



# Home Grown

Mortgage Industry Perspectives | Fifth edition 2014

# Contents

Definitions	2
Executive summary	3
Introduction	4
Underlying contributors to mortgage market health	5
Driver #1 – Cash rate setting	6
Driver #2 – Funding sources	7
Driver #3 – Government policy	8
Driver #4 – Consumer debt	11
Driver #5 – Competition between lenders	13
Threat of new entrants	13
Distribution dynamics	14
Driver #6 – APRA’s regulatory position	16
Conclusion	17
Methodology	18
About Genworth and RFi	19

## Definitions

- **Banks** means major banks, or ‘the big four’, regionals and foreign banks. Foreign banks operate in Australia but are headquartered overseas
- **Mutuals** means credit unions, building societies and mutual banks
- **Non-banks** are non-deposit taking financial institutions and include wholesale lenders and originators
- **All lenders** refers to bank, non-bank and mutual lenders
- **Mortgage brokers** (brokers) means those acting as intermediaries between borrowers and lenders
- **First homebuyers** (FHBs) means people who bought their first home to live in during the past year, while **prospective FHBs** means those who plan to buy their first home in the next year.

## Executive summary

With the value of outstanding housing debt equivalent to just under \$1.4 trillion (RBA), the health and sustainability of the Australian mortgage market is a priority for the national economy. More specifically, the concerns expressed by consumers, lenders, brokers and industry commentators generally relate to one of six market drivers:

- Cash rate setting
- Funding sources
- Government policy
- Consumer debt
- Competition between lenders
- APRA's regulatory position.

This report seeks to assess the health and sustainability of the mortgage market via an in-depth analysis of each of these drivers by leveraging the output from a series of online surveys, group workshops and one-on-one interviews conducted among consumers, lenders, brokers and key industry commentators. This output is used to assign a rating for the performance of each of the aforementioned drivers, as well as for the overall impact of the driver on market performance and dynamics.

### Key findings include:

- Overall, industry stakeholders rate the health of the mortgage market positively, with the cash rate, funding mix, government policy and consumer debt the key drivers
- The RBA's current cash rate setting is viewed positively and is seen as the most significant driver of overall mortgage market health
- The mix of available funding sources is viewed as appropriate (though less so by mutuals and non-banks) and is considered to be the second most powerful determinant of mortgage market health
- While government policy places third for its influence on mortgage market health, the industry believes that more can be done to assist first homebuyers enter the market
- Current consumer debt levels are not considered problematic by lenders, but this degree of leverage is viewed more cautiously by brokers
- Supermarkets are viewed as the most likely new entrant to impact the mortgage market, with lenders rating this threat significantly higher than they did a year ago
- While estimates of FHB loans originated by lenders are consistent with ABS figures, brokers report a higher proportion of their loans being written for FHBs.

## Introduction

The mortgage market has grown at a steady pace in 2014, with credit aggregates increasing to just under \$1.4 trillion in August 2014 from just under \$1.3 trillion one year earlier, according to the RBA. This represents year-on-year growth of 6.3% (much stronger than the 4.6% growth seen in the preceding 12 months), with investor loans increasing by 9.1% over the year and owner-occupied lending growing at a more moderate 5.0%. With a market of this size, its health and sustainability is a key concern for all stakeholders, not least lenders, brokers, and consumers.

Industry leaders, regulators and commentators frequently highlight areas of concern, with public statements and media headlines addressing consumer debt levels, the impact of low interest rates, the policy settings of APRA and the government, the level of mortgage competition and the mix of funding sources. This report seeks to assess the health and sustainability of the current mortgage market via an in-depth analysis of each of these components. To ensure that this assessment represents a 360° view, unbiased by any particular stakeholder, the opinions of lenders (banks, mutuals and non-banks), mortgage brokers, consumers and industry representatives have been canvassed via a series of online

surveys, group workshops and one-on-one interviews (see methodology for a more detailed description).

Via collation of responses from all of these stakeholders, two key quantitative metrics have been produced that form the basis of this report:

1. A rating indicating the performance of the mortgage market, as well as each of the six identified market drivers, with a classification ranging from 'poor' to 'excellent'
2. A rating of how each driver influences the overall health and sustainability of the mortgage market with a classification ranging from 'low' to 'high'.

These metrics have been supplemented throughout the report with quotes that best represent the views expressed by participants. The findings provide industry stakeholders with guidance as to which factors are likely to have the greatest impact on the overall mortgage market and to what extent each factor is operating optimally.

## Is the current state of the mortgage market healthy and sustainable?

Overall, survey participants rated the health of the mortgage market positively. Driver analysis identified the cash rate, funding mix and government policy as key drivers in sustaining a healthy mortgage market for lenders, while the cash rate and

the level of consumer debt are significant drivers for brokers. The perceived performance of the market and its components, along with the impact of each driver on overall market health, are summarised in the table below.

	Health of the mortgage market	Cash rate setting	Funding sources	Government policy	Consumer debt	Competition	APRA's regulatory position
<b>Performance</b>							
Lenders	Good	Excellent	Good	Fair	Good	Excellent	Fair
Brokers	Good	Good	Good	Fair	Fair	Good	Fair
Overall	Good	Excellent	Good	Fair	Fair	Excellent	Fair
<b>Impact on market health</b>							
Lenders		High	High	Moderate	Low	Low	Low
Brokers		High	Low	Low	Moderate	Low	Low
Overall		High	Moderate	Moderate	Low	Low	Low

\* Labels have been applied to scores falling within prescribed bands, as outlined in the methodology. 'Overall' ratings reflect the average of lender and broker scores.

## Industry experts interviewed highlighted several justifications for the overall market's 'good' rating.

"First, housing prices have increased, but I don't subscribe to the view that we have a housing bubble. Second, the quality of underwriting is good. Third, credit is growing modestly from the lows of 6-12 months ago, it's not going to get much stronger because of an element of conservatism among consumers and it's not going to decline either because of the relatively robust economy" – Jamie McPhee, CEO at ME Bank.

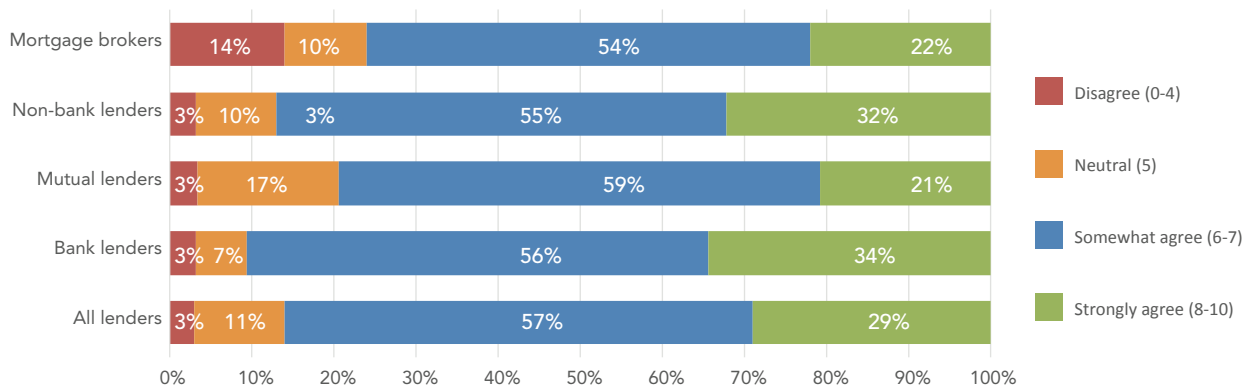
Overall, surveyed respondents were generally positive, although brokers were more likely than lenders to raise question marks about the health and sustainability of the market. Brokers are at the coal face and are therefore more likely to see a few cracks and stresses in their respective markets. As a consequence 14% disagree that the mortgage

market is healthy, compared to just 3% of all lenders. However, the vast majority of both brokers and lenders believed that the mortgage market is relatively healthy and sustainable.

Phil Naylor, CEO at MFAA underlines this more balanced view of the mortgage market, stating "I think the mortgage market overall is probably in reasonable health, but I wouldn't say it's in outstanding health, with strong growth in some areas, and weak in other areas." A representative of one of Australia's largest mortgage brokers also gave a cautiously optimistic view of the health and sustainability of the mortgage market: "There will be volatility by state and area, but overall credit risk factors around interest rates, unemployment, house price appreciation, and very tight lending standards means that all things being equal, it's healthy and sustainable."

### To what extent do you agree with the following statement:

The current state of the Australian mortgage market is healthy and sustainable.



## Underlying contributors to mortgage market health

The following sections explore in greater depth the underlying contributors to the health of the mortgage market, beginning with the most influential drivers of mortgage market health. In the process, the report makes reference to 'external' bodies such as APRA, the RBA and the government, as well as the internal market dynamics of competition, funding, consumer debt, distribution, and innovation.

## Driver #1 – Cash rate setting

The RBA is supporting the mortgage market via appropriate cash rate settings – 80% agree

	Lenders	Brokers	Overall
Performance of this driver	Excellent	Good	Excellent
Impact on market health	High	High	High

The cash rate is strongly linked with the overall health and sustainability of the mortgage market by lenders and brokers, and there is almost universal agreement with the statement ‘the RBA is supporting the mortgage market with appropriate cash rate settings’. Only 2% of surveyed lenders and 10% of brokers held a strong view to the contrary.

The official cash rate remained at 2.50% for the 15th consecutive month in November 2014, and the consensus among industry experts is that this is unlikely to change over the next 12 months. The RBA has also foreshadowed a period of rate stability. In the November 4th monetary policy statement, RBA Governor Glen Stevens commented that “Continued accommodative monetary policy should provide support to demand and help growth to strengthen over time... the most prudent course is likely to be a period of stability in interest rates.”

“While the impetus for an upward cash rate move is certainly not strong, I believe we are at the bottom of the trough” – Lisa Claes, Executive Director, Distribution at ING DIRECT.

“The rate is about where it should be, there’s no real pressure on inflation, and my guess is the cash rate will stay where it is for the next 12 months or so. With respect to the mortgage market, I think it’s in a neutral position, and that’s where the RBA wants it to be” - Phil Naylor, CEO at MFAA.

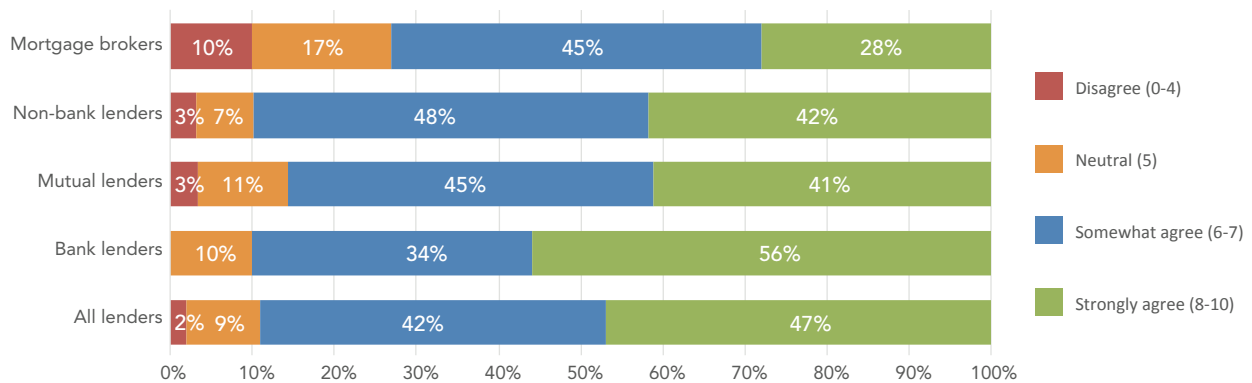
Some within the industry believe that the RBA has adopted a policy of attempting to influence the market via commentary rather than via direct monetary policy:

“What we are seeing a lot of at the moment is, rather than the RBA moving the actual rates, they’re talking a lot about housing bubbles, and all those sorts of things to try and keep the market cool without actually moving the interest rates” – Mortgage broker.

Overall, there is strong support in the industry for the RBA’s cash rate position. Brokers and lenders who disagree provide a valid counterpoint to this view, tending to point to the fact that the RBA sets the cash rate for broader reasons of monetary policy. As one mortgage broker commented, “The RBA has its own agenda and is not necessarily supportive of the mortgage market.”

To what extent do you agree or disagree with the following statement:

The RBA is supporting the mortgage market via appropriate cash rate settings.



Source: RFI

## Driver #2 – Funding sources

Lenders currently have an appropriate mix of funding sources – 72% agree

	Lenders	Brokers	Overall
Performance of this driver	Good	Good	Good
Impact on market health	High	Low	Moderate

Both lenders and brokers believe that lenders currently have an appropriate mix of funding sources. However, lenders are more likely to assign a high impact score to this driver.

“We’ve obviously had a higher level of savings rates over the last 6-7 years, which has built up a greater level of retail deposits as well. I am very comfortable with the funding mix across the banking sector” – Jamie McPhee, CEO at ME Bank.

Lisa Claes, Executive Director, Distribution at ING DIRECT used adjectives such as ‘accessible’, ‘kinder’, and ‘friendly’ to describe the funding markets, and noted that the wheels are starting to turn in securitisation markets as well.

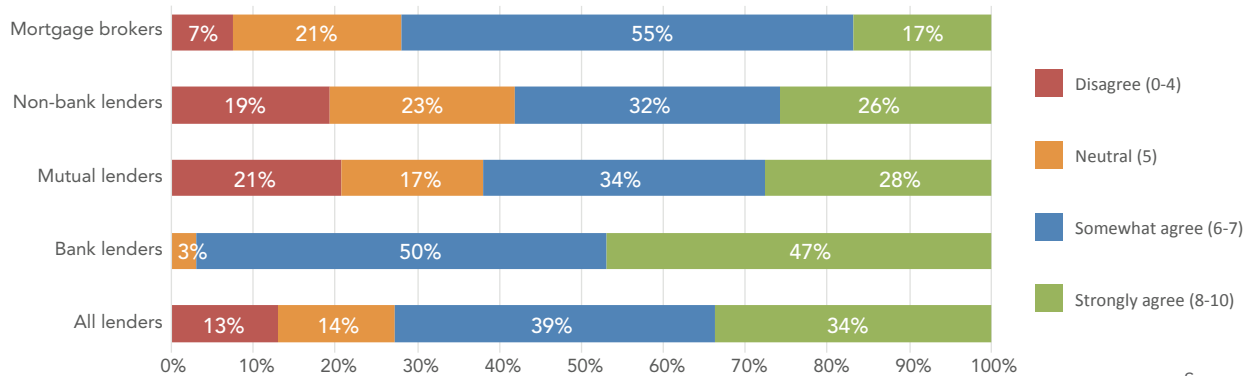
Non-bank lenders were much less likely than bank lenders to agree that the current funding mix is appropriate, with just 26% of non-banks strongly agreeing with this statement,

compared to 47% of banks. This is linked closely with their reliance on securitisation markets for funding.

“While that’s [securitisation] coming back slowly, I don’t think there’s any evidence that it’s going to get back to where it was. It needs some sort of government facilitation to ensure that securitisation markets do flourish. If it does, it will mean smaller lenders can get access to funding and can develop their market share and take away some of the concentration in the market. That might not happen quickly or at all without some government facilitation” – Phil Naylor, CEO at MFAA.

Many non-banks and mutuals consider greater access to securitisation markets as the key to levelling the competitive playing field. “We need the securitisation markets in Australia to be an effective open market” – Mortgage Manager.

To what extent do you agree or disagree with the following statement:  
Lenders currently have an appropriate mix of funding sources.



Source: RFI

### Driver #3 – Government policy

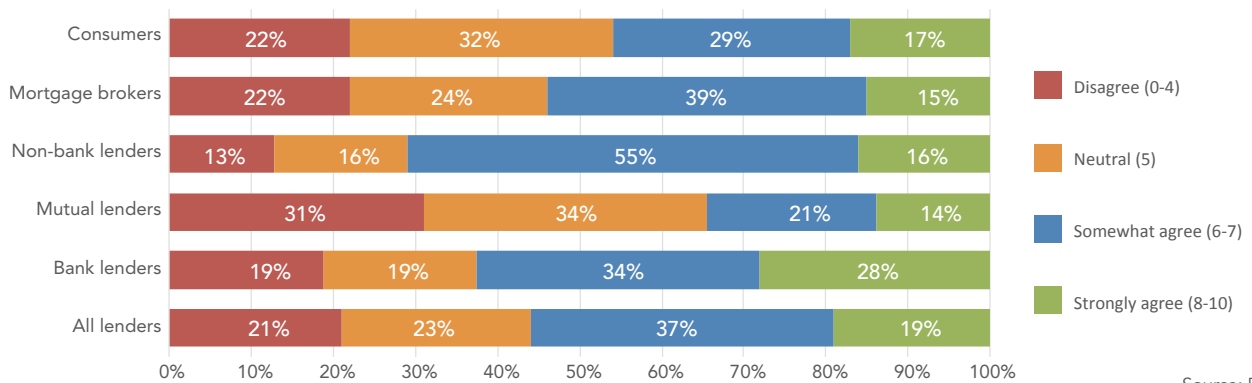
Existing government policy supports a strong and sustainable mortgage market – 55% agree

	Lenders	Brokers	Overall
Performance of this driver	Fair	Fair	Fair
Impact on market health	Moderate	Low	Moderate

According to the majority of lenders and brokers, government policy is reasonably supportive of a healthy and sustainable mortgage market. Just over half of surveyed lenders (56%) and

brokers (54%) agreed that government policy is supportive of a strong and sustainable mortgage market.

To what extent do you agree or disagree with the following statement:  
Existing Government policy supports a strong and sustainable mortgage market.



However, some canvassed brokers and lenders failed to identify any government policy with respect to the mortgage market.

“What policy?” – Mortgage Manager.

“The mortgage market is just one factor to consider in policy making. It is hardly front of mind for politicians under present market conditions. A buoyant mortgage market is really an unintended consequence of low interest rates, soft monetary policies and defacto QE (quantitative easing) in other parts of the world” – Non-bank lender.

There are two main mortgage market factors in which government policy is seen to be able to play a critical role:

1. Enhancing competition
2. Improving access to the property market for FHBs.

With respect to competition, as noted earlier in this report, some industry members feel that the government could play

a role in facilitating more open and accessible securitisation markets. Indeed, some non-bank and mutual lenders crave such access as a means to level the competitive playing field against the major banks.

Government policy with respect to enhanced access to the property market for FHBs is a more complex area of discussion, and the industry is divided in its opinions. One viewpoint is that FHBs are being squeezed out of the property market and this is supported by data from the ABS, which shows that FHB loans as a proportion of all dwellings financed fell to 11.8% in August 2014, down from a high point of 31.4% in May 2009, and the lowest level ever recorded. However, there is a broad question mark over whether ABS data accurately displays the true number of FHBs in the market, or simply FHBs who have applied for a first home owner grant (FHOG). The latter would understate the number of FHBs entering the property market (since several states have removed the incentives for those wishing to purchase established dwellings).



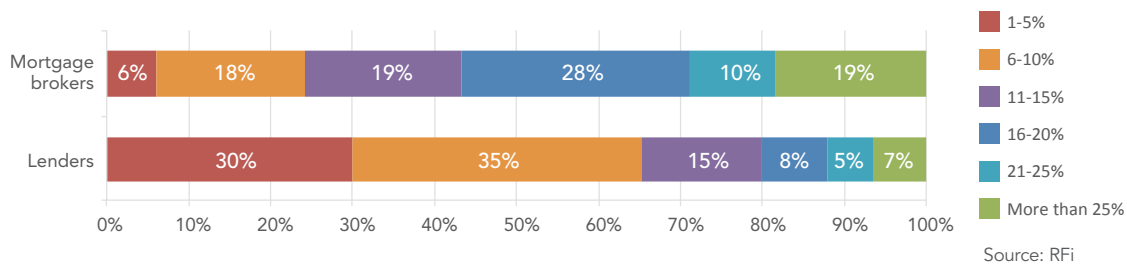
### FHBs as a proportion of all dwellings financed



Lenders and brokers were asked to estimate the volume of FHB approvals that their organisation originates as a proportion of all mortgage loans. The results show that, on average, FHBs comprise 10.5% of all lender originated loans and 18.9% of all broker originated loans. The relatively high

proportion of broker loans being written for FHBs does lend some credence to industry suspicions about ABS under-reporting on FHBs. These figures also indicate that FHBs are almost twice as likely to apply for their mortgage through an intermediary, such as a broker, than directly through a lender.

### Please estimate the volume of first homebuyer approvals as a proportion of all home loans that your organisation is currently writing.



Nonetheless, the story remains the same and FHBs are apparently being squeezed out of the property market. To underline this sentiment, Genworth’s Streets Ahead survey indicates that the proportion of prospective FHBs that believe now is a good time to buy has continued to drop, from 57% of prospective FHBs in September 2012, to 49% in September 2013, and to just 37% in September 2014, indicating that it is becoming less attractive to buy a home in the current market.

However, some industry experts highlight the fragmented nature of the Australian property market, and caution against making generalisations.

“The mistake that most commentators make is calling it a property market. There are several property markets. Some are hot, some where nothing is happening” – Phil Naylor, CEO at MFAA.

“FHBs are definitely cooling off, but there is still FHB activity in WA. From the reporting that we see, it’s pretty much

dead everywhere else, particularly Sydney and Melbourne” – Andrew Banks, Executive Manager Strategy & Pricing at Bankwest.

To address the low levels of FHB activity, especially in ‘hot’ investor markets such as Sydney and Melbourne, surveyed respondents identified a number of issues that the government could address.

For example, one lender identified negative gearing as responsible for pushing up prices. “Negative gearing stimulates an unhealthy level of investor activity driving debt levels and housing prices. It also drives pricing bubbles.”

On the other hand, John Symond, Executive Chairman at Aussie Home Loans, does not see too much of a problem with negative gearing: “The whole focus seems to be Sydney and Melbourne. If you go back 12 years, for 10 years Sydney was the worst performing capital city with appreciation of just 2.2% pre-inflation. But now Sydney and Melbourne are the only real

growth cities in the country. While we do have a shortage of housing, I think there is a potential oversupply of apartments. People are buying off the plan and when the new stock comes online they will put a ceiling on some of the increase in values. So I don't see it as big a problem like some pundits that want to wipe negative gearing."

Foreign investment is another area where perceived ineffective policing by the Foreign Investment Review Board (FIRB) is felt to be driving domestic FHBs out of the property market, although there is currently no firm data to support this hypothesis.

"The FIRB needs to tighten up foreign purchases of Australian properties as they are driving up housing prices to unsustainable levels and making it very difficult for Australians to enter the property market in certain areas" – Broker.

Many brokers, lenders and industry experts believe that more could be done to expand the supply of housing. Those canvassed referred to a review of local council fees for new

developments, as well as state government involvement in future developments. One major bank lender noted that because there was a lack of infrastructure rebates to development for new housing areas, that the FHOG for new homes is virtually useless in combating the current housing shortage.

In terms of 'incentivising demand' and bringing back FHB incentives to the same level as 2-3 years post-GFC, industry experts agree that there was little chance that this will happen.

"There's no appetite for it either, as it just brings forward 3-4 years of business, and then it dies as soon as it's withdrawn. You want to smooth the cycle" – Andrew Banks, Executive Manager Strategy & Pricing at Bankwest.

"Government policy isn't doing anything for the mortgage market... First Home Owner Grants just get more people chasing the same number of products, and that just pushes up price. Try to get land release and encourage building of new dwellings" – Jamie McPhee, CEO at ME Bank.

## Driver #4 – Consumer debt

The current level of consumer housing debt is not a cause for concern – 61% agree

	Lenders	Brokers	Overall
Performance of this driver	Good	Fair	Fair
Impact on market health	Low	Moderate	Low

Overall, lenders and brokers classified levels of consumer housing debt as between 'good' and 'fair'. In terms of the numbers underlying this sentiment, RBA data shows that total mortgage debt outstanding currently stands at just under \$1.4 trillion while total household debt in Australia stands at \$1.9 trillion, equating to around \$104,246 of debt per Australian adult.

ABS data indicates that between 2001 and 2007, consumer debt expanded at a rate of around 10% per annum. Between 2007 and 2013, the rate of expansion of consumer debt slowed to just 2% per annum, while the net household savings ratio improved, from close to 0% pre-GFC to around 10%, according to the RBA. In 2014, the savings rate sits just below 10%. Meanwhile, the household debt-income ratio has remained steady between 2009 and 2013 at 1.8.

Furthermore, current record low interest rates are helping to significantly boost the capability of borrowers to repay their debts, with the interest component of repayments dropping from 12% of household income in 2008, to 7% in 2013. With the RBA foreshadowing a period of rate stability, this state of affairs has led to a largely neutral, though cautionary, attitude among lenders and brokers about current levels of consumer debt.

"Overall they are at reasonably high levels historically, but there's no indication that they're causing an issue, and all lenders will tell you that the vast majority of their mortgage borrowers are well ahead of their loan repayments. So whilst that's occurring I don't think that's a cause for worry but it's

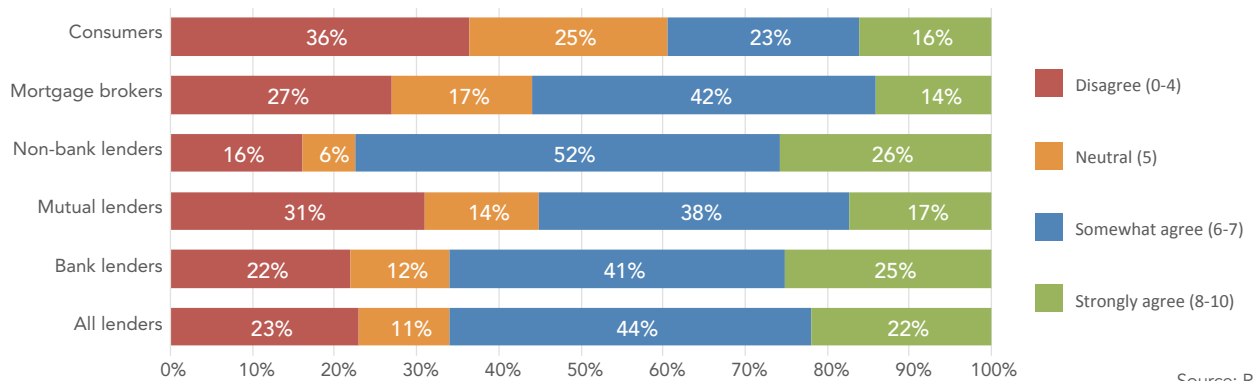
always an issue that you need to monitor" – Phil Naylor, CEO at MFAA.

"Following the GFC, we have seen households adopt a more cautious approach to debt, which has seen a degree of stabilisation in the ratio of household debt to income over recent years. Coupled with high levels of savings, household balance sheets have undergone a period of repair and remain in relatively good shape. Nevertheless, we continue to watch this carefully, with a focus on maintaining prudent lending standards including serviceability tests and buffers, as well as undertaking regular stress testing of our home loan portfolio" – Lyn Cobley, Head of Retail Products and Third Party Banking at CBA.

RBA data echoes this sentiment, with its September 2014 Financial Stability Review stating that the aggregate mortgage buffer (balances in mortgage offset and redraw facilities) has risen to around 15% of outstanding balances, which is equivalent to more than 24 months of repayments at current interest rates.

Consumers are the most likely to say that levels of debt are a cause for concern, with just 39% of consumers agreeing that current levels of consumer debt are acceptable. According to RFI's most recent survey of mortgage holders, key concerns among consumers include rising costs of living, stagnant wage growth, high property prices leading to people borrowing more than they should, easy access to credit, and rising unemployment levels.

To what extent do you agree or disagree with the following statement:  
 Current levels of consumer housing debt is not a cause for concern.



There are potential downside-risks identified by lenders and brokers that could worsen this assessment of consumer debt. These include a significant interest rate rise or a correction in property prices, while weaker employment figures could exacerbate the impact of these events. However, industry

experts predict stable interest rates over the next 12 months and believe that factors such as population growth and supply constraints will put a floor underneath property prices over the near term.

## Driver #5 – Competition between lenders

The Australian mortgage market is characterised by robust competition between lenders – 74% agree

	Lenders	Brokers	Overall
Performance of this driver	Excellent	Good	Excellent
Impact on market health	Low	Low	Low

Market concentration is a strong indicator of competition in the mortgage market. Post GFC, a 'flight-to-safety' phenomenon among consumers meant that non-banks and other smaller players lost market share to the major banks. In the last 12 months, however, the major banks have lost some of their dominance. APRA data shows that the major banks capture around 78% of the value of owner-occupied mortgages in the market, down from 79% over the last 12 months, although still well ahead of the 65% market share they held pre-GFC.

Views on competition are split among industry experts, with some feeling that the market is the most competitive it has ever been:

"Over 40 years, I've never seen competition like it is. All of the smaller players are coming in because they are tapping the securitisation market at very low rates, while none of the banks have been dropping credit standards. Australian consumers are much better off than elsewhere. Australians are spoiled for choice and competition" – John Symond, Executive Chairman at Aussie Home Loans.

Others felt that, although there is competition in the market, it is concentrated among the major banks

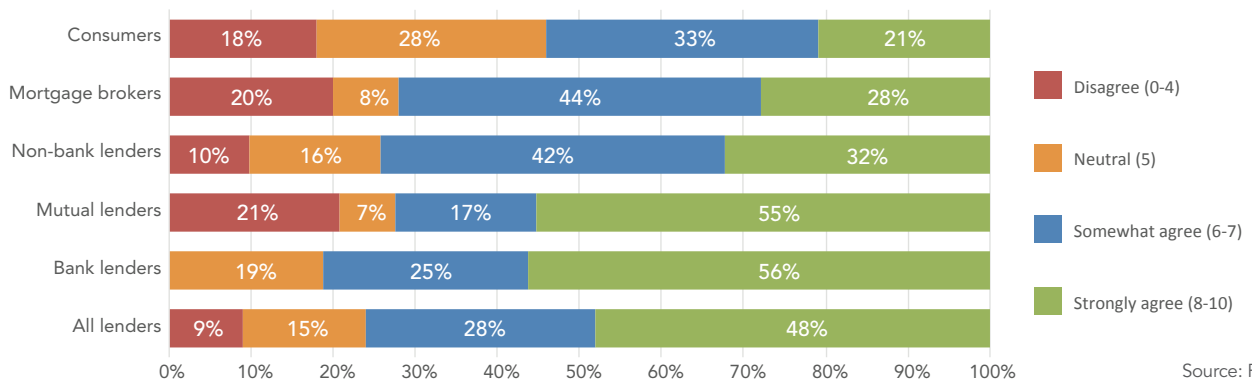
Lisa Claes, Executive Director, Distribution at ING DIRECT cited the ongoing Financial System Inquiry (FSI), saying "The interim findings from the FSI report mentioned that 'there are no competition issues, however the competition is concentrated'. This seems contradictory to me."

One mutual representative stated that the mortgage market is "characterised by competition between the big 4 only", a factor that one of the mortgage managers agreed with, saying that "given the funding sources available, the big 4 have it all their own way."

Jamie McPhee, CEO at ME Bank, also echoes this, saying that "Yes, I think the mortgage market is competitive, but it's the most concentrated market in the world, and when you get a highly concentrated market, over time, you get a reduction in competition. It's in the consumer's best interest to have competition and not concentration."

To what extent do you agree or disagree with the following statement:

The Australian mortgage market is characterised by robust competition between lenders.



### Threat of new entrants

With mixed views on the level of competition, it is important to understand what type of competitive disruption industry experts expect to see impacting the Australian mortgage market. In 2013, lenders felt that online operators and superannuation funds were likely to pose the greatest threat among new entrants. However, 37% of lenders now

believe that supermarkets will have the biggest impact on the mortgage market. In fact, lenders are now more wary of the threat posed by supermarkets than mortgage brokers, despite brokers identifying the threat first. Recent media attention surrounding efforts by Coles and Woolworths to expand their range of retail banking products, plus recognition of

the deep marketing pockets of the supermarket giants and wide potential distribution footprint, may be the source of this increase among lenders. According to RFI research, 5% of Australians now hold a credit card with Coles. Coles also has a 4% market share of car insurance and a 3% market share of home and contents insurance.

Between 2013 and 2014 lenders downgraded the threat ratings of online competitors and superannuation funds, maintained their threat rating of foreign banks, and significantly downgraded the threat from peer-to-peer lenders. Lisa Claes, Executive Director, Distribution at ING DIRECT commented that the impact of peer-to-peer lenders in the short term (i.e. over the next five years) is likely to be small. "In the short term it will not shape shift the market, however the impact is likely

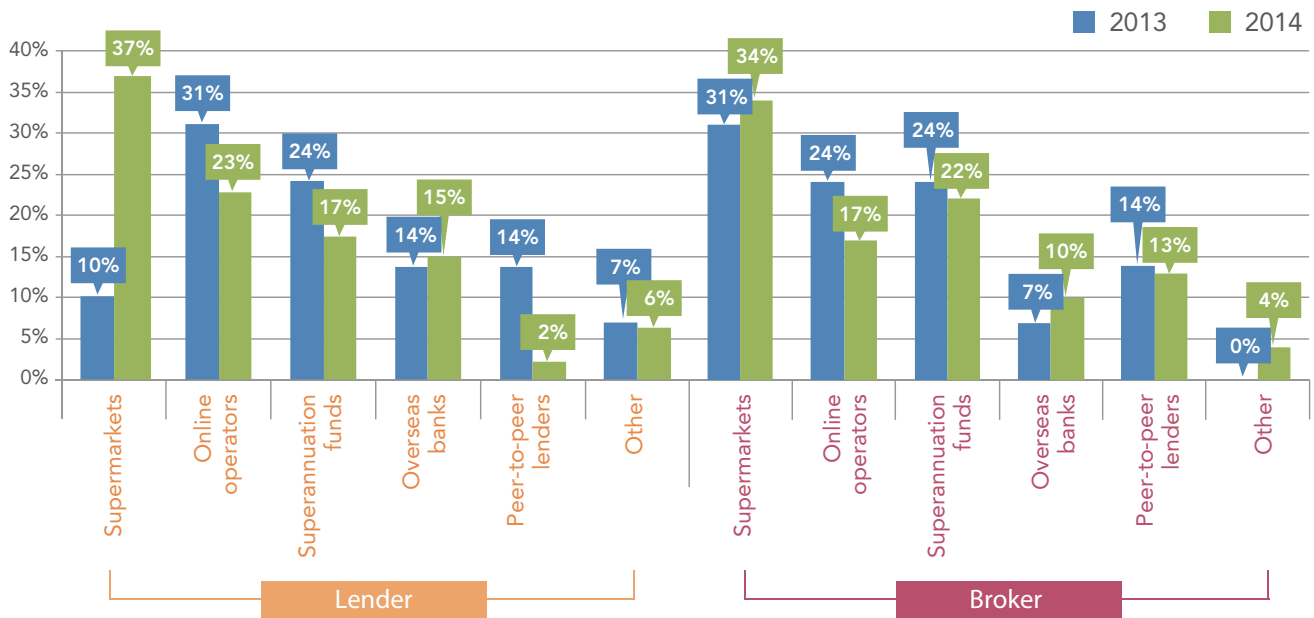
to be longer term."

Meanwhile, brokers rated supermarkets as having the biggest potential to impact the mortgage market in 2013, and maintain this view in 2014. Like lenders, brokers downgraded the threat assessment of online operators such as PayPal, Google or Facebook, but unlike lenders, they retained their threat assessment of superannuation funds.

One industry expert noted that the entry of superannuation funds will depend on timing and on the need for additional funding. John Symond, Executive Chairman at Aussie Home Loans notes about superannuation funds:

"They will come at a time when they can get an edge. When money becomes tighter, they will have a role to play."

### What type of new entrant do you believe will have the biggest impact on the mortgage market?



Source: RFI

### Distribution dynamics

While new entrants will have some impact on the mortgage market, the evolving competitive landscape will be governed greatly by dynamics in the distribution space. Lenders agree that of all the channels, online will grow the most in volume over the next five years and the evolution is forcing lenders to rethink how the customer of the future will apply for complex products such as mortgages.

"Financial services for a long time was immunised from the phenomenal explosion of digital due to its perceived complexity. But today digital has made significant inroads into simple financial services.... The trend is like water rising in a bath, digital is fast driving up and into the complexity scale of financial services" – Lisa Claes, Executive Director, Distribution at ING DIRECT.

However, Jamie McPhee, CEO at ME Bank, wondered why lenders see mortgages as such a complex product, saying "We've made mortgages complex. Banks have processes. People have lives. We should look through the customer lens and simplify the process. I want to buy a house worth \$500,000. I have \$50,000, and I want \$450,000. Why is this so complex?"

Despite the bullish sentiment on digital channels, Andrew Banks, Executive Manager Strategy & Pricing at Bankwest, notes that the digital channel "...is negligible today, literally negligible. Some banks have a purely online home loan, but it's not really online either. You still have to sign documents and bring them back. But there is opportunity for significant growth."

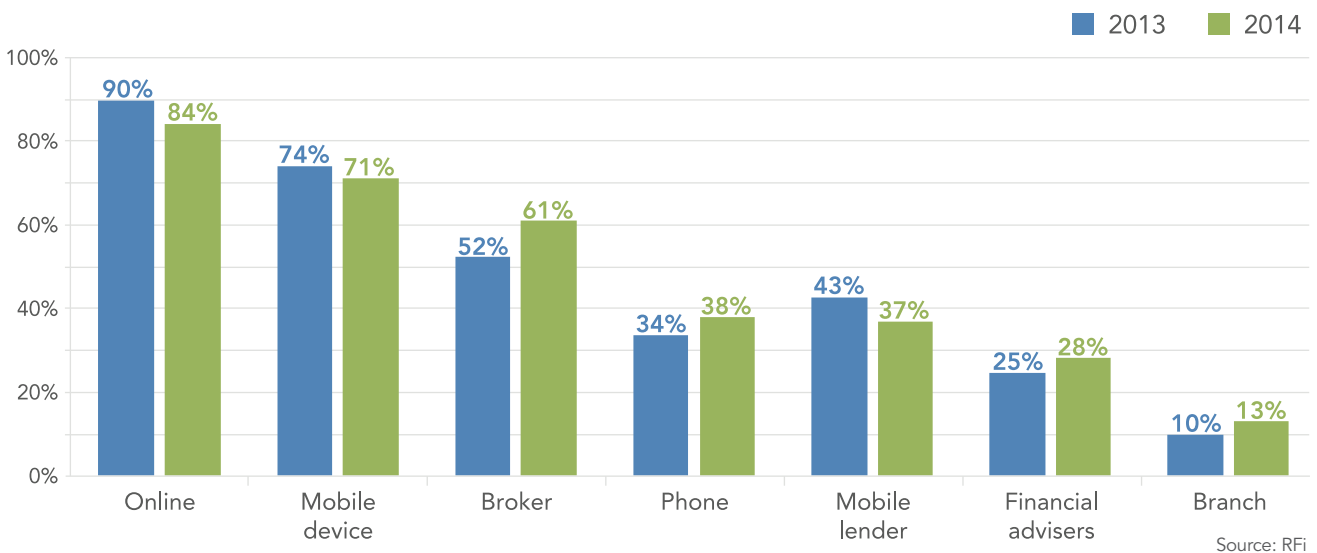
Outside of online channels, the broker channel is expected to continue to grow strongly.

“According to our research, broker market share is now 50%, and there is no reason that it can’t go higher... and I think the broker share could go up to 60% in the next five years” – Phil Naylor, CEO at MFAA.

Australia is one of the few markets globally to champion and successfully utilise the broker distribution model, and there is broad recognition of the value that brokers generate for lenders, large and small.

“The broker channel provides a service offering built around convenience, choice and independence that meets the needs of a particular segment of the market and is therefore an important part of our overall market positioning, along with our proprietary network. It should also be noted that as funding markets have improved and second tier banks with smaller distribution networks are looking to grow, brokers are an important part of their overall positioning” - Lyn Cobley, Head of Retail Products and Third Party Banking at CBA.

Looking forward over the NEXT five years, please indicate whether you expect the volume of mortgages sold via the following channels to increase or decrease (% of lenders that expect channel volume to increase).



## Driver #6 – APRA’s regulatory position

APRA’s current regulatory position strikes the right balance between responsible lending and access to housing credit – 54% agree

	Lenders	Brokers	Overall
Performance of this driver	Fair	Fair	Fair
Impact on market health	Low	Low	Low

Lenders and, to a lesser extent, brokers, agree that APRA’s current regulatory position strikes an appropriate balance between responsible lending and access to housing credit. Overall, 44% of brokers agree that APRA is balancing responsible lending with mortgage market growth, which stands in contrast to 64% of lenders who say that the balance is right.

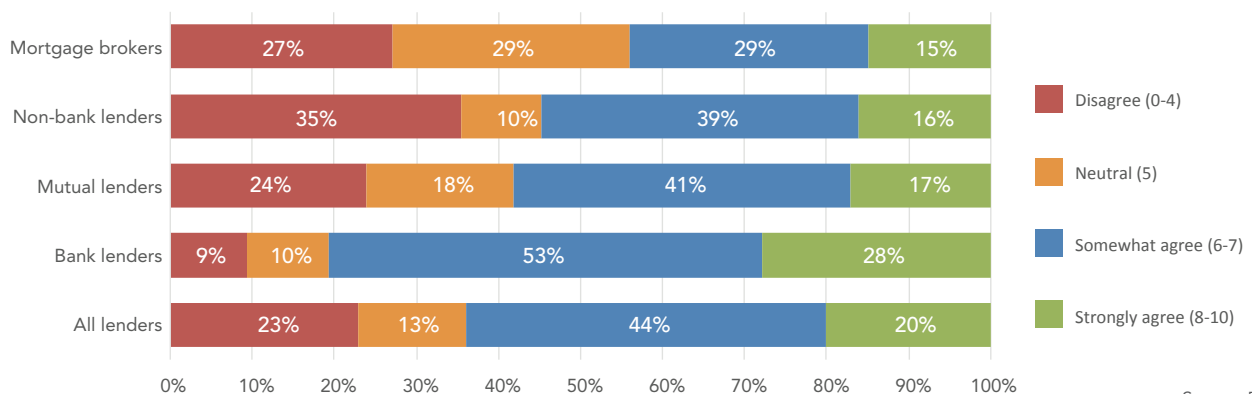
However, driver analysis of the results suggests that relative to other drivers, neither group links APRA’s current regulatory position strongly with sustainability of the mortgage market overall and hence ‘low’ impact scores have been assigned. The industry generally recognises that APRA has a tight rein on the mortgage market and, while this evokes mixed reactions, both lenders and brokers credit the tighter regime with the improvement in non-performing loan<sup>1</sup> levels across the industry. As observed in the RBA’s March 2014 Financial Stability Review, the non-performing share of Australian banks’ domestic housing loan portfolios decreased to 0.6% in December 2013.

There is some sentiment that APRA could be too focused on loan-to-value ratios (LVR), with a number of canvassed

lenders noting that their 90%+ LVR book was often among the best performing components of their portfolios, and that it was about doing business with “the right borrower rather than the right LVR.” Some canvassed lenders also feared that APRA could be at risk of “applying offshore lessons to Australian conditions,” although generally there was trust that the regulator knew local conditions and would apply the right measures rather than simply importing inappropriate interventions.

Indeed, many lenders are quite supportive of the regulator, and it should be noted that APRA’s method of ‘vocal intervention’ in the mortgage market scores high marks across the industry. “APRA is doing a good job and is a very confident and capable regulator. I think they are quite vocal about the fact that they are watching house prices and credit underwriting standards. First thing is to make people aware you are watching those things. Second thing is, if you see the balance start to skew, you act. The more visible you are about what you see and your concerns, the more likely you are to get a behavioural change to respond to that, so I think they are doing a good job there” – Jamie McPhee, CEO at ME Bank.

To what extent do you agree or disagree with the following statement: APRA’s current regulatory position strikes the right balance between responsible lending and access to housing credit.



Source: RFI

<sup>1</sup> Non-performing loans typically include loans more than 90 days in arrears or loans less than 90 days in arrears that are unlikely to be fully repaid.



## Conclusion

Overall, lenders and brokers rate the health and sustainability of the mortgage market positively. This sentiment is underpinned on the 'external intervention' side of things by:

- Universal support that the RBA is setting the appropriate cash rate
- A very strong, watchful, and proactive regulator in APRA, which is improving the resilience of financial institutions, and that is trusted to make the right decisions for the Australian mortgage market
- Room for government intervention in facilitating enhanced competition and enhanced FHB access to the property market.

The internal market dynamics underlying this diagnosis of the mortgage market are:

- Strong agreement that competition is robust and that borrowers have a lot of choice. Furthermore, industry experts expect the majors to lose some of their dominance and concentration of the mortgage market over the next five years
- Distribution dynamics are evolving, and simplifying the mortgage application process will be key in the next wave of competition
- Consumer debt is high but is not currently a concern, with many borrowers ahead on their repayments, but it is something that lenders and brokers are keeping a watchful eye on
- Funding markets are considered accessible, although securitisation markets have the potential to open up further, helping smaller players compete more effectively in the mortgage market.

## Methodology

Fieldwork for this report consisted of online surveys of 92 people who work at lending institutions, 107 mortgage brokers, and 1,000 mortgage holders. Views were also collated from over 40 brokers and 20 mutual lenders who attended roundtable discussions. These surveys and workshops/roundtables were further supplemented by in-depth interviews with a range of industry experts.

In addition to these surveys and interviews, results from an online survey of 2,316 consumers which formed the basis for the September edition of the Genworth Streets Ahead report was used in the analysis of this report.

Lenders, brokers, and consumers were asked the following question in the online survey:

Please rate the extent to which you agree with the following statements, where '0 = strongly disagree' and '10 = strongly agree'.

### The statements were:

- The current state of the Australian mortgage market is healthy and sustainable
- The RBA is supporting the mortgage market via appropriate cash rate settings
- APRA's current regulatory position strikes the right balance between responsible lending and access to housing credit
- Lenders currently have an appropriate mix of funding sources
- The Australian mortgage market is characterised by robust competition between lenders
- Current levels of consumer housing debt is not a cause for concern
- Existing government policy supports a strong and sustainable mortgage market.

### Average agreement scores for each of these statements were converted to labels using the following criteria, thus grading the performance of the overall market and each of its key components:

- An 'excellent' performance rating leaves the reader with few recommendations other than a reassurance to stakeholders to 'keep doing what you are doing', as there is little reason to change the current course. Areas that scored a 7.0 on average or higher belong in this category
- A 'good' performance rating, while positive, identifies areas where there can be adjustments and improvements in the mortgage market setup. We classify scores 6.0 - 6.9 in this category
- Retrogressing further down the scale to an 'fair' or 'poor' rating and we begin to find lenders and brokers identifying areas for reform rather than simple adjustments or areas for improvement. We classify scores of 5.0 - 5.9 in the 'fair' category and anything below 5.0 to be 'poor'.

### Following regression analysis of each driver against ratings of market health and sustainability, contribution scores for these factors were converted to labels using the following criteria:

- A 'high' impact score refers to factors that were determined to have a contribution effect on overall health of the mortgage market of more than 20%
- A 'moderate' impact score refers to factors that were determined to have a contribution effect on overall health of the mortgage market of between 10% and 19%
- A 'low' impact score refers to factors that were determined to have a contribution effect on overall health of the mortgage market of less than 10%.

## About Genworth and RFi

### Genworth

Genworth is a leading provider of Lenders Mortgage Insurance (LMI) in Australia. LMI has been an important part of the Australian residential mortgage lending market since it was introduced by the Australian Government in 1965. LMI facilitates residential mortgage lending by transferring risk from Lenders to LMI Providers, predominantly for high loan to value ratio residential mortgages. Genworth Australia believes the provision of LMI to lenders has contributed to comparatively high levels of Australian home ownership and residential mortgage loan accessibility, supporting the housing market in Australia. Genworth Australia has commercial relationships with over 100 lenders across Australia, including three of the four major banks. Many of these relationships have spanned decades.

For more information visit [genworth.com.au](http://genworth.com.au)

### RFi

RFi is a global provider of customer and business intelligence focusing exclusively on financial services. We specialise in strategic research, market intelligence, performance benchmarking and consultancy services.

Its aim is to combine its global intelligence and local knowledge to provide insightful, valuable and actionable recommendations, with a core focus on the provision of exceptional client service. Covering 30 key global markets with regional offices in Dubai, Hong Kong, London, Singapore and Sydney, RFi consistently provides clients with tailored advice and independent intelligence relevant to their specific markets and business needs.

For more information visit [www.rfintelligence.com](http://www.rfintelligence.com)

### Disclaimer

The report is based on a survey of 92 people who work at lending institutions, 107 mortgage brokers, and 1,000 mortgage holders. Views were also collated from over 40 brokers and 20 mutual lenders who attended roundtable discussions. While the information contained in this report is current as at the date of publication, it may change without notice. Genworth is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Genworth does not take any responsibility for any reliance on the information contained in this report or for its accuracy and completeness and while the information contained in this report is current as at the date of publication, it may change without notice. Genworth is under no obligation to update the information or correct any inaccuracy which may become apparent at a later date. Genworth does not take any responsibility for any reliance on the information contained in this report or for its accuracy and completeness.

[genworth.com.au/homegrown](http://genworth.com.au/homegrown)

Head Office and New South Wales  
Level 26, 101 Miller Street  
North Sydney, NSW 2060  
Phone: 1300 655 422

Victoria and Tasmania  
Level 15, 500 Collins Street  
Melbourne, VIC 3000  
Phone: 1300 655 528

Queensland  
Level 20, Central Plaza 2  
66 Eagle Street  
Brisbane, QLD 4000  
Phone: 1300 652 864

South Australia and Northern Territory  
Suite 6, 79 Pennington Terrace  
North Adelaide, SA 5006  
Phone: 1300 652 954

Western Australia  
Level 2, Unit 3, 22 St George's Terrace  
Perth, WA 6000  
Phone: 1300 652 853



Genworth Financial Mortgage Insurance Pty Limited • ABN 60 106 974 305 • © Genworth, Genworth Financial and the Genworth logo are registered service marks of Genworth Financial, Inc and used pursuant to licence • © 2014 Genworth Mortgage Insurance Australia Limited. All rights reserved.

[genworth.com.au](http://genworth.com.au)

