

## HOUSING LOANS

**MISC Global**  
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**Market  
Intelligence  
Strategy Centre**



**Home Loan Market Rebounds with 12% Value Gain in  
December 2008 Quarter and 21,000 More Loans.  
Results Match December 2007 Performance.**

**FINAL RELEASE**

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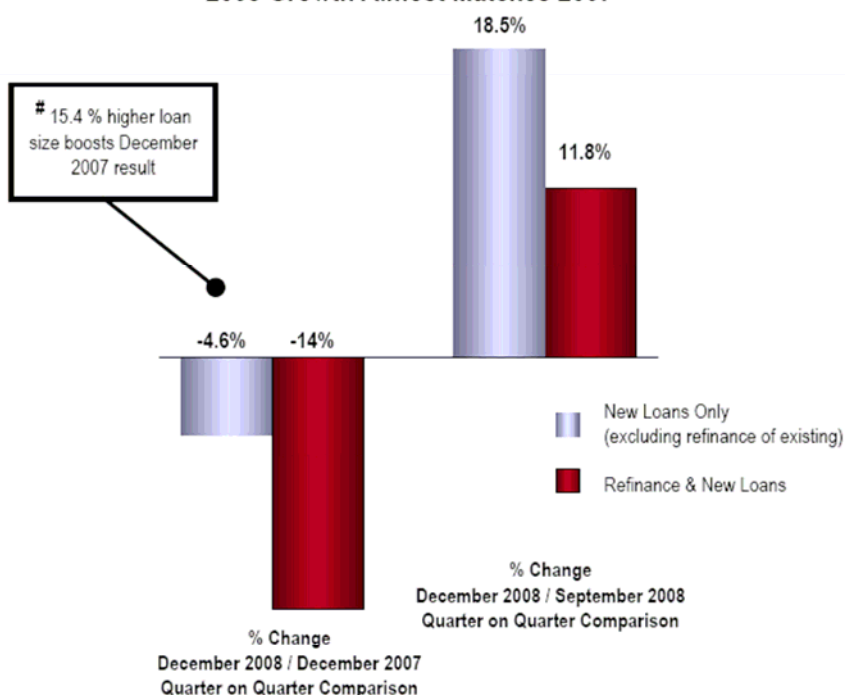
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## Home loan market rebounds with 12% value gain in December 2008 Quarter and 21,000 more loans. Results match December 2007 performance.

Despite mixed messages in the mortgage market, with most reporting further down turns (even with suggested uptake of the FHOG grants), the Australian mortgage market in fact rebounded by 12% in the December 2008 quarter. This ends a five-quarter negative slide in new mortgage business. The 12% rise in the value of new mortgages settled was reflected through an additional 21,000 new mortgages that were settled by borrowers in the months October, November and December 2008. The MISC (Market Intelligence Strategy Centre) December 2008 quarter Home Loan Monitor reporting, released today, represents the first hard evidence of positive (not negative) response to the three interest rate revisions in the quarter and the Governments enhanced FHOG housing incentive package.

Quarterly Mortgage Growth of 12% Jumps to 19% Without Refinance.  
December 2008 / December 2007 Comparison Shows  
2008 Growth Almost Matches 2007\*



Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor December 2007, September 2008 and December 2008 Quarters

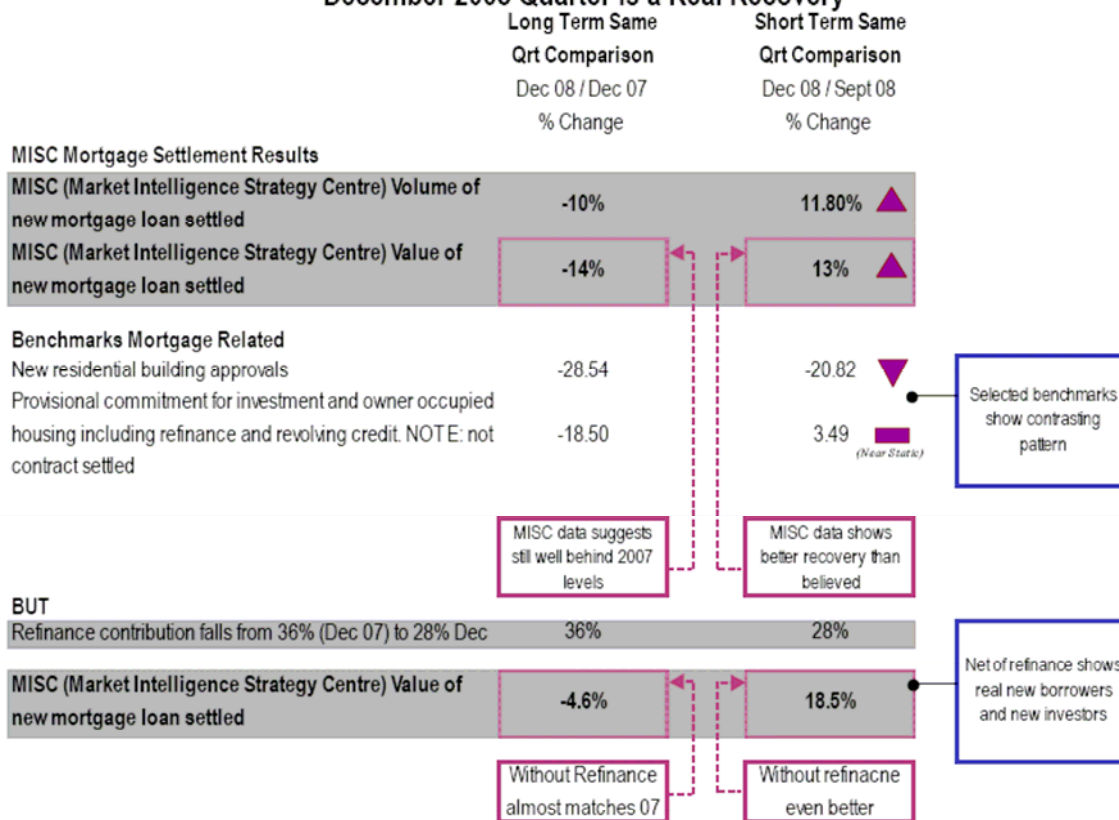


The results stand in contrast to numerous reportings of a worsening total mortgage business in the December 2008 quarter, despite some early signs of good acceptance of the Government FHOG incentives announced in October 2008. MISC says a confluence of events in the quarter ending December 2008 underpinned this significant up turn. First the Rudd Government announced a generous incentive package for first homebuyers with further support for mortgage originators and RMBS issuers, and next the Reserve Bank announced not one, but three interest rate cuts totalling 2.75%. It had first been thought that despite these incentives borrowers were reluctant to return to the

market. The ABS approvals data in fact showed a 20% contraction for combined investors and owner occupied pre commitments# (they are not actual settlements because borrowers can cancel a commitment) were lackluster. Building approvals were reported as significantly down and HIA Residential Builder Surveys showed a contraction in activity along with Master Builders Survey showing cancelled projects on the increase. There was however some optimism caused by the first evidence that only 5,000 new first home buyers had applied in November 2008##. However, MISC says that the negative evidence was misleading as the confluence of circumstances did in fact produce a trigger-forcing demand aided by anecdotal evidence of new home discounting by many builders as well as better housing demand and investment in rural Australia.

MISC says, unlike previous up turns this was real market growth as the refinance share of all mortgages in the period actually fell from 33% to 29.4%, suggesting that an increasing proportion of borrowers were new borrowers, be they firsts home buyers or investors and upgrades reentering the market.

### Recent and Long Term New Mortgage Growth Patterns Show December 2008 Quarter is a Real Recovery



Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor December 2007, September 2008 and December 2008 Quarters / ABS Building approvals / ABS Housing Finance 5609 / ABS Approvals 8731 / ABS Lending Finance 5671



# MISC calls the ABS commitment definition a pre commitment because borrowers will often seek more than one financiers and not all transaction settled.

## First Home Buyer Grant Note: In the absence of further grant approval figures, a better January measure for pre commitments of owner occupied first home buyers totalling 12,500, suggested the grant had further uptake but, says MISC, whatever the impact of the grants these were not likely to have affected completed contract sales in the December 2008 quarter. What is more likely is they will flow through to the mortgage settlement statistics MISC collects in the March 2009 quarter. Figures on the FHOG are applicant measures and actual grant payouts will significantly lag these given that most properties settle between 60 and 90 days.

### Long Term review show 2007 December Quarter match

MISC further claims that the December 2008 results even compare favorably to new mortgage business achieved a year earlier in December 2007. This was before the full financial meltdown started to affect Australian borrowers. The December 2008 comparison with the September 2008 quarter is revealing and suggestive of a recovery. When December 2008 is compared with December 2007 the December 2008 results are even more impressive says the respected Industry research group. Without the impact of refinance, (which MISC regards not as new mortgage demand), the December 2008 quarter recovery on December 2007 was almost the same showing only a modest – 4% slide. This occurred in the context of quite radical differences in economic circumstances and with house prices and hence loan values 15.4% better than a year ago, MISC says, this shows that the December quarter was a very real gain. Without refinance factored out of the two periods a 12.8% gain on the September 2008 quarter compares to a -14% contraction against December 2007. At this time, says MISC, the average loan size written had grown with rising prices to \$252,213 while in the recent December 2008 quarter it fell to \$240,740.

### Forecasted better March Quarter

The MISC results are drawn from its long-standing and respected Home Loan Monitor that has been reporting on new mortgage flows since 1998. This same survey infamously predicted the first mortgage down turn before the current crises that, until recently, has seen constant declines.

The respected research group predicts that the normally lackluster March quarter will in 2009 continue the up turn. Normally, say MISC, it is not uncommon for a 15% fall to occurs in the March quarter but most of the early impact of the FGOH will flow though to settlements in January, February and March 2009 from December 2008 quarter applications and partially offset the dilemma

### MISC Methodology underpins forecasts as well

NOTE: MISC (Market Intelligence Strategy Centre) employs the original MINTEL (Australia Pty Ltd) method of home loan measurement (calculated using a stamp-duty based model capturing **all** loans settled) in preference to using ABS derived figures (which are collected on mainly owner-occupied loan approvals by only the larger Lenders thereby MISC believes seriously **understating** home loan activity). Unlike this most commonly quoted measure, MISC measures ALL new loan contracts **completed** (i.e. not Approvals / pre Commitments which it says can be cancelled). MISC also includes not just owner-occupied home loans but also Investment housing, Holiday housing and other home loans by all Lenders not just the major ones that the ABS counts. This means that MISC **does** count loans written by the small Lenders including Credit Unions, small Originators, Solicitors, Accountants, Brokers etc which do not meet ABS loan value size thresholds and thereby are not officially captured. These loans make up the “Hidden” loan market first revealed by MINTEL Australia research in its inaugural research survey of 1998.

For further information on this unique service please contact the MISC Marketing Department.

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## Appendix 1: Driving Influences For Editor Research

MISC (Market Intelligence Strategy Centre) says that the turnaround was a consequence of a range of factors simultaneously impacting on the mortgage market, despite continuing evidence in most states of falling home prices. These factors included (see chart below) falling home prices and discounting by some new home builders, greater confidence underpinned by the October 2008 first home buyers incentives matched by discounts from builders of the same magnitude as well as the lowest interest rates for seven years and pent up demand from a successive quarters of falling mortgage business. In addition, there was a return to the market of some small lenders assisted by the governments RMBS supports and foreshowed (but not yet effected) lender restrictions of levels of lending, i.e. LVRs. Increased affordability was the result of several of these factors while some negative factors actually produced a positive affect, for example, the rentals squeeze served to encourage investors return as did the promise of more restrictive LVR lending accelerating decisions and the property taxation initiatives of state governments. At the same time MISC acknowledged a number of negative factor actions, the continuing global crisis, unemployment, the restricting of low-doc lending, the withdrawal of non conforming lenders, and the falling property values which also impacted positively on affordability.

| <b>Influences on December Quarter Turnaround</b>   |   |
|--|---|
| <b>Positives</b>   | <b>Negatives</b>  |
| Cash rate decreased 275 bps to 4.25%   | Benefits of expansionary monetary policy are lagged   |
| Falling home prices and discounting by some new home builders                                    | Government guarantee forced mortgage funds to freeze redemptions affects confidence                                 |
| Increase in federal FHOG   | Lagged benefit of FHOG extension  |
| Vast majority of lenders are still financing all prime loans - even those with high LVR          | Saver accounts wont create new business for several years   |
| AOFM and RBA prop up RMBS market   | GE Money leaves Australian market Blue Stone  |
| Most of RBA cash rate cuts have been passed on   | Little interest from private investors in RMBS's  |
| Banks booming  | Longer termed fixed rate products remain expensive  |
| Owner occupied of existing dwellings doing well (quick to respond to changing market conditions) | Lenders promise to tighten lending requirements - especially low-doc - sub prime almost non-existent                |
| Employment is holding up considerably well   | Outlook for employment is unanimously bad   |
| The lowest interest rates for seven years  | Mortgage originators struggling - lots of refinanced loans  |
| NSW Government cuts development levies in mid-December 2008                                      | Construction / Approvals in sharp decline (proves a lagged effect of fiscal and monetary stimulus - should improve) |
| Investment / rental yields are increasing  | Some indication of decreasing property values   |
| First home saver accounts were launched on 1st October 2008                                      | The rental squeeze making investment more attractive  |
| Pending restriction on low-doc cause a related accelerated application                           | The restricting of low-doc lending and the withdrawer of non conforming lenders                                     |
| Pent up demand from a successive four quarters of falling mortgage business                      |   |
| A return to the market of some small lenders assisted by the given RMBS supports                 |   |
| Foreshowed (but not yet effected) lender restriction of levels of borrowing, i.e. LVRs           |   |

**Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor December 2008 Quarter**

**APPENDIX 2: Suggested December quarter down turn**  
**Quotes from the Press between November 2008 and February 2009**

| Source:  | Quote:  |
|--|---|
| <p>1 <b>The Age</b><br/> Housing demands in a nosedive<br/> <i>Natalie Craig</i><br/> 3 November 2008</p>  | <p>According to Australian Property Monitors, Adelaide fared even worse, with only 35% of homes finding a buyer, while Brisbane recorded an abysmal 27% sales rate.</p> <p>But auction clearance rates suggest buyers are still content to wait and watch. The shortage of demand for existing homes has also been mirrored in the new-home market.</p> <p>Demand for new housing has gone backwards, despite interest rate cuts and government incentives, with one listed builder reporting inquiry levels slumping by a record 80% in the four months to October.</p>  |
| <p>2 <b>The Australian Financial Review</b><br/> Home grants spur first timers<br/> <i>Tracy Ong, Matthew Ludlow and Matthew Dunckley</i><br/> 2 December 2008</p> | <p>“It has certainly generated more inquiries, said the president of Real Estate Institute of Australia, Noel Dyett.</p> <p>But he cautioned that the lag between exchange of contracts and settlement on property transactions meant it was too early for definitive figures on the scheme’s success.</p>  |
| <p>3 <b>AAP</b><br/> Building approvals slump<br/> <i>Chris Zappone</i><br/> 4 December 2008</p>   | <p>New home building approvals tumbled in October to their lowest level since March 2001 as the Government’s stimulus package and rate cuts failed to ease fears about the future of the economy.</p> <p>Building approvals fell 5.4% to 10,730 in October, seasonally adjusted, from an upwardly revised 11,339 units in September, the Australian Bureau of Statistics says.</p> <p>“But what dominated that month has been the intensification of the credit crisis and the ensuring caution among households,” she said. (St George Bank chief economist Besa Dead)</p> <p>The stock of unsold houses in the major population centres is more than double the level now that it was during the peak of the property boom in 2005.</p> |
| <p>4 <b>The Sheet News Bites</b><br/> Average LVR rising on new loans<br/> 9 December 2008</p>   | <p>The Australian Finance Group’s “mortgage index” for the month of November shows that fist home buyers accounted for 22 per cent of loans during the month, up from 16 per cent the month before.</p> <p>There was no overall increase in demand for loans, though.</p>   |
| <p>5 <b>Master Builders Media Release</b><br/> Financial crisis hits home builders<br/> 15 December 2008</p>   | <p>A Master Builders survey has revealed that Victorian residential builders have experienced a reduction in enquiries and orders due to client finance problems.</p> <p>More than half (52 per cent) identified clients cancelled projects due to financing problems.</p>  |

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| 6  | <b>HIA</b><br>New Incentives Required to Boost Activity<br>7 January 2009  | The Housing Industry Association survey of the largest 100 residential builders in Australia found that new home sales in November 2008 declined by 1.1 per cent.<br><br>The result in disappointing as it was hoped that the increased First Home Owners Grant and decline in interest rates would boost activity and build on the result recorded in October which saw 3.1 per cent increase in sales volumes.   |
| 7  | <b>The Age</b><br>Building activity hits new low<br><i>Chris Zappone</i><br>8 January 2009   | Construction activity slumped to a new low in December as builders wait for the low interest rate to spur demand.<br><br>The Australian Industry Group-Housing Industry Association performance of construction index eased 1.1 points to 3.9 December to an all time low, from 32 points in November.<br><br>"There are, as yet, no signs emerging from the Australian PCI of a boost to demand for house building, following recent interest rate cuts and changes to First Home Owners Scheme." |
| 8  | <b>The Age</b><br>Victoria defies economic gloom<br><i>Tom Arup</i><br>8 January 2009  | Victoria was the only state to record growth in new home sales in the three months to the end of November.<br><br>Privately, the Government is crediting Victoria's population boom for the strong numbers. The state population grew 1.8% in the year to June 2008, the biggest rise since 1972.  |
| 9  | <b>The Age</b><br>Alarm as house figures slump<br><i>Marc Moncrief</i><br>9 January 2009   | A worsening decline in the housing market is affecting the Federal Government's efforts to short up the economy.<br><br>Figures from the Australian Bureau of Statistics show home approvals nationwide fell 12.8 per cent in November, compared with 1.5 per cent drop expected by economists surveyed by Bloomberg before the figures were released.   |
| 10 | <b>Ministry of Housing Press Release</b><br>New figures released for first home owners boost<br>10 January 2009                            | Figures for November show that 5,385 first home buyers entered the property market using the First Home Owners Boost.  |
| 11 | <b>The Sydney Morning Herald</b><br>New buyers provide hope<br><i>Jessica Irvine</i><br>15 January 2009                                    | But even as first-home buyers advance, investors are beating a retreat. The value of loans to investors fell 6.1 per cent in November, bringing the annual decline to 27.3 per cent.   |
| 12 | <b>The Australian</b><br>Grant stems housing slide – Pressure on to extend first-home buyer scheme<br><i>David Uren</i><br>15 January 2009 | However he said there were other signs of continuing weakness in the housing market. The stock of unsold houses in the major population centres is more than double the level now that it was during the peak of the property boom in 2005.  |

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|----|---|---|
| 13 | <b>Residex</b><br>Time to Move Forward, but only if you are informed!<br><i>John Edwards</i><br>16 January 2009                               | Saying we have passed the worst is a brave call in an environment where the world economy is in such poor state.<br>The housing markets across Australia are correcting and each capital city and state is suffering more or less.  |
| 14 | <b>The Australian Financial Review</b><br>Suburbs soak up first-home owner grants<br><i>Tracy Ong and Matthew Dunckley</i><br>29 January 2009 | “It really has activated the market, particularly in affordable areas.”<br>RP Data analyst Cameron Kusher said whether the grant produced a sustained prod to the housing market remained to be seen. “As far as stimulus goes, it is hard to quantify,” Mr Kusher said.  |
| 15 | <b>HIA</b><br>Approvals fall further in Dec 08<br>04 February 2009  | Building approvals continued to fall in December 2008, reinforcing the importance of yesterday’s announcements regarding a Housing Recovery Plan and a further interest rate cut.<br>Total building approvals fell by 2.9 per cent in December following a revised 10.2 per cent drop in November.<br>”Early signs of a boost from the first home buyer market were dwarfed in late 2008 by nervous investors remaining on the sidelines and difficulties faced in securing finance for new construction projects. All this was occurring amidst low and fragile levels of business and consumer confidence”, said Harley Dale. |