offers rates ranging from 7.8 per cent to 12 per cent, compared with the standard variable rate of 8.3 per cent.

Bluestone chief executive Alistair Jeffery said the pain would inevitably spread to cus-

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The lift in the Reserve Bank's forecast of underlying inflation to the top of its 2-3 per cent target band clearly suggests another rate rise is on the way

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Despite the substantial differences between the US and Australian markets, this impact has led to an increase in all lenders cost of funding, making it necessary for Bluestone to adjust some of our product rates and fees. The increased cost of funding has led to increases in our rates ranging from 17-55bp.

Warning: An excerpt from Bluestone's online note to its customers yesterday

tomers of the nation's bigger lenders, including the Big Four commercial banks.

"I'd expect rates for existing customers to rise, possibly outside the normal RBA process, because the banks' cost of funding has risen and they will not want to risk their profit margins," he said. "But rates for new business will be hit first, with more loans being written at the standard variable rate rather than the discounted, professional rate."

The Reserve Bank, however, has shrugged off the financial market turmoil, with its latest quarterly review of the economy saying it was unlikely to stop world growth accelerating.

It said that despite rising concerns about the "fragility" of the US housing market, there had been only a "relatively modest" impact on the local market for securitised — or packaged — debt.

The share market, which fell 6.4 per cent last week as the sub-prime fallout reverberated

around the world, staged a revival yesterday. Investors were encouraged by action by central banks to inject \$380 billion — including \$5 billion from the Reserve Bank — into financial markets last week to boost liquidity.

Last night, the European Central Bank poured a further €47.7 billion (\$77.3 billion) into the financial system, with the US Federal Reserve saying it "stands ready" to provide more funds if necessary.

The All Ordinaries index crept back above the 6000 bar to close at 6027 points. Wall Street rallied late last night after stronger-than-expected retail sales figures — up 0.3 per cent in July — gave investors hope the problems in the housing market had not spread to the wider US economy.

The Reserve Bank warned yesterday the rate rise last week and the strength of the Australian dollar would not stop inflation continuing to lift, forecasting it would hit 3 per cent by the end of the year and stay there for at least the first half of next year.

"Most measures suggest that the labour market is as tight as it has been for a generation and that capacity utilisation is stretched," the bank's economic review, which was released yesterday, says. "These factors could result in more upward pressure on wages and inflation than has been incorporated in these forecasts."

Peter Costello tried to hose down the need for further interest rate increases, saying that the Reserve Bank was only required to keep inflation within the target range of 2 per cent to 3 per cent on average over the full business cycle.

"You'd have to say the cycle

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# Kiefel will make High Court history

**No 3:** Federal Court judge Susan Kiefel was appointed yesterday to the High Court**Patricia Karvelas  
Nicola Berkovic**

FEDERAL Court judge and Queenslander Susan Kiefel has been appointed to the High Court, marking the first time that two women have sat on the bench of the nation's highest court.

Justice Kiefel, who rose through the ranks of the judiciary despite leaving school at just 15, was last night appointed to replace fellow Queenslander Ian Callinan. Justice Callinan retires at the end of the month, just before he reaches the statutory retirement age of 70.

The 53-year-old Justice Kiefel becomes the 46th High Court

justice and only the third woman to join the male-dominated institution since its creation more than 100 years ago. She will sit alongside Susan Crennan on the seven-member bench, earning \$377,230 a year.

Mary Gaudron, the first woman to serve on the bench, left the court in 2003.

The Cairns-born Justice Kiefel, currently a Federal Court judge, left school at 15 and in 1971 started working as a secretary in a law firm. Two years later, she found work as a legal clerk and soon after completed her bar exam.

She became a silk in 1987 and was appointed to the Queensland Supreme Court in 1993. A year

after that, she was appointed to the Federal Court. She is married to academic Michael Albrecht and does not have any children.

Justice Kiefel was tipped to rise to the High Court bench in 2003 but was beaten to the position when the federal Government appointed John Dyson Heydon. Yesterday, she beat Queensland Court of Appeal judge and former solicitor-general Pat Keane QC to the post.

Attorney General Philip Ruddock said yesterday Justice Kiefel had received "very strong support" among those with whom he consulted.

He denied gender had anything to do with the appointment. "She

will make an outstanding judge, it is a factual matter that there are five male judges now (and) there will be two female judges. They are both people who were appointed on their merits, worthy of the appointment.

"Any suggestion that this appointment was to secure two female appointments would be quite wrong. The way she came to qualify as a barrister initially... is a very significant achievement."

Queensland Premier Peter Beattie, who last week warned the federal Government it risked offending Queenslanders if it did not appoint a Queenslander to replace Justice Callinan, supported the decision. "She was one

of our nominees and we're absolutely delighted with the decision," he said. "It's a good decision. Full credit to the federal Government. They'll be stunned to hear me saying something nice about them for a change."

Mr Ruddock said while he considered the fact that Justice Kiefel was a Queenslander, ultimately it was not why she was chosen. "I do look at these matters, in the end you come to the view that appointments should be made on the basis of merit," he said.

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**No 1:** Mary Gaudron, the court's first female judge**No 2:** Susan Crennan is on the seven-member bench

# Property prices take a tumble in Howard's seat