



Genworth®
Financial

SPOTLIGHT SERIES ISSUE 5

MANAGING MORTGAGE STRESS



With the market in a state of change, managing mortgage stress has never been more important for mortgage industry stakeholders across the board.

Slowing property markets, rising interest rates and global economic uncertainty have served up a new challenge for Australians' facing mortgage stress.

Despite widespread publicity regarding mortgage stress, the Reserve Bank of Australia, (RBA) feels confident in Australians' ability to repay their mortgages. In March 2008, the RBA commented that 99.6% of borrowers were up-to-date or ahead with their mortgage repayments, however they expected arrears to rise over the coming months.

Nevertheless, in a rising interest rate environment, rising consumer

indebtedness which includes mortgage debt, credit card debt, personal loans and others, is now afflicting more households than any time over the past 5 years.

Though the fundamentals of the domestic market are sound, there is still the concern that some Australian borrowers may face the unpalatable prospect of negative equity as house price appreciation slows and uncertainty remains around future interest rate movements.

Current market conditions have prompted lenders and other industry stakeholders to rethink their approach to borrowers who

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run into trouble with repayments – rather than marching down the path of foreclosure, other solutions are now increasingly being sought.

Australia's growing population, coupled with tightening housing

mortgage commitments now sits at 37.4%.

With mortgage repayments now consuming such a significant chunk of family income due to the rapid rise in both RBA interest rates

such as illness or unemployment, it's all too easy to see why many Australians can find themselves under mortgage stress.

Genworth Financial (Genworth), a leading mortgage insurer, has moved to meet the problem head on in partnering with lenders and rethinking their approach to tackling borrower hardship when it comes to repayments.

"Through establishing our Hardship Solutions Team, we're taking a proactive view on helping Australian borrowers deal with issues impacting on their capabilities to meet their mortgage repayments," says Genworth's Country Executive Peter Hall.

Genworth has just processed its 1,000th approval for mortgage hardship through its Hardship Solutions Team – a significant milestone. And thus far the results speak for themselves.

"I'd say, looking at the numbers, in 95% of cases we've been able to help borrowers get back on their feet and they're coping well. In 5% of cases the recovery has been delayed and we've had to consider extended solutions."

Rather than there being a wholesale change in borrower attitudes to debt, an important consideration when looking at mortgage stress is that salaries have not kept pace with rising property prices.

According to the AMP/NATSEM Income and Wealth report released in March 2008, house prices rose by 400% from 1986 to 2007, whereas incomes have only risen by 120%.

Homeownership remains the great Australian dream and borrowers are still committed to financing their property, despite their current challenges. But it is clear that while current market conditions persist – piling pressure on affordability – a more flexible approach to managing mortgage stress makes sense for both borrower and lender.

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markets, has pushed affordability to an all time low. Affordability deteriorated by 2.2% over the December quarter, and 6.3% over the course of 2007, according to the Real Estate Institute of Australia. The portion of family income required to service

and the increased cost of funding, pressure is mounting on many households to comfortably meet their commitments.

When combined with a significant lifestyle event that puts pressure on a borrower's ability to meet their debt obligations,



Spiral into stress

A significant lifestyle event can quickly plunge a borrower into mortgage hardship.

Mortgage hardship can best be described as a borrower's inability to effectively manage mortgage repayments as a consequence of a lifestyle event.

For Genworth, hardship can be a result of circumstances such as illness or injury, unemployment, decreased income, maternity leave and relationship breakdown as well as over commitment.

Genworth has recently seen a slow rise in hardship applications, although application numbers are not abnormal.

"The current spike in applications for Hardship Solutions is typical for

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this time of the year when the full brunt of Christmas is realised," says Mr Hall.

Figures indicate that borrowers are indeed managing their repayments. The Fitch Rating's "Dinkum Index" results for Q407 showed there was a 1.07% decline in 30+ day mortgage delinquencies for the quarter – highlighting that prior to the recent interest rate rises borrowers were coping reasonably well with their mortgage repayments.

Analysis of Genworth's portfolio shows a similar trend. Genworth monitors reported delinquencies over 90 days in arrears, and currently has over 1 million policies in force in Australia. Reported as at March 2008, less than 5,000 borrowers were more than 3 months behind in their mortgage repayments, often considered a sign of significant mortgage stress.

Further research into delinquency trends highlights certain geographic areas remain cause for concern. It has been widely acknowledged that

problems have emerged in NSW, a state that has suffered sluggish housing market conditions over the

last few years. Detailed analysis of these delinquencies has shown a strong correlation between rates of delinquency, housing price appreciation and levels of unemployment, which have seen stress in particular pockets of NSW.

As well as total delinquencies, Genworth also monitors early-term delinquencies, those which fall into arrears within 12 months of settlement. Often considered a warning sign of emerging

With affordability at an all time high, coupled with high consumer debt levels, it's easy to see why so many Australians are under stress.

mortgage stress, analysis reveals these types of delinquencies are trending downwards across a number of key dimensions. Early-term delinquencies for Investment Properties almost halved between January 2007 and March 2008, while First Home Buyers have decreased by close to 40% during the same period.

Over the coming months, Genworth expects delinquencies to come in line with normal historical patterns around this time of year. The full impact of the latest interest rate results is yet to be determined, however Genworth's prudent risk management will ensure any changes are closely monitored.

With affordability at an all time low, the effects of the 12 interest rate rises over the past few years are not just impacting those with mortgages. When interest rates rise, so do rates on credit cards, personal loans and other forms of credit. It is this total level of consumer debt which makes borrowers vulnerable to small changes in interest rates, on top of their mortgage repayments.

While rising rates impact on Australians' ability to meet mortgage repayments, a range of other factors help precipitate mortgage stress. Only 2.6% of applications for Genworth's Hardship Program are based on over-commitment – the feature that would most relate to rising interest rates.



While these stressed households may be struggling they are not expected to default on their mortgages.

“Mortgage commitments can be managed, as long as they are addressed early,” says Mr Hall.

“The important point for borrowers feeling the strain of mortgage repayments is that they don’t need to wait for threatening arrears notices to make a phone call to their lender” says Mr Hall.

“Both the lender and Genworth would prefer to come to an arrangement with borrowers before

they fall into arrears – especially where they can see it coming.”

The mortgage hardship can be triggered by a lifestyle event that borrowers do not realise will impact them until it is too late.

“In times of change it’s easy for borrowers to shift attention away from their financial commitments, but it’s essential to stay on top in order to minimise excess stress during these periods,” he says.

“Mortgage commitments can be managed, as long as they are addressed early,” says Mr Hall. “My advice for lenders is to proactively monitor delinquencies and communicate early with customers to find a solution that works for both parties,” he says.

We’re in this together

With property prices starting to fall below the amount owed on some mortgages in certain areas, keeping borrowers in their homes is as much a priority for lenders as it is homeowners.

Contrary to the belief of a large portion of Australian borrowers, the last thing a lender wants is to throw them out of their homes.

Considering a climate of falling property prices combined with higher loan to value ratio (LVR) loans, there’s never been a greater need for lenders as well as mortgage insurers to work with borrowers to tackle mortgage stress.

The onus for Genworth has been to build a dedicated support team to deal with mortgage delinquencies, working with lenders and their clients to

actively engage borrowers who look like they’re in trouble and to try to forecast when that might happen.”

While the mainstream lenders have a duty under the banking code of conduct to establish Hardship programs, Genworth is working to help improve the pro-activity of communications between lenders and delinquent borrowers, while assisting other lenders to put delinquency management high on their agenda.

Genworth is undertaking training programs with these

“Our goal is to help lenders change that mindset and actively engage borrowers that look like they’re in trouble and to try and forecast when this might happen.”

manage mortgage stress, with the overall view of keeping borrowers in their homes.

Mr Hall says the wider mortgage industry needs to place heightened emphasis on better managing mortgage stress. He says both lenders as well as borrowers need to be more proactive with their communications with each other.

“Previously lenders usually would initiate contact with borrowers once after falling into arrears,” says Mr Hall. “Our goal is to help lenders change that mindset and

goals in mind – and they’re being well received.

“We want lenders to help empower their customers to be more proactive in managing their debt,” says Mr Hall. “Investing in hardship solutions to manage delinquent customers is an investment in asset protection – collaborative solutions to borrowers’ Hardship issues can help win clients for life.”





Take control of your financial commitments

Pressure on mortgage repayments can be minimised through smart budgeting and prudent spending.

Spiralling debt can be catastrophic for homeowners. The harsh reality is that the family home is often on the line if repayments on car loans, credit cards and mortgages are not met.

On top of recent official RBA interest rates rises, liquidity in the market is decreasing as a result of the global credit crisis. Lenders have been forced to offload increased

how you spend cash and factor in commitments.

“If you set an unrealistic budget it’s going to fail; so be practical and allow for some flexibility,” he says. “Don’t think of a budget as a noose around your social life, choking all enjoyment out of life – focus on how it can help you achieve your bigger goals and help reduce financial stress.”

In creating a budget, Mr Hall stresses the importance of goal setting as central to maintaining

Expenses should be broken down into fixed payments such as mortgage commitments, school fees and utilities as well as other regular outgoings such as food, transport, and clothing.

Finally record all luxuries including dining out, holidays, and family outings to identify where savings can be made most effectively.

“If you set an unrealistic budget it’s going to fail; so be practical and allow for some flexibility,” he says.

costs to borrowers – further impacting their ability to service their mortgage debt.

So, what can borrowers do to better manage their mortgages and help alleviate stress in this climate of rising rates and corresponding increases in loan repayments?

According to Genworth, the most effective strategy for better personal financial management is to set a budget.

“Don’t discount how effective a monthly budget can be in giving you a financial framework to better manage your finances,” Mr Hall says.

According to Mr Hall, budgets should not be considered a restraint, but rather a proactive approach to

motivation. He believes that the principal reason most people stray from their budget is because they lose sight of where they are going.

“Budgeting can be a long or short-term strategy, but to work effectively you have to see results and reap rewards,” he says.

Steps could include reducing the amount outstanding on a credit card, making extra repayments to the mortgage or even saving to buy a new car with cash, rather than using finance.

Once goals have been established, Mr Hall suggests that a running log of all outgoings and expenses over the course of a month is essential to good budgeting.

Common solutions for borrowers facing mortgage stress

There are a range of solutions available to lenders to assist borrowers unable to meet their debt commitments, including:

- Deferring repayments and capitalising them into a borrower’s mortgage.
- Decreasing repayments, or allowing for half repayments.
- Capitalising borrower’s mortgage arrears onto their loan if they are able to begin making basic repayments again.
- Switching a borrower’s loan to an interest-only option, for up to 10 years.
- Extending loan terms up to 40 years to reduce ongoing repayments.



Understanding interest

A clear understanding of how interest works can help ease the pressure on stressed borrowers.

Easy access to credit has placed a rising number of Australian borrowers under serious financial stress.

Considering the level of Australian borrowers' indebtedness, it's an alarming fact that household debt levels have tripled since the 1980's.

Research conducted by the Allen Consulting Group highlights the degree to which Australians have taken on debt – with households owing \$160 for each \$100 worth of income. Compared to the 1980's, when this figure was \$50 owed for every \$100 dollars worth of income, it is easy to realise why so many Australian borrowers are facing financial stress.

According to Genworth, the problems for most households

facing financial pressure is that they have overspent using credit and are now faced with a number of lenders demanding repayment.

Many borrowers know that interest is payable on debt but don't realise quite what they are paying out each month.

According to Genworth, the problems for most households facing financial pressure is that they have overspent using credit and are now faced with a number of lenders demanding repayment.

Most credit cards have an interest free period – usually a month – but borrowers will pay anything up to and beyond 20 per cent interest for every outstanding dollar thereafter. There are also heavy penalties for borrowers that miss repayments or go beyond their limit, further adding to their debt burden.

Lenders will pursue borrowers that fail to meet their debt commitments. And even if mortgage repayments are being made, spiralling credit card and personal debt can still place the family home under threat.

"It's essential to know exactly

what you're paying out each month in interest across your debts," says Mr Hall.

"Those making repayments to credit cards and personal loans may find that their repayments are only just covering the interest without reducing the actual amount you owe."

Case study in stress

When Robert and Judy purchased their first home in Padstow – a suburb in Sydney's south west – in 2003 they looked forward to a comfortable life raising a family with all the amenities they needed right at their door step.

At the time, the house was exactly what they had been searching for: three bedrooms with all the mod-cons. Knowing that the property's price would rise over time, they believe they could always sell should they be hit with any unforeseen circumstances.

Working as a self-employed plumber, Robert earned a comfortable \$80,000 a year. Combined with the \$37,000 Judy earned as a dental assistant, their combined salary could easily meet their mortgage repayments on the \$310,000 borrowed.

The fairytale would not last, however. Working on a building site around nine months after purchasing their home Robert slipped into a trench, breaking his leg in three places – effectively putting him out of action for six months.

They thought they could continue to meet their mortgage repayments by cutting back on expenses while Judy worked some overtime, but the bills started to mount up. Robert, who took pride in his role as family 'bread winner' fell into depression.

It took some time for Robert to get back in the swing of things with work after recovering from his injuries. As well as losing some regular clients, he was unable to shake his depression. Falling three months in arrears on their mortgage repayments, threatening letters from their lender finally prompted the family to make contact to see what they could do.

Speaking with their lender they were surprised to hear that their story was not that uncommon; they also realised that they should

have approached the lender sooner as it had systems in place to help deal with these issues.

While they considered selling their house in order to clear their mortgage debt, their lender pointed out that they could restructure their current mortgage to pay it off over 40 years rather than the original 30-year term. With lower monthly repayments they could more easily meet their commitments.

Moreover, their lender allowed them to capitalise their outstanding payments into their loan.

This sounded like the ideal solution as it also reduced some of the pressure on Robert to reignite his business and get his earning capacity back to where it was prior to his accident.



Some facts on hardship

36% – Hardship cases that are a result of illness or injury

16% – Hardship cases brought on by unemployment

16% – Hardship cases that relate to decreased income or earning capacity

11% – Hardship cases that are a result of maternity leave

4% – Hardship cases that can be connected to a relationship breakdown

2% – Hardship cases that are a result of over-commitment to a mortgage

Source: Genworth Hardship Solutions

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About Genworth Financial

Genworth Financial is a leading provider of Lenders Mortgage Insurance (LMI) and credit enhancement product solutions in Australia and New Zealand. Together with our customers, our aim is to make home ownership more accessible to borrowers through the provision of LMI solutions.

When you choose Genworth Financial you choose a team focused on delivering the highest levels of personalised service, whose keen ability to understand your market drives our willingness to take a commercial approach. Our success is founded on our total commitment to understanding our customers' business needs. We have developed a culture of accepting challenges and turning them into solutions that create value for our customers.

The Genworth Financial name is associated with financial strength and integrity throughout the world. Together with our predecessor business, we have insured over A\$300 billion of residential mortgages since 1965.

Rating Company	Genworth Financial Rating
Standards & Poor's	"AA" (Very Strong)
Moody's	"Aa2" (Excellent)
Fitch	"AA" (Very Strong)

Genworth Financial Internationally

Internationally, Genworth Financial, Inc. is a leading financial security company with strong and expanding global operations. With a presence in more than 25 countries, we serve more than 15 million customers. We provide innovative products that position us as leaders in growing market segments, including life and long term care insurance, individual and group annuities and investment products, managed money, payment protection insurance and Lenders Mortgage Insurance.

We invite you to learn more about us at:

www.genworth.com.au
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