THE GENWORTH FINANCIAL MORTGAGE TRENDS REPORT

PRODUCED IN CONJUNCTION WITH
RETAIL FINANCE INTELLIGENCE (RFI)
JUNE 2007

WELCOME TO THE 2007 GENWORTH FINANCIAL MORTGAGE TRENDS REPORT

Welcome to this year's edition of the annual Genworth Financial Mortgage Trends Report. This is the third installment of our popular report series which provides key insights and emerging trends into the dynamics of the Australian mortgage and property markets.

Following the success of our annual report, 2007 has seen the introduction of our Spotlight Series, which focus on specific issues or segments in the industry and provides commentary as seen from a lenders' mortgage insurer's perspective. *Issue 1: First Home Buyers* profiled a typical First Home Buyer, discussed the emerging rent trap which is affecting buyers' ability to save a deposit and explored the development of alternative loan options catering to this highly attractive market. *Issue 2: Managing Fraud in the Mortgage Market* discusses one of the key issues affecting the industry, and provides tips for businesses to manage this growing phenomenon. Additional Spotlights will follow throughout the year on key topics, so stay tuned to our website.

As a leading mortgage insurer, we are seeing the trends highlighted in the 2007 Genworth Financial Mortgage Trends Report reflected in our own portfolio. While recovering slowly, First Home Buyers are beginning to return to the market, and investor confidence is buoyed by the potential of high rental returns in a demand driven environment. There has been a definite slowdown in property price growth along the eastern seaboard, and Perth and Darwin are showing early signs that their resource driven boom may be dissipating.

Despite the changing market conditions, Australians are keener than ever to own their own home, and are looking to lenders to offer a range of simple products which can facilitate entry into the property market. While there are a number of new products available, this report highlights the strong need for borrower education, with many not understanding the features or benefits of alternative loan options available today.

In an ever changing and highly competitive environment, it is becoming even more essential to understand the customer and cater to their individual needs. This report highlights the importance of customer service to all segments, and the need to find a point of difference in a sea of lending alternatives.

I hope you enjoy the 2007 Genworth Financial Mortgage Trends Report, and that it provides you with valuable insights into your current and future customers, as well as a broader perspective on the Australian mortgage market as a whole.

Yours sincerely,

Peter Hall
Country Executive & Director

INTRODUCTION TO THE MORTGAGE TRENDS REPORT

The Genworth Financial Mortgage Trends Report 2007 follows similar publications in 2005 and 2006 and provides a key insight into the dynamics of the Australian mortgage and property markets.

Based on a survey of over 2,000 adults, the Report focuses on property ownership, entry into the property market, mortgage debt and consumers' plans for the future.

The Genworth Financial Mortgage Trends Report 2007 is divided into five main chapters that each tackle an aspect of the Australian mortgage market. These chapters are:

Chapter 1: The mortgage and property markets

Outlines the landscape of the Australian mortgage market, analysing its growth in recent years and comparing it to mortgage markets in the UK and US. It also looks at the way demand for home ownership has impacted the mortgage market, house prices and lending.

Chapter 2: Property and home ownership

Analyses the level of property ownership, both owner occupied and investment in Australia as well as average loan sizes, typical repayments and the way property ownership varies by household income and age.

Chapter 3: Competition and distribution

Focuses on the competitors in the mortgage market, the attitudes of borrowers to each type of lender and also analyses broker channel distribution.

Chapter 4: Affordability and First Home Buyers

Highlights the barriers to home ownership faced by First Home Buyers and Generation Y's, and looks at the attitudes to innovative products designed to help borrowers overcome these barriers.

Chapter 5: Product development and innovation

Identifies some of the products introduced to the mortgage market to address issues of affordability and to help potential borrowers onto the property ladder.

TABLE OF CONTENTS

INTRODUCTION TO GENWORTH FINANCIAL AND RFI **9**

Genworth Financial 9

Retail Finance Intelligence (RFI) 9

HIGHLIGHTS **10**

The growth of the mortgage and property markets 10

Property and home ownership 11

Competition in the Australian market 11

The distribution landscape 12

Affordability and First Home Buyers 12

The emerging rental trap 13

Product development and innovation 13

CHAPTER 1
INTRODUCTION TO THE MORTGAGE TRENDS REPORT **14**

THE MORTGAGE AND PROPERTY MARKETS **15**

Stocks and flows *15*

Housing credit outstanding in Australia averaged more than $50,000 for every adult 15

Lending commitments have more than trebled in the last ten years 15

Regional growth in lending commitments has not been uniform 17

House prices *16*

House prices have also been impacted by the demand for property ownership 16

House price growth in Australia has been outstripped by the UK and the US in the last three years 18

CHAPTER 2
PROPERTY AND HOME OWNERSHIP IN AUSTRALIA **19**

Property ownership *20*

Western Australian and Victorian respondents display the highest level of property ownership 20

Home ownership is an important part of the Australian psyche 21

Income and property ownership are highly correlated 21

Investing in property is still seen as a good option by many Australians 22

Mortgages and repayments *23*

The vast majority of Australians are living with debt 23

Over 70% of property owners have a mortgage outstanding 24

TABLE OF CONTENTS

Seventy-seven percent of mortgagees either made overpayments or were easily able to meet their repayments in every month of the last year 25

Going forward 82% of mortgagees expect to easily meet their repayments in at least some months 25

Changes in personal circumstances will be the biggest concerns for mortgagees going forward 26

CHAPTER 3
COMPETITION AND DISTRIBUTION **27**

The competitive landscape *28*

Bank lenders continue to dominate lending commitments with 79.5% of owner occupied lending in 2006 28

Sixty-eight percent of property owners sourced their most recent mortgage from a bank lender 29

Choice of lender is state-specific 29

Among the bank lenders CBA has the largest share of the market 30

Choice, satisfaction and value *31*

Borrowers choose lenders based on both price and non-price-based criteria 31

The reasons that attract borrowers vary by type of lender 32

Building societies and credit unions have the most satisfied customers 33

In order to retain customers lenders should focus on service, but they definitely cannot overlook price competition 34

Third-party distribution *36*

Mortgage brokers are an important part of the distribution landscape 36

Usage of the broker channel varies considerably by state 37

In general borrowers are happy with the 'broker service' 37

Borrowers choose brokers to save time and to get a better deal 38

CHAPTER 4
AFFORDABILITY AND FIRST HOME BUYERS **39**

Affordability in the Australian market *40*

Average loan sizes for First Home Buyers have overtaken average loan sizes 40

Affordability indicators paint a stark picture of the plight of First Home Buyers 41

An inability to save a deposit or make mortgage repayments is keeping would-be First Home Buyers out of the market 42

Just over half of all non-property owners would ideally like to purchase property in the next 12 months 43

TABLE OF CONTENTS

The emerging rental trap *44*

The majority of First Home Buyers live in rental accommodation prior to purchasing the first home 44

Rental payments are rising as a result of supply/ demand imbalances 45

The ability of individuals to save a deposit is being impacted by rental increases 45

Awareness of LMI is not high despite lower deposits becoming more prevalent 46

Generation 'Y' *47*

Generation Y makes up the largest proportion of those outside of the property market 47

These individuals are living with considerable debt 48

Paying off debts is high on the list of priorities for Generation Y 48

CHAPTER 5
PRODUCT DEVELOPMENT AND INNOVATION **50**

Alternative mortgage products *51*

Certain products are not popular despite their advertised benefits 51

One-hundred percent mortgages are considered too risky by respondents 51

The shared equity mortgage is still viewed with some scepticism 52

The family guarantee mortgage is not popular and even longer loan terms are not viewed favourably by all 53

APPENDIX **54**

Data tables *55*

Survey methodology *65*

GENWORTH FINANCIAL AUSTRALIA & NEW ZEALAND

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

The Genworth Financial name is associated with financial strength and integrity throughout the world. Together with our predecessor business, we have insured over AU$250 billion of residential mortgages since 1965. We offer a wide range of LMI product solutions, as well as VAL Central, an online valuation workflow management system.

GENWORTH FINANCIAL INTERNATIONALLY

Internationally, Genworth Financial, Inc. is a leading financial security company with strong and expanding global operations, serving more than 15 million customers. With a presence in more than 25 countries, we are dedicated to helping people succeed financially throughout their lives. 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 LMI.

For more information visit www.genworth.com.au

RETAIL FINANCE INTELLIGENCE (RFI)

Retail Finance Intelligence (RFI) is a strategic research business that delivers primary research and analysis by identifying and formulating projects within the arena of retail finance. RFI's analysis is underpinned by B2B and B2C primary research, which enables RFI to make practical recommendations based on the key issues and trends affecting any segment of the Australian market.

For more information visit www.rfintelligence.com.au

HIGHLIGHTS

The 2007 Genworth Financial Mortgage Trends Report provides a unique perspective on the Australian mortgage and property markets, based on a survey of 2,000 adults. Now in its third year, the Mortgage Trends Report highlights some key trends and growth areas as seen from a consumers perspective.

THE GROWTH OF THE MORTGAGE AND PROPERTY MARKETS

The Australian market as a whole has seen strong growth in lending commitments over the last 10 years, with data from the Australian Bureau of Statistics (ABS) illustrating that the market has grown threefold over this period. In 1997, the total value of loans advanced to individuals for purchase of property amounted to $77 bn, compared to $233 bn in 2006.

Both lending commitments for owner occupied and investment housing have grown over the 2002-2006 period, though at very different rates. Lending commitments for owner occupied property have grown from $101 bn in 2002 to $163 bn in 2006, representing a growth of 62.0% or 12.8% compounded annually.

In contrast, lending commitments for investment property have grown from $57 bn to $70 bn over the same period, at a rate of 5.2% compounded annually.

This slower growth in investment lending commitments can be attributed to the property price slowdown which occurred over the 2003-2006 period. Between 1990 and 2003, house price growth in Australia was much faster than that seen in overseas markets such as the UK and the US. However, since the 2003 slowdown, Australian house price appreciation has lagged considerably behind these powerhouse economies.

PROPERTY AND HOME OWNERSHIP

It is true that property ownership in general, and home ownership specifically, are high in Australia when compared to other countries around the world. However, the level of property ownership varies considerably by state.

As in both the 2006 and 2005 surveys, respondents from Western Australia (WA) and Victoria (VIC) had the highest level of total property ownership at 68% and 66% respectively. These two states again had the highest levels of home ownership in 2007, although the results were slightly lower at 64% and 62% respectively.

Of these property owners, 71% of are still repaying a mortgage, with 54% paying less than $1,500 per month. 23% pay between $1,001 and $1,500 per month which is also the median mortgage repayment as stated by the ABS.

77% of mortgage paying respondents were easily able to meet their mortgage repayments in every month over the last year. Of these individuals, 29% actually made overpayments during this same period.

The outlook is positive going forward, with 82% expecting to easily meet repayments during the next year. This is particularly encouraging given speculation that the RBA is going to increase the Cash Rate Target further, which would impact variable rates.

The outlook is positive going forward, with 82% expecting to easily meet repayments during the next year.

Those that are expecting to have trouble meeting mortgage repayments are less concerned with economic issues such as interest rates and oil prices. Instead, changes in personal circumstances are by far the biggest concern for these respondents. In total, 54% believed changes in personal circumstances such as pregnancy, divorce or job changes are more likely to cause them repayment problems over the next year.

COMPETITION IN THE AUSTRALIAN MARKET

While bank lenders dominate the mortgage market, borrowers' choice of bank lender varies somewhat by state. Respondents in VIC were the most likely to have sourced their last mortgage from a bank, with 72% stating they had done so.

While mortgages themselves have become commoditised, there is good reason to believe that lenders are still able to differentiate themselves through means other than pure competitive pricing.

While mortgages themselves have become commoditised, there is good reason to believe that lenders are still able to differentiate themselves through means other than pure competitive pricing.

The general reasons that respondents chose their most recent provider highlight opportunities for lenders to attract new customers. From this data, the major reasons for choosing a mortgage provider were product flexibility and existing relationships, which attracted 40% and 32% of responses respectively.

While the vast majority of respondents are satisfied with their choice of provider, those that chose a credit union or building society achieved the highest satisfaction rating. In total, 43% of respondents who chose a bank are very satisfied with their choice, a figure that increases to 49% for non-bank mortgage originators. However, a total of 67% of those that chose a building society or credit union for their last loan are very satisfied.

This satisfaction data could result from the perception that these mutual organisations are customer centric. This theory is supported by the fact that when asked what they valued the most about their lender, 60% of building society and credit union customers said 'customer service'. This compares to 34% of bank customers and 35% of non-bank customers. Clearly, with the most satisfied borrowers, building societies and credit unions are focussing on an aspect that is important to customers.

THE DISTRIBUTION LANDSCAPE

Mortgage brokers are an increasingly important aspect of the mortgage distribution landscape in Australia, with 32% of borrowers responding to the survey using a mortgage broker for their most recent loan. Not only are brokers an integral distribution channel for many non-bank providers and mutuals, they are now key to the success of the major banks in maintaining and growing market share.

As in previous years, the proportion of individuals that used a broker for their most recent mortgage loan varies substantially by state. Respondents from New South Wales / Australian Capital Territory (NSW / ACT) and VIC were the least likely to have used a mortgage broker with only 27% and 31% respectively doing so. In contrast, 42% of respondents from South Australia (SA) were most likely to have used the services of a mortgage broker.

This difference in preference accounts for the differences in type of lender preferred by respondents from different states. Victorians are the least likely to use a mortgage broker, however they are more likely to use direct channels such as bank branches to source loans. South Australians are the most likely to use a mortgage broker, and would therefore be exposed to a greater range of mortgage options.

Most respondents stated they choose to use a mortgage broker because they feel they will get a better deal, they will save time and they will get good levels of service. The vast majority, 89%, of respondents were at least satisfied with the service they had received from their broker, and 54% were very satisfied.

AFFORDABILITY AND FIRST HOME BUYERS

Housing affordability and its effects on Australian First Home Buyers is an issue of concern to many parties involved in the residential property market, including the Australian Government.

According to the ABS, at the end of 1997, the average loan size for a First Home Buyer was $104,000, compared to the average loan size of a non-First Home Buyer of $118,300. Over the 10 year period to the end of 2006, these average loan sizes for First Home Buyers and non-First Home Buyers have risen by 120% and 91% respectively. For the first time in 2006, the average loan for a First Home Buyer has actually overtaken that of the non-First Home Buyer at $228,600 compared to $226,100.

As affordability declines, it becomes increasingly difficult for First Home Buyers to enter the market, resulting in a reduction of this group as a proportion of all purchasers. ABS statistics show that the proportion of all dwellings financed for First Home Buyers reached 25.8% in 2001 following the introduction of the First Home Owners Grant (FHOG) in 2000.

However, since 2001 the proportion of First Home Buyers has dropped dramatically. In 2002 it dropped to 15.9%, and then lowered further to 13.2% in 2003. The slowdown in property price growth since 2003 allowed the proportion of dwellings financed for First Home Buyers to grow slightly to 16.4% in 2004, then to 18.7% in 2005 before slipping back to 17.7% in 2006. The slight fall in 2006 may have been a result of increases in variable interest rates and subsequent increases in mortgage repayments.

Revealing the extent of the mismatch between desire and reality, respondents had very different answers concerning when they expect to be able to purchase a property, and when they would ideally like to purchase a home financial considerations aside. Fifty-one percent of respondents stated that they would like to enter the property market in the next 12 months, compared to the 16% who expect to be able to do so. In total, 70% of respondents that did not own property would ideally like to enter the market in the next three years, compared to 27% who expect to be able to do so.

THE EMERGING RENTAL TRAP

The problems of affordability for would-be home buyers do not begin and end with house prices and mortgages, as many live in rented accommodation prior to purchasing their first home. This makes them vulnerable to rental increases and delays their ability to save a deposit.

One issue facing First Home Buyers in Australia is the current shortage of rental properties in metropolitan areas. According to the REIA, rental vacancy rates were well below 2% in all eight capital cities in the December quarter of 2006, with Adelaide the lowest at 0.5%, followed by Perth at 1.0% and Sydney at 1.5%.

This shortage of rental properties has meant that over the last year some rental rates have increased. According to REIA statistics, WA and Queensland (QLD) have been hit the hardest by this shortage of rental properties, with average rents increasing by 18.2% and 16.3% year-on-year respectively. NSW and VIC also saw rises of 3.9% and 9.1% respectively.

With 67% of those individuals who own their own home living in rented accommodation prior to purchase, and 76% of those not owning property living in rented accommodation, the rental trap has become a serious problem for many First Home Buyers.

PRODUCT DEVELOPMENT AND INNOVATION

The Australian property market currently presents a dichotomy. On the one hand there are individuals that have purchased property and are benefiting from the strength of the market through price increases or rental yields. On the other, there are individuals that would like to purchase property but are unable to do so because of the lack of affordability and the rental trap.

As a result, the mortgage industry is increasingly recognising the need to develop products that cater to these emerging affordability constraints and different borrower requirements.

Among the loans available in Australia today are no-deposit or 100% mortgages, family guarantee mortgages, mortgages with longer loan terms and shared equity mortgages. These product solutions all address the issue of affordability by either decreasing the need for a deposit or lengthening the term over which the loan is to be paid. However, one of the drawbacks of these alternative products is that they are often viewed in a negative light by borrowers who believe that lenders are trying to encourage them into debt.

As a result of this the mortgage industry is increasingly recognising the need to develop products that cater for these emerging affordability constraints and the range of different borrower requirements.

Despite the problems of saving a deposit created by the rental trap, only 36% of respondents would be prepared to consider a 100% mortgage. Only 43% would consider a shared equity mortgage. Products offering family guarantees and longer loan terms of up to 40 years also were unpopular with respondents, with only 41% and 39% respectively prepared to consider these options.

Clearly, the alternative loans available in the market only appeal to a certain group of borrowers, and lenders must therefore, continue to develop different products that suit varying needs. They also must ensure that education surrounding the benefits of new products is available and clearly communicated to any potential borrowers.

CHAPTER 1

THE MORTGAGE & PROPERTY MARKETS

This chapter outlines the landscape of the Australian mortgage market, analysing its growth in recent years and comparing it to mortgage markets in the UK and US. It also examines the way demand for home ownership has impacted the mortgage market, house prices and lending.

HIGHLIGHTS FROM THE CHAPTER INCLUDE:

- The total value of mortgage loan balances outstanding at the end of 2006 was $827 bn, a quadrupling over the last nine years.
- Personal credit aggregates, including credit cards, auto loans and other personal loans, increased by 12.7% in 2006.
- Lending commitments have more than tripled in the last 10 years, with the total value of loans advanced to individuals rising from $77 bn in 1997 to $233 bn in 2006.
- Lending commitments for owner occupied housing have grown at 12.8% compounded annually over the last five years, in contrast to investment housing, which has grown at 5.2% over the same period.
- Over the last three years the house price index for established homes has grown by just 10.9%, a relatively low return compared to the 70.7% growth of the ASX All Ordinaries
- Perth and Darwin saw the largest increases in established house prices while at the other end of the spectrum Sydney saw a decline.
- Since 1990, house price growth in Australia has outpaced that of both the UK and US markets. Since the domestic slowdown in 2003, the UK and US markets have experienced faster growth, with house prices rising 33.1% and 34.1% respectively over the 2003-2006 period.

STOCKS AND FLOWS

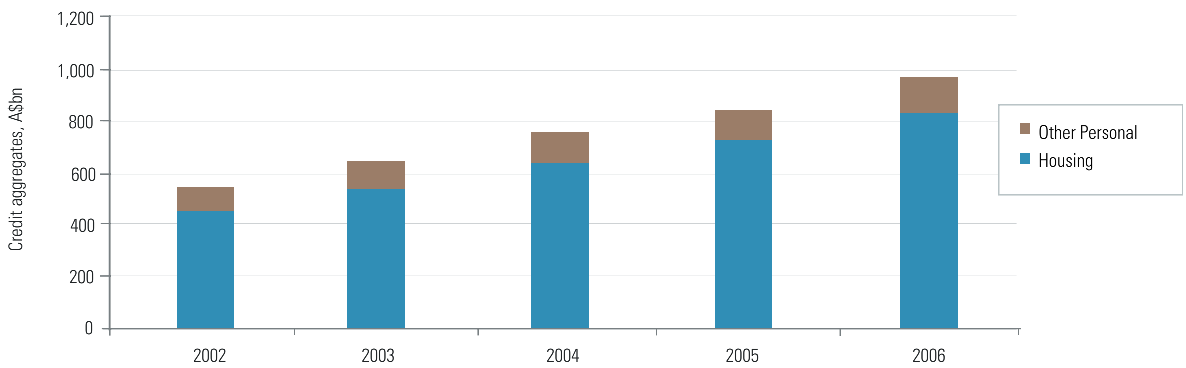
HOUSING CREDIT OUTSTANDING IN AUSTRALIA AVERAGED MORE THAN $50,000 FOR EVERY ADULT

One of the most noticeable indicators of demand for property ownership in Australia is the size of the mortgage market. According to the Reserve Bank of Australia (RBA), the total value of mortgage loan balances outstanding – credit aggregates – at the end of 2006 was $827 bn. To add some perspective, this figure has quadrupled in nine years, compared to housing credit aggregates of $216 bn at the end of 1997.

Over 2006, credit aggregates increased by 14.2% from $724 bn at the end of 2005, indicating consumers are increasingly willing to borrow for housing. According to the ABS population projection, at the end of 2006 there were approximately 15.9 million Australians over the age of 18, making the average housing credit outstanding per adult approximately $52,200.

This growth in borrowing is not confined to housing, with other personal credit aggregates – including credit cards, auto loans and other personal loans – increasing by 12.7% in 2006 to $134 bn. In total, consumer credit aggregates amounted to $961 bn at the end of 2006, representing growth of 14.0% from the end of 2005 and more than 250% from the end of 1997.

Figure 1: Housing credit aggregates average more than $50,000 for every Australian adult and are growing rapidly



Source: Reserve Bank of Australia

LENDING COMMITMENTS HAVE MORE THAN TREBLED IN THE LAST 10 YEARS

While credit aggregates are useful as a snapshot of the net increase in the amount of money owed by borrowers at a given point in time, they do not separate new borrowing, increases due to interest or decreases due to repayments. In contrast, lending commitments provide information on the flow of new borrowing granted over a defined period.

ABS data on lending commitments shows that the Australian mortgage and property market has expanded threefold over the past 10 years. In 1997 the total value of loans advanced to individuals for the purchase of property amounted to $77 bn, compared to $233 bn in 2006.

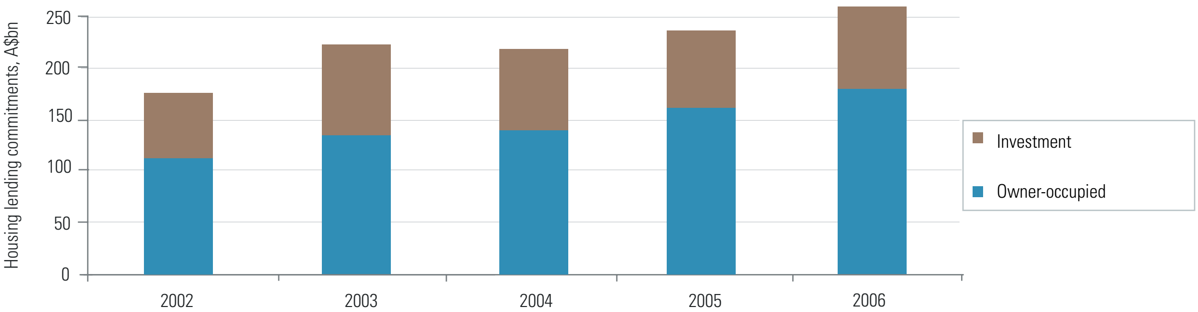
Despite speculation of a slowdown, the mortgage market grew by 10.2% in 2006 from $212 bn in 2005. Lending commitments also grew at a rate of 10.2% over the 2002-2006 period compounded annually.

As well as total market growth, lending commitments segmented by type of property – owner occupied versus investment – highlight where the mortgage market growth is occurring. Over the 2002-2006 period, the data shows a clear distinction between the growth rates of owner occupied and investment housing lending commitments. Owner occupied housing has grown at 62.0% over the five-year period, or 12.8% compounded annually, from $101 bn in 2002 to $163 bn in 2006. In contrast lending commitments for investment housing have grown from $57 bn to $70 bn over the same period, at a rate of 5.2% compounded annually.

This slower growth in investment lending commitments can be attributed to the property price slowdown in the Eastern states that has occurred over the 2003-2006 period. Over this three-year period, the house price index for established homes has grown by just 10.9%, a relatively low return compared to the 70.7% growth of the ASX All Ordinaries, or 19.5% compounded annually.

Due to the property market slowdown, lending commitments for investment housing have fallen as a proportion of total housing lending commitments, from 36.2% in 2002 to 30.0% in 2006.

Figure 2: **While lending commitments for investment properties have continued to grow, they account for a smaller proportion of total housing lending commitments**



Source: Australian Bureau of Statistics

HOUSE PRICES

HOUSE PRICES HAVE BEEN IMPACTED BY THE DEMAND FOR PROPERTY OWNERSHIP

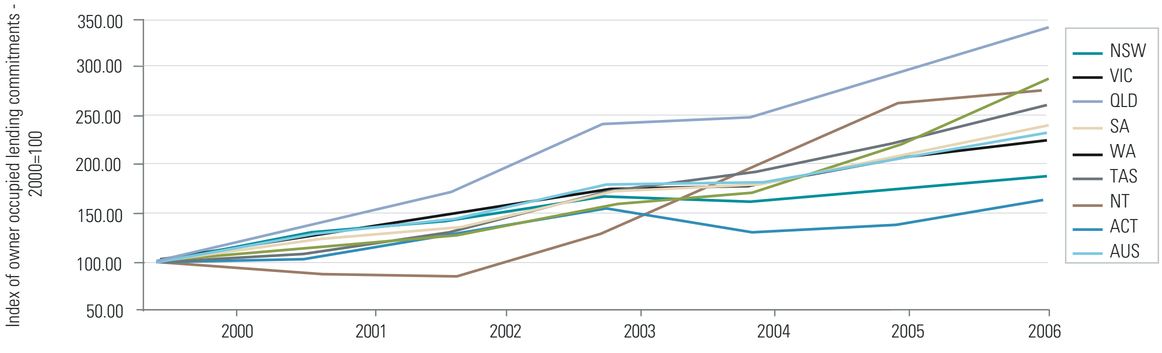
Over the 2000-2003 period, property prices in Australia experienced significant increases in most areas, driven by strong demand for property, a low interest rate environment, low unemployment and intense competition between mortgage providers that led to the development of a range of innovative mortgage products. However, over the 2003-2006 period, the growth in property prices has stagnated.

Data from the ABS shows that the weighted average median established house price across the eight capital cities grew by 102% between December 1997 and December 2003. Of this growth, 78% occurred between December 2000 and December 2003. In contrast, between December 2003 and December 2006, price growth was just 10.9%.

In line with the differences in growth of lending commitments across the various states and territories, house price growth has not been uniform. Perth and Darwin saw the largest increases in established house prices - 90.3% and 61.5% over the 2003-2006 period respectively. At the other end of the spectrum, Sydney saw a decline of 8.8%. Melbourne saw growth of 11.7% and Canberra, 10.4%.

REGIONAL GROWTH IN LENDING COMMITMENTS HAS NOT BEEN UNIFORM

Figure 3 : **Growth in lending commitments for owner occupation has not been uniform across the states and territories**



Source: Australian Bureau of Statistics

While the Australian market as a whole has seen strong growth in lending commitments over the last 10 years, growth has not been uniform throughout the various states and territories.

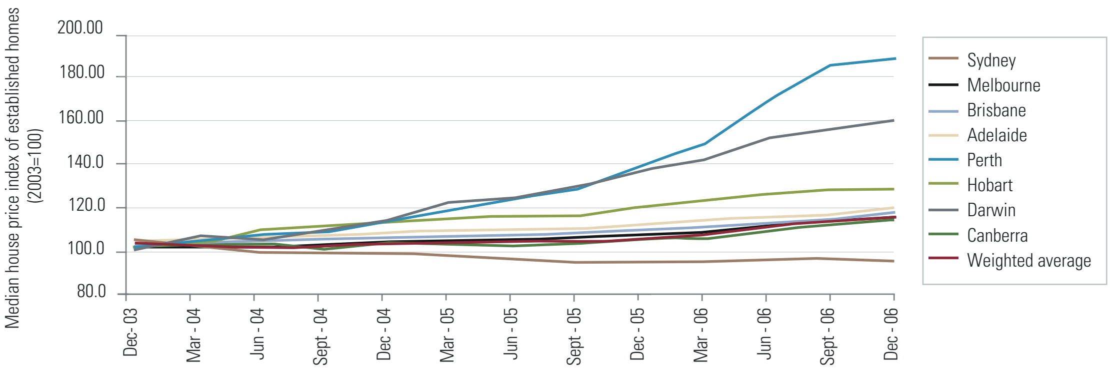
The state or territory with lowest growth over the 2000-2006 period was ACT, which saw lending commitments grow by 64% from $1 bn to $2 bn.

While the Australian market as a whole has seen strong growth in lending commitments over the last 10 years, growth has not been uniform throughout the various states and territories.

Among the states, QLD and WA saw the largest increases over the 2000-2006 period. Owner occupied lending commitments in QLD rose from $11 bn in 2000 to $36 bn in 2006, growth of 240%, while commitments in WA rose from $8 bn to $23 bn, rising 186% over the same period.

Since the property market slowdown in 2003, and as a result of the resources boom, the Northern Territory (NT) has replaced QLD in terms of growth in owner occupied lending commitments at 114%.

Figure 4 : **Median established house price growth in the various state captials has been very mixed over the 2003-2006 period, with Perth seeing growth of over 90% and Sydney seeing a decline of almost 9%**



Source: Australian Bureau of Statistics

HOUSE PRICE GROWTH IN AUSTRALIA HAS BEEN OUTSTRIPPED BY THE UK AND THE US IN THE LAST THREE YEARS

Between 1990 and 2003 house price growth in Australia was much faster than that seen in overseas markets such as the UK and the US. However, since 2003 Australian house price growth has lagged considerably behind.

The UK property market has continued to experience rapid house price growth over the 2003-2006 period. In 2004, the HBOS Existing Houses Index grew by 14.4% before flattening slightly in 2005, when it grew by just 4.8%. However, the market recovered in 2006, and the index grew by 10.2%. In total over the 2003-2006 period, the Existing Houses Index grew by 33.1%.

Prior to 2003, house price growth in the USA had not been as rapid as in Australia and the UK. Since then, the US Office of Federal Housing Enterprise Oversight's Single Family Home Index has grown rapidly. In 2004, it grew by 11.3%, increasing to 12.6% in 2005 before slowing to 5.8% in 2006.

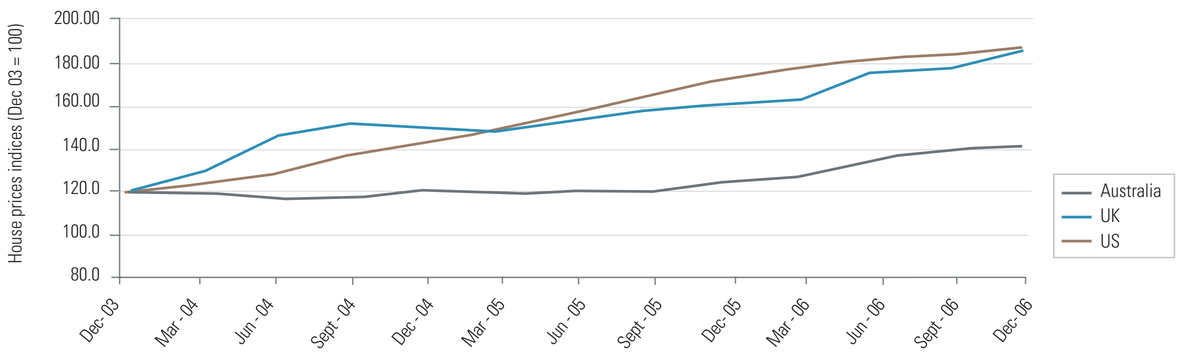
The rapid growth and subsequent slowdown in US property prices can be explained by Federal Reserve's changes to the Discount Rate, which has a direct impact on mortgage lending.

In 2003, the Discount Rate was slashed to 2%, and was no higher than 2.25% over 2003 and most of 2004. This meant that borrowers could get loans at historically low interest rates.

In August 2004, the Federal Reserve began increasing the rate progressively, but by the end of 2004 the rate still stood at only 3.25%. By the end of 2005, the discount window had been raised to 5.25%, and by the end of 2006 it stood at 6.25%. Consequently, the cost of obtaining a mortgage by 2006 was considerably higher than in previous years.

> The UK property market has continued to experience rapid house price growth over the 2003-2006 period.

Figure 5 : Growth in house prices in Australia has been stagnant in comparison to the growth seen in the UK and the US



The graph above shows the following indices: For Australia, the ABS' 'established homes' price index, for the UK, HBOS' 'existing houses' index and for the USA, the OFHEO's 'single family home' index is displayed. Source: Australian Bureau of Statistics, HBOS, Office of Federal Housing Enterprise Oversight

CHAPTER 2

PROPERTY AND HOME OWNERSHIP IN AUSTRALIA

This chapter looks at the levels of property ownership in Australia focusing on home and investment property ownership. It examines average loan sizes, typical repayments and the way property ownership varies by household income and age.

HIGHLIGHTS FROM THE CHAPTER INCLUDE:

- Of the 61% of respondents who own property, 57% own their own homes while 13% hold both an investment property and their owner occupied home.
- Respondents from WA and VIC had the highest levels of total property ownership at 68% and 66% respectively.
- Due to high average property values, low vacancy rates and relatively high average rents, NSW has one of the highest levels of investment property ownership - 19%.
- Property ownership and household income are closely correlated, with 47% of those earning less than $25,000 per year owning property, compared to 63% property ownership for those in the $50,000-$74,999 household income bracket.
- Investing in property is still seen as a good option by many Australians, with 46% of respondents believing now is a good time to invest in property.
- Eighty-five percent of Australians have some form of debt, the most common form of which is credit cards, followed closely by a mortgage and a personal loan.
- While still high, the 77% of respondents who were easily able to meet their mortgage repayments has decreased from the 2006 survey, possibly due to the four interest rate rises over the past 18 months.
- In 2007, oil prices are having a reduced impact on household income, with just 7% believing that rising petrol prices would impede their ability to repay their mortgage. This is in contrast to the 2006 survey, where 24% were concerned by rising oil prices.

PROPERTY OWNERSHIP

It is often said that home ownership is an 'Australian Dream', and it is true that property ownership in general and home ownership specifically are high priorities in Australia when compared to other countries. Of the 2,000 adults surveyed annually over the past three years, more than 60% of all respondents have owned either their own home, an investment property or both.

WESTERN AUSTRALIAN AND VICTORIAN RESPONDENTS DISPLAY THE HIGHEST LEVEL OF PROPERTY OWNERSHIP

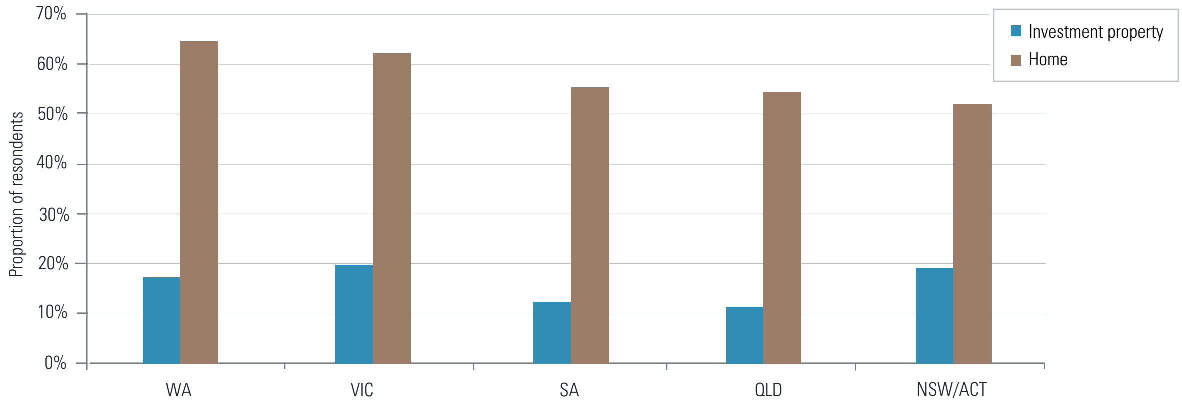
The level of property ownership varies by state across Australia. As in both the 2006 and 2005 surveys, respondents from WA and VIC had the highest level of total property ownership at 68% and 66% respectively. These two states also had the highest levels of home ownership in 2007, although slightly lower at 64% and 62% respectively.

As in previous years, it was respondents from NSW that trailed behind, with 58% of respondents owning the property they live in, rent out to others or use as a holiday home. NSW, particularly Sydney, continues to suffer from affordability issues, making entry into the property market difficult for many. Due to these high prices, and relatively high average rents, NSW has one of the highest levels of investment property ownership at 19%, behind VIC at 20%.

Respondents from WA and VIC had the highest level of total property ownership at 68% and 66% respectively.

Figure 7: Respondents in WA and Vic were most likely to own their own homes, while respondents in NSW/ACT were more likely to own an investment property

Do you currently own either a property that you occupy yourself or a property that is rented out to others or used as a holiday home



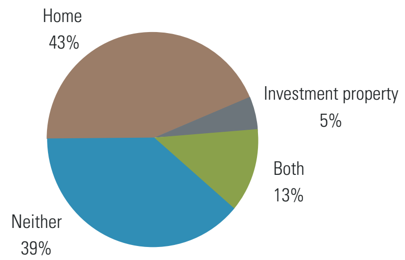
Source: Retail Finance Intelligence (RFI)

HOME OWNERSHIP IS AN IMPORTANT PART OF THE AUSTRALIAN PSYCHE

Of the 61% of respondents who own property, 43% own just their own homes, while 13% hold both an investment property and their owner occupied home. Only 5% owned only an investment property or holiday home and not their own homes, highlighting the decreased popularity of investment property due to the sluggish growth over recent years.

Figure 6 : **For the third year in a row, more than 60% of respondents to the Genworth Financial survey owned property in some form or another**

Do you currently own either a property that you occupy yourself or a property that is rented out to others or used as a holiday home?



Source: Retail Finance Intelligence (RFI)

INCOME AND PROPERTY OWNERSHIP ARE HIGHLY CORRELATED

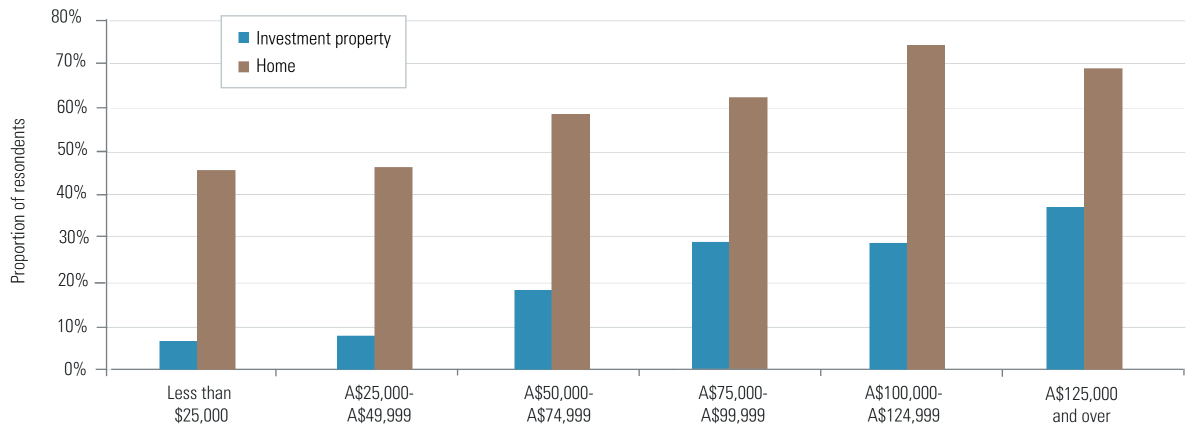
As in the two previous surveys, the 2007 survey showed that property ownership and household income are closely related. In the lowest income bracket, those earning less than $25,000 per year, 47% own property in some form, down slightly from 48% in the 2006 survey.

Of the respondents in the $25,000 to $49,999 household income group, 50% owned some type of property. This proportion increased to 63% for those in the $50,000-$74,999 household income bracket while above household income level of $75,000, more than 70% of all respondents owned some form of property.

In terms of investment, there is a marked increase in the proportion of respondents who had invested in property as household income increased. In the lowest income bracket, less than $25,000, just 6% of respondents owned investment property, compared to 37% with household income over $125,000.

Figure 8: **Home and investment property ownership is highly correlated to household income**

Do you currently own either a property that you occupy yourself or a property that is rented out to others or used as a holiday home?



Source: Retail Finance Intelligence (RFI)

INVESTING IN PROPERTY IS STILL SEEN AS A GOOD OPTION BY MANY AUSTRALIANS

Since 2003, Australian price growth has stagnated, resulting in a slowdown in the investment property market. This has had a flow on effect onto the mortgage market with the proportion of loans for investment property declining from 36.2% in 2003 to 30.0% in 2006.

These facts could lead the observer to believe that investment in property is not a popular option for Australians in 2007. However, when asked whether they believed that now was a good time to invest in property, just 33% of respondents said 'no', with 46% of respondents answering 'yes'; that they believed now is a good time to invest in property. A further 21% were unsure.

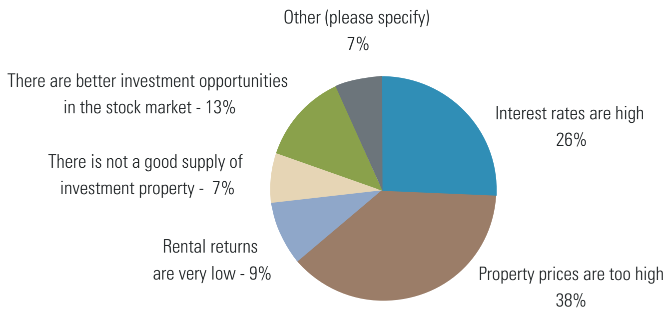
For those who did not believe that now was a good time to invest in property, the most popular reason, given by 38% of respondents, was that 'property prices are too high', followed by 26% saying 'interest rates are too high'. This is particularly interesting given the fact that interest rates are still at relatively low levels by historic comparison.

Despite the fact that Australian equities have performed much better than property investments in the last three years, only 13% of respondents thought that there were better investment opportunities in the stock market.

Despite the fact that Australian equities have performed much better than property investments in the last three years, only 13% of respondents thought that there were better investment opportunities in the stock market.

Figure 9: High property prices and interest rates are turning some Australians off investing in property

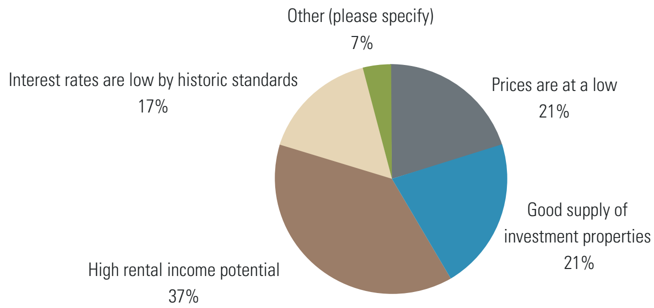
What makes it an unattractive time to invest in property? Tick all that apply



Source: Retail Finance Intelligence (RFI)

Figure 10: Those that believe now is a good time to invest in property are attracted by high rental returns and a good supply of investment properties

What makes it a good time to invest in property? Tick all that apply



Source: Retail Finance Intelligence (RFI)

Those that do believe that now is a good time to invest in property were asked to elaborate further. Asked why they thought it was a good time to invest in property, 38% stated there was high rental income potential. Such a response may be accounted for by speculation of pending large rental increases at the time of the survey, driven by vacancy rates lower than 2% in all state capitals in the December quarter of 2006.

Aside from rental returns, respondents also believe there is a good supply of investment properties to purchase and that property prices are low, with both reasons receiving 21% of responses. While property prices have not increased significantly in recent years, and the only major price declines have been in and around Sydney, it is interesting that respondents would believe prices to be low when most cities are still afflicted by affordability constraints.

MORTGAGES AND REPAYMENTS

With such a large proportion of Australians owning residential property in some form, it is important to understand the proportion of these individuals who are repaying a mortgage, as well as the degree of comfort with which they are able to make these repayments. It is also important to consider the mortgage in the context of other debts.

THE VAST MAJORITY OF AUSTRALIANS ARE LIVING WITH DEBT

Chapter 1 highlighted the significant growth of personal credit in Australia, leading to the conclusion that Australians are increasingly required and willing to borrow and live with debt. Of the 2,000 adults surveyed, only 15% were debt free.

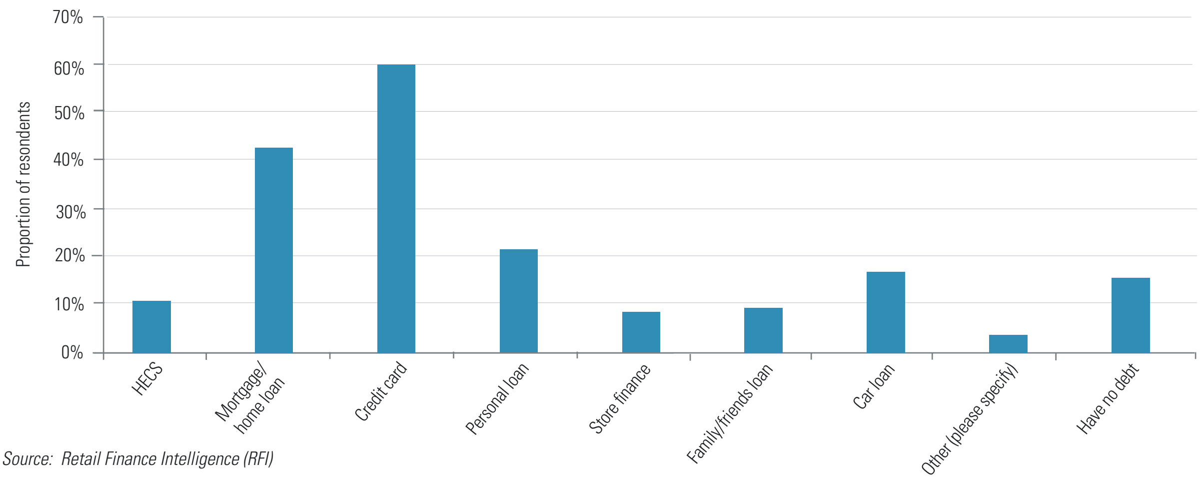
Among the 85% of respondents that had debt, the most common form was unsecured debt, with 60% of respondents having credit card debt. This was followed by a mortgage, with 43% of all respondents owing money on a property they had purchased. Twenty-one percent of respondents had a personal loan, and a further 16% had a car loan.

Asked what proportion of their total income goes towards repaying these debts, 22% of respondents with some form of debt stated that less than 10% of their income goes to debt repayment. In total, 65% of all respondents in debt stated that less than 30% of their total income goes to repaying debts. That looks good, but only tells half the story.

At the other end of the spectrum, more than 35% of those with debt answered that over 30% of their income goes to repayments, with 12% of respondents seeing more than 50% of their total income used to repay debt.

Figure 11: Credit card and mortgage debt are the most common forms of consumer debt

Which of the following types of debt do you have? Choose all that apply



Source: Retail Finance Intelligence (RFI)

OVER 70% OF PROPERTY OWNERS HAVE A MORTGAGE OUTSTANDING

Results show that 71% of respondents who own residential property are still repaying a mortgage. In order to understand their commitment level, they were asked how much they pay each month in mortgage repayments on all properties they own.

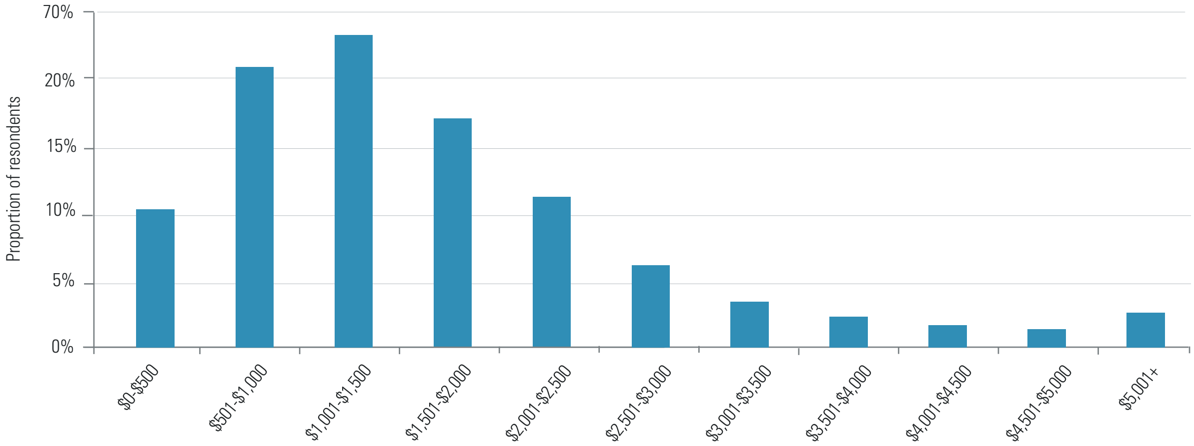
The responses reveal that average mortgage repayments are relatively high. In total, 54% of respondents pay less than $1,500 per month, 23% paying between $1,001 and $1,500 per month and 21% paying between $501 and $1,000 per month. The median mortgage repayment is between $1,001 and $1,500 per month, consistent with the 2006 Genworth Financial Mortgage Trends Report.

These respondents include those that have had a mortgage for up to 20 years, as well as those that have just purchased property. The average home loan in Australia had risen to $226,600 at the end of 2006, with the monthly repayment likely to be higher than $1,500. Average mortgage loan sizes are analysed in more detail in the chapter 'Affordability and First Home Buyers'.

A further 28% of respondents pay between $1,501 and $2,500, and just 17% of respondents pay more than $2,500 per month in mortgage repayments. Those with the highest mortgage repayments - more than $5,000 - accounted for just 3% of respondents.

Figure 12: As in 2006, the median mortgage repayment was between $1,001 and $1,500

What are your total monthly mortgage repayments on all properties you own?



Source: Retail Finance Intelligence (RFI)

77% OF RESPONDENTS EITHER MADE OVERPAYMENTS OR WERE EASILY ABLE TO MEET THEIR REPAYMENTS IN EVERY MONTH OF THE LAST YEAR

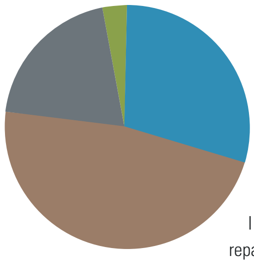
With the average mortgage size increasing, it is important to understand how easily mortgage holders are meeting their repayments. Seventy-seven percent of respondents were easily able to meet their mortgage repayments in every month over the last year. Of these individuals, 29% made overpayments during this period.

While this proportion might seem large, it has dropped from 84% in the 2006 survey. This reduced ability to comfortably meet mortgage repayments is most likely due to the changes in the Cash Rate Target by the RBA, with four interest rate rises in the 12 months prior to the 2007 survey increasing the cash rate to 6.25%.

The squeeze on household incomes and increasing mortgage repayments also is reflected in the portion of home owners who had difficulty meeting repayments during at least some months. It rose from 16% in 2006 to 23% in 2007. The proportion that had difficulty in every month has risen from 1% to 3% respectively.

Figure 13: The proportion of respondents that easily met mortgage repayments in the last 12 months has dropped since the 2006 survey

During the last 12 months did you do any of the following?



Source: Retail Finance Intelligence (RFI)

GOING FORWARD 82% OF RESPONDENTS EXPECT TO EASILY MEET THEIR REPAYMENTS IN AT LEAST SOME MONTHS

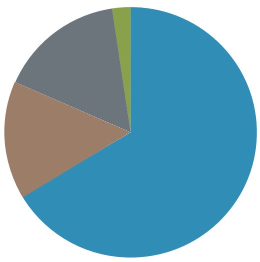
Respondents were more positive about their ability to meet mortgage repayments going forward, with 82% stating that they expected to easily meet repayment in at least some months during the next year. This is particularly encouraging given speculation that the RBA will increase the Cash Rate Target further in 2007, impacting rates on variable rate mortgage loans.

In April 2007, the International Monetary Fund (IMF) commented on the Australian economy, stating that unless growth in the Consumer Price Inflation (CPI) was brought under control the RBA would need to raise the Cash Rate Target once again. Inflation in 2006 was 3.5%, outside of the RBA's target band of between 2% and 3%.

The IMF expects inflation to ease in 2007 due to lower oil prices, although it will remain at the top end of the RBA's target at around 2.8%.

Figure 14: 82% of respondents state that they expect to easily meet repayment in at least some months during the next year

During the next 12 months which of the following will apply to you?



Source: Retail Finance Intelligence (RFI)

54% believed changes in personal circumstances such as pregnancy, divorce or job changes are likely to cause them repayment problems over the next year.

CHANGES IN PERSONAL CIRCUMSTANCES ARE THE BIGGEST CONCERNS FOR BORROWERS GOING FORWARD

With such a positive outlook for 82% of mortgagees, it is interesting to know what will be causing problems for the 18% that will have difficulty meeting mortgage repayments in at least some months.

In 2007, oil prices are having a reduced impact on household income, with just 7% believing that rising petrol prices would impede their ability to repay their mortgage. This is in contrast to the 2006 survey, where 24% were concerned with rising oil prices.

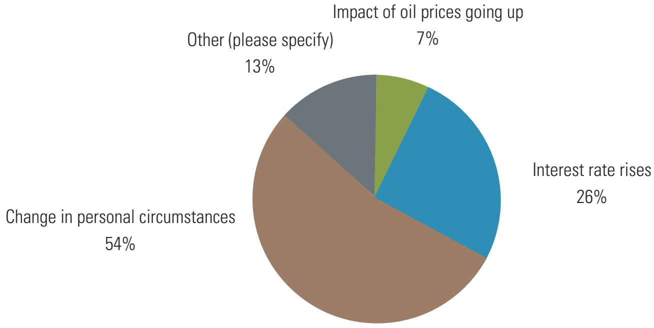
Interest rate rises are a concern for 26% of respondents, compared to 24% in the 2006 survey.

That is understandable given the four rate rises in the previous 12 months and the outlook from the IMF.

However, despite economic concerns, changes in personal circumstances are by far the biggest concern for respondents. In total, 54% believed changes in personal circumstances, such as pregnancy, divorce or job changes, are likely to cause them repayment problems over the next year.

Figure 15: Changes in personal circumstances are by far the biggest reason behind difficulties in meeting mortgage repayments

Why will you find it difficult to meet your mortgage repayments in some/all months?



Source: Retail Finance Intelligence (RFI)

CHAPTER 3

COMPETITION AND DISTRIBUTION

This chapter focuses on the competitors in the market; including banks, the building societies, credit unions and non-bank lenders. It looks at the market shares of the various players in the market and the attitudes of borrowers to each type of lender. The chapter then goes on to analyse distribution via the broker channel and examines consumer attitudes towards the broker market.

Highlights from the Chapter include:

- In 2006, bank lending commitments for owner occupied housing stood at $130 bn, 79.5% of all owner occupied lending commitments.
- Respondents in VIC were the most likely to have sourced their last mortgage from a bank, with 72% having done so.
- The largest four banks continue to dominate retail banking services in Australia due to their extensive customer base, wide distribution networks and established brands. They were responsible for 75.7% of total bank mortgage lending in 2006.
- The major reasons for choosing a mortgage provider were good product flexibility and existing relationships, accounting for 40% and 32% of responses respectively.
- The presence of an existing relationship was the dominant driver in selecting a bank as a mortgage lender.
- Loan flexibility and low fees and charges were chosen by almost half of all respondents who chose a building society or credit union as the primary driver for selecting that type of mortgage provider.
- A positive recommendation was the second biggest reason behind the choice of a non-bank lender.
- Sixty-seven percent of those that chose a building society or credit union for their last loan are very satisfied, compared to only 43% for banks and 49% for non-banks.
- The most valued aspect for customers of all three types of lender was the interest rate on the loan and 78% of all borrowers stated they would switch mortgage providers for a lower rate.
- Popular reasons for choosing mortgage brokers include the belief that borrowers will get a better deal and that they will save time.

THE COMPETITIVE LANDSCAPE

One of the biggest indicators of the maturity of a market is the level of competition that exists therein. The Australian market is intensely competitive, with traditional banking lenders challenging credit unions, building societies, non-conforming lenders and other specialists in a battle for customers that involves development of innovative and competitively priced products.

BANK LENDERS CONTINUE TO DOMINATE LENDING COMMITMENTS WITH 79.5% OF OWNER OCCUPIED LENDING IN 2006

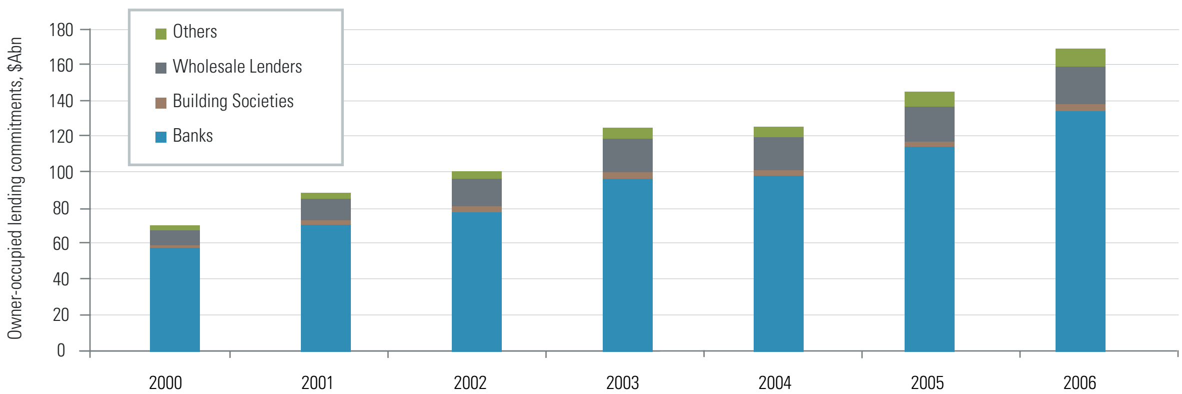
ABS statistics show a split of owner occupied housing lending between banks, permanent building societies, wholesale lenders and other lenders (primarily credit unions) that can be analysed to determine market share. In 2006, bank lending commitments for owner occupied housing stood at $130 bn, 79.5% of all owner occupied lending commitments.

Bank lenders clearly dominate housing lending, and their market share of 79.5% is the highest since 2000. In 2002, bank lenders' share of owner occupied housing lending dropped to 76.7%, the lowest level since 1991 when total lending commitments for owner occupied housing stood at $24 bn.

This drop in market share for the banks coincided with the investment property boom and may indicate that the banks were less focused on the owner occupied mortgage market. Certainly, the permanent building societies and wholesale lenders benefited, seeing growth in lending commitments in 2001 of 52.8% and 52.5% respectively, compared to 22.3% for the banks. In 2002, it was the credit unions that benefited, with 'other lenders' growing their lending commitments by 39.4%, compared to 11.1% for the banks.

In 2004, when owner occupied lending commitments grew by just 0.8%, credit unions again saw the biggest gains, growing lending commitments by 16.1% compared to 1.7% for the banks. In that year the permanent building societies and wholesale lenders saw lending commitments for owner occupied housing shrink by 14.7% and 5.2% respectively.

Figure 16: Bank lenders shared almost 80% of owner occupied lending commitments in 2006, their highest share since 2000



Source: Australian Bureau of Statistics

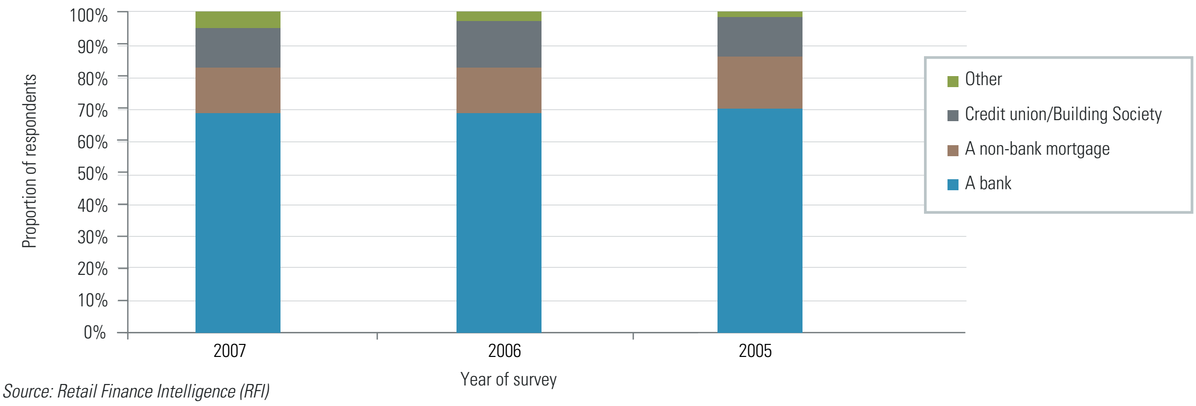
SIXTY-EIGHT PERCENT OF PROPERTY OWNERS SOURCED THEIR MOST RECENT MORTGAGE FROM A BANK LENDER

Banks dominance of lending commitments in Australia is further underlined by the findings of the Genworth Financial survey, with 68% who owned residential property obtaining their most recent mortgage from a bank lender. Those who had obtained their mortgage from a non-bank mortgage originator (wholesale lender) or from a building society or credit union accounted for 15% and 13% respectively.

This level of market share has been consistent through previous surveys, with 68% in 2006 and 70% in 2005 sourcing their most recent mortgage from a bank lender.

Figure 17: Over the last three years, bank lenders have consistently provided the most recent mortgage loan to respondents

Which of the following provided your last mortgage loan?



Source: Retail Finance Intelligence (RFI)

CHOICE OF LENDER IS STATE-SPECIFIC

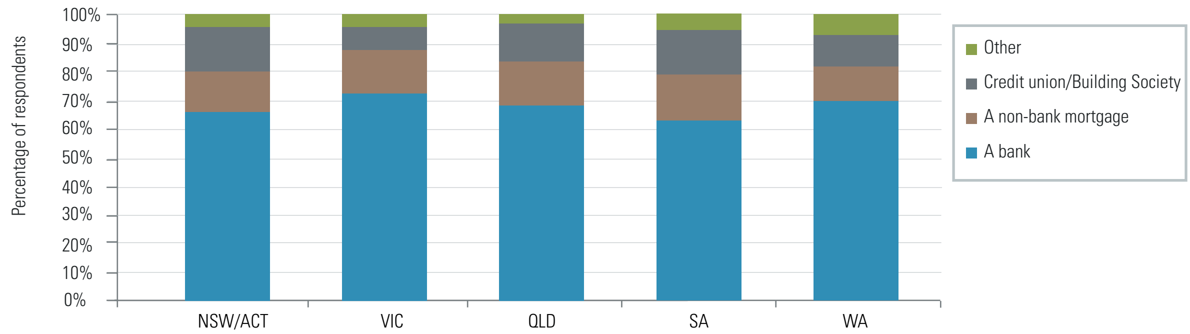
While bank lenders do dominate the mortgage market, the choice of bank lender does vary somewhat by state. Respondents in VIC were the most likely to have sourced their last mortgage from a bank, with 72% having done so. VIC was closely followed by WA, where 69% of respondents sourced their last mortgage loan from a bank lender. These findings are in line with the 2006 and 2005 survey findings, in which Victorians were either the most likely or second most likely to have sourced their last loan from a bank.

At the other end of the spectrum, respondents from SA were the least likely to have chosen a bank lender for their last mortgage loan at 63%, followed by NSW/ACT with 66%.

The fact that respondents from VIC and SA have such different lender preferences could be indicative of their preferences for mortgage brokers. Victorians are the least likely to use a mortgage broker, indicating a preference for direct channels as most non-banks have little in the way of branch networks. South Australians, on the other hand, are the most likely to use a mortgage broker, and would therefore be exposed to a greater range of mortgage options.

Figure 18: Victorians are the most likely to have chosen a bank for their last mortgage, while South Australians are the least likely

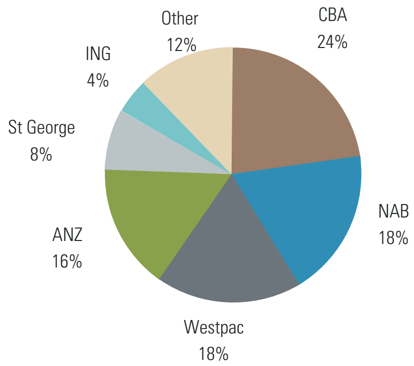
Which of the following provided your last mortgage loan?



Source: Retail Finance Intelligence (RFI)

AMONG THE BANK LENDERS CBA HAS THE LARGEST SHARE OF THE MARKET

Figure 19: The biggest four banks continue to dominate mortgage lending in Australia, with St. George fifth



Source: Australian Prudential Regulation Authority

Due to their dominance in the form of lending commitments, bank lenders also have the largest value of loans outstanding in the market - credit aggregates. At the end of December 2006 banks had $589 bn in housing loans outstanding, $394 bn for owner occupation and $195 bn for investment housing.

As one might expect, the largest four banks dominate the retail banking services in the country due to their extensive customer base, wide distribution networks and established brands. ANZ, CBA, NAB and Westpac dominate many banking products. The mortgage market, for both investment and owner occupied lending, is no different.

The Australian Prudential and Regulation Authority (APRA) provides statistics on the lending of all banks, which show that these four banks were responsible for 75.7% of total mortgage lending by banks at the end of 2006. This compares to a share of 75.8% at the end of 2005. CBA was the leader with 23.3% market share, followed by Westpac with 18.1%, then NAB with 18.0% and ANZ with 16.4%.

These four banks were responsible for 75.7% of total mortgage lending by banks at the end of 2006

St. George is a distant fifth with 7.7% of the market followed by Dutch bank ING with 4.3%. The regional banks - Suncorp-Metway (2.9%), BankWest (2.9%), Adelaide Bank (1.8%) and Bank of Queensland (1.2%) - have aggressively been expanding their branch networks and focussing on increasing distribution.

Bendigo Bank and Citibank sit just outside the ‘top 10' with 1.2% and 1.0% of the market respectively. If the proposed merger of Bank of Queensland and Bendigo Bank were to happen, the newly created entity would share 2.4% of the mortgage market and be the ninth largest bank lender.

CHOICE, SATISFACTION AND VALUE

With such intense competition in the Australian market, prices are kept low and new innovations are developed regularly. In such a market the beneficiary is likely to be the borrower, who can choose from an ever expanding range of lenders and products. The ultimate outcome is that mortgage becomes commoditised and borrowers begin to make choices based on their own household economics. It is important to understand to what extent this has happened recently in the Australian market recently.

BORROWERS CHOOSE LENDERS BASED ON BOTH PRICE AND NON-PRICE-BASED CRITERIA

While mortgages themselves have become commoditised, there is good reason to believe that lenders are still able to differentiate themselves through means other than pure pricing. Having established from which type of provider respondents had sourced their most recent mortgage loan, the 2007 Genworth Financial survey then asked what factors had attracted borrowers to this lender.

The major reasons for choosing a mortgage provider were good product flexibility and existing relationships, which attracted 40% and 32% of responses respectively and corresponds to previous survey results.

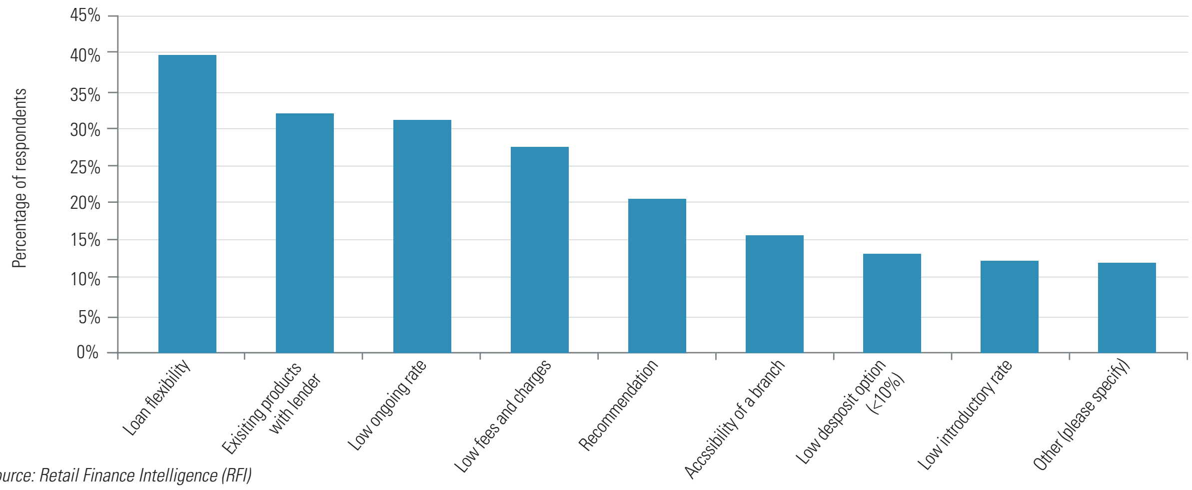
Neither of these factors are directly dependent on price or rate. Loan flexibility allows a borrower to overpay, redraw or have an offset account, which many borrowers favour as such a loan can be adapted to change with lifestyle. The importance of an existing relationship with the provider is an opportunity for bank lenders who have the largest share of transactional accounts and credit cards.

Other common reasons for choosing a lender are related to price. A low ongoing rate and a product with low fees and charges attracted 31% and 27% of respondents to their most recent lender.

In general, borrowers see through honeymoon or low introductory rates, with just 12% of respondents saying this as the reason they were attracted to their most recent provider.

Figure 20: Flexibility and existing relationships are the most important factors for borrowers in choosing a lender, which should be encouraging those that believe the market is too commoditised

What attracted you to the lender that provided your most recent mortgage loan?



Source: Retail Finance Intelligence (RFI)

THE REASONS THAT ATTRACT BORROWERS VARY BY TYPE OF LENDER

Having looked at the overall reasons behind lender choice, it is interesting to break down the responses by type of lender in order to see what differences exist. For lenders it is important to know what specifically attracts borrowers to their institution or indeed to their competitors.

The existing relationship was a critical factor among those respondents that had chosen a bank as their most recent lender, with 39% saying that this was the reason behind their choice. This was the highest factor for bank borrowers. These borrowers may do most of their banking transactions through one bank, which may make it seem much easier to get a mortgage through this lender. These individuals should also receive cross-sale promotional materials from their existing bank, helping ensure the bank is foremost in the individual's mind when looking for a mortgage. In this regard, banks, building societies and credit unions have a distinct advantage over most non-bank mortgage originators.

Other factors that attracted respondents to bank lenders were in line with the overall reasons behind lender choice as highlighted previously. These were loan flexibility, low ongoing rates and low fees and charges, reflecting 39%, 30% and 27% of respondents' views respectively.

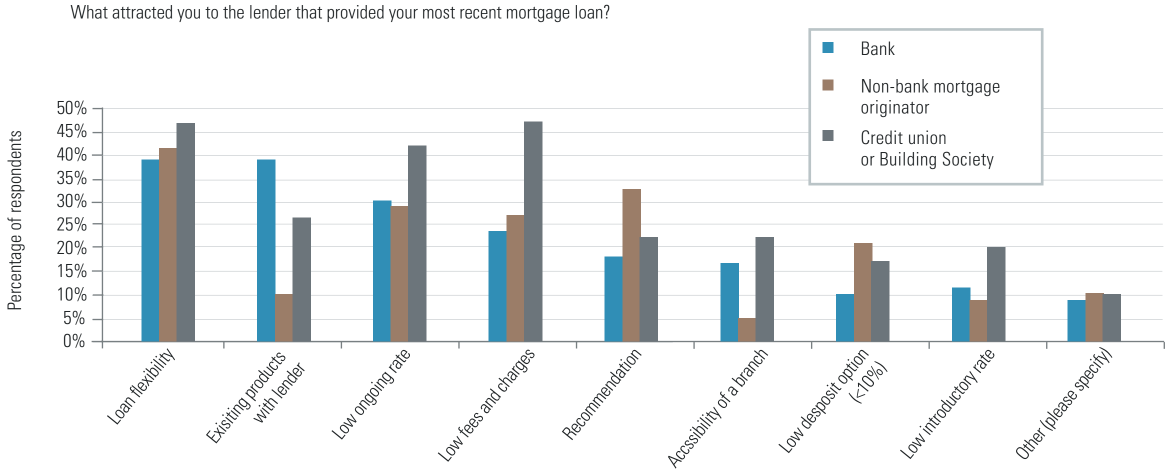
For those who chose a building society or credit union as their most recent mortgage provider, the reasons differed slightly. Existing relationships were still important for 27% of respondents, however almost half, 47%, chose loan flexibility and low fees and charges. This would suggest that the mutuals are doing more to adapt their loans to their customers' individual needs, or that they are more sympathetic to changes in personal circumstances. A low ongoing rate was also crucial to 42% of these respondents.

For those that chose a non-bank mortgage originator as their most recent mortgage lender, flexibility was once again critical, with 42% of these respondents stating this as the reason behind their choice. However, the second biggest reason - with 33% - was a recommendation. Recommendation was not a major factor for banks (18% of respondents) or for building societies and credit unions (22%). Non-bank players should be encouraged that their customers are recommending them to others.

If non-bank players could leverage the benefits of word of mouth through incentives for existing clients, for 'referring a friend' and by offering loan discounts, they could see larger volumes of new customers. In this way they also would have a retention tool for existing customers that is still rate sensitive.

Figure 21: Recommendations are critical, with 33% of those that chose a non-bank mortgage originator stating that their lender was recommended to them

What attracted you to the lender that provided your most recent mortgage loan?



Source: Retail Finance Intelligence (RFI)

BUILDING SOCIETIES AND CREDIT UNIONS HAVE THE MOST SATISFIED CUSTOMERS

When asked whether they were happy with their choice of lender, 92% of respondents stated that they are either satisfied or very satisfied. Overall, mortgage providers can be greatly encouraged by these results.

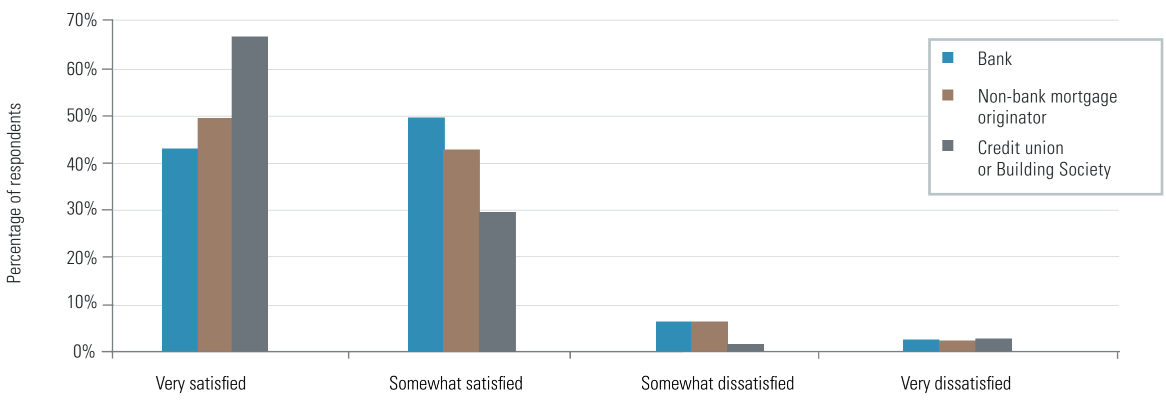
While the vast majority of respondents are satisfied with their choice of provider, those that chose a credit union or building society are very satisfied. In total, 43% of respondents that chose a bank are very satisfied with their choice, a figure that increases to 49% for non-bank mortgage originators. However, a total of 67% of those that chose a building society or credit union for their last loan are very satisfied.

This satisfaction data could be a result of the fact that these mutual organisations are generally perceived to be customer centric.

In total, 43% of respondents that chose a bank are very satisfied with their choice, a figure that increases to 49% for non-bank mortgage originators. However, a total of 67% of those that chose a building society or credit union for their last loan are very satisfied.

Figure 22: 67% of credit union customers are 'very satisfied' with their choice of lender, compared to 43% of bank borrowers

Having chosen the lender for the reasons stated, are your satisfied?



Source: Retail Finance Intelligence (RFI)

IN ORDER TO RETAIN CUSTOMERS LENDERS SHOULD FOCUS ON SERVICE, BUT THEY CANNOT OVERLOOK PRICE COMPETITION

With such a large proportion of satisfied customers, it may seem that lenders have few retention worries. However, the reality is that retention is crucial in the Australian market. As mentioned previously, competitive pressure means that borrowers have a huge range of mortgage products and providers from which to choose. As a consequence, the tendency to switch lenders when a better offer comes along is high.

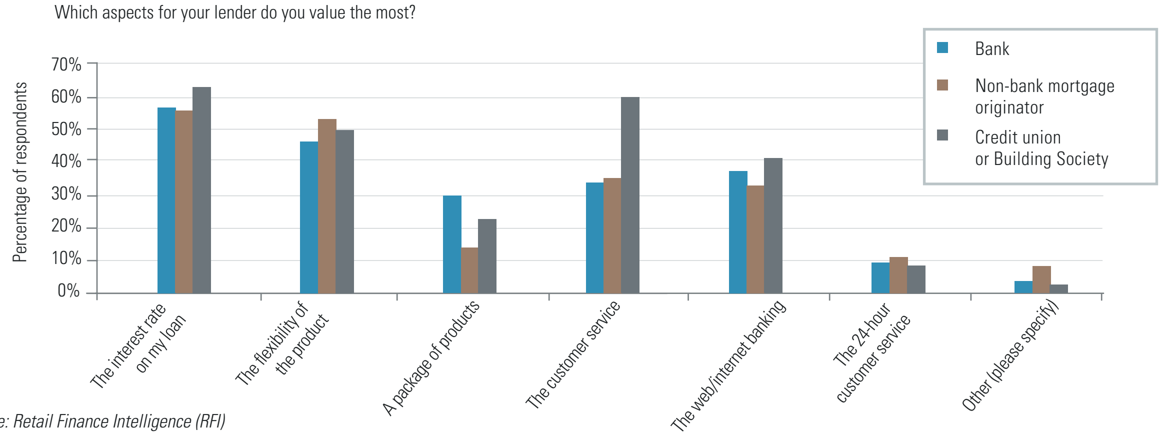
The theory that building society and credit unions are more customer centric is supported by the fact that when asked what they valued the most about their lender, 60% of building society and credit union customers said ‘customer service’. This compares to 34% of bank customers and 35% of non-bank customers. Clearly, building societies and credit unions are focussing on an aspect that is important for borrowers.

The theory that building society and credit unions are more customer centric is supported by the fact that when asked what they valued the most about their lender, 60% of building society and credit union customers said 'customer service'

The average life of a mortgage loan in Australia is approximately three years. Given the costs associated with acquisition relative to retention, it is in providers’ interests to consider ways in which to increase the life of these loans.

Figure 23: 60% of building society and credit union customers valued ‘customer service’ compared to 34% of bank customers and 35% of non-bank customers

Which aspects for your lender do you value the most?



Source: Retail Finance Intelligence (RFI)

For bank customers, the valued aspect that provides a competitive advantage is the ability to offer clients a package of products – loans, deposit accounts, credit cards, insurance etc. – with 29% of respondents, versus 14% for non-banks and 22% for building society and credit unions.

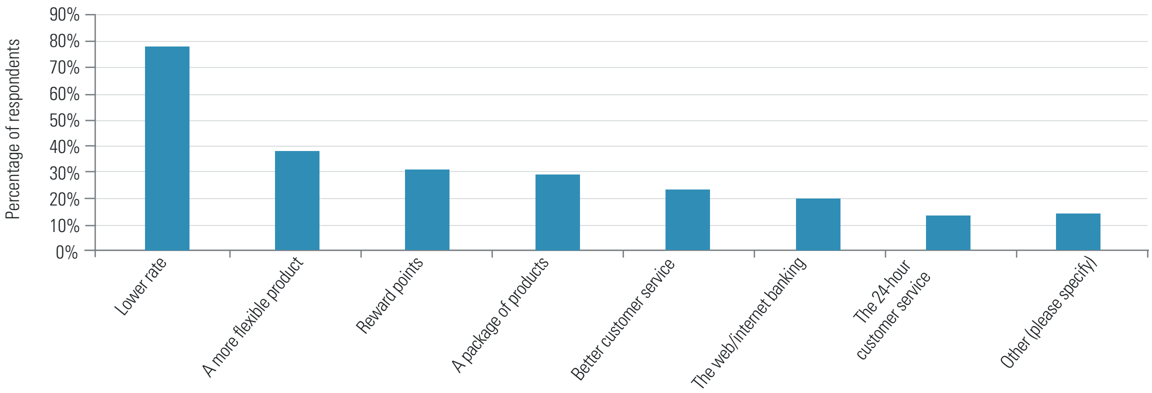
What cannot be overlooked is that despite the factors highlighted above, the loan interest rate is the most valued aspect for customers of all three types of lender, with 62% of building society and credit union customers, 55% of bank customers and 56% of non-bank customers saying they value this from their provider.

Respondents to the survey also were asked what would entice them to change loan provider. The result was that 78% of all borrowers would switch mortgage provider for a lower rate. To put this into perspective, the next most likely reason a customer would switch would be for a more flexible loan, which was chosen by 38% of respondents.

Critically, while customer service was one of the most valued lender attributes, it is not a big factor for switching. Just 23% of respondents stated they would switch provider for better service. These responses underline the fact that no matter how satisfied customers might be, they will switch to another mortgage provider if they are offered a cheaper loan.

Figure 24: The offer of a lower rate is by far the biggest incentive for customer to switch mortgage provider

Would you now change your mortgage provider if you were offered any of the following?



Source: Retail Finance Intelligence (RFI)

THIRD-PARTY DISTRIBUTION

For lenders in a competitive market, securing third-party distribution is one of the most important factors in winning market share. Even larger bank lenders that have solid branch networks compete for the attention of mortgage brokers in order to maximise their distribution. For the non-bank lenders the mortgage broker channel is even more critical. Understanding how borrowers view this channel is important for lenders of all sizes.

MORTGAGE BROKERS ARE AN IMPORTANT PART OF THE DISTRIBUTION LANDSCAPE

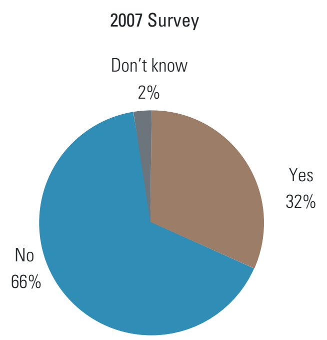
Mortgage brokers are an increasingly important aspect of the mortgage distribution landscape in Australia. Not only are brokers an integral distribution channel for many non-bank providers and mutuals, they are now key to the success of the major banks in maintaining and growing market share. Recognising this importance, many large lenders such as NAB have dedicated mortgage brands for distribution via the broker channel.

The importance of the mortgage broker channel is confirmed by the respondents to the 2007 Genworth Financial survey, 32% of whom used a mortgage broker for their most recent loan. The proportion has been relatively steady over the previous three years, however the 2007 figure has increased slightly from 29%, possibly as a result of greater advertising presence.

It is now generally believed that approximately one third of new mortgage loans are broker written. For banks such as ING and Adelaide Bank that feature in the top 10 lenders and make extensive use of the broker channel, the percentage of broker-written loans would be much higher.

Figure 25: Mortgage brokers have been a consistently important part of the distribution of mortgage loans in recent years

When you took out your last mortgage loan did you use the services of a mortgage broker?



Source: Retail Finance Intelligence (RFI)

USAGE OF THE BROKER CHANNEL VARIES CONSIDERABLY BY STATE

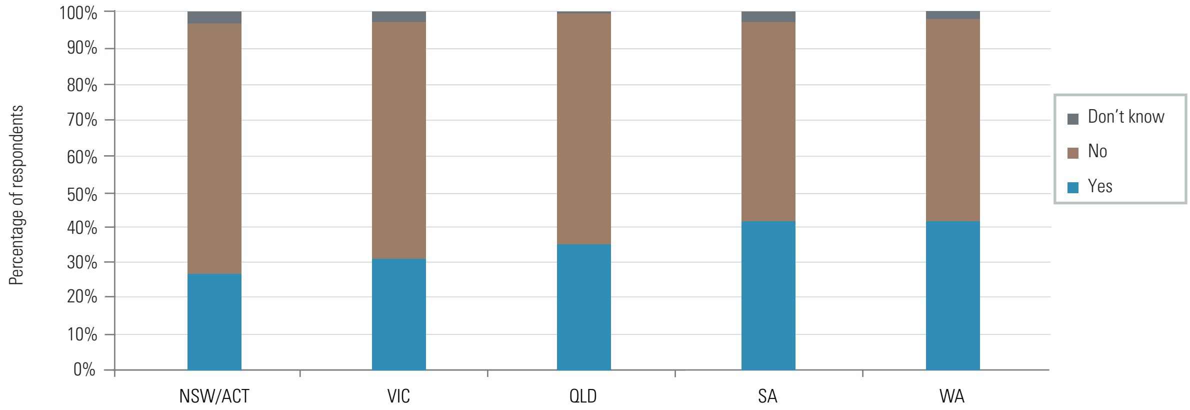
As in previous years, the proportion of individuals that used a broker for their most recent mortgage loan varies substantially by state. Respondents from NSW/ACT and VIC were the least likely to have used a mortgage broker with only 27% and 31% respectively doing so.

Respondents from SA were most likely to have used the services of a mortgage broker, though they were joined by respondents from WA. Forty-two percent of respondents in SA and WA used a mortgage broker last time they took out a mortgage.

This difference in preference accounts for the differences in type of lender preferred by respondents from different states mentioned earlier. Because Victorians are less likely to use a mortgage broker, they are more likely to use direct channels such as bank branches to source loans, whereas South Australians are the most likely to use a mortgage broker and would therefore be exposed to a greater range of mortgage options.

Figure 26: Mortgage brokers usage varies quite dramatically by state of residence

When you took out your last mortgage loan did you use the services of a mortgage broker?



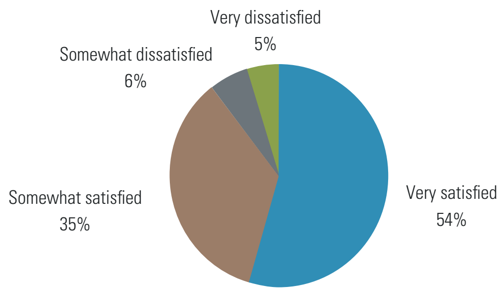
Source: Retail Finance Intelligence (RFI)

IN GENERAL BORROWERS ARE HAPPY WITH THEIR 'BROKER SERVICE'

With high expectations of the service borrowers will obtain by choosing a mortgage broker, it is encouraging to learn that brokers are not disappointing their customers. The vast majority, 89%, of respondents who had used a mortgage broker were at least satisfied with the service they had received, and 54% of these respondents were very satisfied. Clearly, brokers are delivering on their promise of offering independent advice across a range of products at a time that is convenient to the borrower.

Figure 28: The vast majority of respondents that used a mortgage broker were at least somewhat satisfied with the service they had received from their broker, and 54% of these respondents were very satisfied

Are you satisfied with the service you got from the mortgage broker?



Source: Retail Finance Intelligence (RFI)

BORROWERS CHOOSE BROKERS TO SAVE TIME AND TO GET A BETTER DEAL

Mortgage brokers are clearly an important part of the distribution landscape in Australia, but so far there has been little to indicate why borrowers choose brokers when obtaining a loan. Those respondents to the Genworth Financial survey who had used a mortgage broker were asked what motivated them to do so.

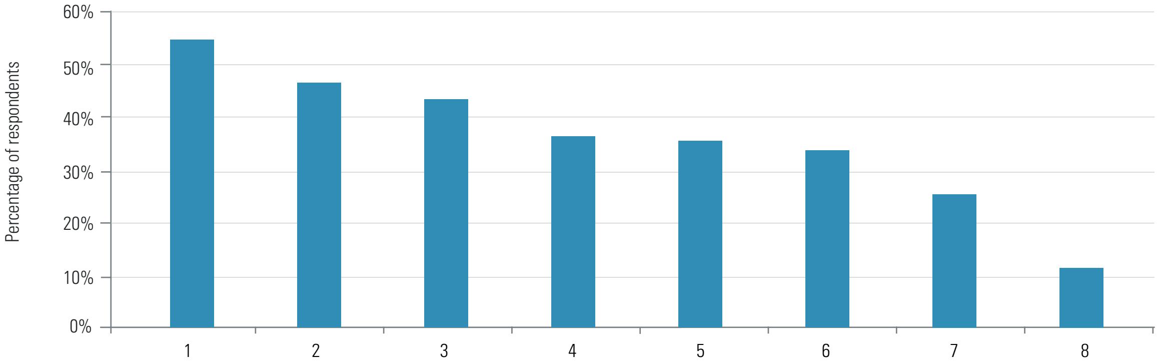
The most popular reason was that respondents felt that they would get a better deal by choosing a broker, accounting for 55% of respondents. In addition, 46% thought that using a mortgage broker would save them time and 43% wanted the convenience of an advisor they could talk to outside of bank opening hours. These responses are consistent with previous surveys which also highlighted the desire to get a better deal and to save time.

Other popular reasons for choosing a mortgage broker were independent advice (36%), clarification in a confusing market (36%) and a wider choice of product (34%).

The most popular reason was that respondents felt that by choosing a broker they would get a better deal; this accounted for 55% of respondents

Figure 27: Borrowers feel they will get a better deal or save time by using a mortgage broker

Which of the following factors motivated you to use the service of a mortgage broker?



1 - I thought using a broker would get me a better deal

2 - I thought using a broker would save me time

3 - The broker was willing to see me at a time when banks were usually closed such as in the evening or at the weekend

4 - I wanted independent advice

5 - I find the range of mortgage products on offer in the market confusing and wanted guidance from a mortgage broker

6 - I wanted a wider choice of products than offered by a single lender

7 - I thought that some lenders would not give me a mortgage. I wanted to find a lender that would accept my application

8 - Other (please specify)

Source: Retail Finance Intelligence (RFI)

CHAPTER 4

AFFORDABILITY AND FIRST HOME BUYERS

With rising house prices and affordability constraints affecting those individuals looking to get into the market, Genworth Financial released Issue 1 of its Spotlight Series in March 2006. This first Spotlight was dedicated to First Home Buyers, and looked at the plight of the Australian First Home Buyer and problems of affordability.

This chapter builds on the Spotlight looking at the First Home Buyer and introducing one of the most prominent segments of the First Home Buyer group – 'Generation Y'. It also analyses emerging barriers to home ownership such as the 'emerging rental trap'.

Highlights from the Chapter include:

- For the first time, in 2006, the average loan for a First Home Buyer overtook that of the non-First Home Buyer - at $228,600 compared to $226,100.
- REIA models show home loan affordability at the end of 2006 stood at its lowest point since September 1990, when the Cash Rate Target was 14%.
- 51% of respondents state that they would like to enter the property market in the next 12 months, compared to 16% who expect to be able to do so.
- 39% of respondents had seen an increase in rent over the preceding six months, with an additional 54% expecting an increase over the following 12 months.
- First Home Buyers are making increasing use of no-deposit loans, with 12% doing so, in the 2002-2006 period, a substantial increase from 2% over the 1982-1986 period.
- 64% of non-property owners are unaware of the benefits of LMI and how it can be used to help borrowers enter the property market sooner.
- The number one priority for 57% of Generation Y is paying off their debts.

AFFORDABILITY IN THE AUSTRALIAN MARKET

Housing affordability and its effects on Australian First Home Buyers is an issue of concern to many parties involved in the residential property market, including the Australian Government.

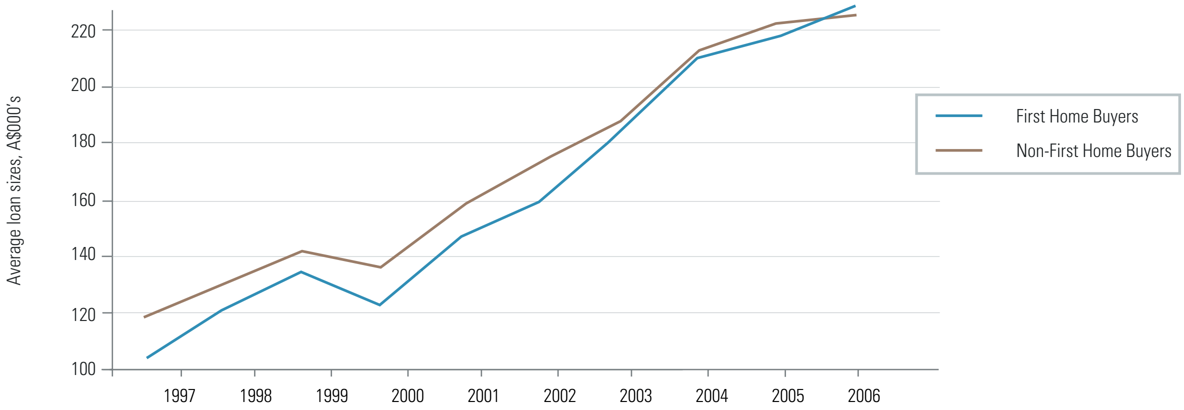
AVERAGE LOAN SIZES FOR FIRST HOME BUYERS HAVE OVERTAKEN AVERAGE LOAN SIZES

Chapter 1 highlighted that although price growth has slowed in the last three years, over the 1997-2006 period the weighted average median price for established homes in the eight capital cities has increased by 108%. As a consequence, the amount that individuals need to borrow in order to purchase property has risen substantially over the last 10 years.

According to the ABS, at the end of 1997 the average loan size for a First Home Buyer was $104,000, compared to the average loan size of a non-First Home Buyer of $118,300. Over the 10 year period to the end of 2006, these average loan sizes for First Home Buyers and non-First Home Buyers have risen by 120% and 91% respectively.

For the first time, in 2006, the average loan for a First Home Buyer actually overtook that of the non-First Home Buyer at $228,600 compared to $226,100

Figure 29: Over the last ten years the average home loan for a First Home Buyer has caught up to and overtaken the average loan size of non-First Home Buyers



Source: Retail Finance Intelligence (RFI)

AFFORDABILITY INDICATORS PAINT A STARK PICTURE OF THE PLIGHT OF FIRST HOME BUYERS

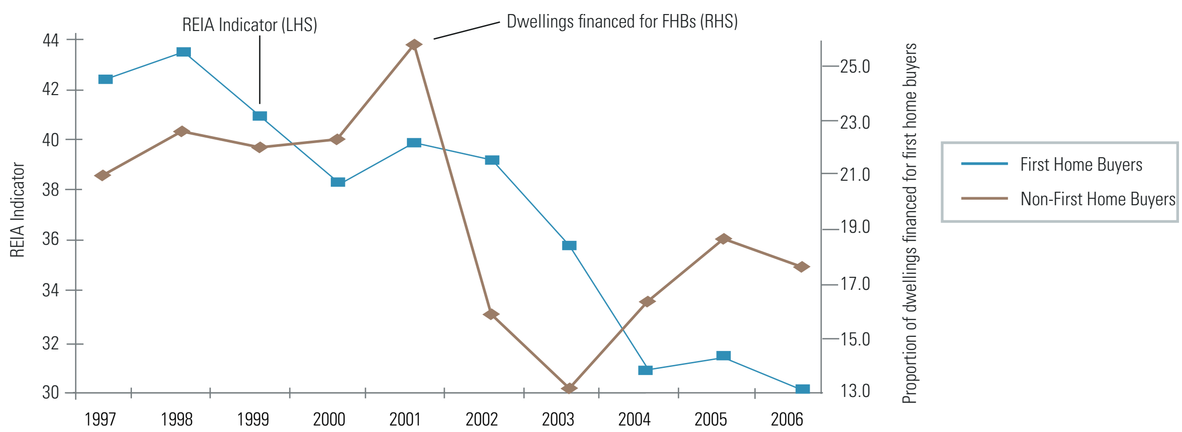
The impact of rising house prices and average loan sizes can be measured through affordability indicators, compiled through bodies such as the Housing Industry Association (HIA) and the Real Estate Institute of Australia (REIA). While each organisation has its own specific measurements, both indicators agree that the Australian market is at a low point from an affordability perspective.

The REIA's Home Loan Affordability Indicator (HLAI) is the ratio of median family income to average loan repayments, whereby an increasing value reflects improving affordability of housing loans. The HLAI shows that over the last 10 years home loan affordability has gradually declined from 42.4 in June 1997 to 30.1 in June 2006, and at the end of 2006 stood at its lowest point since September 1990 when the Cash Rate Target was 14%.

As affordability declines it becomes increasingly difficult for First Home Buyers to enter the market, resulting in a reduction of this group as a proportion of all purchasers. ABS statistics show that over the 1997-2001 period the proportion of all dwellings that were financed for First Home Buyers stayed above 21%, and went as high as 25.8% in 2001 following the introduction of the First Home Owners Grant (FHOG) in 2000.

Since 2001, the proportion of First Home Buyers has dropped dramatically. In 2002 it dropped to 15.9%, and then lowered further to 13.2% in 2003. The slowdown in property price growth since 2003 allowed the proportion of dwellings financed for First Home Buyers to grow slightly to 16.4% in 2004, then 18.7% in 2005 before slipping back to 17.7% in 2006. The slight fall in 2006 may have been a result of rising variable interest rates and subsequent increases in mortgage repayments.

Figure 30: Housing affordability has affected First Home Buyers entering the market and they account for a much smaller proportion of loans advanced than they did ten years ago



Source: Real Estate Institute of Australia, Australian Bureau of Statistics

AN INABILITY TO SAVE A DEPOSIT OR MAKE MORTGAGE REPAYMENTS IS KEEPING WOULD-BE FIRST HOME BUYERS OUT OF THE MARKET

When the 39% of respondents that did not own property were asked why they had not entered the property market, the answers shed further light on housing affordability.

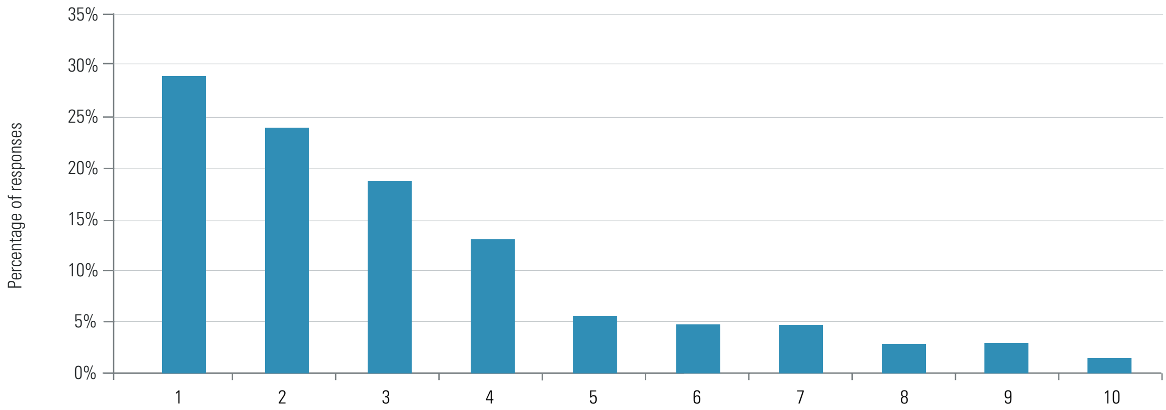
The responses revealed that 29% could not afford to save a deposit, while 24% felt unable to meet mortgage repayments. The results increased from 25% and 18% respectively in 2006, possibly as a result of the changing interest rate environment and supporting the declining affordability suggested by the REIA's affordability calculator.

Other individuals that have not purchased property include 13% that were happy in rented accommodation and 6% who have no intention of ever buying. Few felt that the property market was weakening and had decided not to purchase because of this.

The responses revealed that 29% could not afford to save a deposit, while 24% felt unable to meet mortgage repayments. These results have increased from 25% and 18% respectively in 2006.

Figure 31: The issue of saving a deposit is the biggest obstacle to entering the property market

Which of the following best describes your circumstances? Tick all that apply



1 - I have not purchased a property because I am unable to save a deposit

2 - I have not purchased a property because I am unable to afford mortgage repayments

3 - I am currently looking for a property to purchase

4 - I have not purchased a property because I am happy living in rented Accommodation

5 - I have no intention of ever buying a property

6 - I have not purchased a property because I am too young

7 - I have not purchased a property because I am happy living with Parents

8 - I am able to purchase a property but have not done so because I believe the property market is weakening

9 - I am able to purchase a property but I have not done so because I do not understand the property purchase process

10 - I have not purchased a property because I am happy living withfriends

Source: Retail Finance Intelligence (RFI)

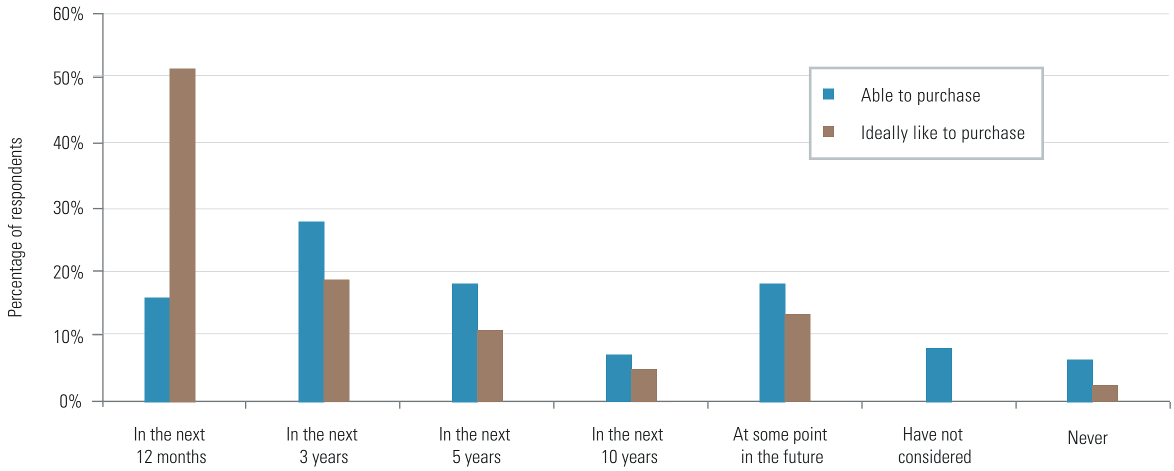
JUST OVER HALF OF ALL NON-PROPERTY OWNERS WOULD IDEALLY LIKE TO PURCHASE PROPERTY IN THE NEXT 12 MONTHS

Non-property owners were then asked by Genworth Financial when they expect to be able to afford to purchase their first home to live in. The result was that 16% of these individuals expect to be able to do so in the following 12 months, with an additional 27% expecting to be able to do so within three years. These results are almost identical to those in the 2006 survey.

Respondents were then asked to set aside financial considerations and state when they would ideally like to purchase a home to live in. This question revealed the extent of the mismatch between desire and reality, with 51% of respondents stating that they would like to enter the property market in the next 12 months. In total, 70% of respondents that did not own property would ideally like to enter the market in the next three years, compared to 43% that expect to be able to do so.

In 2006, 49% of non-property owners wanted to purchase property in the following 12 months, with a total of 69% wanting to do so in the following three years. Clearly the desire to enter the property market is as strong as ever.

Figure 32: 51% of non-property owners would ideally like to get into the property market in the next 12 months



Source: Retail Finance Intelligence (RFI)

THE EMERGING RENTAL TRAP

The problems of affordability for would-be home buyers do not begin and end with house prices and mortgages. This section examines the problems associated with renting while saving for a deposit.

THE MAJORITY OF FIRST HOME BUYERS LIVE IN RENTAL ACCOMMODATION PRIOR TO PURCHASING THE FIRST HOME

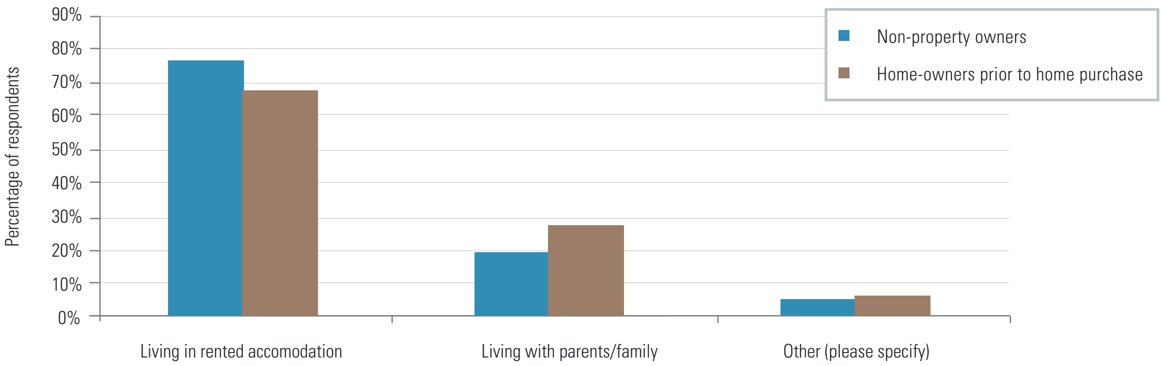
Prior to purchasing their first home many Australians are living in rented accommodation. While offering a level of independence, this can also help postpone their ability to purchase a property.

Those respondents to the Genworth Financial survey that own their own home were asked where they were living prior to the purchase. Sixty-seven percent of these individuals were living in rented accommodation prior to buying their first home, with 27% living with their parents. This proportion has remained steady over the last three years.

Those respondents that do not own any form of property were then asked what their living situation is. The question revealed that 76% of these individuals are living in rented accommodation, with 19% living with parents.

Figure 33: 67% of home-owners were living in rented accommodation prior to purchasing their first home, whereas 76% of non-property owners currently live in rented accommodation

The living situation of home owners prior to home purchase and non-property owners



Source: Retail Finance Intelligence (RFI)

RENTAL PAYMENTS ARE RISING AS A RESULT OF SUPPLY AND DEMAND IMBALANCES

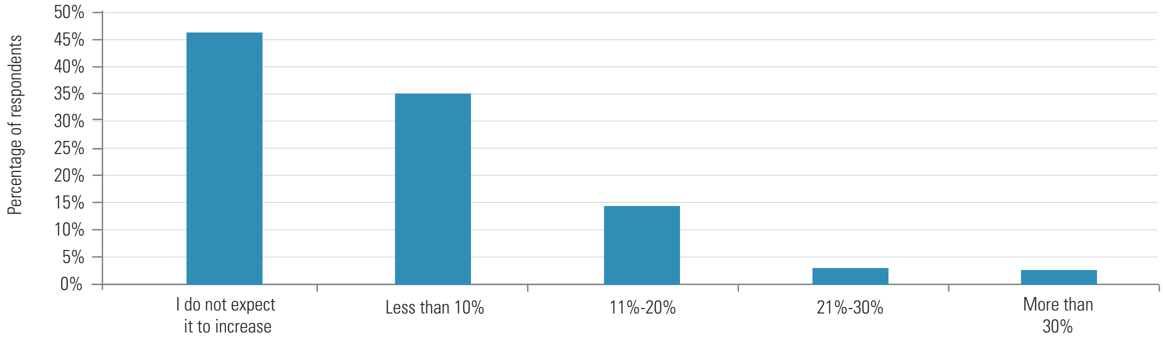
One of the issues facing First Home Buyers in Australia is the current shortage of rental properties in metropolitan areas. According to the REIA, rental vacancy rates were well below 2% in all eight capital cities in the last quarter of 2006, with Adelaide the lowest at 0.5% followed by Perth at 1.0% and Sydney at 1.5%.

This shortage of rental properties has meant that some rental rates have increased over the last year. According to REIA statistics, WA and QLD have been hit the hardest by this shortage of rental properties, with average rents increasing by 18.2% and 16.3% year-on-year respectively. NSW and VIC also saw rises of 3.9% and 9.1% respectively.

Genworth Financial's survey reveals that 39% of individuals living in rental accommodation had seen an increase in rent over the preceding six months, with an additional 54% expecting an increase over the following 12 months. Respondents did not expect large increases in rent, however, with just 19% of respondents expecting an increase of more than 10% during the following 12 months.

Figure 34: Only 19% of renters expect to see increases of more than 10% in the next 12 months

In the next 12 months how much do you expect your rent to increase?



Source: Retail Finance Intelligence (RFI)

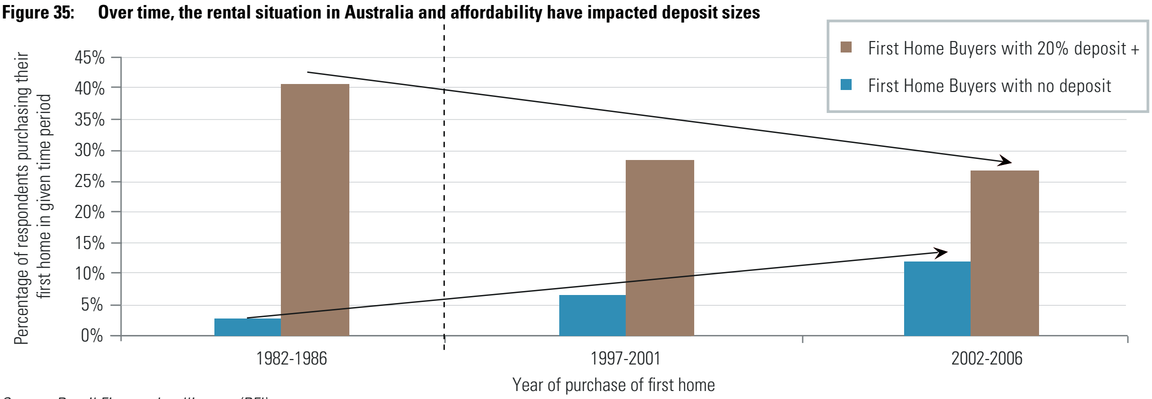
THE ABILITY OF INDIVIDUALS TO SAVE A DEPOSIT IS BEING IMPACTED BY RENTAL INCREASES

The impact that this rental situation has on First Home Buyers' is not immediately clear and there is no direct data linking the two. However, the Genworth Financial survey does offer some clarity on how the size of a deposit has changed over time.

Home owning respondents were asked to specify how large their deposit was when they purchased their first home. The results show that just 2% of respondents who purchased their first home over the 1982-1986 period did so with no deposit. This compares to the 1997-2001 period when the proportion had jumped to 6%, and the 2002-2006 period when 12% of First Home Buyers purchased with no deposit.

Conversely, over the 1982-1986 period 41% of First Home Buyers managed to save more than a 20% deposit, compared to just 27% over the 2002-2006 period.

Figure 35: Over time, the rental situation in Australia and affordability have impacted deposit sizes



Source: Retail Finance Intelligence (RFI)

64% of non-property owners were unaware of the benefits of LMI and how it can be used to help borrowers enter the property market sooner.

AWARENESS OF LMI IS NOT HIGH DESPITE LOWER DEPOSITS BECOMING MORE PREVALENT

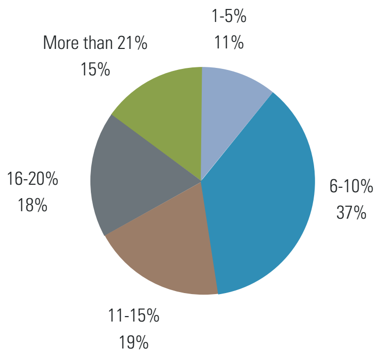
Because the proportion of individuals purchasing a property with less than 20% deposit is increasing, the usage of lenders' mortgage insurance (LMI) also is increasing. Given the difficulty of saving a large deposit, it would seem logical that potential borrowers would be aware of the need to use LMI. However, this is not the case, with 64% of non-property owners in the Genworth Financial survey unaware of the benefits of LMI and how it can be used to help borrowers enter the property market sooner.

Lack of borrower awareness also was apparent in regards to saving for a deposit. Genworth Financial asked non-property owners how much of a deposit they expected to need to purchase a property, and found that 52% believed they would need more than a 10% deposit, with 33% believing they would need more than a 15% deposit.

In a market where the median house price is now $412,000 and the average individual's taxable income is approximately $50,000, saving more than a 10% deposit could be seen as daunting. It could be argued that it is definitely in lenders' interest to help raise borrowers' awareness of LMI, as lack of awareness in this instance could discourage borrowers from purchasing property.

Figure 36: 52% of non-property owners expect to need more than a 10% deposit to purchase property

What percentage of deposit would you expect to need to purchase a property?



Source: Retail Finance Intelligence (RFI)

GENERATION 'Y'

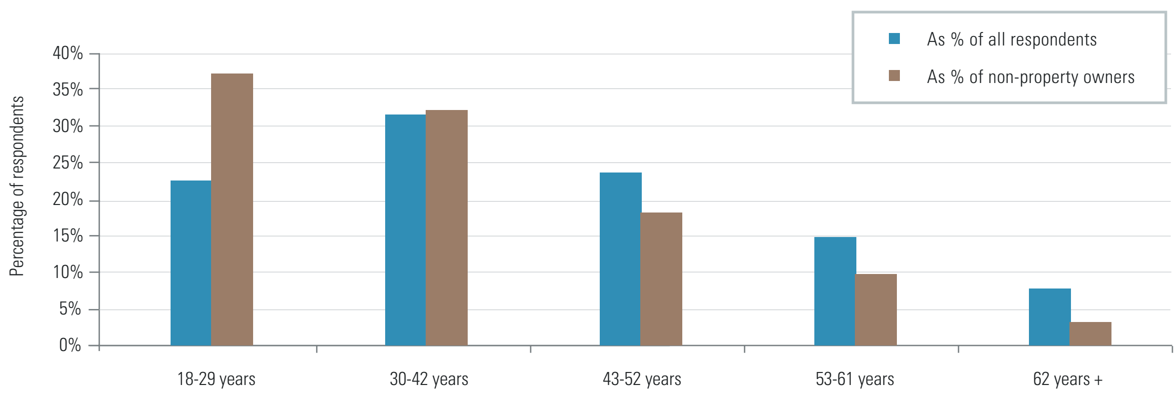
Among those struggling to get into the property market there are several age-related sub-segments. Generation Y, those individuals aged between 18 and 29, is one such segment that many companies and individuals are struggling to understand. The first generation to have grown up in a booming economic environment and feel completely comfortable with the digital world, this group appears to be redefining the rules set by their elders.

GENERATION Y MAKES UP THE LARGEST PROPORTION OF THOSE OUTSIDE OF THE PROPERTY MARKET

Of the 2,013 respondents to Genworth Financial's 2007 survey, 23% were Generation Y (18-29), 31% were Generation X (30-42 years), 24% were Generation Jones (43-52 years), 15% were Baby Boomers (53-61 years) and 8% were aged over 62. Given this age distribution, it is interesting to note how these proportions change when those that own property of some form are removed from the sample.

Among the non-property owners, 37% were aged between 18 and 29 years, making them the largest representative group. Furthermore, 64% of these individuals do not own any property. A further 32% of the non-property owners were aged between 30 and 42, with 39% of these respondents not owning property. Throughout the older age groups, there is a significant shift towards property ownership with only 15% of those over 62 not owning property.

Figure 37: Generation Y make up a disproportionately large percentage of non-property owners



Source: Retail Finance Intelligence (RFI)

THESE INDIVIDUALS ARE LIVING WITH CONSIDERABLE DEBT

Rental payments and the rental trap have already been highlighted as factors restricting potential First Home Buyers' ability to save a deposit, and therefore keep them out of the property market. However, rent is not the only expenditure that these individuals would be paying, with the majority of Australians, 85%, having some form of debt.

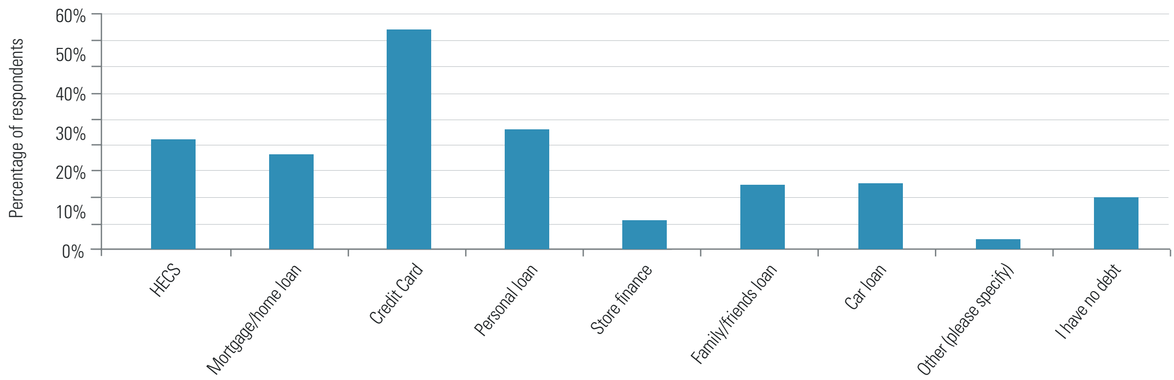
Analysis of total commitments for respondents aged between 18 and 29 shows that just 13% of these individuals have no debt. Among those in debt, the most common form was credit card debt, afflicting 56% of respondents, followed by personal loans and HECS debts (30% and 28% respectively). Twenty-five percent of these respondents had a mortgage loan and 17% had a car loan.

Respondents were then asked what proportion of their total income goes towards repaying these debts. For 23% of Generation Y respondents, debts are relatively small with less than 10% of income going towards debt repayment. Overall, 64% stated that less than 30% of their total income goes to repaying debts.

While total servicing liability of more than 30% of income is considered high, 30% of Generation Y's in debt had to make such repayments to make ends meet. These respondents who were heavily in debt were more likely to be repaying a mortgage, with 63% of this group owning property.

Figure 38: Generation Y has many different debts, with credit card and personal loans being the most common

Which of the following types of debt do you have? Choose all that apply



Source: Retail Finance Intelligence (RFI)

PAYING OFF DEBTS IS HIGH ON THE LIST OF PRIORITIES FOR GENERATION Y

Despite the fact that these individuals are living with many types of debt, they are not entirely comfortable and consider paying it off as a first priority. This data contradicts the widely held belief that Generation Y's don't plan for the future and only live for the present. Respondents were asked to rank a list of goals in terms of priority, where 1 was the most important and 6 the least important. The goals were 'paying off debts', 'purchasing a home', 'buying a new car', 'going on holiday', 'investing in property' and 'investing in the stock market'.

The number one priority of 57% of Generation Y was paying off their debts, with 65% stating this as either their number one or number two priority. When those that own some form of property are removed from the sample, paying off debts becomes even more important, with 75% stating that it was either their number one or number two priority.

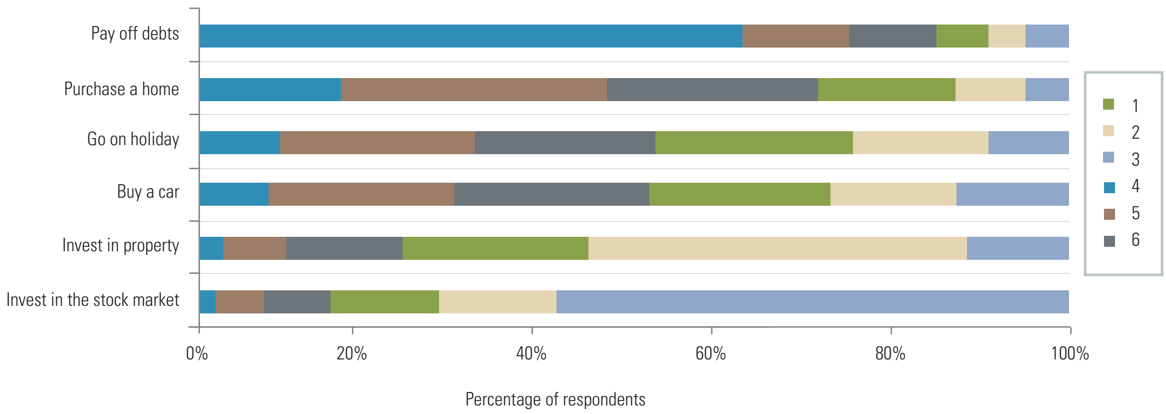
Second priority on the list of the non-property owners was purchasing a home, with 47% stating that it was either their number one or number two priority, followed by 32% that would go on holiday and 29% that would buy a car.

Lowest on the list of priorities were investing in property and investing in the stock market, with 10% and 7% of respondents placing these as number one or number two priorities respectively. This prioritization indicates that these individuals are facing the responsibility of debt repayment and are more interested in purchasing a new home than investing or buying luxury items.

Analysis of total commitments for respondents aged between 18 and 29 shows that just 13% of these individuals have no debt. For those in debt, the most common form was credit card debt, afflicting 56% of respondents, followed by personal loans and HECS debts.

Figure 39: For the non-property owning Generation Y, paying off debt is the highest priority

Rank the following in orfer of priority from 1-6, where 1 is the most important



** Those 18-29 year olds that own property are excluded*

Source: Retail Finance Intelligence (RFI)

CHAPTER 5

PRODUCT DEVELOPMENT AND INNOVATION

This chapter looks at some of the products that have been introduced to the mortgage market to address issues of affordability and to help potential borrowers on to the property ladder.

The Australian property market currently presents a dichotomy. On the one hand there are those individuals who have purchased property and are benefiting from the strength of the market through price increases or rental yields. On the other hand there are those individuals who would like to purchase property but are unable to do so because of the price and affordability of housing and increases in rental payments.

As a result of this, the mortgage industry is increasingly developing products that cater for these emerging affordability constraints and the range of different borrower requirements.

HIGHLIGHTS FROM THE CHAPTER INCLUDE:

- Despite the problems of saving a deposit created by the rental trap, only 36% of respondents would be prepared to consider a 100% home loan.
- Fifty-seven percent of respondents stated they would not be prepared to take a shared equity mortgage, with 66% preferring to benefit from any increase in equity themselves.
- The family guarantee mortgage is not popular, and longer loan terms are not viewed favourably by all.
- Further education is required for borrowers on the benefits of alternative loan options if the products are to grow.

ALTERNATIVE MORTGAGE PRODUCTS

Among the loans available in Australia today are no deposit or 100% mortgages, family guarantee mortgages, mortgages with longer loan terms and shared equity mortgages. These product solutions all address the issue of affordability by either decreasing the need for a deposit or lengthening the term over which the loan is to be paid.

The development of alternative products should not be seen as discouraging borrowers from saving a deposit. Rather it should be seen as recognition that one cannot take a one-size-fits-all approach to lending. There are many reasons why an individual may be unable to save a significant deposit, not least the rental trap discussed earlier. An individual that has been paying $350 per week in rent for three years clearly is demonstrating an ability to make regular payments.

CERTAIN PRODUCTS ARE NOT POPULAR DESPITE THEIR ADVERTISED BENEFITS

One of the drawbacks of these alternative products is that they are often viewed in a negative light by borrowers who believe that lenders are trying to encourage them into debt. Two products that suffer from this are the 100% mortgage and the shared equity mortgage.

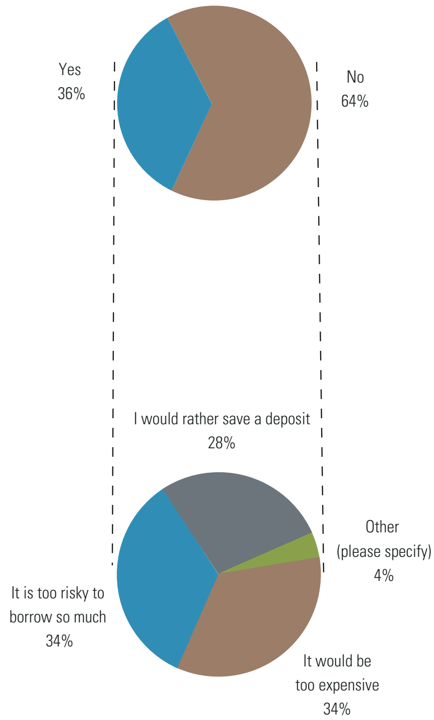
100% MORTGAGES ARE CONSIDERED TOO RISKY BY THE MAJORITY

Respondents were asked whether they would consider a home loan that did not require them to put in any deposit whatsoever, but required them to make higher monthly repayments. Despite the problems of saving a deposit created by the rental trap, only 36% of respondents would be prepared to consider this type of mortgage.

When asked why this was the case, 34% stated that such a product would be too expensive and another 34% felt it was too risky to borrow so much. A further 28% would rather save a deposit than make use of such a loan.

Figure 40: Australians are wary of 100% loans believing they are too risky or expensive

Would you take out a home loan that did not require you to put in any deposit whatsoever but required you to make higher monthly repayments?



Source: Retail Finance Intelligence (RFI)

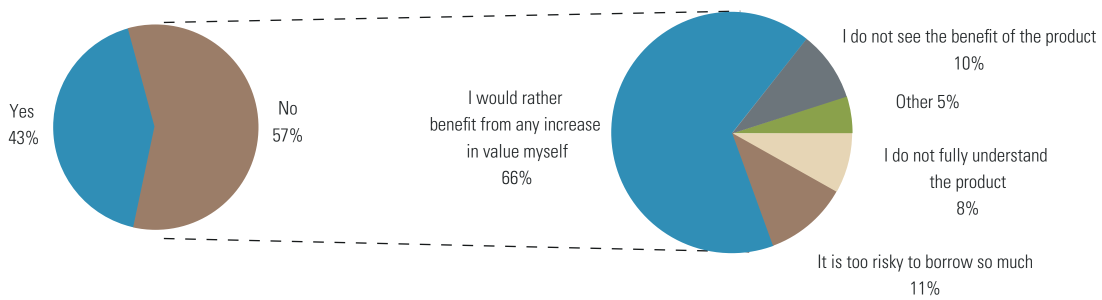
THE SHARED EQUITY MORTGAGE IS STILL VIEWED WITH SOME SCEPTICISM

The first shared equity mortgage has only recently been launched in the Australian market. Developed by Rismark and distributed by Adelaide Bank, the product enables an individual to buy a property with a smaller deposit and reduced monthly repayments, provided the buyer shares any increase in the value of the property with the shared equity provider. The West Australian Government also launched a shared equity scheme in March 2007 in response to housing affordability issues.

This type of product was more popular than the 100% mortgage, but still viewed with scepticism. Fifty-seven percent of respondents stated they would not be prepared to take out such a mortgage. When asked why they would not consider the product, 66% stated that they would rather benefit from any increase in equity themselves despite the fact that they may not be able to purchase property without using the product. The shared equity mortgage is a relatively complex product compared to other lending alternatives, highlighted by the 18% of respondents who either don't understand the product or see any benefit. If the product is to grow further, a greater level of positive education from lenders is required to ensure the product features are communicated clearly to the borrower.

Figure 41: 66% of those that would not consider a shared equity loan would rather benefit from any equity increase themselves

Would you consider a product that would enable you to buy a property with no deposit and reduced monthly repayments, provided you shared an increase in the value of the property with the lender?

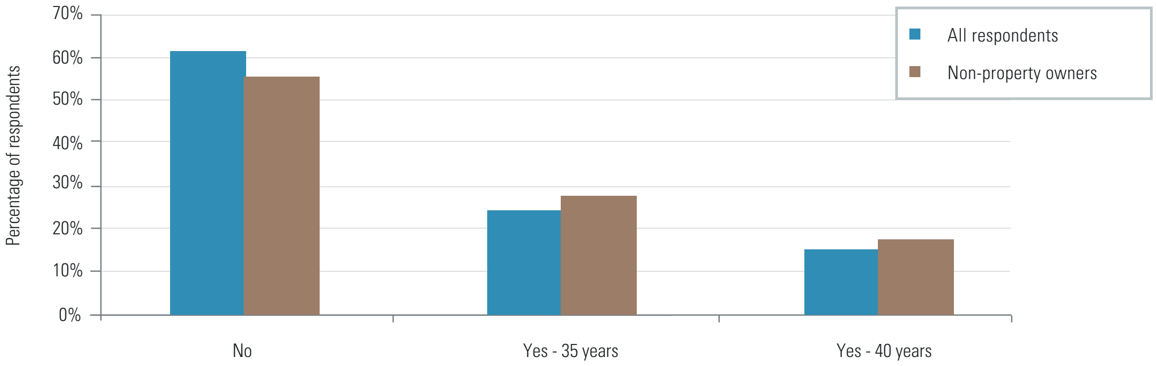


Source: Retail Finance Intelligence (RFI)

THE FAMILY GUARANTEE MORTGAGE IS NOT POPULAR, AND EVEN LONGER LOAN TERMS ARE NOT VIEWED FAVOURABLY BY ALL

Figure 42: Longer loan terms of 35 and 40 years were only marginally more popular with non-property owners

If at the time of taking the loan you had a choice to take a longer term of 35 or 40 years would you have opted for it and for what term?



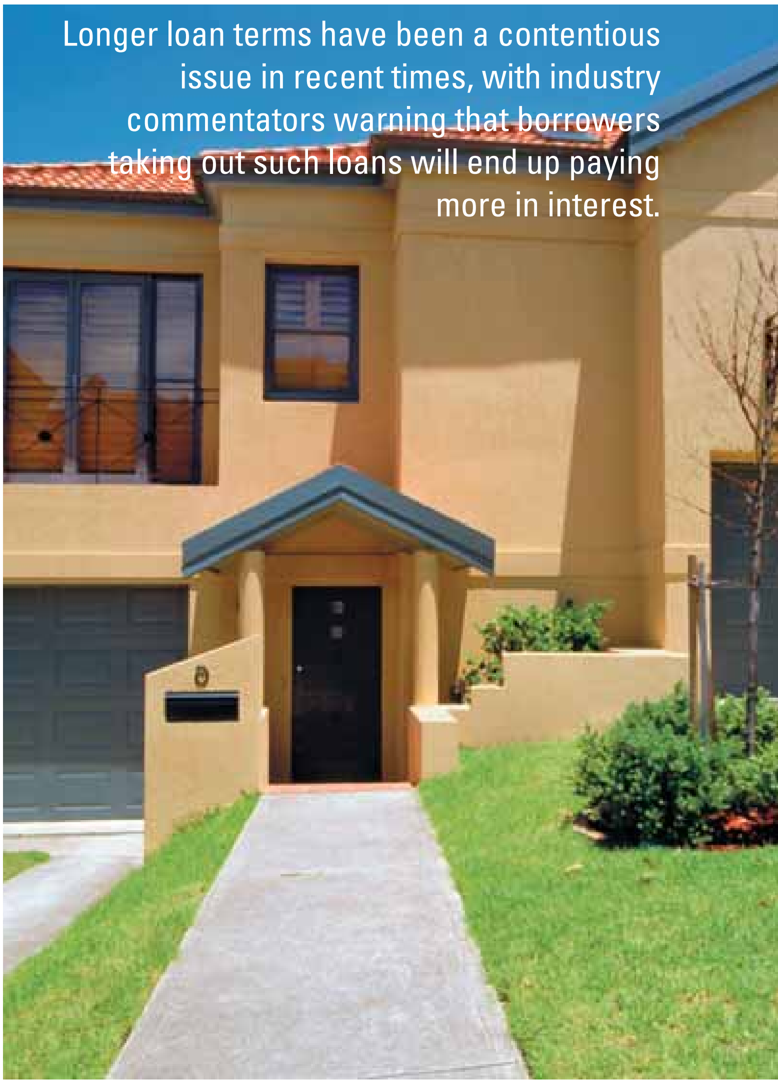
Source: Retail Finance Intelligence (RFI)

Other products that are available in the Australian market include the family guarantee mortgage and loans with longer loan terms. Respondents to the Genworth Financial survey were asked whether they would consider such options when purchasing a home, the majority would not.

The family guarantee mortgage is offered by lenders such as St. George and CBA. Essentially the loan allows a borrower to avoid a deposit by using the equity in a family member's home. This product was not very popular, with only 41% of respondents prepared to consider it.

Longer loan terms have been a contentious issue in recent times, with industry commentators warning that borrowers taking out such loans will end up paying more in interest. Whether they would be better off paying interest on a mortgage or paying rent is something that potential borrowers need to decide for themselves.

When asked if they would opt for a longer loan term of 35 or 40 years, 61% of all respondents stated that they would not. Twenty-four percent would opt for a 40-year loan term and 15% would opt for a 40-year option. When the responses from those individuals that do not own property are isolated, the product becomes slightly more popular, with 28% opting for a 35-year loan term and 17% opting for the 40-year option.



APPENDIX

This chapter presents a series of data tables that underlay the figures and charts seen throughout this report.

DATA TABLES

TABLE 1: HOUSING AND PERSONAL CREDIT AGGREGATES, 2002-2006

A$bn	2002	2003	2004	2005	2006	CAGR
Housing	451	544	642	724	827	16.4%
Other Personal	87	97	107	119	134	11.8%
Total consumer credit aggregates	538	641	750	843	961	15.7%

Source: Australian Bureau of Statistics

TABLE 2: HOUSING AND PERSONAL LENDING COMMITMENTS, 2002-2006

A$bn	2002	2003	2004	2005	2006	CAGR
Personal lending commitments	63.1	75.8	76.8	72.0	80.1	6.1%
Housing lending commitments	157.9	200.8	193.4	211.7	233.3	10.2%
...of which owner-occupied	100.7	124.0	124.8	144.5	163.2	12.8%
...of which investment	57.2	76.8	68.6	67.2	70.1	5.2%
Total	221.1	276.6	270.2	283.7	313.4	9.1%

Source: Australian Bureau of Statistics

TABLE 3: LENDING COMMITMENTS FOR OWNER OCCUPIED HOUSING SPLIT BY STATE, 2000-2006

A$bn	2000	2001	2002	2003	2004	2005	2006
NSW	28.4	36.6	40.4	47.8	46.1	49.5	53.4
VIC	15.7	19.9	23.0	27.3	27.6	32.4	35.2
QLD	10.4	14.6	18.1	25.3	26.1	31.0	35.6
SA	4.3	5.2	5.8	7.4	7.7	8.9	10.5
WA	7.9	9.1	9.9	12.3	13.4	17.3	22.7
TAS	0.8	0.9	1.1	1.5	1.6	1.9	2.2
NT	0.5	0.4	0.4	0.6	1.0	1.3	1.4
ACT	1.2	1.2	1.6	1.9	1.6	1.7	2.0
Total	69.6	88.4	100.7	124.4	125.3	144.3	163.3

Source: Australian Bureau of Statistics

TABLE 4: INDEXED MEDIAN ESTABLISHED HOUSE PRICES BY CAPITAL CITY, DEC'03-DEC'06

Index 2003=100	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Darwin	Canberra
Dec-2003	102.3	102.0	100.5	99.5	98.7	99.2	98.5	101.6
Mar-2004	101.5	99.5	102.2	101.0	102.2	101.5	104.7	100.2
Jun-2004	97.6	99.3	103.7	102.3	104.8	107.7	103.0	100.2
Sep-2004	97.1	99.6	102.5	104.5	106.8	108.5	108.1	98.6
Dec-2004	97.5	102.3	104.0	106.5	111.7	111.3	112.6	100.2
Mar-2005	95.5	102.0	104.7	107.0	116.2	112.5	120.1	100.5
Jun-2005	94.1	103.3	105.5	107.7	122.5	114.5	122.5	100.0
Sep-2005	92.6	103.3	105.5	108.1	127.6	114.7	128.5	100.1
Dec-2005	93.5	105.3	107.7	110.6	137.2	118.5	135.2	102.7
Mar-2006	92.5	106.8	108.5	112.1	148.1	120.7	141.1	104.0
Jun-2006	94.2	110.0	110.8	113.7	169.5	124.5	150.2	107.0
Sep-2006	94.2	112.1	112.1	114.7	184.8	126.5	154.5	110.3
Dec-2006	93.3	113.8	115.5	117.7	188.0	126.8	159.1	112.2

Source: Australian Bureau of Statistics

TABLE 5: INDEXED HOUSE PRICES IN AUSTRALIA, THE UK AND THE US, DEC'03-DEC'06

Index (Dec'03=100)	Australia	UK	US
Dec-2003	100.0	100.0	100.0
Mar-2004	99.7	104.5	101.7
Jun-2004	98.5	113.0	104.5
Sep-2004	98.5	116.0	109.1
Dec-2004	100.1	114.9	111.8
Mar-2005	99.8	114.5	114.8
Jun-2005	100.3	117.0	118.9
Sep-2005	100.1	119.3	122.8
Dec-2005	102.4	120.4	126.6
Mar-2006	103.7	121.7	129.5
Jun-2006	107.6	128.1	131.2
Sep-2006	109.9	129.0	132.5
Dec-2006	110.9	133.1	134.1

Source: Australian Bureau of Statistics

TABLE 6: PROPERTY OWNERSHIP

Do you currently own either a property that you occupy yourself or a property that is rented out to others or used as a holiday home?

	Percentage of total
A home to live in	44%
An investment property or a holiday home	5%
Both a home to live in and an investment property	13%
Neither a home to live in or an investment property	39%

Source: Retail Finance Intelligence (RFI)

TABLE 7: PROPERTY OWNERSHIP BY STATE

Question: Do you currently own either a property that you occupy yourself, or a property that is rented out to others or used as a holiday home?

	NSW/ACT	VIC	QLD	SA	WA	AUS
Home ownership	52%	62%	54%	55%	64%	57%
Investment property ownership	19%	20%	11%	12%	17%	17%

Source: Retail Finance Intelligence (RFI)

TABLE 8: PROPERTY OWNERSHIP BY HOUSEHOLD INCOME

Question: Do you currently own either a property that you occupy yourself, or a property that is rented out to others or used as a holiday home?

	Property ownership	Investment property ownership
< $25,000	47%	6%
A$25,000-A$49,999	50%	7%
A$50,000-A$74,999	63%	16%
A$75,000-A$99,999	70%	29%
A$100,000-A$124,999	77%	29%
A$125,000 and over	74%	37%

Source: Retail Finance Intelligence (RFI)

TABLE 9: ATTRACTIVENESS OF INVESTMENT PROPERTY

Question: Do you believe that now is a good time to buy an investment property? Excludes a property to live in yourself

	Percentage of total respondents
Yes	46%
No	33%
Don't know	21%

Source: Retail Finance Intelligence (RFI)

TABLE 10: WHY IS IT AN UNATTRACTIVE TIME TO INVEST IN PROPERTY?

What makes it an unattractive time to invest in property? Tick all that apply

	Percentage of total
Interest rates are high	25.5%
Property prices are too high	38.0%
Rental returns are very low	9.1%
There is not a good supply of investment property	7.3%
There are better investment opportunities in the stock market	13.1%
Other (please specify)	6.7%

Source: Retail Finance Intelligence (RFI)

TABLE 11: WHY IS IT AN ATTRACTIVE TIME TO INVEST IN PROPERTY?

What makes it a good time to invest in property? Tick all that apply

	Percentage of total
Prices are at a low	20.6%
Good supply of investment properties	20.6%
High rental income potential	38.3%
Interest rates are low by historic standards	16.5%
Other (please specify)	3.8%

Source: Retail Finance Intelligence (RFI)

TABLE 12: RESPONDENTS DEBT BY TYPE

Which of the following types of debt do you have? Choose all that apply

	Percentage of total
HECS	11%
Mortgage/ home loan	43%
Credit Card	60%
Personal loan	21%
Store finance	8%
Family/ friends loan	9%
Car loan	16%
Other (please specify)	4%
I have no debt	15%

Source: Retail Finance Intelligence (RFI)

TABLE 13: TOTAL MONTHLY MORTGAGE REPAYMENTS

What are your total monthly mortgage repayments on all properties you own?

	Percentage of total
$0-$500	10%
$501-$1,000	21%
$1,001-$1,500	23%
$1,501-$2,000	17%
$2,001-$2,500	11%
$2,501-$3,000	6%
$3,001-$3,500	3%
$3,501-$4,000	2%
$4,001-$4,500	2%
$4,501-$5,000	1%
$5,001+	3%

Source: Retail Finance Intelligence (RFI)

TABLE 14: EASE OF MORTGAGE REPAYMENT OVER LAST 12 MONTHS

During the last 12 months did you do any of the following?

	Percentage of total
Made an overpayment to your mortgage	29%
Easily met your mortgage repayments every month	48%
Found it difficult to meet your mortgage repayments during some months	20%
Found it difficult to meet your mortgage repayments during every month	3%

Source: Retail Finance Intelligence (RFI)

TABLE 15: EASE OF MORTGAGE REPAYMENT OVER NEXT 12 MONTHS

During the next 12 months which of the following will apply to you?

	Percentage of total
I will be easily able to meet my mortgage repayments during every month	66%
I will be easily able to meet my mortgage repayments during some months	16%
I will find it difficult to meet my mortgage repayments during some months	16%
I will find it difficult to meet my mortgage repayments during every month	2%

Source: Retail Finance Intelligence (RFI)

TABLE 16: REASONS FOR EXPECTED DIFFICULTIES IN MEETING REPAYMENT

Why will you find it difficult to meet your mortgage repayments in some/ all months?

	Percentage of total
Impact of oil prices going up	7%
Interest rate rises	26%
Change in personal circumstances	54%
Other (please specify)	13%

Source: Retail Finance Intelligence (RFI)

TABLE 17: LENDING COMMITMENTS SPLIT BY BANKS AND NON-BANKS, 2002-2006

A$bn	2002	2003	2004	2005	2006	CAGR
Banks	77.2	96.1	97.7	113.4	129.8	13.8%
Permanent Building Societies	3.4	4.1	3.5	3.7	4.1	4.1%
Wholesale lenders	15.1	18.3	17.4	19.9	21.1	8.7%
Other lenders	4.8	5.7	6.6	7.1	8.2	14.2%
Total	100.7	124.4	125.3	144.3	163.3	12.8%

Source: Australian Bureau of Statistics

TABLE 18: SOURCE OF MOST RECENT MORTGAGE LOAN, SURVEY RESULTS FROM 2005, 2006 AND 2007

Which of the following provided your last mortgage loan?

% of respondents	2007 survey	2006 survey	2005 survey
A bank	68%	68%	70%
A non-bank mortgage originator such as Aussie, Wizard, Mortgage House etc.	15%	15%	16%
A credit union or building society	13%	14%	12%
Other (please specify)	5%	3%	2%

Source: Retail Finance Intelligence (RFI)

TABLE 19: SOURCE OF MOST RECENT MORTGAGE LOAN BY STATE OF RESIDENCE

Which of the following provided your last mortgage loan?

	Bank	Non-bank	Credit union/ Building Society	Other
NSW/ACT	66%	14%	15%	5%
VIC	72%	16%	8%	4%
QLD	68%	16%	13%	3%
SA	63%	17%	15%	6%
WA	69%	13%	11%	7%

Source: Retail Finance Intelligence (RFI)

TABLE 20: MARKET SHARES OF BANK LENDING, DECEMBER 2006

Bank lender	Total housing lending A$m	Market share
CBA	136,989	23.2%
NAB	105,742	17.9%
Westpac	106,567	18.1%
ANZ	96,306	16.3%
St. George	45,084	7.6%
ING	25,610	4.3%
BankWest	16,970	2.8%
Suncorp	16,861	2.8%
Adelaide Bank	10,321	1.7%
Bank of Queensland	7,123	1.2%
Other	21,293	3.6%
Total banks	588,866	

Source: Australian Prudential Regulation Authority

TABLE 21: REASONS FOR CHOOSING MOST RECENT LENDER BY TYPE OF LENDER

Question: What attracted you to this lender? Tick all that apply

	Bank	A non-bank mortgage originator	Credit union/ Building Society
Loan flexibility	39%	42%	47%
Existing products with lender	39%	11%	27%
Low ongoing rate	30%	29%	42%
Low fees and charges	24%	27%	47%
Recommendation	18%	33%	22%
Accessibility of a branch	17%	5%	22%
Low deposit option (<10%)	10%	21%	17%
Low introductory rate	11%	9%	20%
Other (please specify)	9%	11%	10%

Source: Retail Finance Intelligence (RFI)

TABLE 22: SATISFACTION WITH MOST RECENT LENDER BY TYPE OF LENDER

Having chosen the lender for the reasons stated, are your satisfied with the lender?

Percentage of total	A bank	A non-bank mortgage originator	A credit union or building society
Very satisfied	42.6%	49.1%	66.6%
Somewhat satisfied	49.4%	42.6%	29.4%
Somewhat dissatisfied	5.8%	6.0%	1.2%
Very dissatisfied	2.1%	2.1%	2.5%
	100.0%	100.0%	100.0%

Source: Retail Finance Intelligence (RFI)

TABLE 23: VALUED ASPECTS OF MOST RECENT LENDER BY TYPE OF LENDER

Which aspects of your lender do you value the most? Choose all that apply.

% of respondents	A bank	A non-bank mortgage originator such as Aussie, Wizard, Mortgage House etc.	A credit union or building society
The interest rate on my loan	56%	55%	62%
The flexibility of the product	46%	52%	49%
A package of products	29%	14%	22%
The customer service	34%	35%	60%
The web/ Internet banking	37%	32%	40%
The 24-hour customer service	9%	10%	8%
Other (please specify)	4%	8%	2%

Source: Retail Finance Intelligence (RFI)

TABLE 24: REASONS TO SWITCH LOAN PROVIDER

Would you now change your mortgage provider if you were offered any of the following? Choose all that apply

	Percentage of total
Lower rate	78%
A more flexible product	38%
Reward points	31%
A package of products	29%
Better customer service	23%
Web/ Internet banking	20%
24-hour customer service	14%
Other (please specify)	14%

Source: Retail Finance Intelligence (RFI)

TABLE 25: MORTGAGE BROKER USAGE COMPARED BY SURVEY YEAR, 2005, 2006 AND 2007

When you took out your last mortgage loan did you use the services of a mortgage broker?

	2007	2006	2005
Yes	32%	29%	30%
No	66%	70%	68%
Don't know	2%	1%	2%

Source: Retail Finance Intelligence (RFI)

TABLE 26: MORTGAGE BROKER USAGE BY STATE OF RESIDENCE

When you took out your last mortgage loan did you use the services of a mortgage broker?

	NSW/ACT	VIC	QLD	SA	WA
Yes	27%	31%	35%	42%	42%
No	71%	66%	64%	56%	57%
Don't know	3%	2%	0%	3%	2%

Source: Retail Finance Intelligence (RFI)

TABLE 27: REASONS FOR USING A MORTGAGE BROKER

Which of the following factors motivated you to use the services of a mortgage broker? Tick all that apply

	Percentage of total
I thought using a broker would save me time	46%
The broker was willing to see me at a time when banks are usually closed such as in the evening or at the weekend	43%
I thought using a broker would get me a better deal	55%
I wanted independent advice	36%
I find the range of mortgage products on offer in the market confusing and wanted guidance from a mortgage broker	36%
I thought that some lenders would not give me a mortgage. I wanted to find a lender that would accept my application	26%
I wanted a wider choice of products than offered by a single lender	34%
Other (please specify)	11%

Source: Retail Finance Intelligence (RFI)

TABLE 28: SATISFACTION WITH MORTGAGE BROKER

Are you satisfied with the service you got from the mortgage broker?

	Percentage of total
Very satisfied	54%
Somewhat satisfied	35%
Somewhat dissatisfied	6%
Very dissatisfied	5%

Source: Retail Finance Intelligence (RFI)

TABLE 29: AVERAGE LOAN SIZES IN AUSTRALIA, SPLIT BY FIRST HOME BUYERS AND NON-FIRST HOME BUYERS, 1997-2006

Average loan sizes

A$000's	First home buyers	Non-first home buyers	All borrowers
Dec-97	104.0	118.2	115.2
Dec-98	120.6	130.8	128.5
Dec-99	134.6	141.7	140.1
Dec-00	123.0	136.6	133.6
Dec-01	146.5	157.2	154.5
Dec-02	160.1	173.6	171.5
Dec-03	185.2	188.1	187.6
Dec-04	210.6	212.5	212.2
Dec-05	218.0	222.1	221.2
Dec-06	228.5	226.1	226.5

Source: Australian Bureau of Statistics

TABLE 30: HOUSING AFFORDABILITY AND THE PROPORTION OF LOANS ADVANCED TO FIRST HOME BUYERS, 1997-2006

June of year	REIA's HLAI	Proportion of dwellings financed for first home buyers
1997	42.3	21.0
1998	43.5	22.5
1999	40.8	22.0
2000	38.2	22.2
2001	39.8	25.7
2002	39.1	15.8
2003	35.7	13.1
2004	30.8	16.3
2005	31.5	18.6
2006	30.1	17.6

Source: Real Estate Institute of Australia, Australian Bureau of Statistics

TABLE 31: REASONS WHY NON-PROPERTY OWNERS HAVE NOT PURCHASED PROPERTY

Which of the following best describes your circumstances? Tick all that apply

% of responses	Percentage of total
I am currently looking for a property to purchase	19%
I have not purchased a property because I am too young	5%
I have not purchased a property because I am happy living with parents	4%
I have not purchased a property because I am happy living with friends	1%
I have not purchased a property because I am happy living in rented accommodation	13%
I have not purchased a property because I am unable to save a deposit	29%
I have not purchased a property because I am unable to afford mortgage repayments	24%
I am able to purchase a property but have not done so because I believe the property market is weakening	3%
I am able to purchase a property but I have not done so because I do not understand the property purchase process	3%
I have no intention of ever buying a property	6%

Source: Retail Finance Intelligence (RFI)

TABLE 32: ABILITY AND DESIRE TO PURCHASE THE FIRST HOME

When do you expect to be in a financial position to purchase your first home to live in and when would you ideally like to purchase your first home?

	Able to purchase	Ideally like to purchase
In the next 12 months	16%	51%
In the next three years	27%	18%
In the next five years	18%	11%
In the next 10 years	7%	4%
At some point in the future	18%	13%
Have not considered	8%	0
Never	6%	2%

Source: Retail Finance Intelligence (RFI)

TABLE 33: LIVING SITUATION PRIOR TO HOME PURCHASE

Question for non-property owners: Which of the following best describes your situation?
Question for home-owners: Which of the following best described your living situation prior to purchasing your first home?

	Non-property owners	Home-owners prior to home purchase
Living in rented accommodation	76%	67%
Living with parents/ family	19%	27%
Other (please specify)	5%	6%

Source: Retail Finance Intelligence (RFI)

TABLE 34: RENTAL PAYMENT INCREASES OVER THE LAST SIX MONTHS

In the last six months have your rental payments increased?

% of respondents	Percentage of total
Yes	39%
No	61%

Source: Retail Finance Intelligence (RFI)

TABLE 35: PROPORTION OF FIRST HOME BUYERS WITH MORE THAN A 20% DEPOSIT AND WITH NO DEPOSIT BY YEAR OF PURCHASE, 1982-2006

Proportion of first home buyers with more than a 20% deposit and with no deposit, 1982-2006

% of respondents	1982-1986	1997-2001	2002-2006
FHBs with 20% deposit +	2%	6%	12%
FHBs with no deposit	41%	28%	27%

Source: Retail Finance Intelligence (RFI)

TABLE 36: SIZE OF DEPOSIT EXPECTED BY NON-PROPERTY OWNERS

What percentage of deposit would you expect to need to purchase a property?

	Percentage of total
1%-5%	10.8%
6%-10%	36.9%
11%-15%	18.8%
16%-20%	18.2%
More than 21%	15.0%

Source: Retail Finance Intelligence (RFI)

TABLE 37: AGE GROUPS AS A PROPORTION OF ALL RESPONDENTS AND OF NON-PROPERTY OWNERS

Age groups	As % of all respondents	As % of non-property owners
18-29 years	23%	37%
30-42 years	31%	32%
43-52 years	24%	18%
53-61 years	15%	10%
62 years+	8%	3%
	100%	100%

Source: Retail Finance Intelligence (RFI)

TABLE 38: THE VARIOUS DEBTS OF GENERATION Y – AGED 18-29 YEARS

Which of the following types of debt do you have? Choose all that apply

	Percentage of total
HECS	28%
Mortgage/ home loan	25%
Credit Card	56%
Personal loan	30%
Store finance	8%
Family/ friends loan	17%
Car loan	17%
Other (please specify)	3%
I have no debt	13%

Source: Retail Finance Intelligence (RFI)

TABLE 39: THE PROPORTION OF INCOME GENERATION Y USES TO REPAY DEBTS

What proportion of your total income goes to servicing/ paying off all these debts?

% of respondents	Percentage of total
Less than 10%	23%
11%-20%	21%
21%-30%	20%
31%-40%	13%
41%-50%	12%
Over 50%	11%

Source: Retail Finance Intelligence (RFI)

TABLE 40: THE PRIORITIES OF GENERATION Y *

Rank the following in order of priority from 1-6, where 1 is the most important and 6 the least important.

	1	2	3	4	5	6
Invest in the stock market	2%	6%	8%	12%	14%	59%
Invest in property	2%	7%	14%	22%	44%	11%
Buy a car	8%	22%	23%	21%	15%	12%
Go on holiday	9%	23%	21%	23%	16%	9%
Purchase a home	16%	31%	24%	16%	8%	4%
Pay off debts	63%	12%	10%	6%	4%	5%

**Includes only Generation Y individuals that do not own property. Source: Retail Finance Intelligence (RFI)*

TABLE 41: THE REASONS WHY 64% OF RESPONDENTS WOULD NOT TAKE OUT A 100% MORTGAGE

If you said 'no' to a 100% mortgage why would you not be willing to take out such a loan?

	Percentage of total
It would be too expensive	34%
It is too risky to borrow so much	34%
I would rather save a deposit	28%
Other (please specify)	4%

Source: Retail Finance Intelligence (RFI)

TABLE 42: THE REASONS WHY 57% OF RESPONDENTS WOULD NOT TAKE OUT A SHARED EQUITY MORTGAGE

If you said 'no' to a shared equity mortgage why would you not be willing to take out such a loan?

	Percentage of total
I do not fully understand the product	8.2%
It is too risky to borrow so much	11.0%
I would rather benefit from any increase in value myself	66.4%
I do not see the benefit of the product	9.5%
Other (please specify)	4.7%

Source: Retail Finance Intelligence (RFI)

TABLE 43: RESPONDENTS' ATTITUDES TO FAMILY GUARANTEE MORTGAGES

Would you consider a mortgage product that allowed you to borrow without a deposit, provided a family member offered a guarantee supported by a mortgage over their property

% of respondents	Percentage of total
Yes	41%
No	59%

Source: Retail Finance Intelligence (RFI)

TABLE 44: RESPONDENTS' ATTITUDES TO LONGER LOAN TERMS, SPLIT BY NON-PROPERTY OWNERS AND ALL RESPONDENTS

If at the time of taking the loan you had a choice to take a longer term of 35 or 40 years, would you have opted for it and for what term?

% of respondents	All respondents	Non-property owners
No	61%	55%
Yes 35 years	24%	28%
Yes 40 years	15%	17%

Source: Retail Finance Intelligence (RFI)

TABLE 45: RESPONDENTS' ATTITUDES TO A VARIABLE RATE MORTGAGE WITH CAPPED REPAYMENTS, SPLIT BY NON-PROPERTY OWNERS AND ALL RESPONDENTS

Would you be interested in a variable rate loan where the repayments are capped but the loan term would be extended if interest rates rise?

% of respondents	All respondents	Non-property owners
Yes	59%	68%
No	41%	32%

Source: Retail Finance Intelligence (RFI)

TABLE 46: THE VALUE OF PACKAGING MORTGAGES WITH VARIOUS TYPES OF INSURANCE PRODUCT

If as part of a home-loan you were offered other products designed to safeguard you throughout your life, would you be interested in any of the following? Rank from 1-6 where 1 is the most valuable

	Rank 1	Rank 2	Rank 3	Rank 4	Rank 5	Rank 6
Income protection insurance	29%	29%	21%	13%	6%	2%
Mortgage protection insurance	18%	18%	17%	19%	15%	13%
Unemployment insurance	13%	20%	21%	16%	18%	12%
Life insurance	20%	13%	15%	19%	19%	14%
Building insurance	17%	15%	18%	25%	22%	4%
Landlord insurance	3%	5%	7%	9%	19%	56%

Source: Retail Finance Intelligence (RFI)

SURVEY METHODOLOGY

The consumer survey data presented in this report was collected in March 2007, through an online survey of 2,013 Australian adults. A breakdown of the survey respondents is shown below.

TABLE 47: SURVEY RESPONDENTS BROKEN DOWN BY STATE/ TERRITORY OF RESIDENCE

	Number of respondents	Percentage of total
NSW	670	33%
ACT	55	3%
VIC	496	25%
QLD	403	20%
NT	28	1%
TAS	50	3%
SA	123	6%
WA	188	9%
Total	2,013	100%

Source: Retail Finance Intelligence (RFI)

TABLE 48: SURVEY RESPONDENTS BROKEN DOWN BY HOUSEHOLD INCOME

	Number of respondents	Percentage of total
Less than $25,000	137	7%
Between $25,000 and $49,999	552	27%
Between $50,000 and $74,999	490	24%
Between $75,000 and $99,999	304	15%
Between $100,000 and $124,999	178	9%
Between $125,000 and $149,999	60	3%
$150,000 and over	88	4%
Prefer not to answer	204	10%
Total	2,013	100%

Source: Retail Finance Intelligence (RFI)

OUR PRODUCT RANGE
LMI PRODUCT SOLUTIONS

We have a wide range of LMI product solutions to cater for the varying needs of our customers and borrowers.

STANDARD LMI

TARGET MARKET

Suited to a wide range of borrowers, including First Home Buyers and investors wishing to access residential mortgage finance.

KEY FEATURES AND BENEFITS

- Allows borrowers to purchase their property with only a 5% deposit
- Loan terms of up to 40 years are available which assists in lowering repayments
- Discounts may be available for First Home Buyers
- Capitalisation of LMI Premium available
- Available for a wide range of purposes including Home Improvements, Refinances, Bridging Finance, Debt Consolidation, Vacant Land, Construction and Equity Release

HOMEBUYER PLUS

TARGET MARKET

Suited to borrowers, including First Home Buyers, with limited or no savings, or those wishing to use money not sourced from their own savings as a deposit.

KEY FEATURES AND BENEFITS

- Deposit may include a family gift, loan or the First Home Owners Grant
- Allows borrowers to purchase their property with little or no deposit, allowing their own savings to be used for stamp duty, renovations or setting up their home
- Capitalisation of LMI Premium available
- Discount may be available for First Home Buyers
- Loan terms of up to 40 years are available
- Available for a range of purposes including Bridging Finance and Construction

LOW DOC

TARGET MARKET

Suited to Self-employed borrowers who are unable to produce current financial information or documentation.

KEY FEATURES AND BENEFITS

- Allows borrowers to purchase their property with limited evidence of income
- Loan terms of up to 30 years are available
- Capitalisation of LMI Premium available
- Available for a wide range of purposes including Home Improvements, Refinances, Bridging Finance, Debt Consolidation, Vacant Land, Construction and Equity Release

ASSET PLUS

TARGET MARKET

Suited to eligible self-employed or PAYG borrowers who are unable to produce current financial information or documentation.

KEY FEATURES AND BENEFITS

- Allows borrowers to purchase their property without genuine equity or savings
- Income and financial position details are not required
- Loan terms of up to 30 years are available
- Capitalisation of LMI Premium available
- Available for both residents and non-residents
- Available for a wide range of purposes including Home Improvements, Refinances, Bridging Finance, Debt Consolidation, Vacant Land and Construction

CREDIT PLUS

TARGET MARKET

Suited to borrowers who have an impaired credit history, which may include prior defaults of a reasonably serious nature and/or bankruptcy. In the last 12 months they would have made some progress towards rebuilding their financial position.

KEY FEATURES AND BENEFITS

- Provides borrowers with impaired credit history access to finance to purchase a home
- Loans being refinanced can include up to 4 other debts for personal purposes such as personal loans and credit cards
- Loan terms of up to 30 years are available
- Capitalisation of LMI Premium available
- Available for a range of purposes including Refinances, Vacant Land and Construction

FAMILY PLEDGE

TARGET MARKET

Suited to borrowers, especially First Home Buyers with no deposit, to access finance for the full property purchase price, plus a further 10% for the costs involved.

To enable this, an immediate family member provides a limited personal guarantee for the pledge amount, supported by equity in their existing property.

KEY FEATURES AND BENEFITS

- Provides access to finance for full purchase price, plus an additional 10% to cover other costs such as stamp duty, renovations or setting up their home
- A deposit or genuine equity is not required
- Discounts may be available for First Home Buyers
- Loan terms of up to 30 years are available
- Capitalisation of LMI Premium available
- Available for a range of purposes including Bridging Finance, Debt Consolidation and Construction

OTHER PRODUCTS & SERVICES

EASY ADD-ON

TARGET MARKET

Suited to borrowers with a demonstrated repayment history wanting an easy way to increase or 'top up' an existing mortgage already insured with Genworth Financial.

KEY FEATURES AND BENEFITS

- Provides quick and easy access to additional funds
- An Updated Asset and Liability Statement is not required
- A Credit Bureau check is not required
- For self-employed borrowers, previous income evidence may be relied on if there has been no change to employment since last full application
- Reduced valuation requirements

GENWORTH FIRSTHOME

TARGET MARKET

Genworth Financial recognises the importance of First Home Buyers and plays an important role in assisting them achieve their dream of home ownership sooner, with ease and clarity.

KEY FEATURES AND BENEFITS

- Genworth Financial First Home Buyers Initiative (Genworth FirstHome) is available to anyone wanting to purchase their first home who is eligible for the First Home Owners Grant
- A special premium rate may be available for First Home Buyers
- Genworth FirstHome is available to First Home Buyers accessing:
  - Standard LMI
  - HomeBuyer Plus
  - Family Pledge

Genworth Financial

Genworth Financial
Level 23, 259 George Street
Sydney NSW 2000
1300 655 422
www.genworth.com.au