September 2011 | **Third Edition**

Streets Ahead

Genworth Homebuyer Confidence Index

The right partner makes all the difference

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Welcome to the September edition of Streets Ahead

Genworth is Australia's leading lenders mortgage insurer. We recognise the property market is a key contributor to our economic prosperity as a nation and the personal wealth of many Australians, which is why we've made it our business to know the attitudes and behaviour of Australian homebuyers.

We developed the Genworth Homebuyer Confidence Index (HCI) in 2010, creating a biannual measure of confidence levels among Australian homebuyers and aspiring homebuyers. In this latest edition, we find increasing economic uncertainty in Australia and abroad, and higher cost of living pressures leading to rising mortgage stress, causing national homebuyer confidence to continue its downward trend.

In this edition we have zeroed in on recent first homebuyers (FHBs) who are more optimistic than the average about the future. We find many potential FHBs are making the necessary sacrifices across a range of spending to realise their ambitions of home ownership. With this in mind, Genworth remains committed to developing innovative products to help people get into their home sooner.

The survey results also show the effects of recent natural disasters continue to linger for many households and businesses. What this edition of Streets Ahead tells us is that, despite such challenges as natural disasters and the rising cost of living, the Australian dream of home ownership prevails.

We know you will find this edition of Streets Ahead as interesting as we do, and that it brings greater clarity to your understanding of the trends and potential future direction of the Australian homebuyer and property markets.

Warm regards

Ellie Comerford
Chief Executive Officer
Genworth

Executive summary

About the Genworth Homebuyer Confidence Index

The Genworth Homebuyer Confidence Index (HCI) measures the sentiment of mortgage holders and would-be mortgage holders about their own mortgage and the overall mortgage market.

The Genworth HCI is based on five factors: the proportion of monthly income used to service debts, maximum loan-to-value ratio (LVR) comfortable in borrowing, last 12 months repayment history, next 12 months repayment expectation and whether it is a good time to buy a home.

Overall findings

- The national Index fell (2%) from March 2011 however overall sentiment was buoyed by a return to confidence in Queensland.
- The latest Genworth HCI result is 3% above the Index low of 2008, which was during the Global Financial Crisis (GFC).
- Thirty-six percent of Australians surveyed still believe it's a good time to buy a home. This sentiment is highest in Western Australia (47%), New South Wales (39%) and Queensland and Northern Territory (37%).
- Borrowers are becoming more conservative, helping to ensure any rise in mortgage stress is contained – during the last year 41% of those surveyed made an overpayment on their mortgage.
- Increases in living costs have seen mortgage stress rise to 25% from 21% in March. The majority (85%) of borrowers surveyed experiencing mortgage stress say that despite struggling they are not behind on repayments.

First homebuyer market

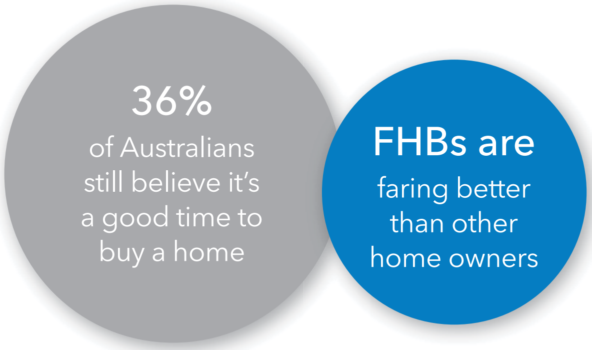
- Recent first homebuyers (FHBs) are more optimistic than the average about the future, with 58% of those who took part in the survey saying they will easily meet repayments in the year ahead with only 15% expecting to have difficulties paying their mortgage. This is despite high debt levels, with 40% of recent FHBs surveyed putting more than half of their monthly income towards servicing debt.
- Almost half (49%) of FHBs surveyed who bought their home after 2000 spent less than two years saving for a deposit.

Potential first homebuyers

- To save a deposit, more than two thirds (68%) said they're cutting back on luxury goods and 60% said their clothes budget was being reigned in. Over half (56%) of potential FHBs said they were spending less on groceries and other necessities.
- Almost two thirds (63%) of potential FHBs who took part in the survey have some form of outstanding debt, generated mainly by rites of passage expenses (such as education and wedding expenses), along with general living costs.

Drivers of borrower stress

- The rising cost of living is the biggest concern for an increasing proportion of those struggling with mortgage repayments – 72% in 2011 compared with 61% in 2010.
- Despite no recent rate rises, interest rates became a greater source of stress in September 2011 (at 54%, up from 51% in March), reflecting the delayed impact of the series of rate rises in 2010.



- Debt obligations are also increasingly a reason for mortgage stress: one in five (22%) struggling borrowers surveyed pointed to this as a factor in the March 2011 Genworth HCI compared to one in four (26%) in September 2011—this reflects actual higher debt levels (32% of mortgage holders surveyed are now spending more than half of their income to service debt, up from 28% in the March 2011 edition).

State-by-state: Queensland and Western Australia upbeat while Victoria lags

- Recovery from recent natural disasters and lower property prices making property an attractive investment has led to a 4.2% rebound in Queensland homebuyer confidence since March 2011.
- Western Australia is now the state with the highest percentage of people surveyed who believe now is a good time to buy. Victoria has seen the largest fall in borrower sentiment since March 2011, down 7.1% in the September edition, largely driven by an increase in mortgage stress.

Natural disaster toll

- Pleasingly, the majority of natural disaster-affected households surveyed (almost 60%) have already recovered from recent natural disasters.
- Encouragingly, most business owners who took part in the survey are still able to meet their mortgage repayments and are not suffering from any great degree of mortgage stress.

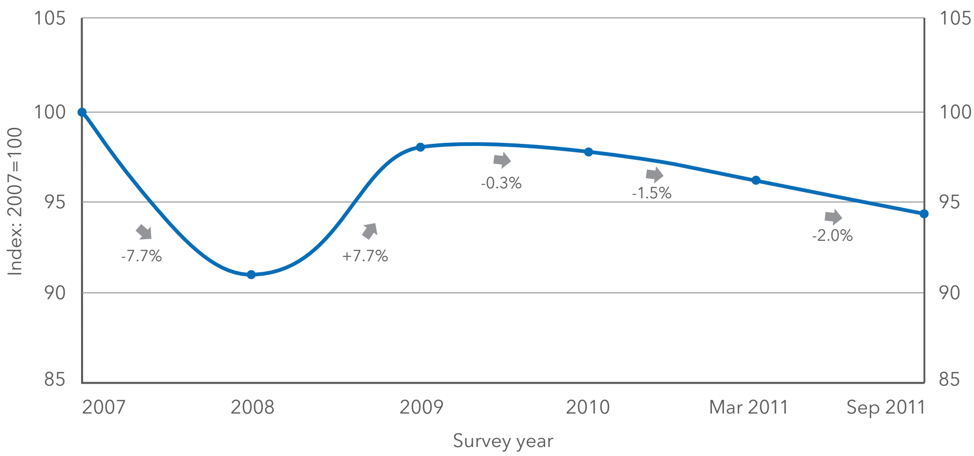
Future outlook

While some economists are predicting interest rate cuts in the coming year, which may help to ease the mortgage strain on borrowers and improve borrower sentiment in the near to medium term, the survey does show that the proportion of home-buyers who made an overpayment or easily made their mortgage repayments in the last year was 75% in September 2011.

Streets Ahead findings also make it clear that the Australian dream of home ownership is not fading. Potential FHBs have shown themselves to be willing to cut back on a broad range of expenses including necessities in order to save for a home.

Genworth Homebuyer Confidence Index

Source: Genworth



2011: confidence falls for the third consecutive period

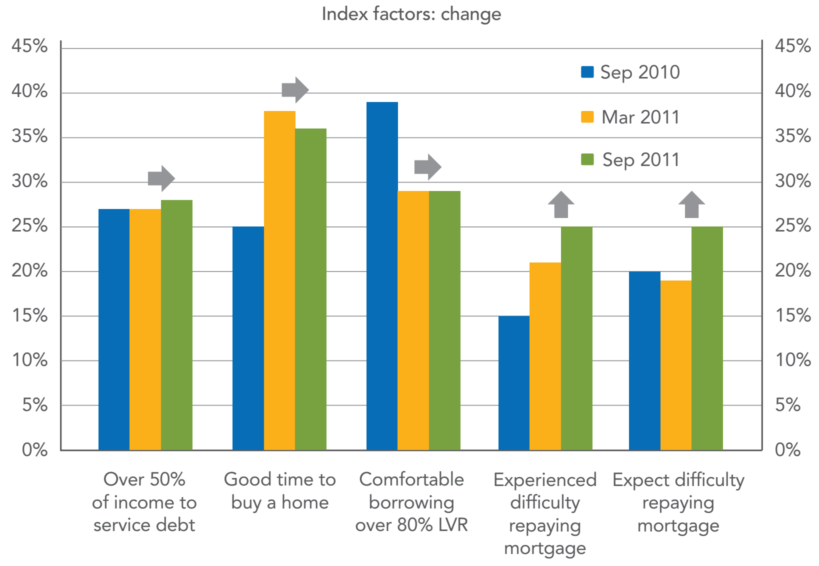
The Genworth HCI marked yet another slight fall in the six months to September 2011, down 2% (from 96.3 to 94.4) on the previous six months. This follows a 1.5% fall in confidence from 2010 to March 2011. Despite three consecutive falls, the Index remains above levels seen during the GFC in 2008.

In contrast to the Index recorded in March of this year, which strongly reflected the impact of natural disasters on borrowers across the country, the main drag on homebuyer confidence in this period is the increasing concern among homebuyers about their ability to repay their mortgage in the future. This in turn is likely underpinned by media attention on domestic and global economic conditions affecting consumer sentiment, despite many strong domestic economic indicators for property markets.

Mortgage stress drives drop in overall confidence

The drop in the Genworth HCI was underpinned by the increase in those surveyed who 'experienced difficulty repaying their mortgage' and an increase in those who 'expect difficulty repaying their mortgage'. Levels of debt and comfort with higher debt levels, as well as 'good time to buy', remained relatively unchanged.

Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)



More households are experiencing difficulty and more are expecting to face difficulty

Yet another slight fall in consumer confidence

Key economic indicators

Economic indicators*	2007	2008	2009	2010	Mar 2011	Sep 2011
Official cash rate	6.25%	7.25%	3.00%	4.50%	4.75%	4.75%
Inflation	2.4%	4.5%	2.5%	3.1%	2.7%	3.6%
Unemployment	4.3%	4.3%	5.8%	5.1%	5.0%	5.3%
Oil prices per barrel US$	$66.30	$127.76	$67.73	$75.69	$96.97	$91.96
HIA Affordability Index	51.5	47.6	69.7	51.8	51.9	56.2
Average FHB loan	$238,600	$243,100	$270,200	$283,300	$280,800	$280,200
Genworth HCI	**100**	**91.1**	**98.1**	**97.8**	**96.3**	**94.4**
Change in Genworth HCI	-^	-7.7%	+7.7%	-0.3%	-1.5%	-2.0%
Key drivers in Genworth HCI	-^	Rising interest rates heading into the GFC	Recovering from the GFC and interest rate cuts	Rate rises, expected stress	Disasters leading to increased stress, less comfort with debt	Rise in cost of living, experience and expectation of stress

*As at June each year, in March 2011 figures are as at February 2011, or the most recent available at time of writing.
^2007 is the baseline year for the Genworth HCI.

Sources: ABS (unemployment rate seasonally adjusted at August), RBA, HIA, NYMEX, Genworth, RFi analysis

Mortgage stress on the rise and expected to worsen

The overall fall in the Genworth HCI nationally in the September 2011 edition was driven primarily by augmented levels of mortgage stress, which have been on the rise since the series of interest rate increases of 2010, and increasing levels of uncertainty about the global economic situation. The proportion of borrowers surveyed experiencing mortgage stress increased from 21% in the March 2011 Genworth HCI to 25% in September 2011. Of some concern, no previous survey has seen mortgage stress levels hit 25%, not even during the depths of the GFC. However, the proportion of borrowers surveyed expecting to have difficulties repaying their mortgage is still below 2008 levels, at 25% compared to 28% in 2008.

More borrowers who took part in the survey actually experienced mortgage stress in the six months to September 2011, than the proportion of those expecting difficulty when surveyed for the March edition 2011. This gap between experience and expectation of mortgage stress means many borrowers were unprepared for the difficulty they are now facing. This may have contributed to deteriorating borrower sentiment.

Looking ahead, the proportion of homebuyers expecting to have trouble meeting mortgage repayments in the coming year rose from 19% in March 2011 to 25% in September 2011. This is the highest level of expected future mortgage stress of any Genworth survey conducted with the exception of 2008, at a time when GFC concerns weighed heavily on borrowers and 27% of those surveyed expected to have difficulty with repayments.

Consistent with this current mood, the proportion of people surveyed who think they will easily meet repayments or overpay their mortgage has fallen from 81% in the March 2011 survey to 75% in September 2011.

These results come as consumer sentiment more generally takes a battering, which can be seen in our preferences to save or pay down debt rather than purchase goods. According to the

Mortgage stress at all-time high

High interest rates and the looming financial crisis hit borrowers hard in 2007 and 2008, but the Reserve Bank of Australia's (RBA) rate cuts seem to have been effective in easing mortgage stress, with the percentage of mortgage strugglers falling in 2009 and 2010. However, current economic uncertainty and increases in living costs have seen stress rise to unprecedented levels in the six months to September 2011.

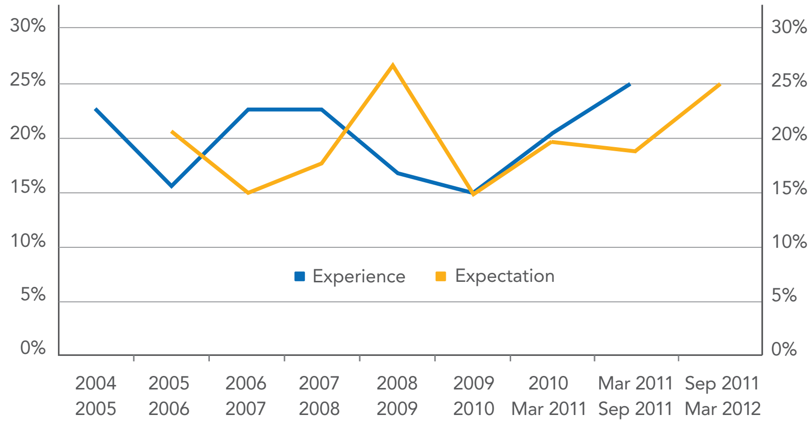
Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)

Percentage of borrowers surveyed who struggled to meet a mortgage repayment in some or all months last year

Experience vs. expectation of hardship

The proportion of mortgage holders who experienced hardship in September 2011 exceeded the proportion who expected it in March 2011, causing an increase in the expectation of hardship over 2012 to reach its highest level since 2008.

Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)



Australian Bureau of Statistics (ABS) the Australian household savings ratio increased to 11.5% in the March 2011 quarter, triggering a further fall in retail sales growth and New South Wales recording its worst retail sales growth for 50 years.

While rising inflation has pushed up the cost of living across the nation, RP Data figures show capital city home values declined in the June quarter, further reducing homebuyer confidence.

Globally, an uncertain US economic recovery and continued flailing by economies in the Euro zone have compounded fears of a second GFC affecting Australia. The unemployment rate increasing to 5.3% in August 2011 is also likely to put added pressure on borrowers. These factors have all likely contributed to borrowers expecting to have greater difficulties repaying their mortgages over the next 12 months.

Rising cost of living dominates mortgage stress woes

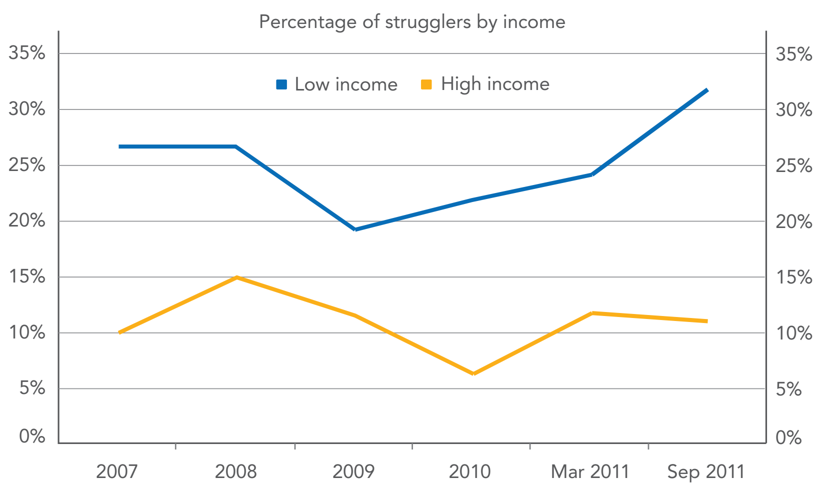
The rising cost of living remains the biggest concern for those struggling with mortgage repayments and this trend is growing. Close to 70% of mortgage stressed borrowers surveyed blamed the rising cost of living for their repayment woes in September 2011 compared with 61% in March 2011. According to ABS data, housing, food and transport made up half of the expenditure of the typical Australian household in 2009-2010. Despite interest rates remaining unchanged over 2011, rising interest rates became a greater source of stress for those surveyed in September 2011 (at 50%, up from 44% in March 2011), possibly reflecting the delayed impact of the series of rate rises in 2010. Economic indicators show that conditions for home owners are still much better than they were in 2008, when headline inflation was over 4% and interest rates were above 7%, suggesting that households are still better off than they were during the GFC.

Household debt is also affecting borrowers' ability to meet repayments. While one in five (22%) struggling borrowers surveyed said other debt obligations were causing their mortgage stress in the March 2011 Index, this increased to one in three (33%) borrowers in the last six months. According

Low income borrowers bear the brunt of stress

High income borrowers (those with a household income of $100,001 or more) who took part in the survey were much less likely to have suffered mortgage stress in the past year than low income borrowers, and their experience of stress has levelled out since March 2011. By contrast, low income borrowers have seen a sharp increase of stress, with low income households likely to be the most sensitive to rising household costs such as groceries.

Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)



to the Genworth International Mortgage Trends Report (IMTR) released in June 2011, Australians are among the most heavily indebted households in the world. The Genworth HCI shows a slight increase in household debt among mortgage holders, with the proportion of mortgage holders surveyed spending more than half of their income to service debt increasing from 28% in the March 2011 edition of the Index to 32% in the September 2011 edition.

The good news is the majority of those experiencing mortgage stress still managed to meet their repayments over the past year with 85% of those surveyed saying that despite struggling they were not behind on repayments.

First homebuyers unfazed by repayments

In contrast to the average homebuyer, recent FHBs (those who bought their home in the last year) are more optimistic about the future with just 15% of those surveyed expecting to have difficulties paying their mortgage and 58% saying they will easily meet repayments in the year ahead. This optimism comes despite high levels of debt, with 40% of recent FHBs surveyed putting more than half of their monthly income towards servicing debt, but is in-line with experience, as only 12% of recent FHBs experienced mortgage stress in the past year, well below the average. Although FHBs may struggle to achieve home ownership, once they do they are well placed to meet the demands of a new mortgage.

In previous Genworth reports FHBs have been proven to be more interest rate sensitive than more established home owners. At the time of the survey, Australia had gone nine months without a cash rate increase and this may well explain the optimism of this segment.

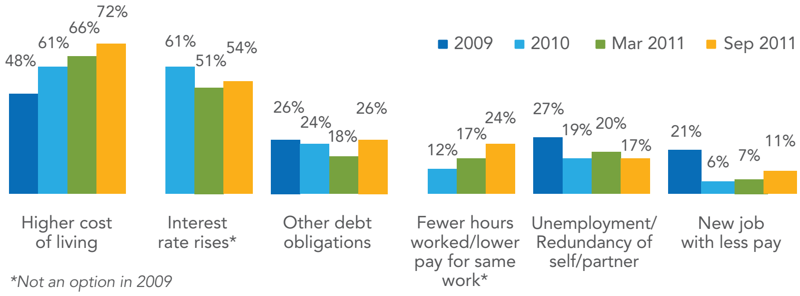
In fact, the September figures for 2011 show FHBs are only slightly (0.6%) less confident compared to earlier in 2011, with an overall confidence level of 97.5 compared to 98.0 in March 2011.

Top five reasons for mortgage stress in the six months to September 2011

The rise in the cost of living is increasingly a concern for borrowers expecting difficulties meeting their mortgage repayments over the coming year. While fewer borrowers were expecting mortgage stress due to unemployment or redundancy, they were increasingly expecting trouble due to working fewer hours or being paid less for the same work.

Source: Mortgage Trends Survey, analysis conducted by RFi (2010 survey conducted by UMR)

Top five reasons borrowers surveyed expect difficulty making repayments in the coming year
(% of those expecting difficulty meeting repayments)



*Not an option in 2009

Experience of mortgage stress varies by state

Experiences of mortgage stress vary by state. The proportion of Victorian homebuyers in the March 2011 survey who were expecting mortgage stress over the next six months of 2011 (13%) was lower than the number of those surveyed in September 2011 who actually experienced mortgage stress in this period (24%). Meanwhile, 23% of homebuyers surveyed in New South Wales expected mortgage stress in the six months to September 2011, but the September 2011 survey results found that only 22% experienced stress during that time. In contrast to the optimism of Victorians, homebuyers in New South Wales were more pessimistic in their outlook. Interestingly, both states have shown a correction in their outlook for 2012 – in the September 2011 survey, 23% of Victorians expected difficulty over the next 12 months, as did 22% of New South Wales homebuyers – showing that homebuyers adjust their outlook according to their repayment experience.

Across the country, borrowers from South Australia and Western Australia were the most likely to have experienced mortgage stress in the past year, and the most likely to expect mortgage stress in the coming year (with one third of respondents in both states expecting to have difficulties meeting repayments).

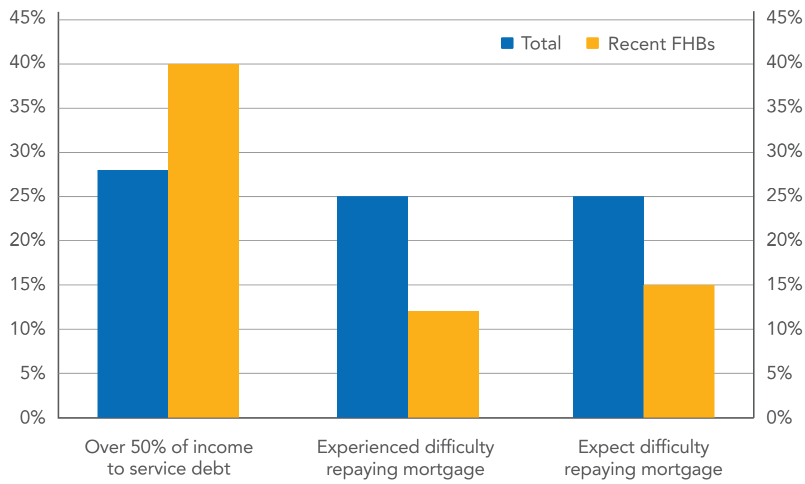
Men more likely to overpay mortgage; and women more likely to have experienced mortgage stress

This edition of Streets Ahead also drew out some interesting differences between the attitudes of men and women to mortgage debt. Men were more likely to respond that they had made overpayments on their mortgage (43% compared to 40%), and women were more likely to have experienced mortgage stress (27% compared to 22%). Despite this, men and women were equally likely to expect difficulty in the coming year, at 25%. Women were more likely than men to cite over-commitment (36% of women compared to 27% of men) and other debt obligations as a cause of stress (15% and 4% respectively).

First homebuyers have less mortgage stress

Despite being more heavily indebted, recent FHBs were less stressed and more optimistic about their mortgage repayments than average.

Source: Mortgage Trends Survey, analysis conducted by RFi



High loan-to-value ratio loans less popular

As confidence dips we find borrowers are now less comfortable with higher LVR loans, with less than a third (29%) of respondents willing to borrow more than 80% of a property's value – the lowest recorded since the Index commenced, and much lower than the 35% seen in the Genworth IMTR. This trend is even more extreme among FHBs with only one in five (20%) FHBs surveyed comfortable borrowing at an LVR over 80%, compared with almost 40% only a few months earlier in the March Index. Australia is still one of the countries most comfortable with mortgage debt, with an average of only 20% of respondents across eight countries comfortable borrowing more than 80% of the value of a property in the Genworth IMTR.

At 60%
Australia's home ownership is one of the world's highest

Australia is still
one of the countries most comfortable with mortgage debt

Prospective first homebuyers battle with affordability and debt to achieve their dream

The Genworth IMTR highlighted the growing home affordability problem as FHBs globally delay their entry into the property market, showing that the average age of Australian FHBs increased from 24 in the 1960s to 31 in the 2000s. First homebuyers have become increasingly perseverant in order to achieve their goals. Streets Ahead findings confirm this trend; almost a quarter of FHB respondents who bought their home after 2000 spent five years saving for a deposit. This proportion has been steadily increasing over the past four decades—from one in 10 of those who took out their first home before 1979. While the median time taken to save for a deposit has fluctuated between one to two and two to three years in this period, a deposit has become an increasingly heavy burden for many, despite Genworth IMTR data showing that 80% of future FHBs surveyed expect to need a deposit of less than 20%. Low awareness of lenders mortgage insurance could be contributing to this burden, with only 15% of those surveyed who have never owned a property saying they were aware of lenders mortgage insurance.

Affordability concerns are also likely to be keeping many potential FHBs out of the market. One in six of those planning to buy their first home said they have already spent five or more years saving for their deposit. The NSW Government's decision to withdraw its stamp duty waiver for FHBs on existing homes is likely to add to these concerns.

Hanging on to the Australian dream

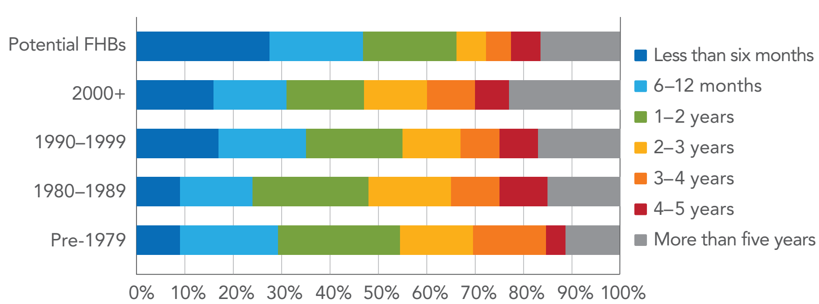
Despite the growing barriers to home ownership, the great Australian dream of owning your own home still holds a prominent place in the national psyche. Australia has one of the highest property ownership rates in the world, at 60%.

But it's not everyone's dream. Around one in six (17%) non-property owners surveyed in the September 2011 edition have not bought property because they chose to live in rented accommodation, while a further 7% were happy living with friends or family.

First homebuyers take longer to save for deposits

The proportion of borrowers who took five or more years to save for their deposit has been steadily increasing since before 1979. Those who struggle to save for a deposit may be being kept out of the property market for longer.

Source: Mortgage Trends Survey, analysis conducted by RFi



For those who do wish to eventually own their own home, affordability is the factor most likely to be keeping potential FHB respondents out of the market. Close to half (45%) say they can't save for a deposit and over a third (38%) did not think they could afford mortgage repayments.

High levels of personal debt are a critical barrier; all of the Australians surveyed who were spending half or more of their income making debt repayments had no plans to buy their first home. In fact seven out of 10 (71%) of these respondents stated they couldn't save for a deposit and 71% said they would be unable to meet subsequent mortgage repayments.

The September 2011 results show almost two thirds (63%) of potential FHBs who took part in the survey have some form of outstanding debt. Reflecting the typical phase of life most potential FHBs are in, rites of passage expenses (such as education and wedding expenses) made up almost two thirds of their outstanding debt, along with general living costs and the cost of owning vehicles. The fact that FHBs are becoming indebted to service general living costs is concerning and could lead to difficulties paying off a future mortgage. It also reflects the high cost of living in today's environment, which is a burden both on existing mortgage holders and would-be home owners.

Affordability concerns discourage first homebuyers

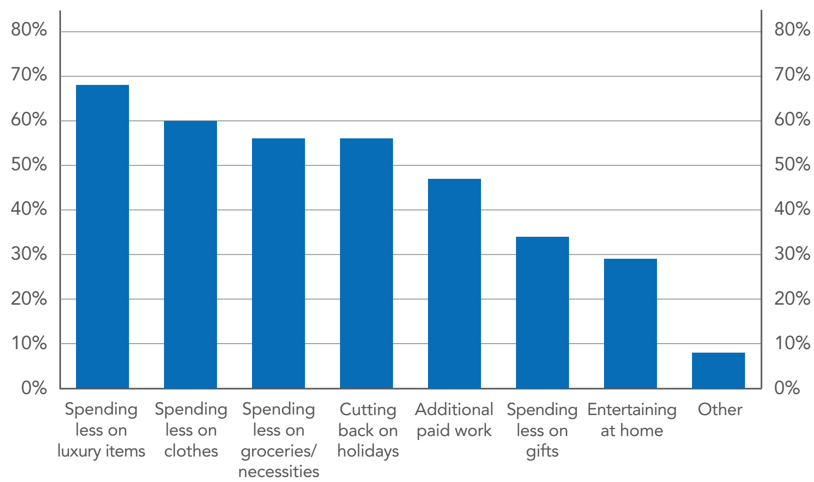
Along with high levels of debt, potential FHBs are also battling high property prices. More than one in five (21%) potential home owners surveyed said their preferred suburb is too expensive, a theme most common in New South Wales and Victoria where 23% and 22% of respondents found this to be the case respectively. Unsurprisingly, capital cities are the most unaffordable making up two thirds (67%) of the areas considered too expensive.

With lack of affordability a continuing trend, Australians are increasingly unlikely to believe now is a good time to buy a home, down from 38% of surveyed borrowers in the March 2011 edition of the year to 36% in September 2011.

Deposits come at cost of luxuries as well as necessities

While potential FHBs were most likely to be cutting back on luxury items to save for a deposit, more than half of those surveyed were also cutting back on clothes and necessities. Despite these sacrifices, potential FHBs were unwilling to let their social life suffer, and were much less likely to have cut back on gifts or entertaining at home.

Source: Mortgage Trends Survey, analysis conducted by RFi



Too high
one in five potential FHBs said their preferred suburb was too expensive

FHBs are
finding they must make greater sacrifices to save their deposits

Interestingly, respondents to the Genworth IMTR survey were a little more optimistic – 42% of these respondents said it was a good time to buy. It may be that while poor property market conditions in early 2011 encouraged people to buy a home, falling consumer sentiment means Australians have become less inclined to crack the property market.

First homebuyers sacrificing to save for a deposit

With high house prices and deteriorating affordability, potential FHBs are undeterred from pursuing home ownership, and instead are curtailing their spending to save a deposit. More than two thirds (68%) of FHBs who took part in the survey said they're cutting back on luxury goods and 60% said their clothes budget was being reigned in.

It's not just luxury goods they're cutting back on. In fact, 56% of potential FHB respondents said they were spending less on groceries and other necessities – the same proportion as those who were cutting down on holidays. A lower but still significant proportion of potential FHBs surveyed were taking on more work (47%). Indebted potential FHBs were less likely than average to cut back on spending on luxuries, but more likely to be cutting back on entertaining at home, with 33% doing less entertaining at home compared to the average of 29%.

The results make it clear that achieving the goal of home ownership is requiring greater sacrifice, and for many potential FHBs this sacrifice is more than merely foregoing discretionary spending. With more than half of all FHBs surveyed cutting down on necessities to save for a deposit, the impact on households to own their own home is heavy. Spending cuts by FHBs to save for a home deposit may also reflect the increased aversion FHBs have towards high LVR loans.

Natural disasters: counting the cost

Though most have recovered, natural disasters have a continuing impact

One in five (21%) Australians surveyed said they were affected in some way by the natural disasters that swept through the nation in early 2011, up from 14% of those in the March 2011 edition, indicating it has taken time for the full brunt of these disasters to be realised. Nationwide, almost 60% of those respondents affected by the disasters have already recovered. Of the 41% who are still recovering less than one third (31%) expect the effects of these events to continue for at least another month.

Several initiatives to ease the stress on disaster-affected borrowers are likely to have contributed to their recovery. Both State and Federal Governments offered hardship assistance packages while Genworth worked with lenders to extend its own hardship parameters to impacted borrowers struggling to meet mortgage repayments.

Queensland businesses hit hard by flooding

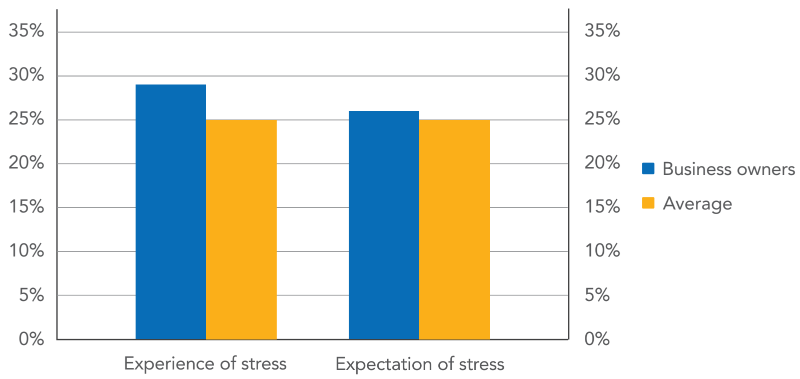
In addition to many households, a large proportion of small businesses surveyed in the September 2011 edition have felt the impact of natural disasters around the country. Staggeringly, almost half (48%) of all Australian business owners surveyed—including 71% of Queensland businesses who took part—stated the Queensland floods had had some degree of impact on their business. Those businesses affected by natural disasters of some kind were very likely to still be affected more than six months later; 57% said they were still affected at the time of the survey and 45% expected this to continue for at least another month.

In addition, 40% of affected businesses had still not recovered all their losses and around a third of those businesses impacted by Cyclone Yasi, the Western Australia bushfires and flooding in Victoria were not adequately protected by insurance. This figure increased to 38% for those businesses impacted by the Queensland floods.

Business owners only slightly more stressed

Business owners were slightly more likely to have experienced or expect stress, despite being affected by low consumer confidence and natural disasters.

Source: Mortgage Trends Survey, analysis conducted by RFi



Although so many businesses surveyed have been affected by disasters, business owners are only slightly more likely to be experiencing mortgage stress, with 29% of them finding it difficult to meet repayments compared to the national average of 25%. Likewise, 26% of these business owners expect repayment difficulty in the future compared to the national average of 25%. Self-employed borrowers who took part in the survey were more likely to be stressed overall, with the proportion who had experienced mortgage stress increasing from 24% in 2010 to 31% in September 2011.

Reversal of fortunes as Queensland pulls up homebuyer confidence

The March 2011 edition of Streets Ahead reflected poor borrower sentiment in Queensland following the state's flooding and Cyclone Yasi. Recovery from these events and lower property prices making it seem a better time to buy a property has led to a 4.2% rebound in Queensland homebuyer confidence in the six months to September 2011. In fact, Queensland was the only state to record a confidence increase. This compares to an overall national confidence drop of 2% over the period.

Queensland residents are now more confident than the national average, after the rise in sentiment in September of this year. While they are just as indebted as those in other states, they are more comfortable with their debt and more optimistic about the property market.

Unfortunately the same cannot be said for other states. In contrast to its relatively high homebuyer confidence levels recorded in March 2011, Victoria has seen the largest fall in borrower sentiment since then, down a considerable 7.1% in the September 2011 edition. This fall was largely driven by an increase in mortgage stress with the proportion of Victorian borrowers surveyed expecting difficulties meeting mortgage repayments rising from 13% to 23% since the March 2011 edition. Perhaps explaining the increased expectations of mortgage stress in a State which has traditionally seen relatively low levels of arrears, Victoria has seen the largest increase in the Consumer Price Index (CPI) of any state or territory over the two quarters prior to the September 2011 edition survey. At the same time, Average Weekly Earnings (the average weekly wage of surveyed Australians who were paid for work) continue to be lower in Victoria than in any other state except South Australia.

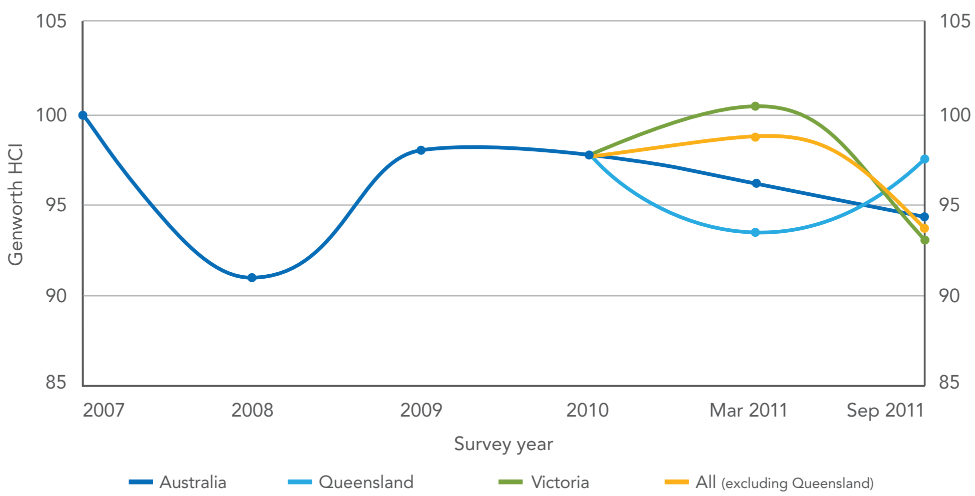
Replacing Queensland as the state with the lowest homebuyer confidence, Western Australia saw the second largest sentiment fall in the last six months, down 4.1% since March 2011. Uncertainty over the effects of the proposed mining and carbon taxes is likely to be causing concern in this mining-dependent state, while sharp drops in Western Australia property prices in recent years are contributing to borrower unease.

Looking ahead, rising costs of living and any increases in unemployment caused by the proposed new taxes are likely to impact heavily on Western Australians, in particular the one in three (32%) Western Australian borrower respondents who spend more than half their income servicing debt.

Reversals of fortune as Queensland pulls up homebuyer confidence

In contrast to the beginning of 2011, Queensland pulled up overall national homebuyer confidence in September 2011. Confidence fell since the March index in every state except Queensland.

Source: Genworth



Conclusions

Economic indicators

All economic indicators apart from inflation improved to June 2011, although July and August saw increases in unemployment. Inflation rose to 3.6% in June 2011, above the Reserve Bank of Australia's target band, and rising living costs combined with the attention paid to them in the media are causing increasing stress for Australian households.

Following the phasing out of the First Home Buyer Grant Boost, FHBs have been taking out increasingly smaller loans. Affordability has fallen since 2009, and remains above 2008 levels, with 2011 seeing a small increase.

Going forward, uncertainty reigns but dream prevails

Since this Genworth HCI survey was conducted, Australia's economy has revealed further weakness including an unexpected increase in unemployment. Globally, markets have been rocked by a US credit-rating downgrade, further debt problems in Europe and civil disorder in the UK.

Economic indicators point to some rocky months ahead globally as several overseas governments have cut spending and struggled to repay existing debt, which is likely to cause a fall in homebuyer sentiment. However, the Australian economy is showing many signs of health, with above expected growth in GDP reported in June. Some economists are even predicting interest rate cuts in the coming months, which may further help to ease the strain on borrowers. As the economy recovers from the effects of the natural disasters, and with the resources sector set to take off, these positive indicators may boost sentiment in the future.

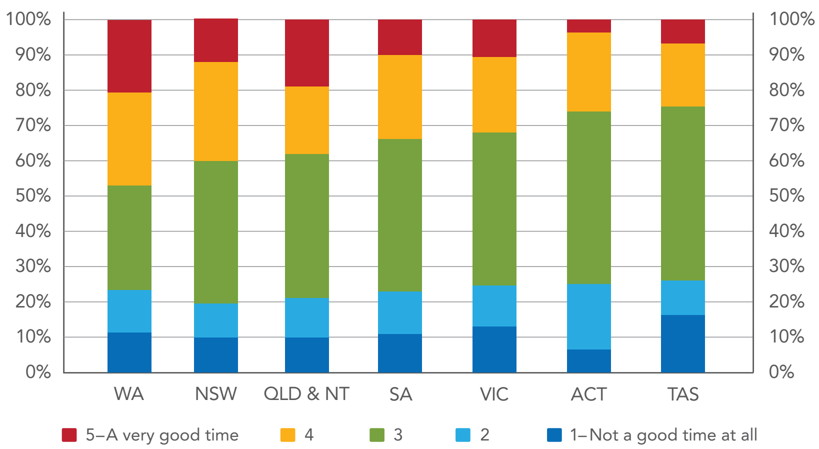
Despite affordability concerns, it is clear that the Australian dream of home ownership is not going to fade away. Potential FHBs have shown themselves to be willing to cut back on other necessities in order to save for a home, and are likely to keep looking for a way to own their dream home, despite the obstacles placed in their way. One such obstacle – the withdrawal of the NSW stamp duty waiver on existing homes will hurt a lot of potential FHBs, although low interest rates will ease some of the pressure.

A good time to buy a home for some

While property price falls may be a cause of stress for Western Australian borrowers, they are also a strong incentive to enter the property market – with 47% of Western Australian respondents believing it is a good time to buy a home. On the other side of the country, New South Wales respondents were the second most likely to believe now is a good time to buy, buoyed up by stronger than average confidence levels rather than price-based opportunism.

Source: Mortgage Trends Survey, analysis conducted by RFi

Do you believe that now is a good time to buy a home?



About the Genworth Homebuyer Confidence Index

Market trends and borrower sentiment are keenly sought after in today's mortgage and property market—a market which underpins Australia's continued economic prosperity. From 2005-10 Genworth has addressed this demand with the annual Genworth Mortgage Trends Report, providing a comprehensive overview of the changing attitudes of Australians to the mortgage and property market.

In 2010, Genworth first leveraged the data collected from commissioned surveys of Australians between 2005-2010. Combining the sentiment of over 14,000 consumers with its own unique data, built up over more than 45 years, Genworth devised an index which tracks important changes in sentiment within the mortgage and property market. This is the September 2011 update of the Genworth HCI, based on a survey of consumers conducted in late July 2011.

The Genworth HCI measures the sentiment of homebuyers about their own mortgage and the overall mortgage market, combining it with would-be homebuyer sentiment towards the mortgage market. The components used to create the Genworth HCI are:

1) Proportion of monthly income currently used to service debts
2) Maximum LVR comfortable in borrowing
3) Last 12 months repayment history
4) Next 12 months repayment ability
5) Whether it is a good time to buy a home.

About Genworth

As the leading provider of lenders mortgage insurance in Australia, Genworth works in partnership with over 120 lenders to make the dream of home ownership more accessible to borrowers. Genworth has been insuring mortgages in Australia since 1965. Through our partnerships with lenders in the Australian mortgage market we continue to provide a unique insight into mortgage trends throughout the country. Our financial strength is underpinned by our A$3.3 billion investment portfolio under management in Australia.

For more information visit **genworth.com.au**

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About RFi

RFi is a strategic research business that delivers research and analysis by identifying and formulating projects within the arena of retail finance. RFi's business model is underpinned by B2B and B2C primary research, a factor which enables RFi to determine the key issues affecting any market.

For more information visit **rfintelligence.com.au**

Disclaimer

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