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HOUSING LOANS

MISC Global

Market Intelligence Strategy Centre

September Quarter Home Loans Fall by $3bn (with loan size holding) MISC Predicts Quarter is the Start of $14bn Downturn for YTD September 2010

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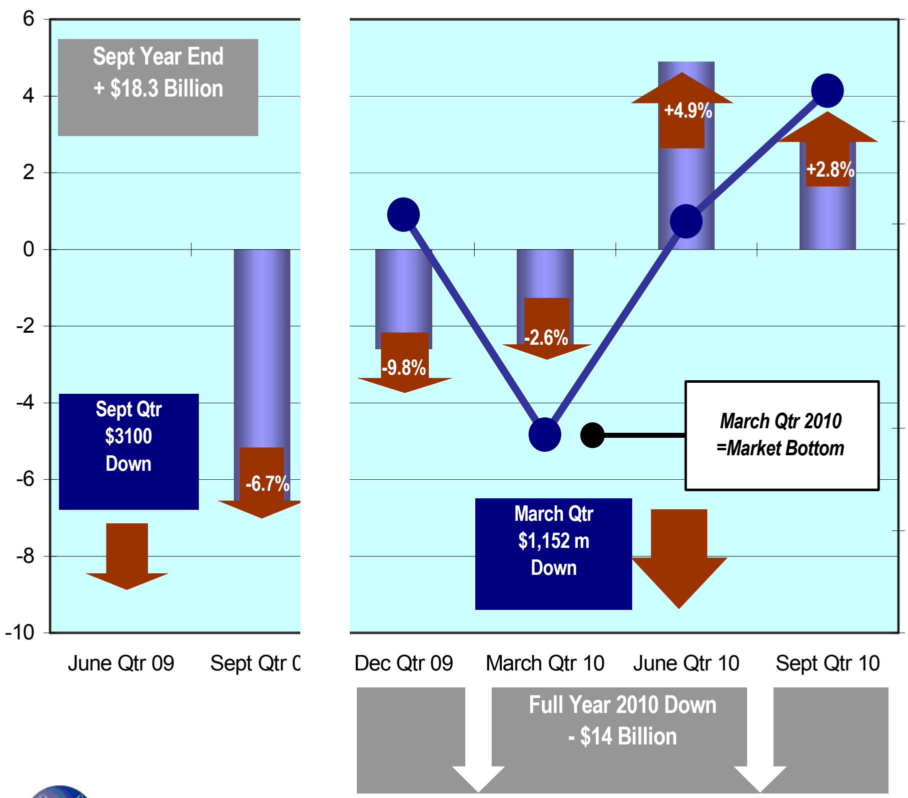
September Quarter Home Loans Fall by $3b (with loan size holding) MISC Predicts Quarter is Start of $14b Downturn for YTD September 2010

Just released, MISC (Market Intelligence Strategy Center) results from the September quarter 2009 mortgage market research show a 6% or $3 billion correction. MISC, the respected mortgage research group, claims that this is the first quarterly market contraction for 5 quarters. It has come about as a consequence of the scaled back first home buyers grant boost, together with tighter lending criteria implemented by the major lenders, and the still restricted activity, by smaller lenders constrained by funding. MISC (Market Intelligence Strategy Center) is the only research group, which measures actual mortgage settlements on a quarterly basis across all lenders.

MISC says that the downturn was reflected in all states, except Victoria, which saw a 5% gain on a buoyant June quarter. Indeed says research group had the Victorian result not been positive the contraction would have been much worse.

March Quarter 2010 = Market Bottom. MISC 2010 Full Year Forecast Shows Annual $14 Billion Downturn



Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor September quarter 2009/ MISC Housing loan Monitor ARIMA quarterly forecast 2010

The key question being widely considered is whether this quarter results, which has not surprised the industry, is at the bottom of the market? MISC says that it is not. The recent extension of the First Home Buyer Grant boost to now December 31, instead of 1 October as originally planed, will delay the bottoming. Accordingly says MISC (Market Intelligence Strategy Center) it is the March quarter 2010 that is the key milestone to watch. MISC forecasts that in this quarter (Jan to March) a further $1.15 billion contraction may occur before the June quarter 2010 shows a first return to growth. However MISC (Market Intelligence Strategy Center) forecasts that the 4 quarters ending Sept 2010 will see a 9% overall fall on the same period 2009. MISC Market Intelligence Strategy Center) like the Reserve Bank sees further home price growth affecting mortgage size but only growing final mortgage size by just 3.5%. This limited impact arises because of tighter lending requirements by the banks, via, reduced LVR (Loan to Value ratios) coupled with rising Mortgage insurance premiums that discourage higher lends. Without the MISC predicted average mortgage size growth of 3.5% MISC says the overall decline in the Mortgage market would be much greater.(See background of MISC previous forecast reliability). In total, says MISC, some $14billion of home loans will be lost in the coming year. This will reflect a slower return of investor lending and still strained funding which will restrict small lender activity, as well as further rate increases on the back of the November Reserve Bank successive rate increases.

Current Sept Quarter Downturn heralds 2010 full year market loss of $14 billion in new home loans

	Sept Qtr 2009	YE Sept 2010
	Mortgage Settlements Sept /June Single Quarter	Forecasted Mortgage Settlement Annual Total
Change in Value of Mortgages settled	**+$3103m**	**-$14430m**
% Change on Quarter **% Change on year**	**-5.85%**	**-8.82%**
Predicted 2010 Market Bottom	NR	**March Quarter 2010**
March Qtr Settlement Gains / Loss	+$873m (March qtr Actual)	**-$1150m (March Qtr)**

Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor September quarter 2009 /MISC Housing loan Monitor (ARIMA quarterly forecast 2010)

Small Lender resurgence- another key question

MISC says however, should the various small lender new funding initiatives currently being explored, become realized, or the government extends to a third AOF funding pool** via another means, then the mortgage market for 2010 may well be neutral or only just in positive territory. It was only this week that an additional $8billion in support was announced by treasury comprising an extension of public cornerstone investment in new securitization issues for existing Originators in the housing market. This was further extended by means of AOFM pledges to warehouse funders that new organizations up to $250m would be supported. This pipeline support will allow originators to lend knowing that the AOFM will facilitate a free up of warehouse facilities. Further examples of such small lenders funding initiatives currently being explored include the Credit Unions proposal to tap superannuation funds for mortgages, the evidence of some Building Societies using Bond issues to obtain funding as well as the activity of wholesale lenders to support the Mortgage Management industry. MISC says the recent expansion of the National Bank further into wholesale funding via its Advantedge (ex Challenger) group is one example, as is the upgraded activity of Adelaide/Bendigo bank who have traditionally supported these segments or with AOFM funding.

Small lender funding initiative for 2010	
Originators	
Corporate Entity	Australian government AOFM
Description of Funding	Serial investments pipeline securitization funding
Source of Funding	Government pledge to support originations supporting only new origination home loan businesses
Amount Proposed	$250 million per issue, part of $ additional $8 billion December funding
Credit Unions	
Corporate Entity	Credit Union Mutual Fund
Description of Funding	Offer interest-generating coupons
Source of Funding	Industry superannuation funds
Amount Proposed	$1 billion
Existing Securitizers	
Corporate Entity	Australian government AOFM
Description of Funding	Extended reverse enquiry public issue partial funding
Source of Funding	Government as corner stone investor. Not tender based as in previous.
Amount Proposed	Part of $ additional $8 billion December funding, proposal decline 15 January 2010
Building Societies	
Corporate Entity	Building societies, e.g. Heritage Building Society
Description of Funding	Government guaranteed 3- and 5-year bonds
Source of Funding	Bond market
Amount Proposed	$400 million (Heritage)
Originators & Mortgage Managers	
Corporate Entity	Mainstream banks, e.g. Bendigo/Adelaide, National Bank (Advantedge)
Description of Funding	Mortgage manager funding of residential loans via balance sheet and government AOFM support
Source of Funding	Balance sheet and government RMBS support, e.g. AOFM tender guideline tap system government buys it

Amount Proposed	Building
Originators	
Corporate Entity	Securitizers
Description of Funding	Traditional RMBS issues unsupported by government with notes listed on ASX
Source of Funding	Securitisation secured by prime residential. Private investor driven
Amount Proposed	Building recent issues of $1 billion, e.g. Members, Bendigo/Adelaide
Source: MISC (Market Intelligence Strategy Centre) Housing Loan Monitor September 2009 Quarter	

Forecasted 2010 $14 billion loss

MISC further claims that the December 2009 results will show further erosion on the back of this September down turn not withstanding the recent evidence of an increase in the uptake of the Government's First Home Buyers Grant in October, (the first month of the December quarter). In this month 18,703 grants were approved compared to the 17,989 in the September month. MISC believes that the extension of the grant's boost to December may not have as much an impact as suspected as the value of the grant continues to be eroded by higher house prices. While the predictive percentage decline in the December quarter of MISC 's forecast models shows a greater % impact despite this, MISC says that the bottom of the market will not be reached till the March 2010 quarter even though the % fall will be less at 3%. MISC believes this quarter will see the lowest point in new mortgage demand for the 2010 year and that June and September quarters will show positive growth all be it, still far les than 2009 experience.

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 housing loan market, despite the government housing incentives for first home buyers still continuing during the quarter. These factors included (see chart below) tighter lending criteria introduced by major banks for genuine deposits and higher LVRs as well as increased rates on fixed rate home loans. Two insurance companies announced to withdraw from the homebuilders' warranty insurance, causing widespread concerns among builders for their current and future projects. Premiums on mortgage insurance were increased as insurance companies tried to minimize their losses and protect margins. AOFM funding was nearly dried up by the end of the quarter, which caused concerns especially from regional and smaller lenders of further funding for their home loan products. Increased housing prices actually reduced the net effect the government wished to boost the first home buyers' market. Last, but not the least, future interest rate rises were expected clearly to the end of the quarter as domestic economy slowly improved and consumer and business confidence recorded higher during the quarter. At the same time MISC acknowledged a number of positive factors, including increased housing demand and population growth in Victoria, low vacancy rates, new products introduced, private investors getting involved in RMBS, and economic growth that also positively impacted on the quarterly result from retreating significantly.

Influences on September Quarter $3b Downturn

Positives	Negatives
Official cash rate unchanged at 3%	Government lack of AOFM funding, existing funding exhausted in the September quarter
First Home Owner Boost halved after 30 September 2009	Tighter lending criteria by major banks introduced
Stamp duty concessions for new homes continued in NSW	Higher LVR; levels restrict borrowing
Victorian housing demand and population growth	Expectation of future interest rate rises
Victorian bush fire reconstruction	Increasing home prices eat away net benefit of the First Home Owner Boost
New products introduced, including Bankwest's Capped Rate Home Loan, RAMS's split loan, ANZ's new investment product, Pepper Home Loans's new set of specialist mortgage products	Lumley General, CGU stopped offering homebuilders' warranty insurance in January 2010 and mid July 2009 respectively
WA economy buoyed by new mining projects, e.g. Gorgon project	Increased rates on fixed rate loans during the September quarter 2009 by major banks
Low vacancy rates encourage investors return	Mortgage insurance premiums increased
Private investors cautiously returned to the securitization market by buying ME Bank's RMBS issues	
Economy showed signs of improvement resulting in lower than expected unemployment rate, enhanced consumer and business confidence	

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