PRESS RELEASE

HOUSING LOANS

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Hidden $19 billion additional mortgage market and 8% new business growth revealed in home lending market environment

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MISC (Market Intelligence Strategy Centre Pty. Ltd.) ACN 125 646 095

Level 4, 14 Collins Street | Melbourne Vic 3000 | Tel: 03 9654 4266 | Fax: 03 9650 7730 | miscinfo@marketintelligence.com.au | www.marketintelligence.com.au

Hidden $19 billion additional mortgage market and 8% new business growth revealed in home lending market environment

The respected industry research specialist group MINTEL today released top line findings from its recent Housing Loan market research survey (the first complete survey of all housing loan financial institutions in this volatile and politically sensitive market). These showed that despite the popularly held view that home lending has been consistently rising, until recently the market has been in decline. While ‘commitments data collections’ and those of all loan stock, i.e. balances outstanding, suggest the housing loan market has enjoyed several years of growth. MINTEL says its new home loan business measurements (including refinanced loans) actually show that since 1995 the housing loan market has been in decline, and that only in the 1997 year has the market shown a 8% market recovery. The same research group suggest that this recovery is likely to continue throughout 1998 even despite any short term interest adjustments currently being contemplated by the home lending sector.

The research group notes that growth of new loan business had coincided in the last year with continuing downward pressure of interest rates, but also rising housing prices. These two factors, says MINTEL in its research, are more important predictors of new loan business that the old indicator used, i.e. Housing Completions.

MINTEL says that three significant factors have coincided with this recent recovery. The first is the phenomenon of ‘churning’, an industry term for refinance. In addition to measuring for the first time actual new loan business, MINTEL has measured the extent of churning by institutional sector, and notes that in 1997 (the growth year). The share of churning in total new loan business increased substantially.

Housing Loan Recovery Reveals Structural Change	
Interest rates fall	▼ 2.33%*
As housing prices rise	▲ up 21% (weighted average)
As housing loans recover	▲ 8%
And…	
Hidden market reaches	▲ $19 billion
As NSW leads recovery	▲ 11% market share growth

- *MINTEL is the only research company to successfully measure all housing loan new business owner occupier and investor (inclusive of churning) in volume and value of new business transactions. The measures include first time comprehensive market shares and projected market shares by state.*

* 1996/97

Source: MINTEL Housing Loans Research Programme 1998

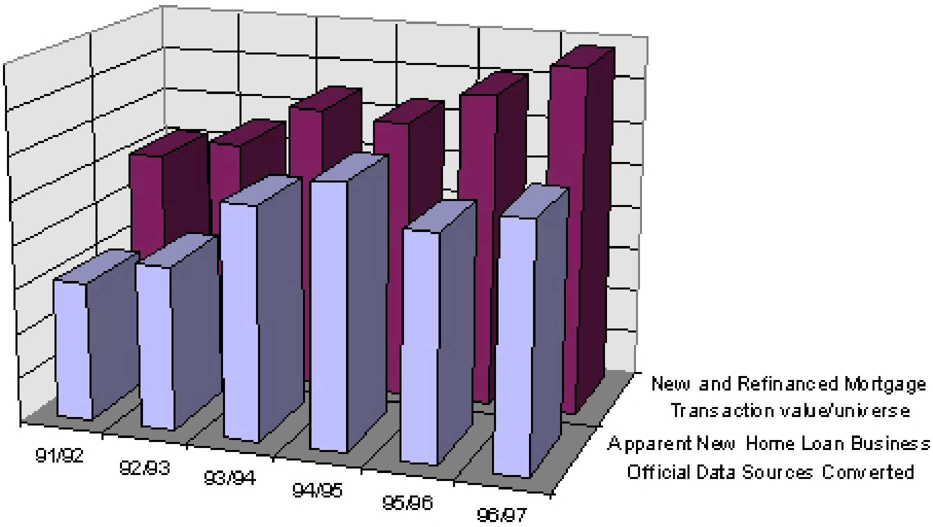
For some time now the popular view in the market place has been that Aussie Home Loans and RAMS as well as other mortgage originators, even Credit Unions and Building Societies, such as Heritage or Greater, and newer entrants like NRMA, have cannibalised the total market by promoting existing mortgage replacement, i.e. the practice of churning. To date no figures have been collected to quantify the extent of this phenomenon as mortgage canny borrowers play one financial institution off against the other. The tables have now turned, says MINTEL, now the canny mortgage shopper is calling the shots. And most traditional market players, including the banks, have also encouraged the practice's expansion.

The expanding share of churning has thus fuelled the 8% recovery as borrowers were encouraged to not only swap loans but through initiatives, such as equity loans and redraw options, increased the amount and share of business that was derived though refinance. MINTEL notes that since deregulation in a mature market like housing finance churning has always been there, but rarely so intrusively. MINTEL attributes the change to the importance of refinanced loan business, encouraged by a new low rate regime and the lessening impact of the honeymoon rate driven market of earlier years, prior to the Consumer Credit Code changes in 1996. Some groups, like St George, have even withdrawn such product offerings from the market.

The major factor in the change of churning are unprecedented new product initiatives of groups like Commonwealth Bank, Colonial, NAB and FAI and some of the mortgage originators, particularly RAMS and Aussie Home Loans who all introduced products to encourage switching. These initiatives, says MINTEL, ranged from the more overt incentive-based product developments, like cash back schemes and rebate incentives launched by the Commonwealth Bank and Colonial, to indirect incentives, like those of Aussie Home Loans with its 95% LVR innovation or those of Citibank with 'Citibank Choices' and FAI with its Link Line revolving line of credit product.

New Products Drive Recovery	
1994	Various banks introduce 'honeymoon' rates
1994	St George Bank launches a 'split' home loan
1994	New redraw accounts, e.g. NAB 'Redraw', Citibank 'Choices', (the interest benefit about double of a normal offset account).
1994	Austral Mortgage Corp introduces 'Loan Star' - a cheap, full service loan
1994	NAB launches new Tailored package with low rates and fees, free redraw facility, fee-free credit card and transaction account for new customers.
1995	State Bank of NSW (Colonial) offers free home and contents insurance with home loans
1995	Suncorp Sydney customers: home loan at 7.25% for the 1st year
1995	BankWest introduces BankWise: no fees on transaction accounts, credit cards, home loans, retail discounts
1996	Colonial launches Viridian - all-in-one account including mortgage, investment loan, credit cards, etc.
1996	Austral Mortgage Corp introduces 'Wealth Optimiser' - a low cost line of credit.
1996	CBA offer to pay new customers up to $3000 for switching from another lender.
1996	Colonial launches a 'shock-proof loan', combining a home loan and insurance policy (life, unemployment, house and content options) with tied repayments.
1997	Colonial offers $1001 to customers who refinance.
1997	Aussie Home Loans introduce 95% LVR (conditions apply).
1997	AMP Priority One introduces BankBeater: 7.55% variable rate, $400 establishment fee, no ongoing fees.
1997	Austral Mortgage Corp introduces Design-a-Loan - a 'multisplit' loan which can be split into up to four components.
1997	Mortgage Plus introduces the Multi Loan which offers a line of credit and up to 3 separate loan accounts within the one facility.
1997	Westpac offers an enhanced range of features on its basic First Option home loan on a user-pays basis.
1997	Colonial offers Home Pack - a home loan with a mortgage offset facility.
	1997 NAB converts its FlexiPlus mortgage into a lifetime bank account, with an option of splitting the account into business and personal loan facilities.
1998	FAI Home Loans introduce a revolving line of credit FAI Link Line.
1998	ANZ launches ANZ One - a 100% offset account linked to a home loan with more flexible access to money than ordinary mortgage offset accounts
1998	NAB slices 1% off the interest rate on the FlexiPlus mortgage - a revolving line of credit loan - bringing it in line with rates on ordinary home loans.
1998	Citibank links a Mortgage Minimiser credit card facility to its Homecredit home loan.
Source: MINTEL Housing Loans Research Programme 1998	

Hidden Extra Home Loan Market Trend



Source: MINTEL Housing Loans Research Programme 1998

Finally, says MINTEL, it's further measure of 'hidden new loan business' rose to reach $19 billion in 1997, suggesting that these new market conditions have not only increased the market for traditional players but also encouraged a new largely undetected loan business market development. MINTEL reveals today that the difference between new business figures derived from traditional measures used by the industry to monitor new housing loan business, (i.e. balances outstanding and new approvals) and measures it derives from its surveys differ substantially by $19 billion when converted to new business. The MINTEL milestone housing loan research uses the stamp duty records of all housing and land sale transactions across Australia to measure the loan universe. The magnitude of the measure, says MINTEL, also suggest that this recent activity has expanded the market beyond what might have previously been considered.

The extra $19 billion, explains MINTEL, is unaccounted loan business written by:

- small financiers and institutions excluded from the official collections
- solicitors, accountants, real estate agents, who lend on mortgage
- inter- and intra-family lending
- loans that have been warehoused (industry term for awaiting securitisation because they have not accumulated to a batch of size)
- incorrectly classified loans

Previously, says MINTEL, such omissions were considered to be of little consequence, but MINTEL notes that just as the amount of securitised business and its growth caught the industry by surprise, MINTEL predicts that its discovery will lead to new evaluation of markets shares and competitive position. This discovery by the respected financial industry research group, who also completed a major survey on the Superannuation industry last year, has serious implications for the banks and other financial institutions who calculate their market share, says MINTEL, on a much smaller market pool. It also suggests that the housing loan market recovery has been far more pronounced than previously thought.

Regionally, NSW Drives the Market While Queensland Falters

MINTEL notes from its constructed historical series that most states have been consistently losing share of the home loan business. Were it not for the expansion of business in NSW, led in part by advancing housing prices and the marketing initiatives of the larger players like the Commonwealth Bank and distribution efficiencies of groups like Colonial as well as originators like RAMS and Aussie Home Loans, the recovery, MINTEL records, in 1997 would have been less evident. NSW, unlike all other states, has expanded its new business share over the period. Queensland in contrast, lost share of the nation's home loan market with an easing of interstate migrations. Victoria has maintained its share, despite evidence of some better gains by certain Victorian focused lenders, e.g. Bank of Melbourne and NAB.

Changes in Market Shares of States

State	Share of National Market % Change 1992-97
ACT, NSW	▲ 23.2%
Queensland	▼ 13.0%
SA, NT	▼ 1.5%
Vic,Tas	▼ 2.7%
WA	▼ 6.1%
Source: MINTEL Housing Loans Research Programme 1998	

Method Description, i.e. Technical Notes

Previous collections of the ABS and Reserve Bank are of selected institutions and those of a threshold size, and understate the true universe of loan transactions, says MINTEL. Stamp duty records of sale transaction duty and mortgage duty, where payable, reflect the universe of transactions in all states, except NT and ACT. These reveal the full aggregate of domestic housing and land transactions. When this data is compared to converted transactions for mortgage duty the difference reflects refinanced loans and some non-mortgage transactions. *For some time now several groups including the Reserve Bank have been interested in development of a research method to utilise the invaluable data set contained in stamp duty records, but anomalies in collections, as well as exclusions, and exemptions in some states, has restricted this research.*

MISC (Market Intelligence Strategy Centre)
Level 4, 14 Collins Street
Melbourne Vic 3000 Australia

Telephone: 03 9654 4266
Facsimile: 03 9650 7730
Email: miscinfo@marketintelligence.com.au