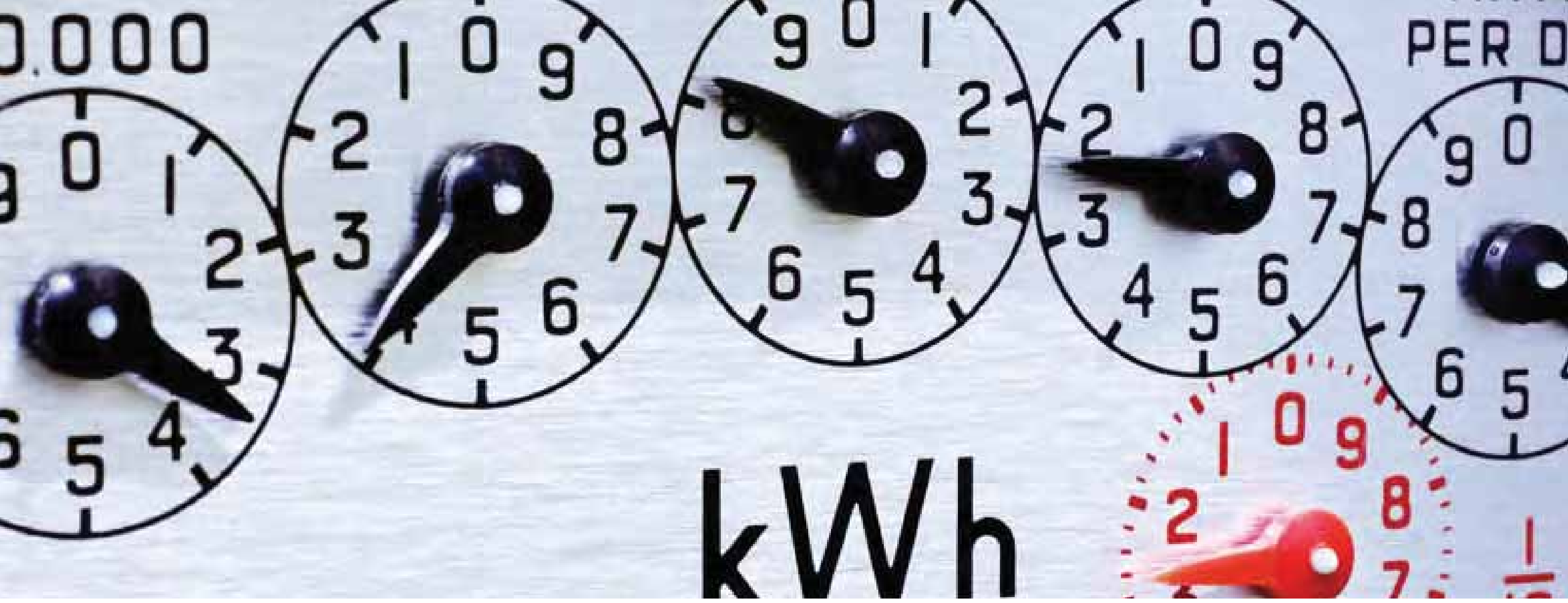
November 2012 | Third Edition

Home Grown

Mortgage Industry Perspectives



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Introduction

Welcome to the *Genworth Home Grown:* *Mortgage Industry Perspectives* report, which presents the findings of a mortgage market study conducted between May and September 2012.

The study comprised a quantitative survey of people working for lending institutions and mortgage brokers. We also conducted six in-depth roundtables with participants from a range of lender segments held in Adelaide, Brisbane, Melbourne and Sydney (see page 26 for further details).

This research has been combined to create a comprehensive overview of the opinions of lenders, brokers and industry figures towards the mortgage market in terms of credit demand, channels, affordability, and innovation.

This report builds on our previous editions of *Home Grown*, released in November 2010 and November 2011, and complements our consumer research in *Streets Ahead: Genworth Homebuyer Confidence Index*.

By providing an insight into various lender and broker perspectives of the market, we are able to provide a comprehensive view of the mortgage industry.

We hope you find this edition of Home Grown as informative as we have.

Definitions

- **Banks:** Major banks; regional and smaller banks as well as foreign banks which operate within Australia while being headquartered outside of Australia (i.e. second tier).
- **CUBS:** Credit unions, building societies and mutual banks.
- **Mortgage brokers:** A mortgage broker offers services which help borrowers apply for a mortgage loan by acting as an intermediary between the borrower and lender.
- **Non-banks:** This refers to financial institutions which are not registered as Australian Deposit Taking Institutions (ADIs)—which include wholesale lenders and originators:
  - **Wholesale lenders:** Wholesale lenders are institutions that provide mortgage funds to originators to lend. In some cases these wholesale lenders have a wider network than just originators, and they may also have their own distribution capabilities.
  - **Originators:** An originator has access to mortgage funds via wholesale funding and in turn provides finance options to borrowers. An originator also manages a loan from inception through to post settlement.
- **First homebuyers (FHBs):** Borrowers who are looking to looking to purchase their first home, or who are paying off the mortgage on their first home.
- **Investors:** Borrowers who hold, or are looking to take out, a mortgage on an investment property.
- **Refinancers:** Borrowers who are switching their current mortgage from one lender to another.
- **Upgraders:** Borrowers who are looking to move to a new home and obtain a new mortgage on that property.

Note: All publically available data used in this report was the most recently available data at the time of publishing. Revisions may have been made by the Australian Bureau of Statistics (ABS), Reserve Bank of Australia (RBA), or the Housing Industry Association (HIA) since that time.

Key research findings

Lending slows in 2012, with most lenders expecting continued reductions in credit growth ahead

- The majority of lenders have experienced slow credit growth over the past year.
- Queensland lenders have struggled over the past year, largely due to higher than average unemployment rates and tightened credit standards.
- Low property valuations have impacted the level of demand from potential investors and refinancers.
- Lenders expect consumers to continue deleveraging and saving in 2013, primarily because of employment insecurity.
- Lenders are expecting a renewed focus on optimising IT/processes and cost reduction initiatives.
- Lenders will rely on maximising their channel strategy, improving customer service and new approaches to segmentation in order to reduce the impacts of the low credit growth environment.

Brokers are optimistic about 2013

- Brokers are more optimistic than lenders about credit growth in 2013.
- There was a general consensus among brokers that the drop in lending is mostly due to a lack of demand from FHBs.
- Many brokers agreed that lenders needed to clarify their credit scoring policies.
- Brokers need competition between lenders in order to grow their business in a low credit growth environment.

Online channels become increasingly important

- The majority of lenders plan to make investments in the online channel over the next year.
- Brokers have experienced an increased number of leads from online channels.
- Lenders are most likely to agree that the optimal online application experience is online followed by further contact options.
- Brokers are more likely than lenders to believe the online channel will cannibalise the branch, mobile lender and broker channels.

Brokers are more optimistic than lenders about credit growth in 2013

Social media use grows as a communication and branding tool

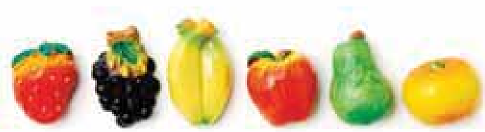
- Lenders are using social media to stay relevant to customers, though it was acknowledged that this is currently not producing revenue benefits.
- Brokers are using social media to build brand awareness and credibility amongst potential customers.

Lenders are less likely than brokers to believe affordability will improve for FHBs

- Almost all (12 out of 14) surveyed lenders believe affordability for FHBs will either stay the same or worsen over the next 12 months.
- Lenders and brokers agree that changed government incentives are unlikely to stimulate demand from FHBs.
- Brokers believe that FHBs have high expectations, and want more than they can afford.
- Lenders and brokers agree that the FHB perception of needing more than 20% of the property value as a deposit often stems from their parents mentality, as highlighted in the September 2012 Genworth *Streets Ahead* report.

Data analytics fuels innovation

- Lenders and brokers were most likely to agree that FHBs would benefit more than other segments from product innovation.
- Brokers were more likely than lenders to agree that self-employed borrowers and refinancers would benefit from product innovation.
- The majority of lenders agreed that innovation in the mortgage market will be delivered through data analytics and customer insights.



Credit demand

Lenders have been struggling with sluggish credit growth over the past year and generally expect continued reductions in 2013. Slow credit growth has been attributed to low consumer confidence, tightened credit standards, low property valuations, changes to government incentives, and employment security. Going forward, lenders are likely to implement new channel and cost strategies to reduce the impacts of decreased credit demand.

Slow credit growth over the past year

- The majority of lenders who participated in the *Home Grown* roundtables have experienced slow credit growth over the past year.

> *"We are watching annual credit growth just tick down continually every month—down to 4.9%, so that is certainly a challenge for our business."—Lender, non-major bank*

> *"We have probably had a strong beginning to the year but when it comes to mortgages, we have seen a certain drop off."—Lender, major bank*

- One regional lender had seen changes in localised demand, and experienced more growth in the rural housing market than the metropolitan housing market:

> *"We are finding it very tough at the moment. We have two very distinct markets, metro and rural, and it's probably fair to say that there is still growth in the rural area and not so much in the metro area in the last 3–4 months."—Lender, regional bank*

Queensland lenders are struggling

- In Queensland, many lenders are struggling to grow their business. Slow credit growth has been attributed to a higher than national average unemployment rate and low consumer confidence.

> *"From a credit perspective, we are finding it very quiet. A lot of people are struggling, which we can see in the deals that are coming through. In Queensland especially, a lot of people are losing their jobs and I think that will have a flow-on effect."—Lender, CUBS*

> *"We are finding it pretty tough and that there is a general lack of confidence. In terms of lack of employment, Queensland is definitely leading the way at the moment, which might not be such a positive thing for people like ourselves."—Lender, CUBS*

Chart 1

Australian unemployment rates–Sep 2011 to Sep 2012

Source: ABS

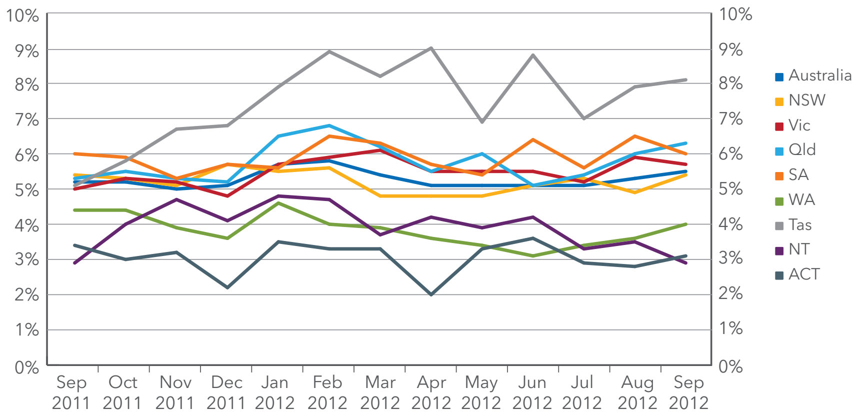
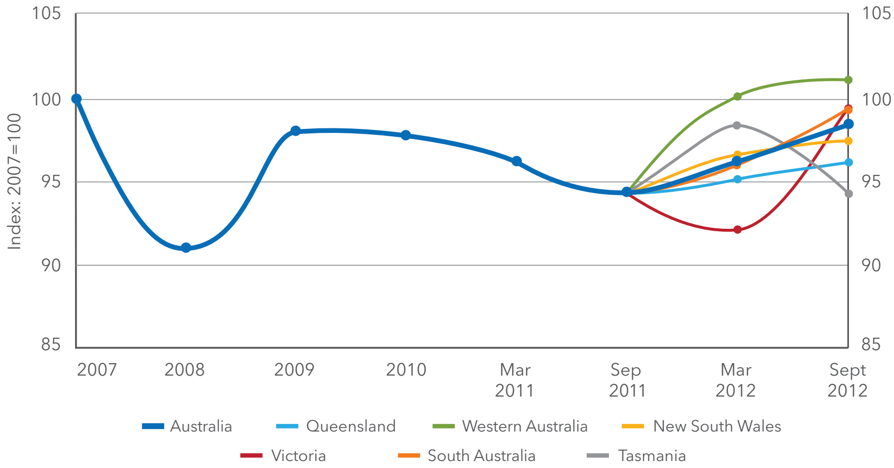


Chart 2

Genworth Homebuyer Confidence Index by state

Source: Genworth Streets Ahead September 2012



- One lender in Queensland also attributed slow credit growth in housing to tightened credit standards, which has affected the large proportion of self-employed people in the Sunshine Coast and Gold Coast regions:

  "There are a lot of self-employed people in areas like the Sunshine Coast and Gold Coast, and traditionally, those people used low-doc loans to get into finance. But we have seen a huge change in low-doc loans since the GFC. We don't even do low-doc loans anymore and there are a lot of other lenders like that. It is a lot tougher to get into those loans now, so there has been a huge decline in the Gold Coast and Sunshine Coast."—Lender, non-bank

Property valuations impact demand

- Lenders also cited low property valuations as having affected credit growth. Although there is an underlying demand for investment property, valuations may have been coming in under borrowers' expectations and deterring them from accessing equity from their homes.

  "Valuations are down and the market is not very wide. I think there are a lot of people out there who are ready but they are just waiting for that bottom of the market and no one knows where that is at the moment."—Lender, CUBS

- The majority of brokers also agreed that low property valuations have affected their business, particularly for construction in new suburbs.

  "Valuations are a massive problem, in part due to comparable sales, but it's really compounded by the fact there's no infrastructure in those areas."—Broker, Melbourne

Brokers are more optimistic than lenders

- Brokers were more optimistic than lenders on residential property lending in 2012, with only eight out of 24 surveyed brokers agreeing that there will be continued reductions in credit growth, compared to 12 out of 14 surveyed lenders (see Chart 3).

- Lenders generally agreed that consumers are in a long-term cycle of weak sentiment and the market is unlikely to change over the next year.

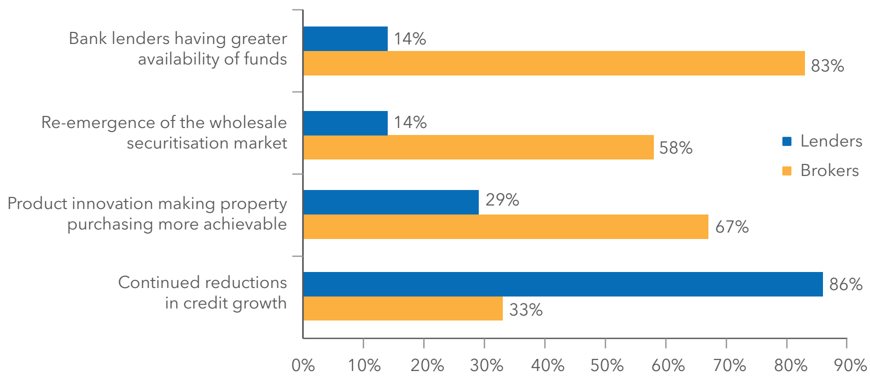
  "I see tough conditions ahead and more pessimism. Whether that is nation-wide or more focused around Queensland, it is yet to be determined, but I think Queensland is more pessimistic than some of the other states around."—Lender, CUBS

Chart 3

To what extent do you agree that the following will impact residential property lending in 2012/13?

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



> *"I think we are going through that cycle at the moment and I think it will take a year or two before we come out on the other side. We are not expecting much change in our business for the rest of this year."—Lender, originator*

Consumer confidence is expected to remain in pessimistic territory

- Lenders and brokers were likely to agree that consumer sentiment will remain low over the next 12 months. However, the *Genworth Homebuyer Confidence Index* indicates that sentiment has been on an upward trend since September 2011 (see Chart 4). This suggests that although Australians are increasingly likely to believe that now is a good time to buy, other factors are preventing them from entering the housing market.
- Consumer deleveraging and saving is expected to continue, with some lenders noting an increase of funds held in offset accounts. Lenders and brokers have also noted an increase in refinancing business, which may be driven by heightened sensitivity to interest rates and fees.

> *"We are seeing a lot more of the book reducing because of repayments. We aren't losing the clients but one of our bigger problems is the refinance, so we are re-pricing our book which is a bit of a problem."—Broker, Adelaide*

> *"Saving is back in fashion and it has been since the Global Financial Crisis. It has gone through the roof and yes, it has started to plateau over the last 6–12 months, but it's the consumer mentality at the moment. They used to default to a mortgage, now they go straight to their bank account."—Lender, non-major bank*

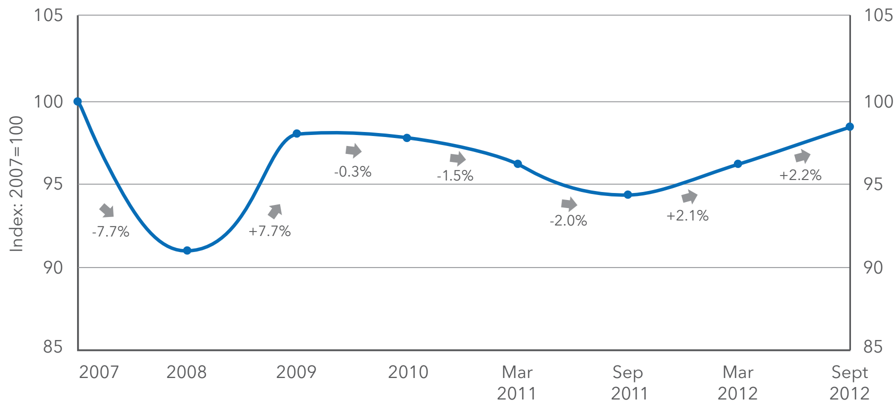
> *"I think consumer deleveraging is just going to continue to happen. It's safe to say that our balances in off-set accounts have just sky rocketed with the recent decreases with the RBA in May and June."—Lender, non-major bank*

Employment security weighs on consumer sentiment

- Lenders agreed that employment security was a key driver of consumer confidence. The general view was that consumers are unlikely to take on credit as they expect unemployment to rise.
- In particular, underemployment appears to weigh heavily on self-employed borrowers' confidence. According to Genworth's *Streets Ahead* September 2012 report, reduced working hours or pay is one of the lead causes of mortgage stress amongst self-employed borrowers, after the cost of living.

Chart 4
Genworth Homebuyer Confidence Index

Source: Genworth Streets Ahead September 2012



- In addition to the self-employed segment, women have also been hit hard by underemployment. Of the surveyed borrowers in the Genworth *Streets Ahead* September 2012 survey who had suffered from mortgage stress, women were more likely than men to say that their difficulties were due to having worked fewer hours or receiving lower pay for working the same hours, with proportions of 22% and 13% saying so respectively.

  "With borrowers, we are seeing a lot more refinancing at the moment and I think this related to job security. Borrowers are hesitant to take on debt."—Lender, non-major bank

  "One is a fear of unemployment. Not that they necessarily think that they are going to be unemployed, but they are reading about it, so there is the perception there. The other is a concern that they just don't want to get into too much debt and their appetite for risk is much less now than it was, say, 10 years ago."—Industry figure

Lenders expect to focus on streamlining processes

- In a low credit growth environment, lenders are expecting to focus on optimising IT/processes and cost reduction initiatives, with nine out of 12 surveyed lenders indicating that these were the likely consequences of reduced credit growth (see Chart 5).
- Streamlining processes is expected to provide lenders with greater capacity to meet changing customer demands and allow non-major banks to remain competitive with major banks.

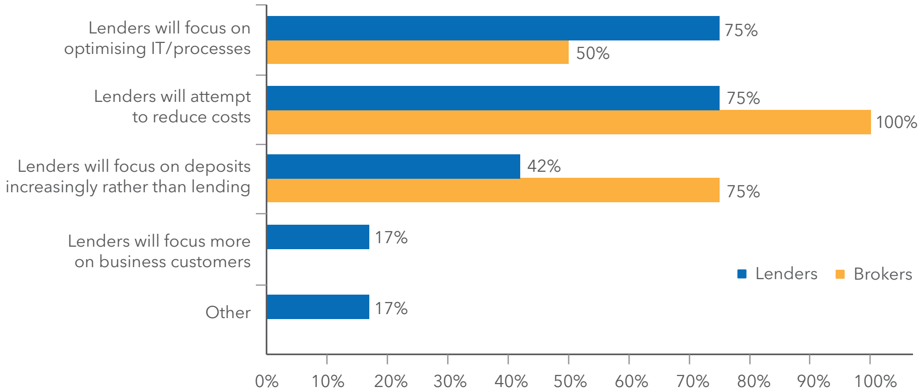
  "It's driven by efficiencies as well as organisational agility—to be able to introduce new products quickly and meet the customer's demand. It is going to be a cost reduction initiative in the long-term and it's also about sustainability—to be able to compete in the banking market is very important as well."—Lender, non-major bank

- All surveyed brokers agreed that lenders will most likely attempt to reduce costs in a low credit growth environment. With rising costs in wholesale funding, the majority of brokers also agreed that lenders will most likely shift their focus from lending towards deposits (see Chart 5).

Chart 5
How will the reduced credit growth change the market?

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



A falling rate environment is expected to increase competition between lenders

- Lenders were likely to attribute increased competition to interest rates. Many non-major banks and non-bank lenders have found it difficult to compete with major banks:

  "We are finding that competitive pressures on interest rates are probably our biggest challenge at the moment, as consumers seem to be more sensitive to rates than we have noticed in the last few years."—Lender, regional bank

  "We only take a small market share so we get hit very hard when the majors are rate shopping with customers." —Lender, non-major bank

- Some non-major lenders are looking towards innovation to remain competitive in the market:

  "We are always looking at ways to compete against the major banks, particularly since the Global Financial Crisis. So we are looking at niches and initiatives, using technology, improving our processes to be more efficient and to drive down costs, and providing a better service to our brokers and their customers."—Lender, non-bank

Synergy between sales and credit

- Brokers were most likely to agree that lenders should focus on loan approval processes to improve the broker experience (see Chart 6).

- Many brokers noted that there is often a lack of communication between sales and credit, where credit scoring policies are not clearly defined by the credit department or are misunderstood by the sales department.

  "Policy is what it comes down to. There are some grey areas in policy and credit will read it one way and sales will read it another way, and credit will win."—Broker, Adelaide

- One broker put forward the idea that innovations in credit scoring policies were needed to drive credit growth, suggesting that the current credit scoring system is excluding a large proportion of genuine, potential buyers in the market:

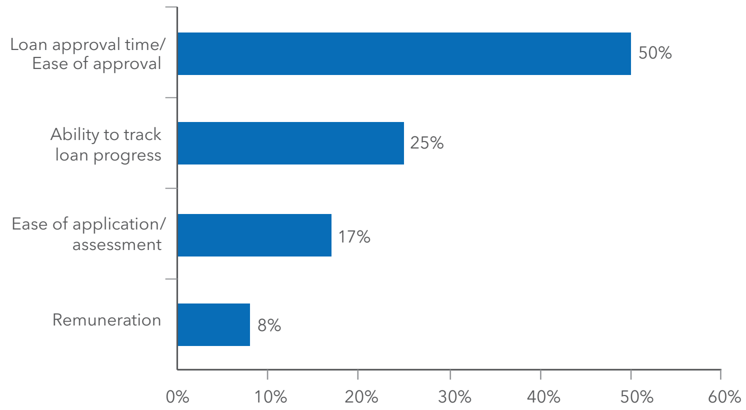
  "It's all about getting close to your client and knowing thy customer, and credit hasn't caught up with that yet. There are a lot of genuine customers that are buying a property for the right reasons but aren't meeting the credit criteria. We are bombarded with professionals,

Chart 6

Which of the following do you believe lenders should be focusing on to most improve the broker experience? Please choose three in order of the priority that you believe will have the most impact.

Base: All brokers (2012: N=24)

Source: RFi



university graduates that have gone onto a sales role, a legal role or an administrative role. These people are very smart and have a firm grip on reality. I don't think that credit policies accommodate these applicants."—Broker, Sydney

Lenders will change their distribution strategy in a low credit growth environment

- According to the *Mortgage Industry Perspectives* survey, four out of 12 surveyed lenders will be maximising their channel strategy to grow their business in the face of weak demand (see Chart 7).

- Many non-major banks have added a broker channel to their strategy to provide potential customers with wider access to their products and services:

  "Based on a lot of research we did about 12 months ago with our prospective customers, it was extremely evident that if we were to grow as an organisation in a lower credit growth environment, we needed to be accessible by these customers through broker channels."—Lender, non-major bank

- One lender noted that it was also important to improve the customer experience for both brokers and customers, as engaging with these audiences can generate new leads:

  "There is a greater demand from the broker and the customer in terms of experience, so we need to look at how we can make things better for the customer or broker because that is one of the ways we get a lead, and the way to do that is to engage with them to see what is happening."—Lender, non-major bank

Non-major lenders will take a new segmentation approach

- Non-major lenders are moving away from a mass market strategy and will be taking a new approach towards their customer segmentation strategy. These lenders agreed that there was an opportunity to identify and target new customer segments in a low credit growth environment:

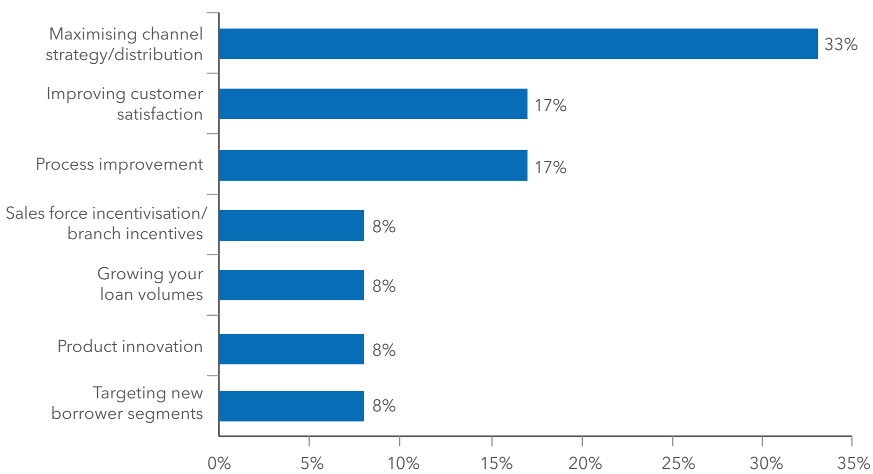
  "I think we are going to have to start managing the Australian market in a much more localised way—it has been a case of 'one-size-fits-all' to a certain extent. Over the last three to five years, there has

Chart 7

Choose the three strategies that you will rely on to grow your business in the face of weak credit demand. Please rank from 1–3, where 1 is the strategy you will rely on most.

Base: Lenders who believe there will be continued reductions in credit growth (2012: N=12)

Source: RFi



been a lot of talk around a two-speed economy and I think that is out the window now. There are significant pockets of performance across Australia and that is where we are really going to see opportunities."—Lender, non-major bank

"…what we are really trying to do is to pick our market. We, as an organisation, should really be focusing on the areas where business is being written. Simple as that—go and find new markets."—Lender, non-bank

- This appears to be a continuing trend from the 2011 Genworth *Home Grown* report, where industry figures indicated that wholesale lenders are increasingly diversifying their business to target niche segments such as construction, overseas investment, real estate agents and self-managed super funds (SMSFs).

Non-banks focus on improving customer satisfaction

- Following maximising channel strategies, improving customer service was the second most nominated strategy by lenders for facing low credit growth. This appears to largely reflect the view of non-bank lenders, with one lender commenting that enhancing the customer experience has traditionally provided non-bank lenders with a competitive advantage against banks. One lender also highlighted that customer service, as opposed to macroeconomic factors, can be controlled by lenders to protect and grow their business.

"We are going back to basics…I could go back to the good old days where mortgage managers had the edge, as it was all about service. The banks would treat their customers as a number and mortgage managers were up here (in service). They delivered and met customer expectations every single time. Banks have gotten their act together and now they deliver service. We are going back to the old fashioned stuff, where a customer walks in the door and we treat them like royalty."—Lender, non-bank

Brokers look towards second-tier lenders

- From the *Home Grown* roundtables, some brokers highlighted the fact that growth in their business largely depends on the level of competition amongst lenders.

- One broker stressed the importance of the broker role in creating competition within the mortgage market by introducing customers to appropriate loans from all lenders on their panel. Adding to this, another broker pointed to innovation as the key factor that will increase competition in the market.

  "As an industry, we need to make sure we have an industry that is moving forward. If we give too much dominance to the banks, if they soak up too much of the market, then they might say 'It's been a great party but we don't need the distribution channel/third party anymore', which would be pretty devastating for our industry. So we need to make sure we are doing everything right by our consumers and our clients… that we are looking at the whole market and all of the lenders that are on our panels and using them appropriately."—Broker, Adelaide

"We firmly believe that the only way forward is innovation. Go back to the days of the late 90's, when non-bank lenders drove product innovation—go where the banks don't want to go, find something that is different, create your own market and you will be able to do stuff that the banks won't want to do. Push the banks, otherwise we will all be dictated to again for a long period of time and at the end of the day, they will have stacks of lending and they won't need us anymore."—Broker, Perth

A customer walks in the door and we treat them like royalty

Go and find new markets; simple as that

Channels

Traditionally, the branch channel has dominated the distribution approach for most lenders, as other methods of interacting and communicating with the consumer were less important or poorly integrated. However, this situation appears to be changing fast. Market dynamics such as technological innovation, changing customer demographics and challenging economic conditions are rapidly transforming the mortgage distribution landscape from a branch-dominated archetype to an integrated multi-channel strategy that includes the online, broker, and social media channels.

Channel strategy is driven by consumer behaviour

- Today's consumer is inundated with channel choices and lenders generally agreed that channel strategy decisions are largely driven by consumer behaviour and preference.

> *"We did a lot of business over the phone and that is how our customers want to deal with us. We have certainly improved the online distribution as an introduction to that, but I think it also comes down to what customers want."—Lender, non-major bank*

Online channels become increasingly important to the channel strategy

- Online channels will become increasingly important in channel strategies, as only five out of 14 surveyed lenders indicated that they will maintain their current use of online channels, while nine out of 14 surveyed lenders indicated that they will grow their use of online channels to penetrate the home loan market (see Chart 8).
- Many lenders noted that online channels offer greater exposure and reach in the market, as more customers have greater access to the organisation's products and services.

> *"There is a much broader view from a consumer on what the relationship with their financial institution looks like, and I think that is where online banking capabilities are changing the game. Everybody is going to need to get there at some point, to some extent, but that is going to depend on the bank's own internal strategy and the core consumer that they are going for."—Lender, non-major bank*

- Non-major lenders also noted that online channels provide them with a level playing field in the market, as they are better able to compete against the major lenders:

> *"We just can't compete with the likes of the majors, with the retail networks they have. As a smaller organisation, the cost base is just huge in order to have a physical footprint in the market. So we need to look at other ways to build those relationships."—Lender, non-major bank*

Chart 8

Looking forward in 2012/2013, how are you looking to change the way you use the following channels with regard to home loans?

Base: All lenders (2012: N=14)

Source: RFi

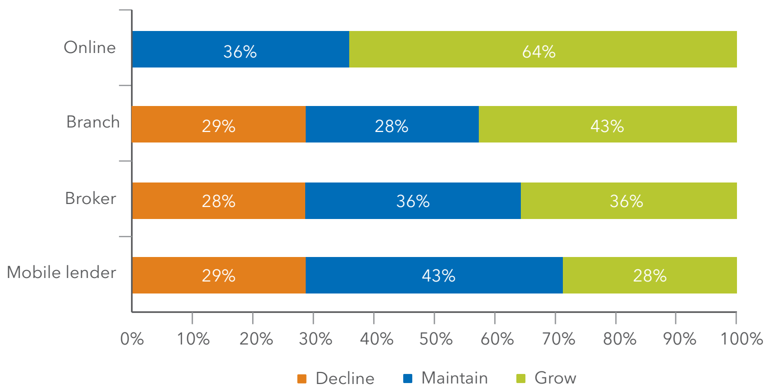
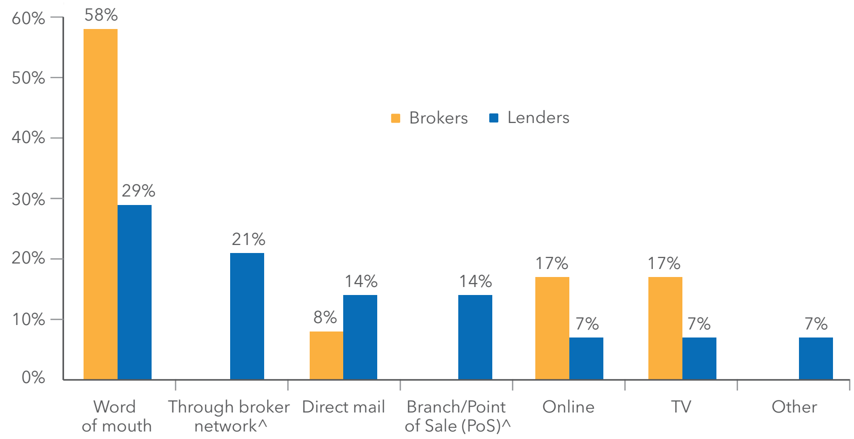


Chart 9

Which five marketing channels do you consider to be the most important? Please rank from 1–5, where 1 is most important and 5 is least important.

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



^*Option not available to surveyed brokers*

- While all lenders will be maintaining or growing their online presence, six out of 14 surveyed lenders also indicated that they will be growing their branch network in 2013 (see Chart 8). One major lender noted that there will always be customers who will prefer the branch channel:

  "You look at where we sit now - consumer technology is very strong and yet branches still are a remarkable source… even though we are providing them with this great technology, they still choose to go into a branch." –Lender, major bank

Brokers are seeing an increased number of leads from online channels

- Online channels were more important to brokers than lenders, as a higher proportion of brokers than lenders considered it to be the most important marketing channel (see Chart 9). Based on the *Home Grown* roundtables, this may be due to the increased number of leads brokers have generated through online channels in recent years, with one broker experiencing an increase from 2% to 40% in just five years. Furthermore, brokers appeared to have a higher conversion rate through online channels than lenders.

"We were analysing some stats the other day and if you go back to five years ago, we were probably only getting 2% of our leads from online and now it's 40%. That's a combination of social media and our website and driving traffic to our website. It's a major difference and it's the emerging force."–Broker, Adelaide

"If we look purely at the website versus radio versus TV, the conversion rates from that sort of mass media, you think that you would get more tyre kickers through the website but we are not seeing that. We are seeing our conversion rates fairly equally across all three mediums." –Mortgage Manager, Sydney

Personal interaction trumps online channels

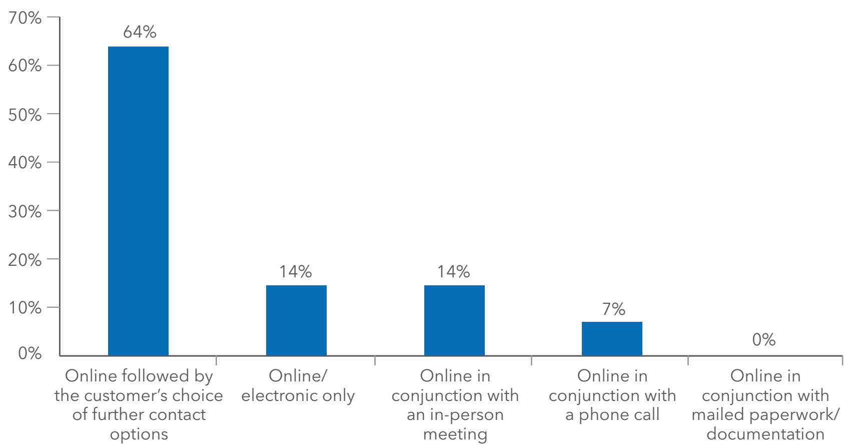
- In the Mortgage Industry Perspectives survey, nine out of 14 lenders perceived 'online followed by the customer's choice of further contact options' to be the optimal online experience, compared to only two who nominated 'online/ electronic only' (see Chart 10).
- While increasing an online presence is consistent with changing consumer behaviour, many lenders argued that offline channels, specifically those that offer face-to-face communication, are preferred by consumers in the buying process of a mortgage.

Chart 10

What do you consider to be the optimal online application experience?

Base: All lenders (2012: N=12)

Source: RFi



- One lender highlighted the fact that consumers often visit an online channel, such as a website, numerous times and often partially complete an application before making further enquiries at a branch. As mortgages are a complex product, this suggests that although online channels offer a vast amount of information and convenience, consumers may seek face-to-face communication through more personalised channels to ensure they are not basing their decision on incomplete or incorrect knowledge.

  "Personally, I think at the end of the day consumers are going to want that personal service and that human interaction."—Lender, wholesale

  "You would have a lot of people who would go through the application either part way or a certain way and not necessarily complete the whole thing. They visit the site numerous times before deciding 'I will go into a branch and talk to someone' or 'I will go and speak to a broker'. The rate of full completion is fairly low."—Lender, major bank

  "They may want to do all their research online but they want to meet someone."—Broker, Sydney

Online channels will be used in conjunction with, not instead of, other channels

- Lenders were more likely than brokers to say that the online channel would not cannibalise other distribution channels over the next 12 months (see Chart 11). As one industry figure emphasised, "online is just a piece of the puzzle… you need to be where the customers are at, so you can't just do one (channel)—it needs to be a portfolio approach. You can't afford to be singular in your approach anymore".
- One lender noted that although online channels are increasingly being used to search for information, other stages of the mortgage buying process are yet to be assimilated through the online channel.

  "No one has devised the just-sit-on-a-laptop-and-apply-for-a-home-loan-online—that is years away. People use it for information and we use it for lead generation so we talk to people, talk to our clients sometimes as if they were applying at a branch. The online is just the way they have come in."—Lender, non-bank

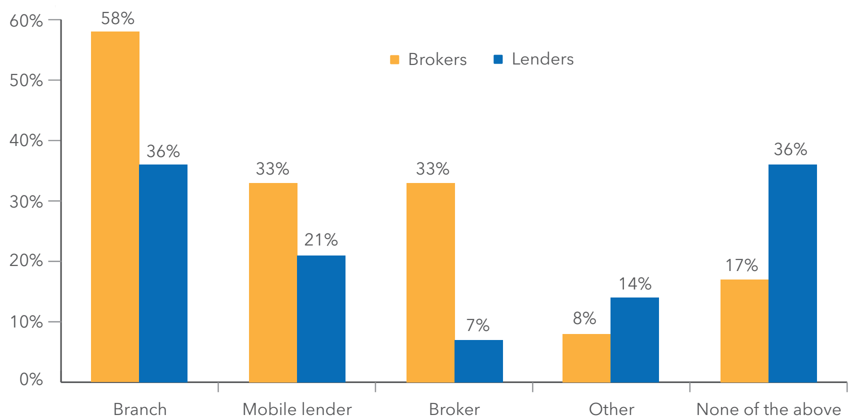
- Lenders appeared to have different approaches towards online channel strategies than brokers, with six out of 14 surveyed lenders believing that home loans should be differentiated by either price or accessibility options (see Chart 12).

Chart 11

Which of the following channels do you expect the online channel to cannibalise in the next 12 months?

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



- However, the majority of those surveyed believed lenders should not provide a differentiated online product offering. As one lender explained, channel strategies should be driven by consumer preference rather than cost.

> *"I think what people need to be careful about, is putting it back onto the customer. The customer should have the choice around which channel they would like to use, and are we prepared to penalise the customers who use distribution channels that we deem more expensive…We are there to build a good rapport with the customer and at the end of the day, we should recognise that and not rush into dual pricing."—Lender, non-major bank*

Tracking return on investment on online channels

- Non-bank lenders typically engage in online marketing strategies such as web analytics, SEO (Google Adwords), and comparison sites to generate leads and track the return on investment (ROI) from online channels.
- Many lenders emphasised the importance of using web analytic tools, which collect data from the activity on a website and includes information such as where visitors are coming from, which pages are most popular, how much time visitors spend on the website, the number of unique visitors and other metrics. One lender commented that it was important to use this data to determine and evaluate the ROI from the leads that are generated through the online channel.

> *"That's what your website is—a huge lead generation service. We can track people and see how many times they have come to our site, where they are from, what they have looked at etc. etc. That's what analytics is—really knowing who your customer is, how many times they come to your site before they buy, so it's quite a detailed little world"—Lender, non-bank*

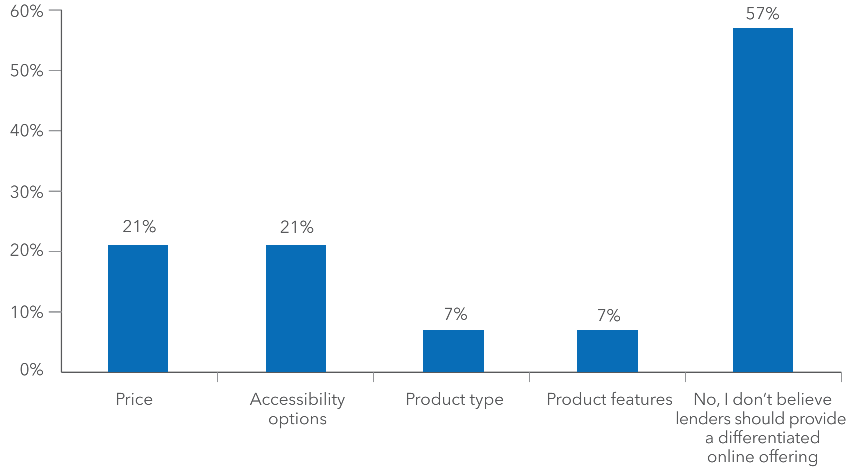
> *"If you are on RateCity and you are rank one, then you just get all these tyre kickers and you can spend $100,000 a month just like that. So you really have to be on the ball as far as your analytics is concerned. Where your leads are coming from, cost per lead and what it actually costs you to get a settled loan on the books."—Lender, non-bank*

Chart 12

Do you believe that lenders should differentiate any of the following when providing home loans online?

Base: All lenders (2012: N=14)

Source: RFi



Fostering the relationship between lenders and brokers

- A close relationship between lenders, their business development managers and brokers, can be a source of competitive advantage for lenders, as it establishes strong bonds and promotes continued business. Some lenders in the *Home Grown* roundtables were actively implementing communication initiatives to foster their relationship with brokers. However, one broker did comment that many non-major lenders have underestimated the importance of this relationship.

"We started a campaign internally for our credit department recently and introduced some new KPI's where they had to make at least three 'g'day' calls to the broker network and the branch network, and the brokers and the branches are loving it. They like the human contact and the attention, and as (a broker) pointed out, they are called as a deal has just come across their desk and they tend to snare it for that reason."—Lender, non-bank

"The people who get the business are the ones that actually come around and visit. A lot of second and third tier lenders don't put enough weight on the power of human contact…not only to respond quickly to the local call but to just walk around and say hello. You would be surprised at how many deals you can pick up from just walking the floor when brokers are taking an enquiry."—Broker, Adelaide

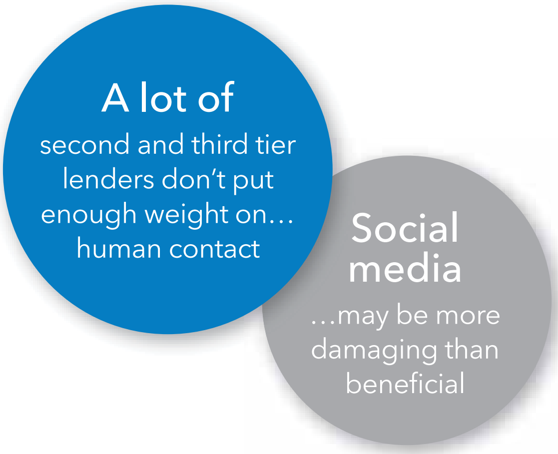
Communicating through social media

- As the customer demographic shifts away from Baby Boomers and Gen-X to Gen-Y, many lenders are using social media as a communication tool to stay relevant to this segment. However, as one lender acknowledged, there are currently no significant revenue benefits to social media.

"We have only just put someone in place to look after all of our social media, so we haven't played in the space at all, but it is really important to get access to customers, and to be able to speak to them at any opportunity you have, is really important."—Lender, non-major bank

"I think, at the moment, to be involved in social media is a demonstration of relevance…especially the younger members of the public, that we are playing in their space."—Lender, regional bank

"If you are not in that market, then you are going to be looked at as the dinosaur of the industry who won't move forward in technology."—Lender, non-major bank



- One broker commented that social media can be used in the pre-purchase stage, in which consumers primarily seek information, and the after-purchase stage, in which consumers undergo an evaluation of their purchase decision.

  "There are two components to social media, there is the 'pre' and there is the 'post'. The challenge is how do you economise the 'pre', so we use social media post-transaction and it's a part of the customer experience." —Broker, Canada

Building brand awareness and credibility through social media

- While lenders are using social media as a communication tool, many brokers have leveraged the channel as part of their branding strategy in order to build awareness and credibility.

  "We are slowly building up more people and getting different companies sharing it. I've noticed some of my Twitter comments are getting shared by other brokers, so I think that the more you do that, the more it spreads the word."—Broker, Sydney

  "We are probably still learning, but we use Twitter and Facebook a lot and that does drive traffic to our website."—Broker, Adelaide

  "You have to have a presence for credibility." —Broker, Canada

- Many brokers highlighted that social media is a commitment, as it demands a significant amount time to keep customers engaged and interested. One broker has been hesitant to use social media, highlighting that having a social presence but not actively engaging with consumers may be more damaging than beneficial.

  "It's labour intensive and you have to communicate very differently to your people. You can't advertise to them, you have to engage them and it has to be conversations."—Broker, Adelaide

  "I've always been about the personal touch of things, so when Facebook started, one of the biggest concerns that I had was if I was going to be able to 100% commit to it—when people start sending me a message and I don't reply to it, then it looks like I'm not wanting to make contact with them."—Broker, regional Queensland

Affordability and the first homebuyer

Traditionally, one the biggest challenges facing the FHB segment is housing affordability. Although housing affordability has increased over the past year due to declining property prices and interest rates, there has been relatively low FHB demand. There was a general consensus among brokers and lenders that this was largely due to changing government incentives and FHB attitudes.

Brokers attribute slow credit growth to changes in government incentives for first homebuyers

- Many brokers agreed that changes to government incentives for FHBs had negatively impacted credit growth in housing, suggesting that restricted stamp duty exemptions may have led to FHBs saving longer for a deposit.

  "I've noticed last year I had a lot of first homebuyers but this year, it has definitely slowed up. I do quite a bit of work in the first homebuyer market so I have definitely seen that it has had a definite impact on my business, because they don't have as much of a deposit because of the stamp duty."—Broker, Sydney

  "The winding down of state government incentives for first homebuyers is probably a bad call. It's certainly not going to encourage FHBs."—Broker, Adelaide

  "Obviously, in the Perth market, being very mining orientated, there are a lot of big dollars being paid to people. A lot of big dollars but no deposit, so innovation in that space for the FHB is the only way that the market is going to pick up. If we don't have a strong FHB market, then the second and third homebuyer market is going to be very stagnant."—Broker, Perth

- However, one industry figure believes "the NSW government has done absolutely the right thing" in changing the government incentive, arguing that the First Home Owners Grant for established properties only served to "increase the average property price, particularly in the inner city", as it created "pent up demand" amongst FHBs.

Market needs boost from first homebuyers

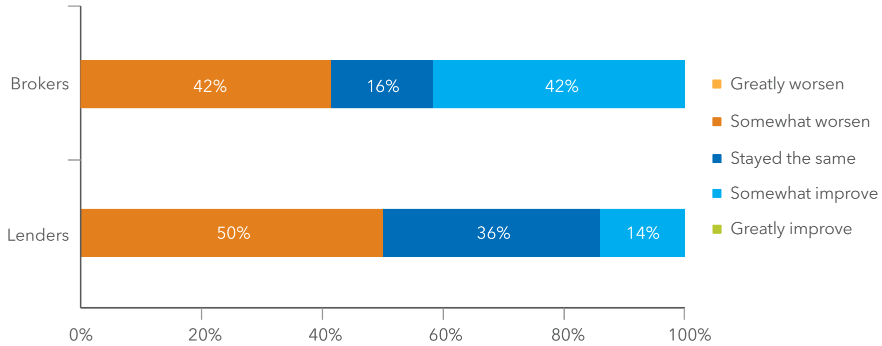
- Lenders were more pessimistic than brokers on the outlook for FHBs, with 12 out of 14 surveyed lenders believing that affordability for this segment will either stay the same or worsen over the next 12 months (see Chart 13). Many agreed that FHBs were needed to boost the market, as demand from FHBs will increase property prices and provide established home owners with an opportunity to sell and trade up.

Chart 13

How do you think affordability for FHBs will change over the next 12 months?

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



Changes to FHB incentives are not likely to stimulate FHB activity

"You need those FHBs to push that bottom end of the market. There are people who want to buy their second property and don't want to sell up, so it's taken away their $7000. It's very hard to save that money in these times, so I think a lot of the outskirts will benefit from it but the inner suburbs will not."–Lender, CUBS

"It's not pushing someone out of their first home so that they buy a second home. It doesn't create a flow on up the market."–Lender, CUBS

"For the market to kick along, you need those FHBs in that bracket. You need 20 competing, which pushes that price bracket and then the second tier price goes up."–Lender, non-bank

Low demand for new builds

- State and territory governments have made a number of changes to FHB grants and stamp duty concessions, seeking to align the grants with the economic objective of stimulating the building industry. The most significant changes, particularly in New South Wales and Queensland, was a move to provide greater incentives to those who buy new properties. However, in the *Home Grown* roundtables, it was generally agreed that these changes to FHB incentives are not likely to stimulate FHB activity.
- This is in line with the findings in the Genworth *Streets Ahead* September 2012 report, which showed that New South Wales, where the FHB stamp duty waiver on existing homes was removed in December 2011, had one of the lowest proportions of FHBs who think that now is a good time to buy a home (50%).
- One lender suggested that restricted stamp duty waivers may benefit the regional property market, but from an overall market perspective, it is unlikely to have a significant impact.

"With construction, it is going to be in those 'out-areas', and then out and out from there. People can afford to buy land and build, so those areas might get a kicker but from just a general market, it will struggle."–Lender, non-bank

- Although the revision was intended to make housing more affordable for FHBs by boosting the new housing supply, one industry figure believed that the new schemes will worsen affordability for FHBs, describing it instead as "subsidised construction".

"After what the government has done with switching the First Home Owners Grant for subsidised construction, it is really pitching to the wrong market. If somebody goes to buy a block of land and get construction, it is more expensive and is pushing them outside the affordability range."–Industry figure

First homebuyers have high expectations

- Many brokers were in consensus that attitudes towards first homes have changed, as FHBs are more likely to want a 'dream home' that they cannot afford.
- This is supported by findings in the Genworth *Streets Ahead* September 2012 Report, where it was found that the most popular property type among potential FHBs is a house, followed by a "large property". Only a third of all potential FHBs say they found an apartment appealing and less than a quarter were interested in a duplex, a 'fixer-upper' or a studio apartment.
- This may explain why the proportion of potential FHBs living with their parents has been steadily increasing, rising from 10% in September 2011 to 15% in September 2012.

"They need to change their psyche about what they want. I agree 100% that they want 'four-by-twos' but they can't afford it."—Broker, Perth

"If their repayments are going to be $800/week and if their rent is $500/week, then go away and save at least $300 a week to prove to yourself, mortgage insurers and the banks that you can maintain that repayment… So it's just to put it into perspective as well, that it is really important that they prove to themselves that they can actually afford their weekly repayment."—Broker, Sydney

Most popular

…among potential FHBs is a house, followed by a large property

Product and service innovation

Since the late 1990's, there has been, and continues to be, considerable product innovation in the Australian mortgage market, as lenders seek to cater for a wider range of potential borrowers and find new ways to assess their borrowing capacity. Some of these product innovations have included home-equity loans, SMSFs, reverse mortgages, and low-doc loans. In a low credit growth environment, some lenders believe that more product innovation is needed to target niche markets, while others were of the view that innovation will be led by data analytics and customer insights.

Targeting niche markets with product innovation

- From the *Mortgage Industry Perspectives* survey, brokers and lenders were most likely to agree that FHBs would benefit most from product innovation (see Chart 14). One lender highlighted that there were many niche markets within the FHB segment that may benefit from product innovation.

  "There are always the niches—you know, coming up with new product ideas like a 'Non-genuine Savings Product' or 'The Maternity Product' or 'The Graduate's Product' or a 'Construction Product' with no payments for at least 12 months. They are the sort of niches where we are always looking at what we can do to be different."—Lender, non-bank

- One broker commented that there may be some niche markets that are location-specific.

  "I think innovation becomes quite localised as well. I think in Sydney, it's the studio market. Studio apartments should be something where we can lend up to 90–95% because it becomes more responsible lending—they are borrowing less, getting their foot in the door. They are going to be young couples, singles and I think it would be a great market to get into."—Broker, Sydney

- However, one lender noted that adding new products has its disadvantages.

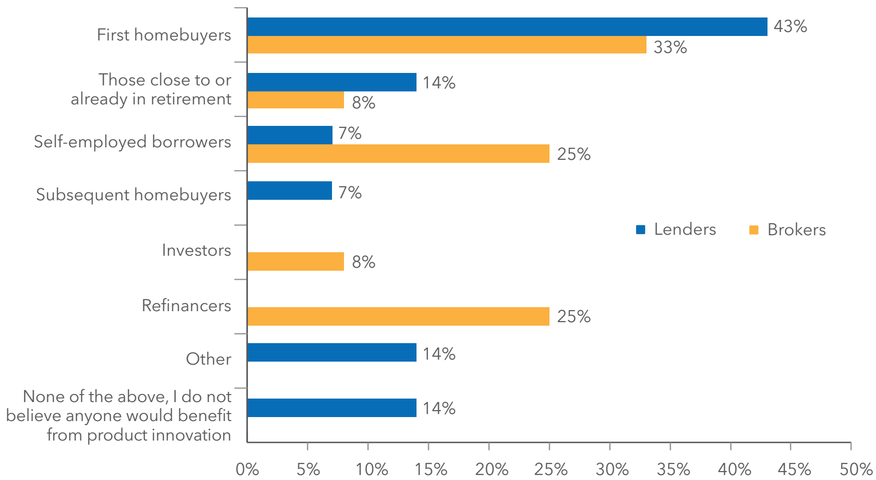
  "It is dangerous to say 'we need a new product, we need a solution'. There are already a lot of products out there and it's already a very complex mine field and the more products you have, generally the higher your cost base is, so I don't think it's a case of just adding to that."—Lender, non-major bank

Chart 14

Which one of the following types of borrowers do you believe would benefit most from product innovations?

Base: All respondents (2012: Brokers: N=24; Lenders: N=14)

Source: RFi



Opportunity for innovation through data analytics and customer insights

- Rather than products or services, many lenders agree that there was an opportunity to be innovative using data analytics and customer insights. However, several challenges and obstacles were identified such as undifferentiated products or services, immediate versus long-term cost benefits, and consumer privacy.

  "The more information that you can get, the more you can use that to make informed decisions as an organisation. The real interesting challenge is to overlay that into ensuring that you don't go too far down the commoditised product… The worst thing we hear from consumers is 'the black box is making a decision on me, not a person'."—Lender, non-bank

  "It is great to put these structures in place but… It's not about 'do it now' and 'be there now' but there is a lot of upfront investment that needs to go into this and I think it's the same with the bigger infrastructure picture, it's just not going to be an immediate payback. How do you have those conversations, particularly in a cost-down environment that most of the financial institutions are in?"—Lender, non-bank

  "Probably one of the biggest challenges I have as a risk person in an organisation is trying to sell the benefits of data captured solely for risk purposes rather than being able to talk about it as customer experience and CRM opportunity and for everything else that flows around that, because right now the restrictions are quite low and the consumer appetite is pretty low for any change in this place."—Lender, non-major bank

  "It is about data and customer intelligence and that's where the opportunity is. Products—we can play around with policy and assessment, it is a real dynamic. We are trying to become more customised, so you are trying to create packages which are more suited to those kinds of customer segments, but at the same time we are not trying to create all of these new shiny tools because we are trying to keep things simple. Data is critical so we can use what we have in a smarter way."—Lender, non-major bank

Conclusions

- The property market has been slow to grow over 2012, with lenders and brokers experiencing low demand from FHBs, as affordability issues due to the removal of stamp duty waiver incentives in some states were likely to have kept FHBs from entering the market.
- Many agreed that innovation was needed to spur demand from FHBs in the market, though most are unsure of how to proceed. Although each lender is expecting to face similar circumstances in the coming year, they are likely to employ different strategies to target different segments and grow their business.
- Lenders have noted a growth in refinancing over 2012, though it was highlighted that increases in new refinancing business have been offset by existing customers refinancing to other institutions. Although customers are more motivated to switch lenders, many of the non-major banks, as well as CUBS and non-bank lenders have acknowledged the difficulties of competing with major lenders on interest rates. Instead, they are looking to remain competitive by improving their customer service or targeting niche markets.
- The online channel is likely to become increasingly important over the next year, with the majority of lenders expecting to make investments in this channel. Social media is also seen as important by lenders and brokers, although most agree that it doesn't currently deliver immediate nor measureable revenue returns.
- Going forward, the focus of innovation seems to be on data analytics and customer insights rather than products or services. However, many agreed that there will be many challenges in this area, with commoditised products, consumer privacy and overcomplicated product ranges mentioned as some of the obstacles.
- Looking towards 2013, the mortgage industry is likely to continue being marked with uncertainty and caution. Surveyed lenders expect continued reductions in credit growth, with unemployment a key concern.

Market
is likely to be marked with uncertainty and caution

Methodology

The study consisted of a quantitative survey of 14 people working for lending institutions and 24 mortgage brokers, in addition to five in-depth roundtables with 60 participants from a range of lender segments held in Adelaide, Brisbane, Melbourne and Sydney.

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Genworth Australia is a leading mortgage insurance expert and thought leader in the Australian residential mortgage market, actively engaging on residential mortgage policy development with the key lending institutions, government bodies, local and international regulators and industry bodies. Genworth works in close partnership with over 100 lenders, including three of the four major Australian banks, and has been an important part of the Australian residential mortgage market for many years. Genworth has close to A$3.9 billion of investments under management in Australia.

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

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