UBS LOAN OFFICERS' SURVEY – MARCH 2012[1]

In the latest UBS Loan Officers' Survey, covering the six months to March, banks reported that their lending standards were generally little changed for household loans

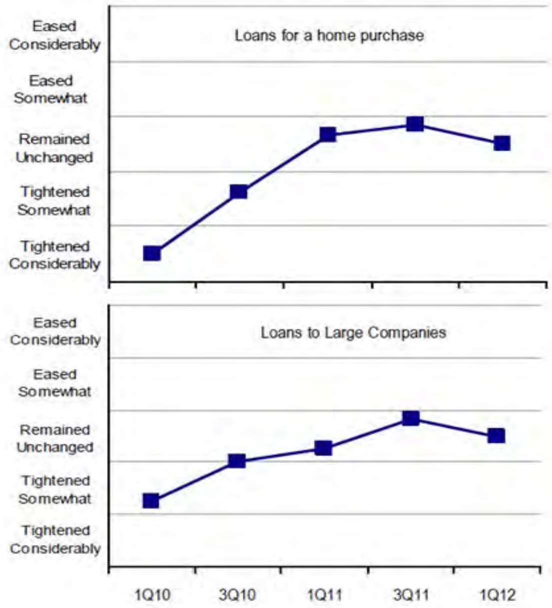
. Nonetheless, compared with the August 2011 survey, a larger share of banks reported some tightening in their lending standards.

. Over the next six months, banks expect lending standards for household loans to remain unchanged .

On average, banks reported that lending standards for **household loans** remained unchanged over the six months to March (Graph, top panel). Nonetheless, in comparison with the previous survey, a larger share of banks reported some tightening in lending standards. UBS interpreted this as a 'recent tightening' of lending standards 'or at least the end of loosening'.

Demand for household loans reportedly remained unchanged over the six months to March. Looking forward, most banks expect lending standards and demand for household credit to remain unchanged over the next six months.

Graph
Change in Lending Standards
Over the past six months



Source: UBS

[1] UBS' "Aussie Banks Loan Officers' Survey" is sent to the major and regional banks semi-annually; responses are collated by a third party on a confidential basis and only unattributed results are provided to UBS.

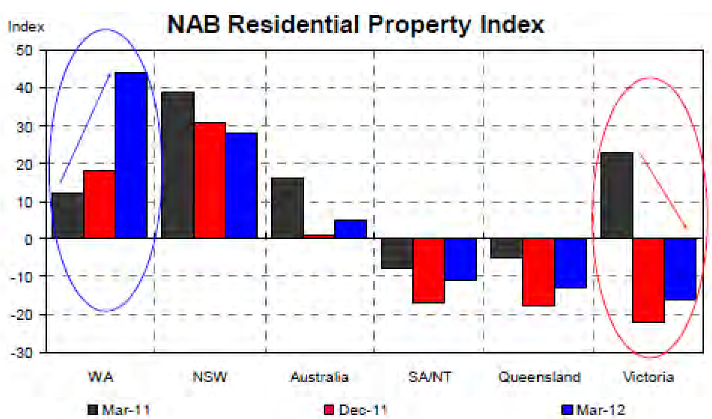
Summary

- The newly-covered *NAB Residential Property Survey* provides useful information on expectations of prices and rents, a breakdown of sector demand for both the new and existing property markets, as well as constraints facing developers and buyers.[1]
- Conditions improved slightly in the March quarter, underpinned by house prices falling at a slower rate and stronger rental growth. Price expectations for the next 12 months were revised upwards at the aggregate level, but are still expected to fall (-0.2 per cent), with substantial variation between states. Nationwide rents are expected to grow by 4.3 per cent over the next year.
- Developers and buyers are citing tight credit conditions as a major constraint on new housing developments and purchases of existing property. Relative to last year, a lack of employment security has become a more cited factor, while rising interest rates has become less significant over the past year in line with recent rate cuts.

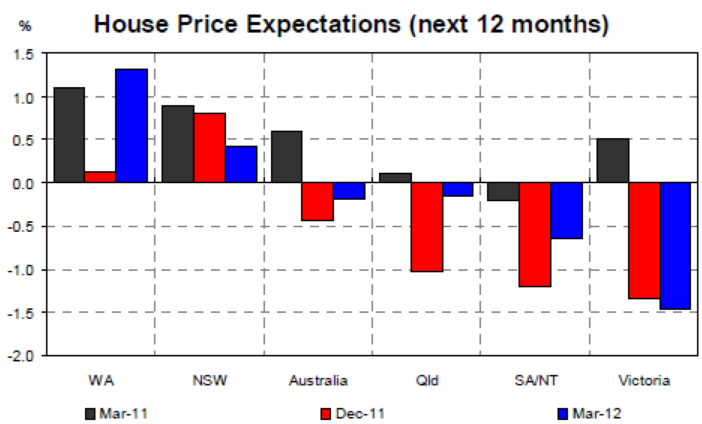
Prices[2]

According to the survey, conditions in the Australian residential property market improved slightly in the March quarter, with the **NAB Residential Property Index** (an average of capital values and rents) increasing slightly. This was underpinned by house prices falling at a slower rate and stronger rental growth (Graph 1). Western Australia and New South Wales were the strongest markets, while Victoria and Queensland were the softest. Prices expectations for the next 12 months were revised upwards at the aggregate level, but prices are still expected to fall, and there is substantial variation between states (Graph 2).[3] The sub $500,000 segment of the market is expected to have 'good' capital growth while the more expensive segment is expected to be 'poor'.

Graph 1



Graph 2



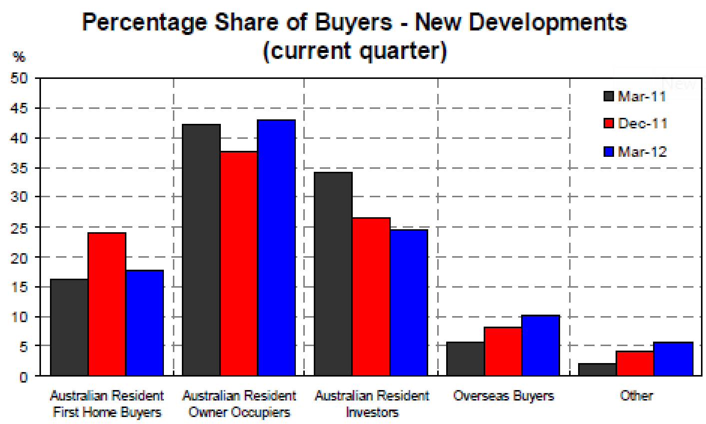
[1] The questionnaire used in the *NAB Quarterly Australian Commercial Property Survey* that begun in March 2010 was expanded to also focus on the residential market from March 2011. Around 300 panellists participated in the March 2012 survey, comprising real estate agents and managers, property developers, fund managers, owners and investors. Around half of the respondents were directly involved in the residential property sector and the sample was fairly representative by state.

[2] For more information on the current state of the residential housing market see Dwelling Price Review – March 2012

[3] This is in contrast to the Westpac-Melbourne Institute index which fell slightly in the three months to April. The fall was driven by first home buyers while the index for upgraders and investors was relatively flat. The Westpac-Melbourne Institute survey indicates that 45 per cent of consumer respondents expect rising prices over the next year, one third expect no change and 22 per cent expect a fall (4 per cent expect a fall of more than 10 per cent).

Graph 3

Graph 4

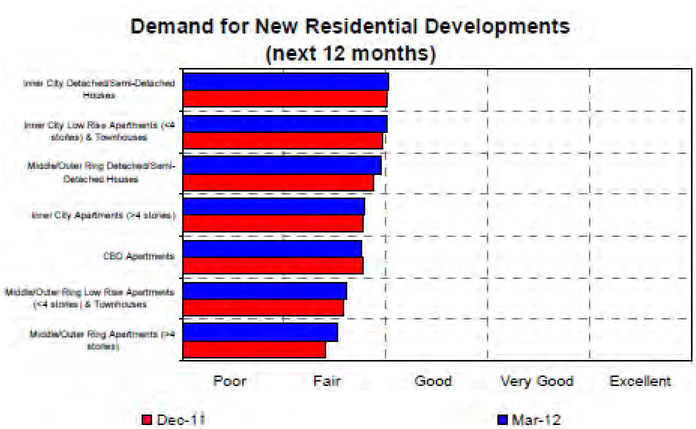


New Property Market

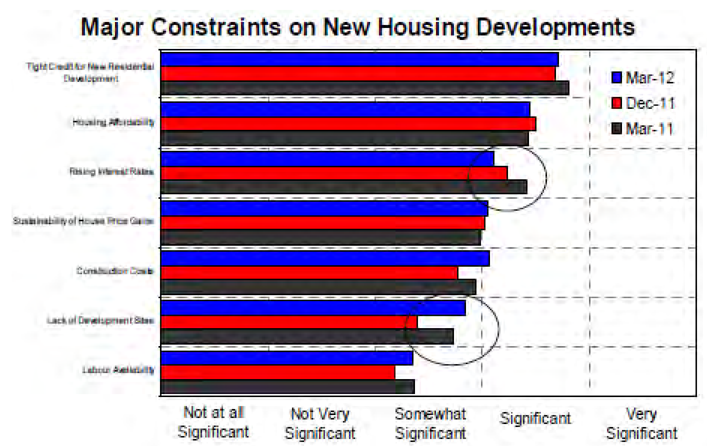
Resident owner occupiers are the largest segment in the new property market, purchasing around 40 per cent of new developments (Graph 4). Resident investors comprise 25 per cent and first home buyers around 20 per cent (the recent fall is probably attributable to the NSW stamp duty expiration). Overseas buyers - predominantly Asian based - accounted for 10 per cent of total demand. These shares are expected to remain roughly constant over the next year.

Demand for various city regions generally rose in the March quarter, although demand is categorised as 'fair' and is below last year's level (Graph 5). Demand is strongest for inner city houses and units, and weakest for middle/outer ring apartments and townhouses (this also holds for the existing property market).

Graph 5



Graph 6



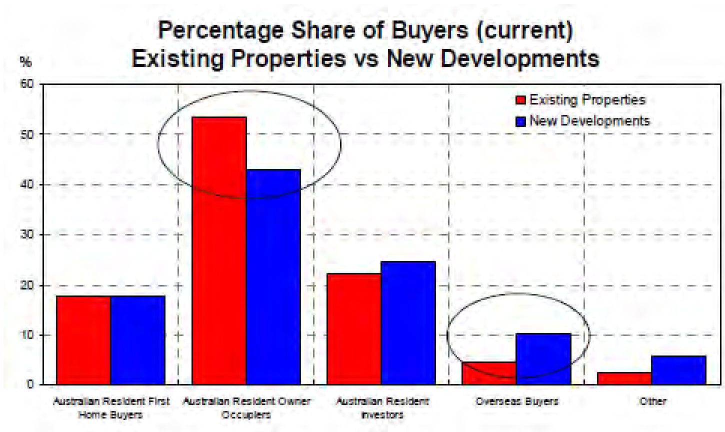
Survey respondents are citing tight credit conditions and housing affordability as the most significant constraints on new housing developments (Graph 6). A lack of development sites was also an issue facing developers (most notably in New South Wales and Western Australia). While rising interest rates remain a significant constraining factor, the measure fell in response to the two recent interest rate cuts – on average, survey respondents see interest rates falling by around 15 bps over the next 12 months. Lastly, Western Australians stated that high construction costs were becoming a problem, particularly due to skilled labour shortages, but also due to higher energy and material costs.

Existing Property Market

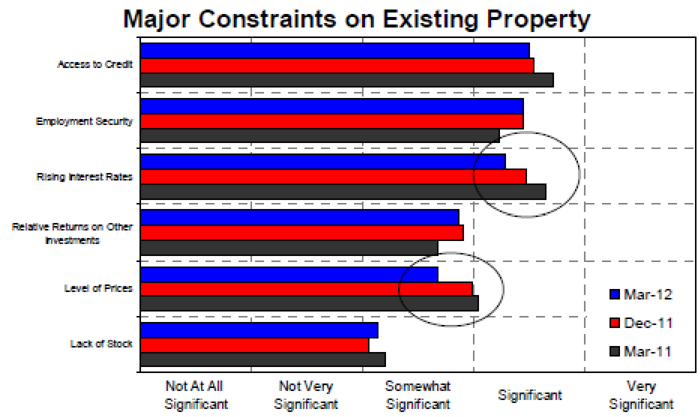
Resident owner occupiers are the largest segment in the existing property market, purchasing around 50 per cent existing dwellings (Graph 7). Resident investors and first home buyers comprise around 20 per cent apiece, while overseas buyers account for less than 5 per cent. These shares are expected to remain roughly constant over the next year.

Survey respondents claim that poor access to credit is the most significant impediment to purchasing an existing property. Relative to last year, a lack of employment security has also become a more cited factor, in line with flat employment growth. Finally, and as with the new property market, 'rising interest rates' has become less significant over the past year in line with recent rate cuts.

Graph 7



Graph 8



Financial Conditions
Economic Analysis
16 April 2012

HOUSEHOLD SECTOR

Household net worth increased by ½ per cent in the December quarter to be 1¾ per cent lower over the year, with financial assets growing faster than liabilities over the quarter. In the March quarter, further increases in the value of household financial assets are expected to offset a fall in the value of dwellings, to leave household net worth ½ per cent higher. Housing affordability, as measured by the ratio of dwelling prices to income, improved in the December quarter, reflecting a fall in dwelling prices, moderate nominal income growth and lower lending rates. Affordability is expected to continue improving in the March quarter.

PROPERTY

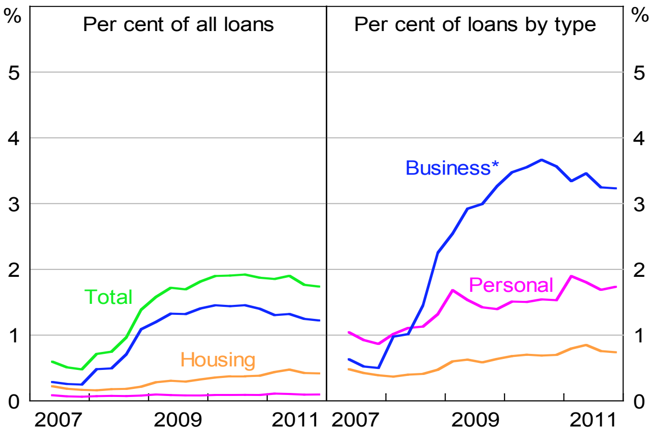
Nationwide dwelling prices have been flat over April to date, but are down 0.4 per cent over the quarter and 3.7 per cent over the year, with broad weakness across the major capital cities. Other housing indicators remain weak: low turnover has led to a high stock of unsold homes; vendors continue to offer large discounts; and auction clearance rates remain below average (although some indicators have shown small improvements recently). The national capital city CBD office vacancy rate was unchanged in the March quarter at 7.2 per cent, to remain slightly below the decade average. Effective market rents for prime CBD offices are estimated to have increased by 1.5 per cent in the quarter to be around 8 per cent higher over the year.

Lending Conditions

Banks' non-performing domestic loans, as a share of their total on-balance sheet loans, fell marginally over the December quarter to be 1.7 per cent, around 20 basis points below the 2010 peak (Graph 8). The decline from the 2010 peak in part reflects improvements in the business loan portfolio, as well as a change in the composition of banks' portfolios towards housing loans, which have a lower rate of non-performing loans.

According to the UBS Loan Officers' Survey, banks' lending standards for household and business loans generally remained unchanged over the six months to March. Banks expect lending standards to remain unchanged in the coming six months for household loans but to ease slightly for business loans.

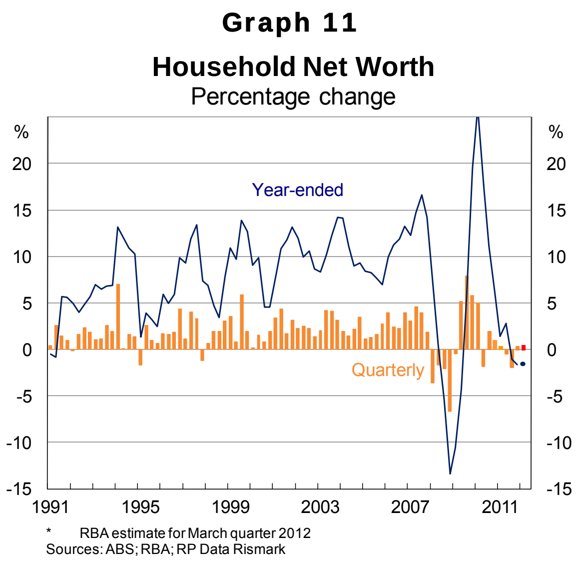
Graph 8
Banks' Non-performing Assets
Domestic books

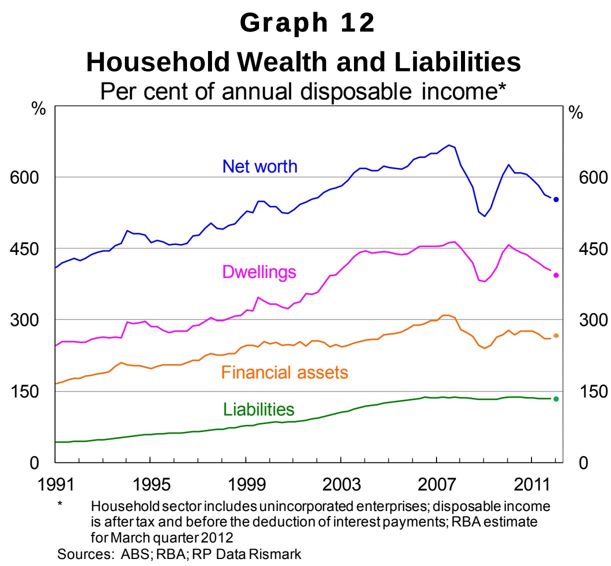


* Includes lending to financial businesses, bills and debt securities and other non-household loans
Source: APRA

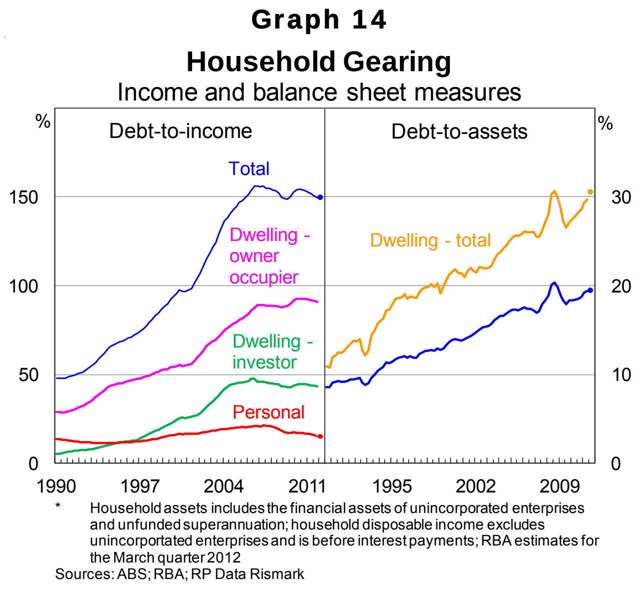
HOUSEHOLD SECTOR

Household net worth increased by 0.5 per cent in the December quarter to be 1¾ per cent lower over the year (Graph 11). On the asset side of the balance sheet, the value of dwellings remained unchanged, while the value of financial assets increased by around 1.3 per cent. Household liabilities continued to increase at a moderate quarterly pace of 1.1 per cent. Net worth as a share of household disposable income declined slightly in the December quarter, to be around 5.5 times (Graph 12). A further small decline in the net worth-to-income ratio is expected in the March quarter, driven by a fall in the value of dwellings.





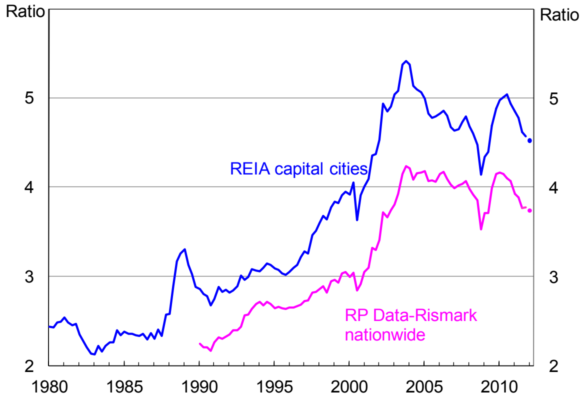
Growth in **household debt** was subdued in the December quarter, with debt increasing by 1.1 per cent. This reflected an increase in owner-occupier debt of 1.4 per cent and investor-housing debt of around 1 per cent; personal debt remained broadly unchanged. Soft debt growth relative to incomes saw the **household debt burden** (the debt-to-income ratio) decline over the quarter to be around 150 per cent. The debt-to-assets ratio, or **household gearing**, increased, with debt increasing faster than assets; a similar increase in gearing is expected in the March quarter (Graph 14).



Housing affordability as measured by the **dwelling price-to-income** ratio improved slightly in the December quarter, reflecting falling dwelling prices and rising incomes (Graph 16). Affordability is expected to improve further in the March quarter as a result of lower dwelling prices, moderate income growth and lower quarter-average lending rates.

Graph 16

Dwelling Prices to Income*



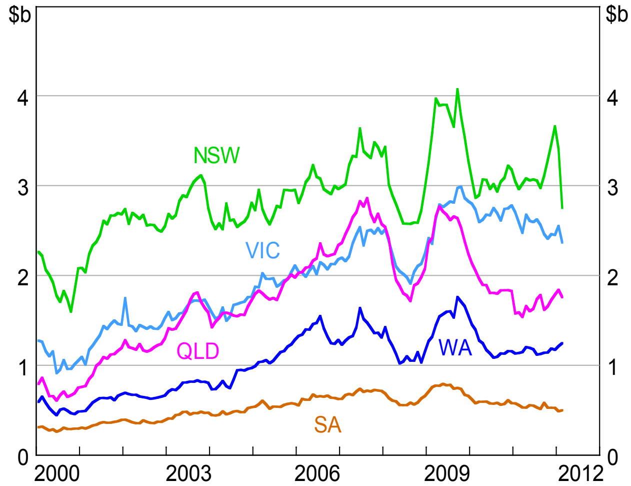
* Ratio of dwelling price to average household disposable income; income is before the deduction of interest payments; dwelling prices are medians; RBA estimates for March quarter 2012

Sources: ABS; RBA; REIA; RP Data-Rismark

Financing

The value of housing **loan approvals** weakened in February by 2½ per cent, to be around 2 per cent higher over the year. Owner-occupier loans drove the decline, with much of the weakness concentrated in NSW, given the expiry of NSW stamp duty concessions at the end of 2011 (Graph 19).

Graph 19
Owner-occupier Loan Approvals
Net of refinancing

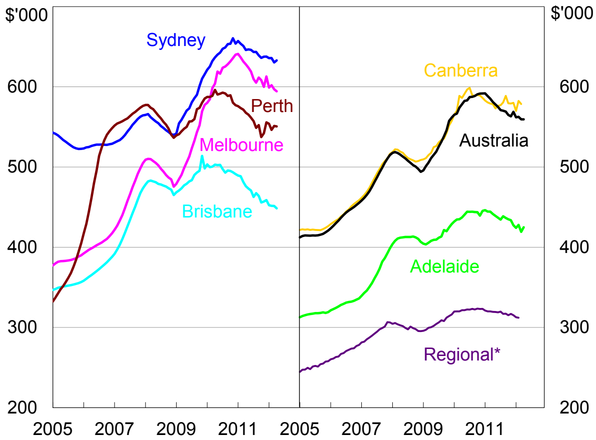


Source: ABS

Residential Property

According to the daily RP index, nationwide **dwelling prices** have been flat over April to date, but are down 0.4 per cent over the quarter and 3.7 per cent over the year (Graph 20, Table 2). The current peak-to-trough decline (-5.5 per cent) is slightly larger than 2008 downturn (-4.8 per cent), and has lasted 5 months longer.

Graph 20
Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

Table 2
Dwelling Price Growth
As at 16 April 2012; per cent

	Monthly	Quarterly	Yearly
Sydney	0.4	-0.5	-2.0
Melbourne	-0.4	-0.8	-5.3
Brisbane	-0.7	-0.9	-5.8
Adelaide	1.4	0.2	-3.7
Perth	-0.1	-0.6	-3.0
Australia	**0.0**	**-0.4**	**-3.7**

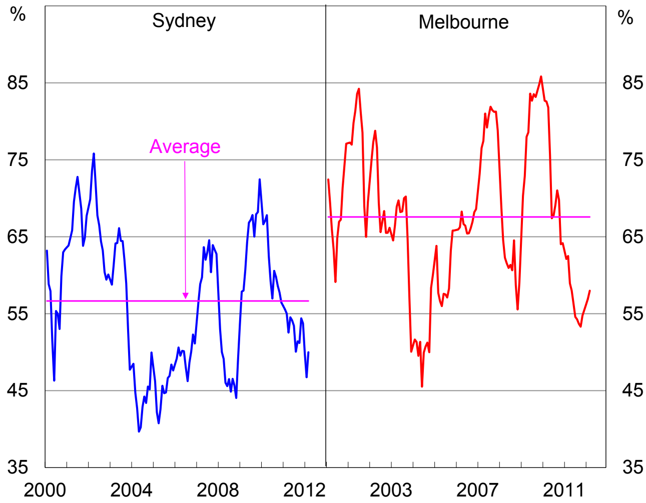
Sources: RBA; RP Data-Rismark

The fall in prices over the year has been broad-based: prices in Melbourne and Brisbane have fallen by around 5 to 6 per cent, while Sydney, Perth and Adelaide have fared slightly better, with prices down by between 2 and 4 per cent in year-ended terms. Prices also fell over the quarter in all cities (except Adelaide), while in April to date prices are up in Adelaide and Sydney and broadly flat in Perth.

Auction clearance rates remain below average in both Melbourne and Sydney, although they have risen above their respective late 2011 troughs, particularly in Melbourne (Graph 21).

Graph 21

Auction Clearance Rates

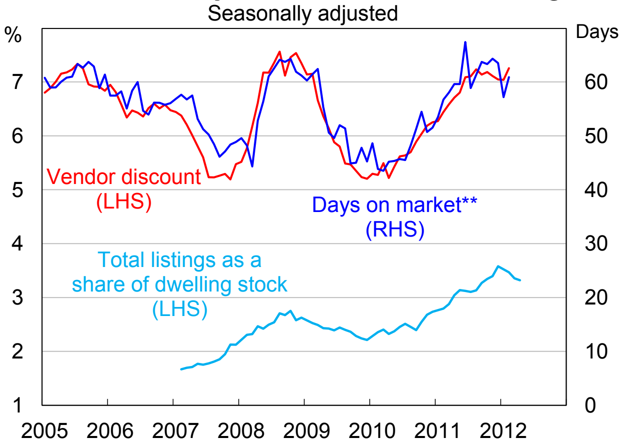


Sources: APM; RBA; REIV, RP Data

Graph 22

Discounts, Days on Market and Listings*

Seasonally adjusted

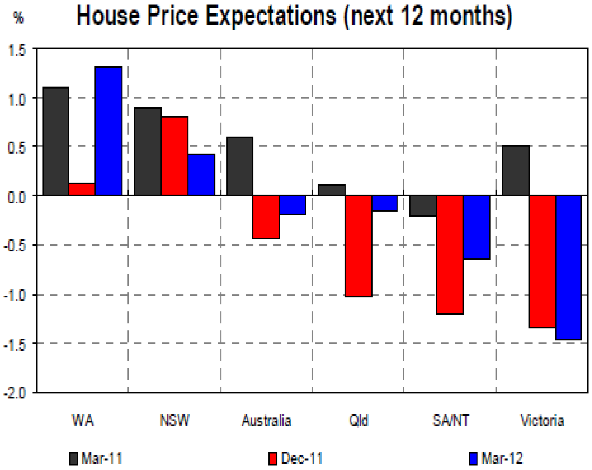


* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data

National turnover was revised lower for the December quarter and is close to its historical low of the early 1990s. Also, in the event of a sale, vendors are offering large discounts (Graph 22). Some other indicators point to a slight improvement, however: property listings have fallen by 7 per cent since the December peak and the number of days on market moderated during the quarter, although it ticked up in February.

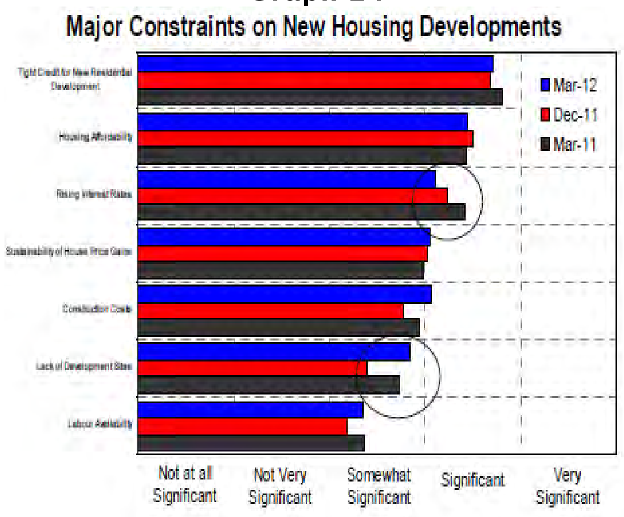
House price expectations over the next 12 months have been revised upwards in March quarter surveys (Graph 23). The [NAB survey] of property professionals reported that house prices are expected to fall by 0.2 per cent over the year (revised up from a 0.4 per cent fall), while a Westpac/Melbourne Institute consumer survey suggests 45 per cent of respondents expect rising prices and one third expect no change (these expectations compare to Financial Conditions' forecast of +1.0 per cent over the next 12 months). More affordable properties are expected to outperform the top end of the market.

Graph 23



Source: NAB

Graph 24



Source: NAB

The NAB survey also reports on the major constraints facing developers and buyers: developers cited tight credit conditions and housing affordability as the major impediments, while buyers of existing properties have reported poor access to credit and a lack of employment security. In line with recent policy moves, both groups reported interest rates as slightly less of a significant factor (Graph 24).

From:
Sent: Friday, 20 April 2012 4:05 PM
To:
Subject: FW: Info: Residex data [SEC=UNCLASSIFIED]
Attachments: Document1.docx

Some more granular house price data, also showing weakness in QLD.

From:
Sent: Friday, 20 April 2012 15:27
To:
Cc:
Subject: Info: Residex data [SEC=UNCLASSIFIED]

The data are from Residex and only cover Victoria, Queensland and New South Wales. I thought you may be interested to know about this because the data are more granular than the REIA data. Residex data cover 78 regions, with a little under half of these regional.

Changes Since Recent Peak in House Prices

20 regions with the largest falls on the east coast

	State	Fall	Peak
Southport	Qld	-16.2	Mar 2010
Manly Warringah	NSW	-16.1	Jun 2010
Brisbane City	Qld	-15.8	Mar 2010
Surfers Paradise	Qld	-13.6	Jun 2008
Eastern Suburbs	NSW	-12.5	Dec 2010
Noosa	Qld	-11.7	Mar 2010
Alexandra Hills	Qld	-10.9	Jun 2010
Mount Tamborine	Qld	-10.4	Mar 2010
Deception Bay	Qld	-9.8	Jun 2010
Beenleigh	Qld	-9.7	Mar 2010
Essendon	Vic	-9.6	Mar 2011
Glen Waverley	Vic	-9.4	Sep 2010
Ipswich	Qld	-9.0	Jun 2010
Box Hill	Vic	-8.6	Sep 2010
Riverina	NSW	-8.5	Mar 2011
Inner Melbourne	Vic	-8.3	Mar 2011
Redcliffe	Qld	-8.3	Sep 2010
Portland	Vic	-7.6	Dec 2011
Wynnum	Qld	-7.3	Jun 2010
Meadow Heights	Vic	-7.2	Mar 2011

Source: Residex

From:
Sent: Friday, 20 April 2012 10:08 AM
To:
Cc:
Subject: Residential property prices
Attachments: Document1.docx

has pulled together some data on changes in residential property prices (including by regions) as background to the valuation question. This gives a broad indication of the amount that banks may be revaluing properties by. See attached.

From:
Sent: Friday, 20 April 2012 09:59
To:
Cc:
Subject: Document1 [SEC=UNCLASSIFIED]

Please see attached. RP Data are to March, APM and REIA data are to December.

Outside of this, one point that might be worth looking into for more detail in the future is banks' valuation on loans they are already holding. As if they are over-valuing loans that default they are more likely to make revisions to loan impairments, and increase their flow of bad and doubtful debts (reducing profit). I imagine that many banks buy new valuations (from a company like RP) when required, but don't change these valuations unless the customer would like to refinance or redraw and so on. This practice could cause large revaluations (see below).

Changes in Capital City Housing Prices

Per cent

	RP Data-Rismark		APM	REIA
	This year	Year to March 2012	Year to December 2011	Year to December 2011
Sydney	-1.2	-3.1	-1.1	1.4
Melbourne	-1.8	-5.5	-2.4	-7.5
Brisbane	-1.4	-6.1	-7.1	-4.5
Adelaide	-1.8	-5.7	-3.6	-4.4
Perth	-1.9	-3.7	-4.9	-5.3
Darwin	5.1	-3.9	--	-6.9
Canberra	-0.3	-0.1	--	-4.2
Hobart	5.4	-7.4	--	-4.5
Australia	**-1.4**	**-4.4**	**-2.8**	**-3.3**

Sources: APM; RBA; RP Data-Rismark

Changes in Regional House Prices

Per cent

		Year to December 2011
Geraldton	WA	-12.5
North-West Centres	Tas	-11.8
Gold Coast	QLD	-8.0
Cairns	QLD	-7.2
Mandurah	WA	-6.2
Palmerston	NT	-5.9
Townsville	QLD	-5.3
Sunshine Coast	QLD	-5.0
Bunbury	WA	-4.9
Wollongong	NSW	-4.2
Alice Springs	NT	-3.9
Newcastle	NSW	-1.9
Kalgoorlie/Boulder	WA	-1.9
Mount Gambier	SA	-1.0
Geelong	Vic	1.5
Launceston	Tas	1.8
Ballarat	Vic	4.5
Port Lincoln	SA	11.3
Bendigo	Vic	14.2
Riverland	SA	40.1

Source: REIA

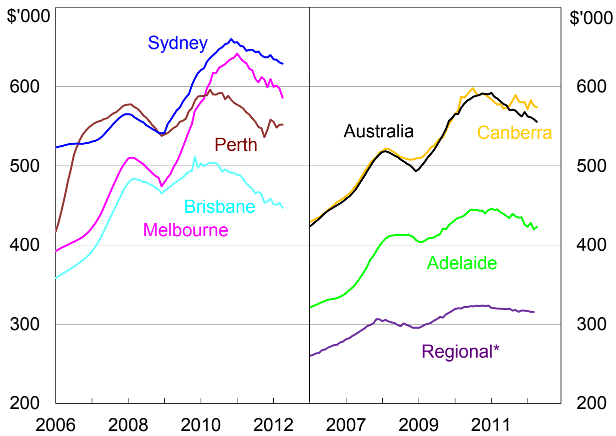
The established housing market remains soft, with data from RP Data-Rismark (RP) indicating a seasonally-adjusted fall of 1.6 per cent over the March quarter and 4.4 per cent over the year. In year-ended terms other data sources broadly corroborate this story, with prices falling by between 2½ to 4½ per cent. Within the March quarter however, there are contradictory signs: RP and ABS recorded falls of 1 to 1½ per cent, while APM and Residex indicate a rise of ½ a per cent. Although this divergence is likely due to weak turnover it nonetheless creates uncertainty around the recent characterisation of a 'weak but stabilising market'.

Dwelling Prices

Monthly data from RP suggests that capital city dwelling prices fell by 1.6 per cent over the March quarter and 4.4 per cent over the year (Graph 1 & Table 1). They fell a further 0.6 per cent in the month of April. Prices are around 6 per cent below the January 2011 peak, compared to a 5 per cent fall in the 2008 downturn. The weakness has been broad-based, with all of the five major capital cities recording price falls. Conditions are weakest in Melbourne and Brisbane, which have fallen by 6 to 7 per cent over the year to April, while prices in Perth remain 3 per cent above the October 2011 trough.

Graph 1

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in mainland states
Sources: RBA; RP Data-Rismark

APM March quarter data paints a different picture: prices in Sydney, Melbourne and Perth reportedly *rose*, with Sydney prices flat in year-ended terms.

Table 1 - Capital City Dwelling Price Measures

Percentage change

	RP Data-Rismark *Hedonic*			APM *Compositional adj.*	
	Month April	Quarter March	Year-ended March	Quarter March	Year-ended March
Sydney	-0.2	-1.5	-3.1	1.8	0.0
Melbourne	-1.9	-2.0	-5.5	0.7	-3.9
Brisbane	-1.3	-1.2	-6.2	-1.3	-5.1
Adelaide	0.7	-1.4	-5.6	-1.2	-4.4
Perth	0.0	-1.2	-3.5	0.1	-3.3
Australia	**-0.6**	**-1.6**	**-4.4**	**0.6**	**-2.5**

Sources: APM; RP Data-Rismark

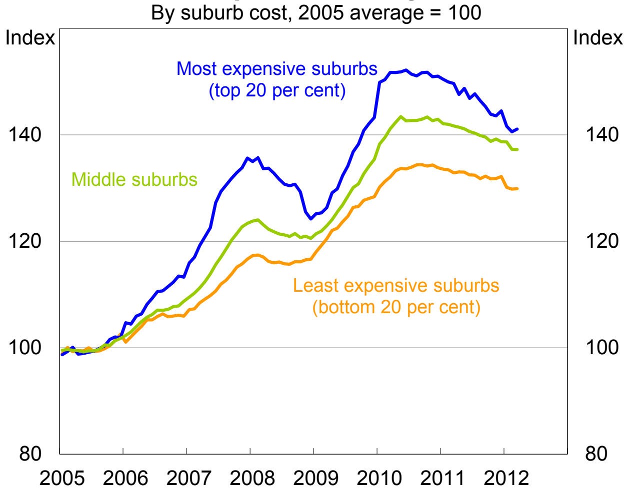
Market Segments within Capital Cities

Dwelling prices in more expensive suburbs continued to fall faster than in other suburbs in the March quarter, although for the month of March expensive suburbs increased by ½ a per cent. Over the year, dwellings in the dearest 20 per cent of suburbs fell by 5½ per cent, compared with falls of around 2-3 per cent in other suburbs (Graph 2; Appendix Table 1; aggregate price changes differ from those in the main RP series as the series are constructed differently). This trend holds across Sydney, Melbourne and Perth, although in Brisbane and Adelaide prices have fallen further in more affordable suburbs.

Graph 2

State Capital Dwelling Prices

By suburb cost, 2005 average = 100



Source: RBA; RP Data-Rismark

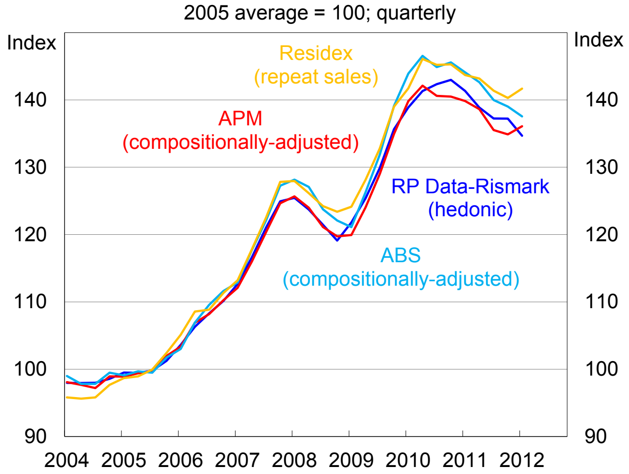
House Prices

The ABS measure of capital-city house prices fell by 1.1 per cent in the March quarter, following a 0.7 per cent fall in the December quarter. This price change has the same sign as the RP measure (-1.8 per cent), but is in contrast to Residex (+0.6 per cent) and APM (+0.9 per cent), despite both APM and ABS using similar stratification techniques to construct their indexes (Graph 3).[1] In year-ended terms, the ABS measure fell by 4.5 per cent, which compares to falls of 4.7 per cent, 3.0 per cent and 2.7 per cent according to RP, Residex and APM, respectively (Graph 4; Appendix Table 2).

Graph 3

National House Prices

2005 average = 100; quarterly

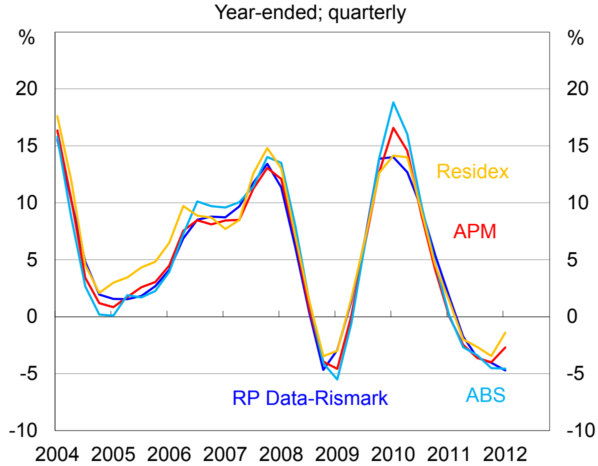


Sources: ABS; APM; RBA; Residex; RP Data-Rismark

Graph 4

National House Price Growth

Year-ended; quarterly



Sources: ABS; APM; RBA; Residex; RP Data-Rismark

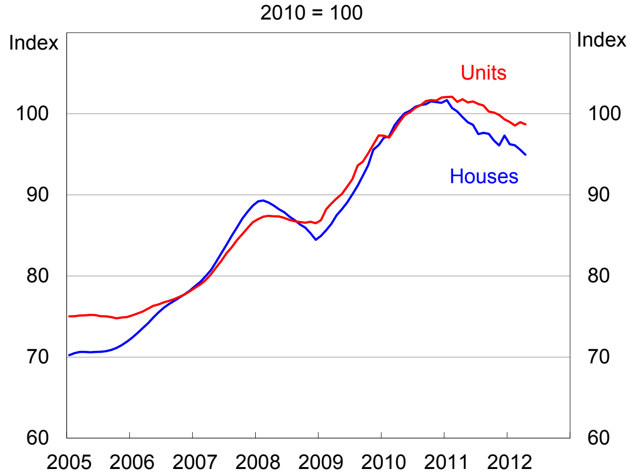
Apartment Prices

According to RP, unit prices fell by 0.3 per cent in the three months to April, while house prices fell by 1.3 per cent. In year-ended terms unit prices have held up better than house prices, falling by 3 per cent, compared to houses which fell by 4.7 per cent (Graph 5; Appendix Table 3).

Graph 5

House and Unit Prices

2010 = 100

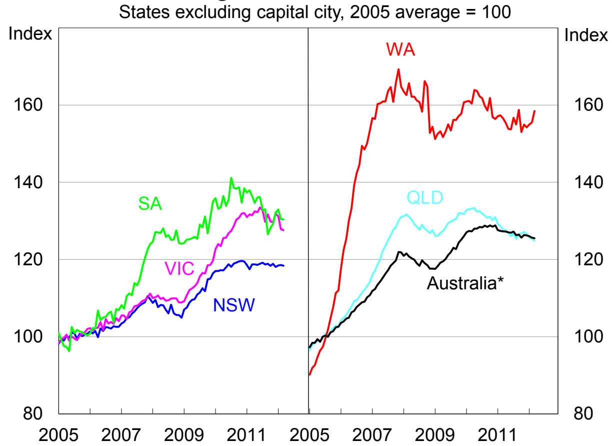


Source: RP Data-Rismark

Graph 6

Regional House Prices

States excluding capital city, 2005 average = 100



* Weighted average of the five states shown

Sources: RBA; RP Data-Rismark

Regional House Prices

House prices in Australia's regional areas fell by 0.6 per cent in the March quarter, according to RP, following a fall of 0.2 per cent in the December quarter. Regional prices are down by around 1½ per cent in year-ended terms, with South Australia down 4½ per cent, Victoria and Queensland falling by around 2½ per cent, New South Wales flat and Western Australia growing by 1.2 per cent (Graph 6).

[1] APM measure the prices of houses and units whereas the ABS series only covers house prices. However, the ABS will start publishing a dwelling price series (that is, a composite of houses and units) in the upcoming June quarter release.

Project Home Prices

According to the ABS, capital city project home prices were flat in the March quarter to be 0.6 per cent higher over the year (Graph 7; Table 2).

Graph 7

Project Home Prices

Percentage change

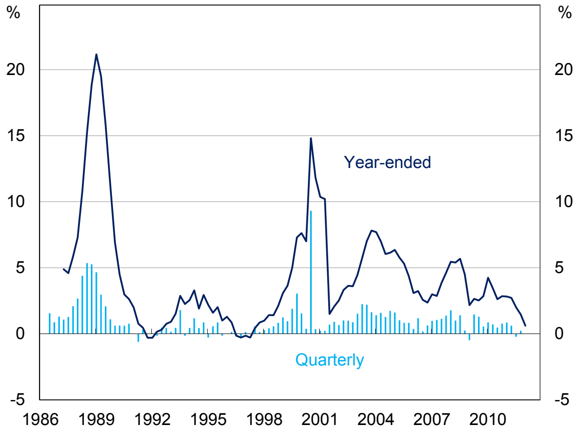


Table 2 - Project Home Prices

Percentage change

	Dec-11	Mar-12	Year to Mar-12
Sydney	0.7	0.2	1.8
Melbourne	-0.3	-0.2	0.3
Brisbane	0.0	-0.2	-1.1
Adelaide	0.1	-0.3	-1.5
Perth	0.4	0.6	2.1
All Capitals	**0.2**	**0.0**	**0.6**

Source: ABS

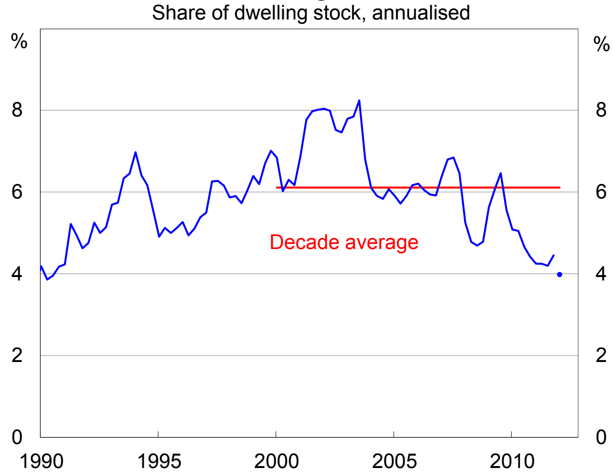
Turnover, Discounting, Listings and Days on Market

Preliminary data for the March quarter suggest that the national turnover rate fell, while data for the December quarter was revised upwards. The turnover rate is well below the decade average and at a level not observed since the early 1990s (Graph 8). Total property listings have fallen by 10 per cent since the December peak, driven by broad-based falls in new listings. Both days on market and vendor discounting have also increased, more than offsetting the brief dip in January (Graph 9).

Graph 8

National Dwelling Turnover Rate

Share of dwelling stock, annualised

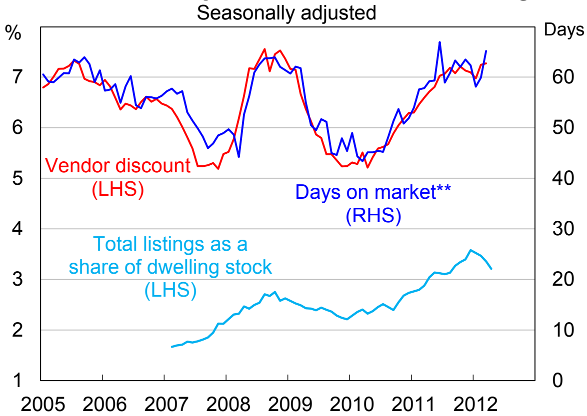


Sources: ABS; RBA; RP Data-Rismark

Graph 9

Discounts, Days on Market and Listings*

Seasonally adjusted



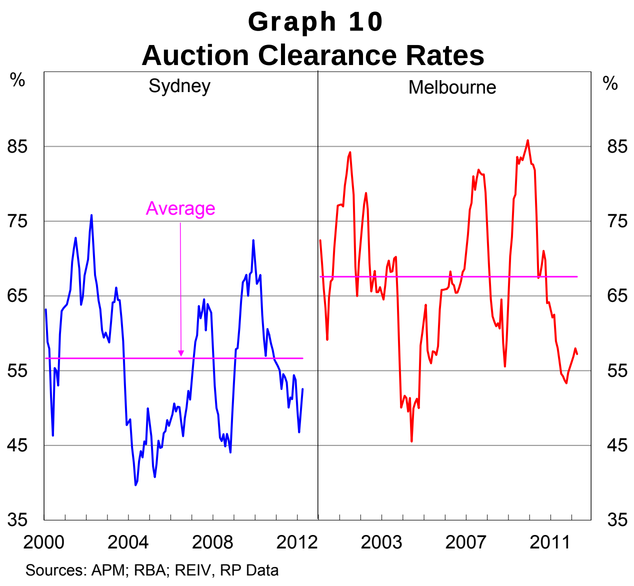
* Weighted by capital city dwelling stock; dwelling stock estimated from 2006

** Excludes withdrawn properties

Sources: ABS; RBA; RP Data

Auction Clearance rates and Rental Yields

Auction clearance rates remain below average in both Melbourne and Sydney, although they have risen above their respective troughs of late 2011 (Graph 10).



Next release: 1 August 2012

Financial Conditions Section
Economic Analysis Department
2 May 2012

Appendix

Table A1 - Dwelling Price Growth

Percentage change - March 2012

	Monthly	Quarterly	Yearly	Affordable Lowest 20%	Middle Middle 60%	Expensive Highest 20%	Houses y/y	Units y/y	Regional Houses y/y
Sydney	-0.5	-1.5	-3.1	1.0	0.5	-6.2	-3.5	-1.5	-0.3
Melbourne	-0.7	-2.0	-5.5	-5.2	-6.9	-7.9	-5.8	-3.0	-2.9
Brisbane	0.5	-1.2	-6.2	-4.8	-4.3	-0.3	-6.6	-2.3	-2.2
Perth	0.7	-1.2	-3.5	0.6	-2.5	-5.1	-3.3	-7.1	1.2
Adelaide	-1.9	-1.4	-5.6	-6.6	-5.0	-2.9	-5.8	-3.6	-4.4
Canberra	-1.2	-0.8	-0.2	--	--	--	-0.1	-1.6	--
Darwin	-0.2	4.5	-3.9	--	--	--	-3.4	-6.0	--
Australia	**-0.4**	**-1.6**	**-4.4**	**-2.3**	**-3.1**	**-5.7**	**-4.7**	**-2.5**	**-1.4**

Source: RP Data-Rismark

Table A2 - Capital City House Price Measures

Percentage change; quarterly

	ABS *Compositional adj.*		RP Data-Rismark *Hedonic*		APM *Compositional adj.*	
	Mar qtr	Year-ended Mar qtr	Mar qtr	Year-ended Mar qtr	Mar qtr	Year-ended Mar qtr
Sydney	-1.8	-4.6	-1.5	-3.5	1.4	-0.9
Melbourne	-2.2	-6.6	-2.1	-5.8	1.6	-3.6
Brisbane	0.4	-3.7	-1.7	-6.6	-0.3	-4.1
Adelaide	-0.9	-3.8	-1.9	-5.9	-0.3	-3.9
Perth	1.1	-1.7	-1.7	-3.3	0.1	-3.1
Canberra	1.2	-0.5	0.0	0.0	0.9	-3.1
Hobart	-2.7	-6.7	--	--	1.0	-0.7
Darwin	4.4	3.5	3.3	-3.5	6.0	-1.5
Regional*	--	--	-0.6	-1.4	1.1	0.0
Australia	**-1.1**	**-4.5**	**-1.8**	**-4.7**	**0.9**	**-2.7**

* Measured as areas outside of capital cities in NSW, VIC, QLD, WA and SA

Sources: ABS; APM; RP Data-Rismark

Table A3 - Capital City Unit Price Measures

Percentage change; quarterly

	APM *Compositional adj.*		RP Data-Rismark *Hedonic*		Simple Average	
	Mar qtr	Year-ended Mar qtr	Mar qtr	Year-ended Mar qtr	Mar qtr	Year-ended Mar qtr
Sydney	2.5	1.5	-0.7	-1.5	0.9	0.0
Melbourne	-2.1	-5.1	0.0	-3.0	-1.0	-4.1
Brisbane	-5.4	-8.8	-0.5	-2.4	-3.0	-5.6
Adelaide	-5.0	-6.6	2.5	-3.6	-1.2	-5.1
Perth	-0.1	-4.4	-1.2	-7.3	-0.6	-5.9
Capital Cities	**0.0**	**-2.1**	**0.1**	**-2.4**	**0.1**	**-2.2**

Sources: ABS; APM; RP Data-Rismark

From:
Sent: Friday, 4 May 2012 3:15 PM
To: FS Analysts
Subject: Genworth Australia Results - March Quarter 2012 [SEC=UNCLASSIFIED]

Genworth's Australian division reported a net operating loss of $21 million for the quarter to March 2012. This is largely the result of a $53 million increase in its reserve for future claims.

- Genworth is currently experiencing an unexpectedly high number of claims, as well as an increase in the average claim size; the company expects these higher claims costs to continue, and has strengthened its reserve accordingly. One of the contributors to the higher claims costs are larger loan balances and forebearance practices at some lenders.
- Queensland business is the main driver of the higher claims cost, particularly those regions reliant on tourism and consumer spending (mainly coastal QLD); these areas are not only affected by an increase in the number of defaults due to reduced income, but larger losses due to a 12-17 per cent decline in property values. Genworth is updating its property valuations.
- The worst of this experience is from loans written in 2007/08, which appear to be the most heavily impacted by economic downturn.
- Genworth also claims that lenders are taking longer to finalise loan foreclosures – both through being slower to initiate the foreclosure and a long foreclosure process; it appears that Genworth did not anticipate this, but has now accounted for it in its reserving. It is working with some lenders on their practices to try to minimise claims.

For further information, please see [Genworth's Australia Mortgage Insurance 1Q12 Results].

| Analyst | Financial Stability Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000

RESERVE BANK
OF AUSTRALIA

IMF FSAP Presentation

Financial Stability Department
Reserve Bank of Australia

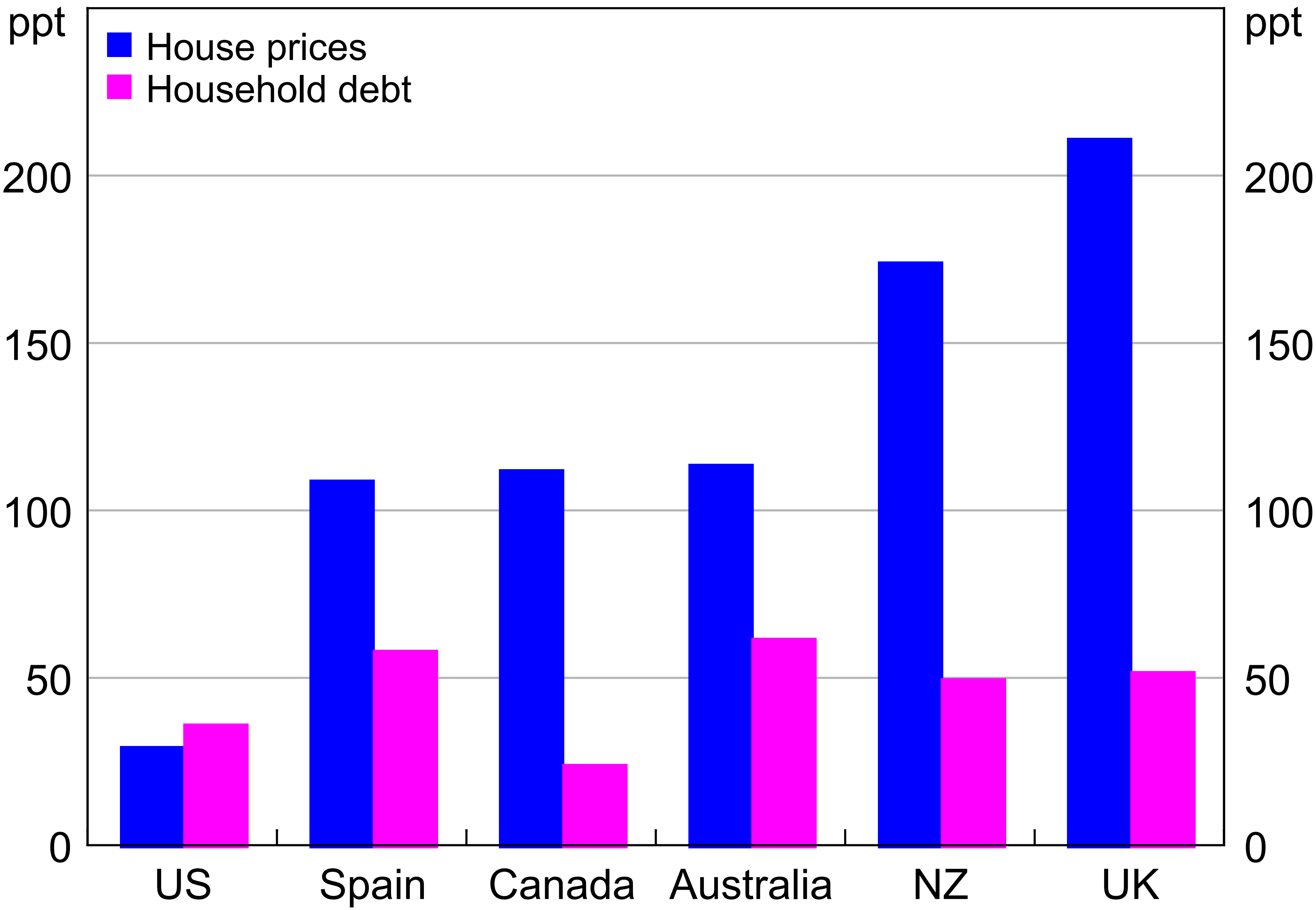
9 May 2012

RESERVE BANK
OF AUSTRALIA

Housing and households

House Prices and Household Debt

Percentage point change in ratios to household income*
(2000 to 2006)

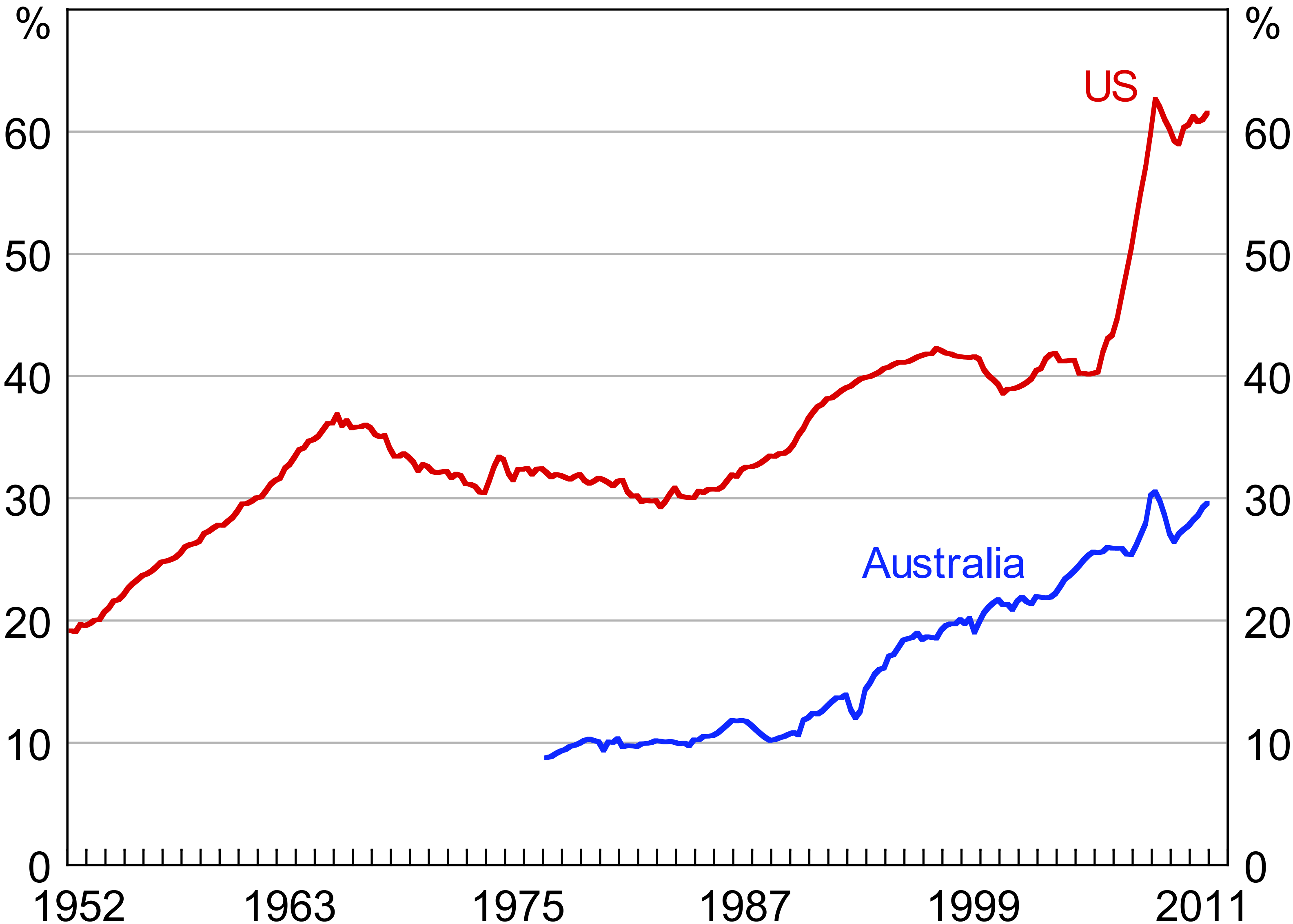


* Household income is after tax, before interest payments

Sources: BIS; national sources

Leverage on the Housing Stock

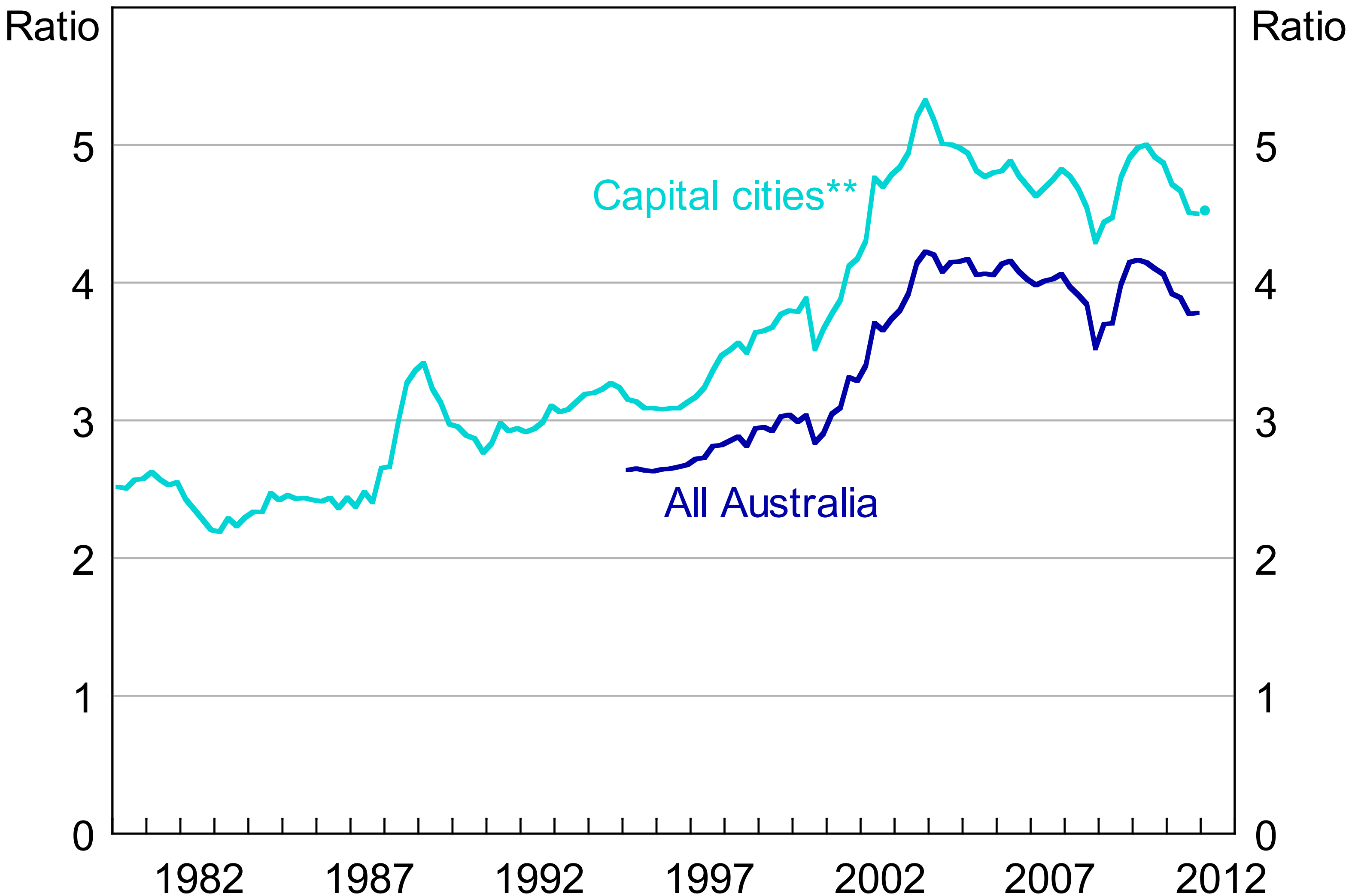
Mortgage debt as a per cent of housing assets



Sources: ABS; Board of Governors of the Federal Reserve System; RBA; RP Data-Rismark; Thomson Reuters

Dwelling Prices*

Per cent of average annual household disposable income



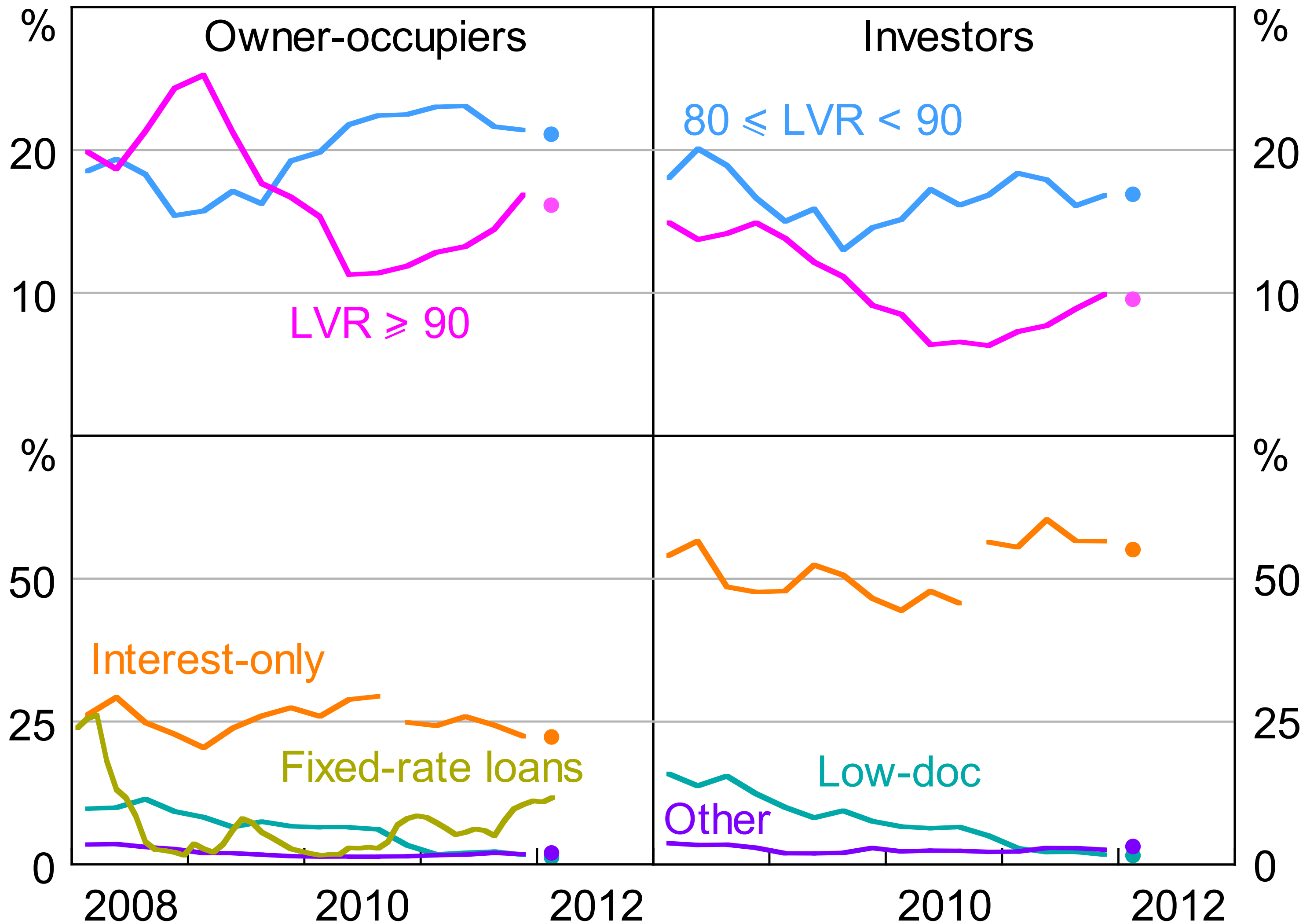
* Household disposable income excludes unincorporated enterprises and is before interest payments

** RBA estimate for March quarter 2012

Sources: ABS; RBA; REIA; RP Data-Riskmark

Banks' Housing Loan Characteristics*

Share of new loan approvals

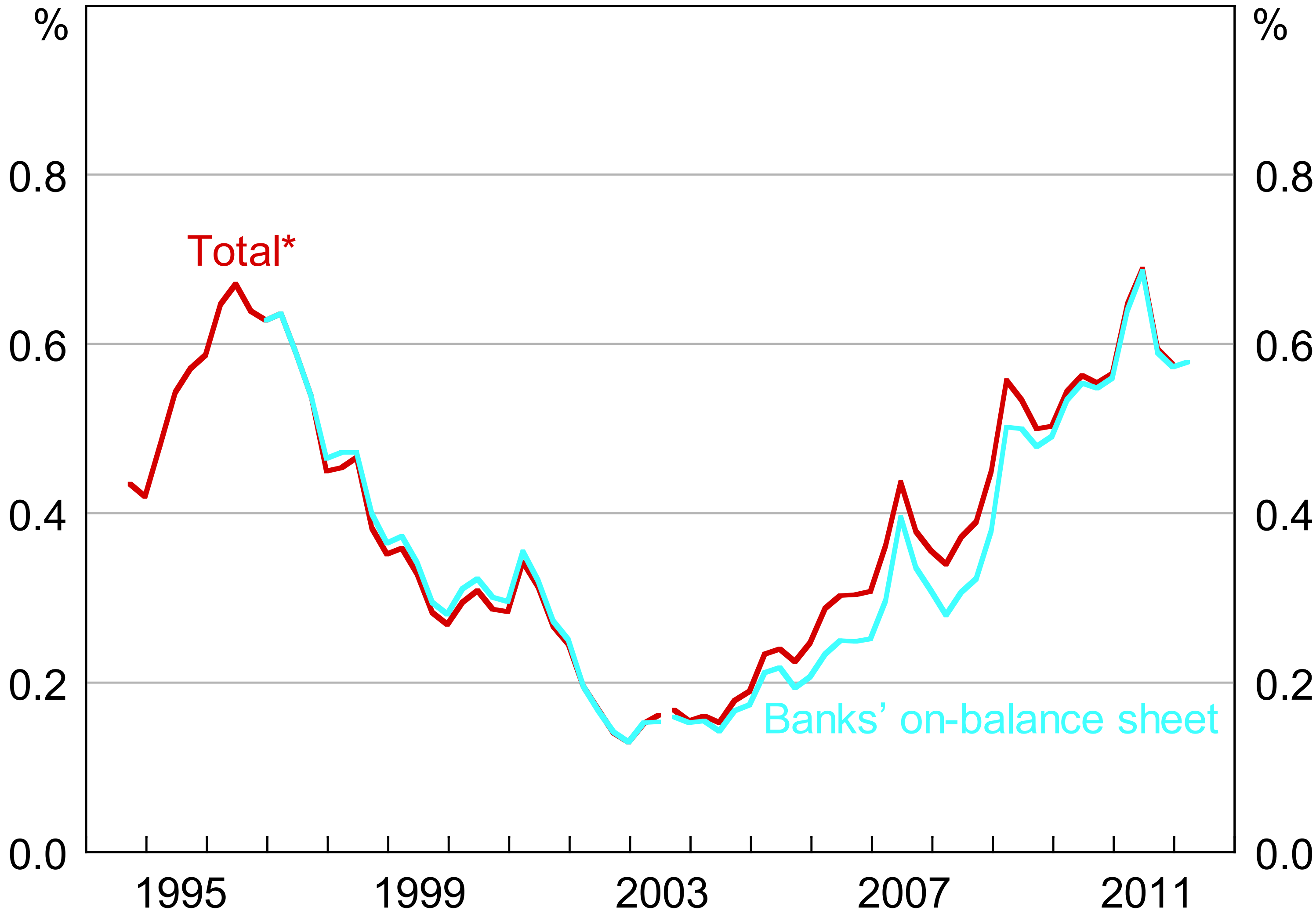


* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts; RBA estimates for March quarter 2012

Sources: ABS; APRA; RBA

Housing Loan Arrears

90+ days past due, share of outstandings

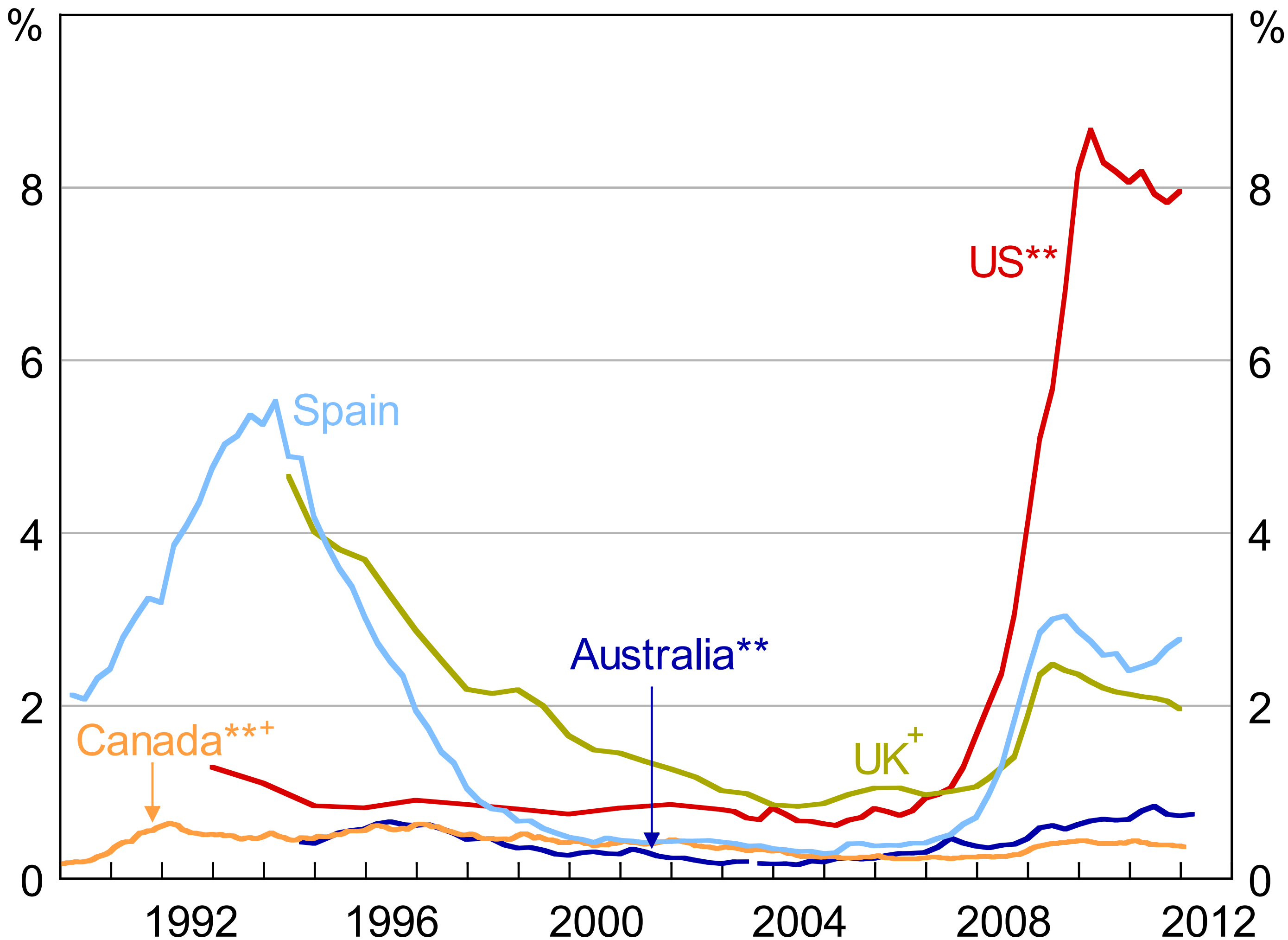


* Includes banks' on-balance sheet loans and securitised loans from October 1997 onwards; securitised loans include only prime loans prior to April 2003 and loans securitised by all lenders afterwards; on-balance sheet loans are 90+ days past due but otherwise well secured by collateral

Sources: APRA; Perpetual; RBA

Non-performing Housing Loans

Per cent of loans*



* Per cent of loans by value; includes 'impaired' loans unless otherwise stated; for Australia, only includes loans 90+ days in arrears prior to September 2003

** Banks only

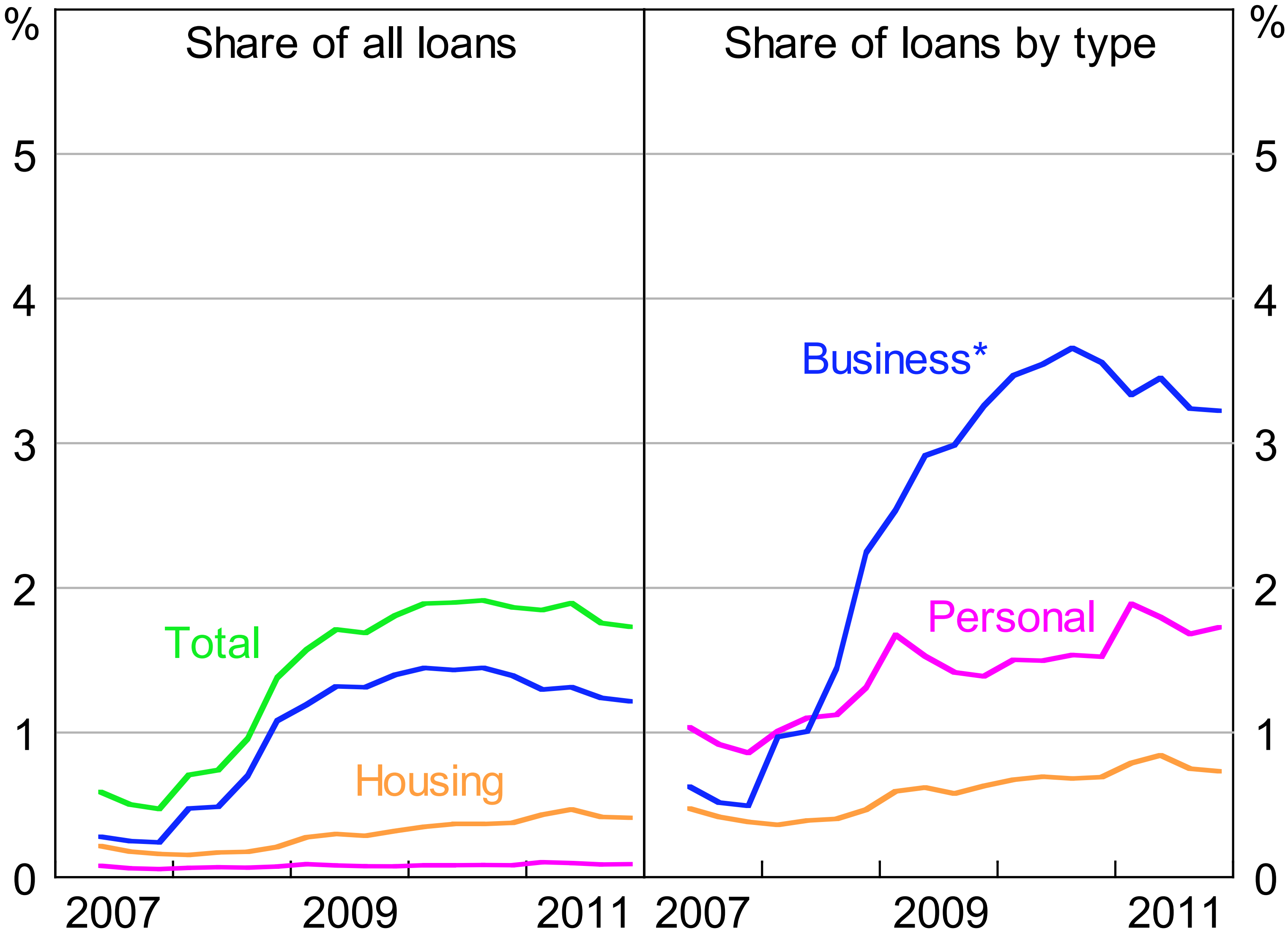
\+ Per cent of loans by number that are 90+ days in arrears

Sources: APRA; Bank of Spain; Canadian Bankers Association; Council of Mortgage Lenders; FDIC; RBA

Commercial property and Banks’ asset quality

Banks' Non-performing Assets

Domestic books

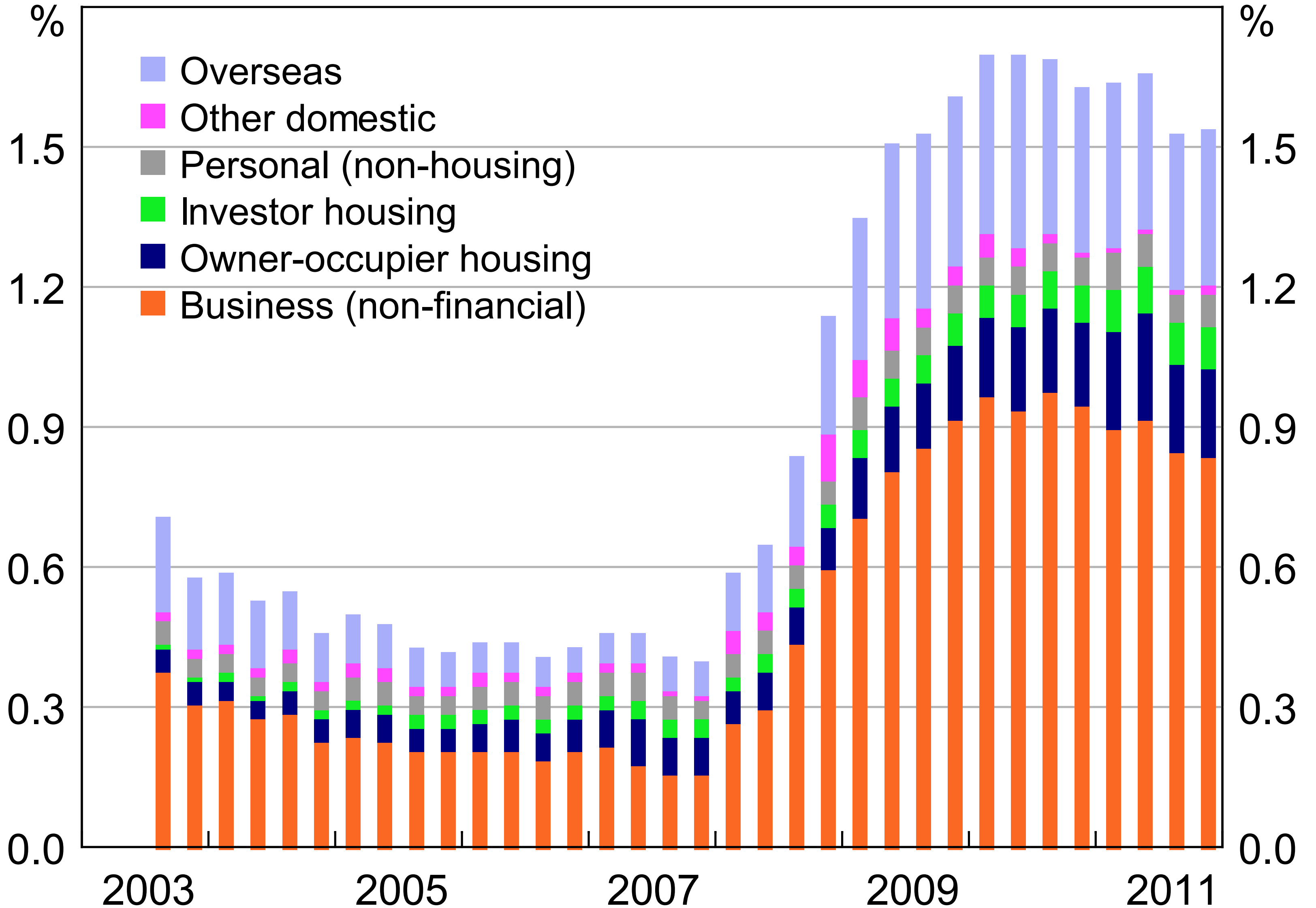


* Includes lending to financial businesses, bills and debt securities and other non-household loans

Source: APRA

Banks' Non-performing Assets*

Consolidated global operations, share of on-balance sheet assets



* Includes 90+ days past due assets that are well secured

Source: APRA

APRA CREDIT CONDITIONS SURVEY – MARCH QUARTER 2012[1]

For housing loans, results were mixed with some banks reporting lower lending margins due to increased funding costs and others reporting higher margins after they repriced variable loans and reduced discounts. The performance of housing loans weakened further, with most banks reporting increases in claims on lenders' mortgage insurers and some reporting increases in the number of mortgages-in-possession. Most banks expected no change in delinquency rates and demand for business and housing credit over the June quarter.

Housing lending

Lending standards for housing loans were little changed during the March quarter, although some banks reported competitive pressure to ease standards. banks reported lower *lending margins,* while reported higher margins Lower lending margins were attributed to rising costs of funds and 'strong' competition for new lending, while higher margins were attributed to re-pricing of variable loans and reduced discounts. Non-price mortgage competition was little changed during the March quarter, with bank reporting a decrease in its maximum *loan-to-valuation ratio*. Looking forward, banks expected lending margins to decline over the June quarter, while expected them to increase.

Reported asset performance continued to weaken, with banks reporting a higher number of *mortgages-in-possession* and reporting higher *claims on lenders' mortgage insurers* Even so, banks recorded lower number of mortgages-in-possession. For the June quarter, banks expected no change in delinquent loans, while expected them to increase.

BRIEFING MAY 2012 – BANKS' ASSET PERFORMANCE AND LENDING STANDARDS

Key points

- *Banks' asset performance has improved slightly since mid 2011 but remains worse than the pre-crisis period.*

Asset performance

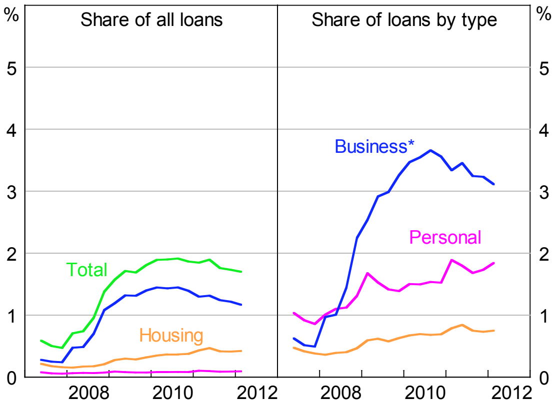
- The non-performing share of banks' total on-balance sheet assets fell to 1.5 per cent in March 2012, after hovering around 1.7 per cent over 2010 and much of 2011.

- After trending up over the previous few years, the non-performing share of **domestic housing** loans has come down a little since mid 2011, to 0.8 per cent in March 2012. Though they still account for only a small share of banks' total non-performing housing loans, impaired housing loans have drifted up over recent years. This is consistent with the weakness in housing prices in many parts of the country.

Graph 1

Banks' Non-performing Assets

Domestic books



* Includes lending to financial businesses, bills and debt securities and other non-household loans

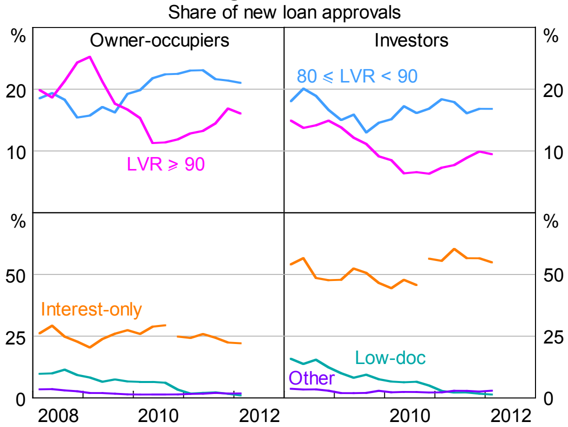
Source: APRA

- The **inflow of newly impaired assets** remains elevated and has been relatively constant over the past two years, at a much higher level than prior to the crisis. The stickiness in banks' impaired assets could reflect a number of factors, including the pressures some business borrowers are facing from the high exchange rate and subdued domestic retail spending, and recent weakness in house prices making it harder for mortgage borrowers in difficulty to refinance or sell their dwelling.

Lending standards

- Industry surveys of banks on lending standards for housing show little change over the six months to March. This is in line with **housing loan approvals** data showing that the share of housing loan approvals with high loan-to-valuation ratios (above 90 per cent) has been little changed over the past six months (Graph 4).
- Low-doc and non-standard housing loans continue to account for a very small share of loan approvals.

Graph 4
Banks' Housing Loan Characteristics*
Share of new loan approvals



* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts

Source: APRA

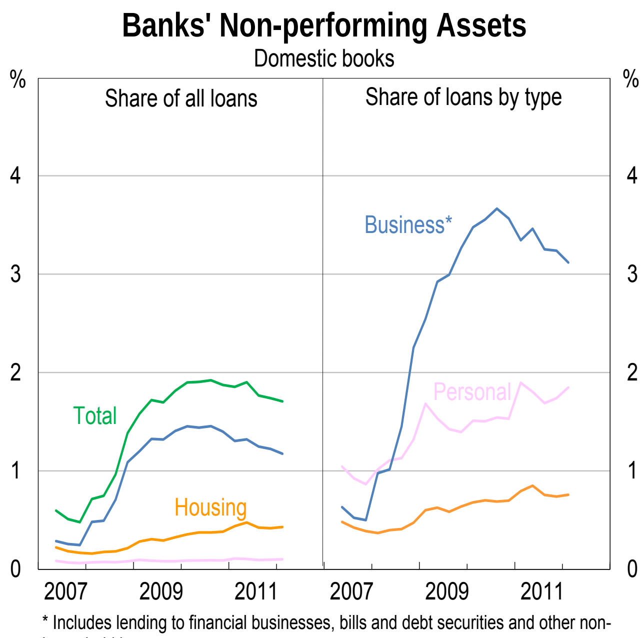
BRIEFING FOR PARLIAMENTARY HEARING XX MAY 2012 – BANKS' ASSET PERFORMANCE

Key points

- *Banks' domestic and overseas asset performance has improved since mid 2011 but remains worse than in the pre-crisis period.*
- *Domestically, the improvement is evident in both housing and business loan portfolios and has been driven by the major banks and smaller Australian-owned banks.*
- *The flow of newly impaired assets remains high.*

Domestic Books

Graph 1



* Includes lending to financial businesses, bills and debt securities and other non-household loans
Source: APRA

For housing loans, the non-performing share has trended up over the past few years, though it has come down a little since mid 2011, to around 0.8 per cent in March 2012.

- Though they still account for only a small share of banks' total non-performing housing loans, impaired housing loans have drifted up over recent years, including in the March 2012 quarter. This is consistent with the weakness in housing prices in many parts of the country.

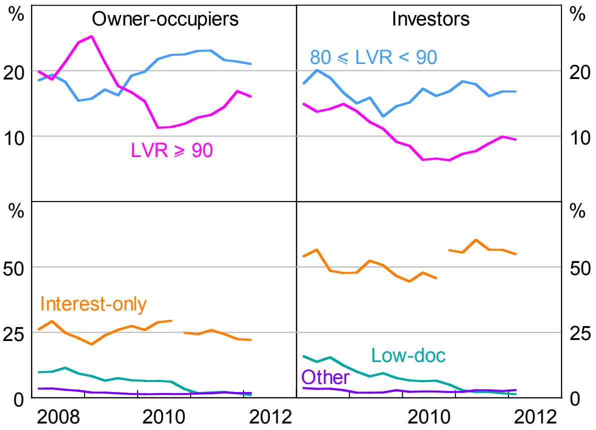
Financial Stability
21 May 2012

PROPERTY

Preliminary estimates suggest that capital city dwelling prices have fallen by 1 per cent over May to date, and are down 2 per cent over the quarter and 5 per cent over the year, with broad-based weakness across the major capital cities. Other housing indicators remain weak: low turnover has led to a high stock of unsold homes; vendors continue to offer large discounts; auction clearance rates remain below average (although auction clearance rates and listings have shown some signs of improvement recently); and the value of housing loan approvals are around 2 per cent higher over the year.

Lending Conditions

Graph 8
Banks' Housing Loan Characteristics*
Share of new loan approvals



* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts
Source: APRA

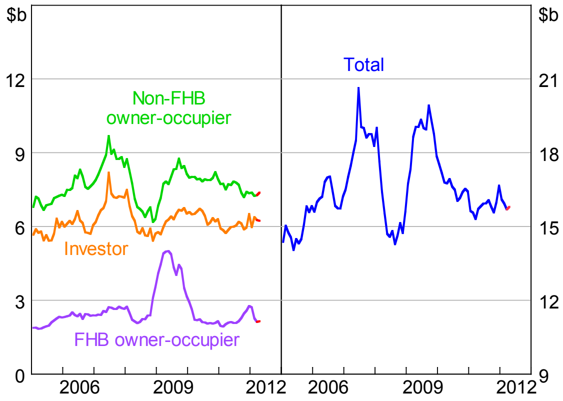
Preliminary APRA data suggest that the share of new housing loan approvals with a **loan-to-valuation ratio** (LVR) above 90 per cent fell slightly in the March quarter 2012. For owner-occupiers, this share fell by 1 percentage point to 16 per cent, which is 6½ percentage points above the trough in the June quarter 2010. For investors, the share with high-LVR loan approvals was broadly steady and remained well below that of owner-occupiers. The fall in high LVRs for owner occupiers is likely to reflect subdued first-home buyer (FHB) activity following the expiration of stamp duty exemptions in New South Wales for existing properties (Graph 8). According to the confidential APRA Credit Conditions Survey there was little change in lending standards for housing loans in the March quarter although some banks reported competitive pressure to ease standards.

The share of housing loans approved at fixed rates fell slightly in April, but is still around 3 percentage points above its long-run average. Periods of expansionary monetary policy are usually associated with falling demand for fixed-rate loans, so this fall may be reflecting expectations of lower interest rates.

HOUSEHOLD SECTOR FINANCING

The total value of housing **loan approvals** is estimated to have risen by around 1 per cent in April, to be around 2 per higher over the year (Graph 13). Owner-occupier loan approvals increased by 1½ per cent due to slightly higher first home buyer and repeat buyer approvals in the Eastern states. In contrast, investor loan approvals were flat; excluding approvals for new construction, investor approvals fell by 4 per cent.

Graph 13
Value of Housing Loan Approvals
Net of refinancing



Sources: ABS; APRA

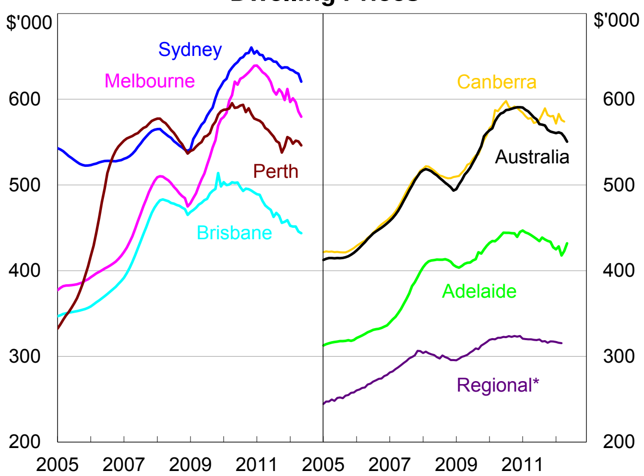
Residential Property

According to the RP Data-Rismark index, capital city **dwelling prices** have fallen 1.1 per cent over May to date, to be 2.0 per cent lower over the quarter and 4.9 per cent over the year (Graph 15, Table 2). The current peak-to-trough decline (-6.8 per cent) is larger than 2008 downturn (-4.8 per cent), and has lasted 7 months longer.

The fall in prices over the year has been broad-based: prices in Melbourne and Brisbane have fallen by around 6 to 7½ per cent, while Sydney, Perth and Adelaide have fared slightly better, with prices down by between 2 and 4 per cent in year-ended terms. Prices in Sydney and Melbourne have fallen by 1.5 per cent and 1.1 cent, respectively, over May to date according to preliminary estimates.

Graph 15

Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in New South Wales, Victoria, Queensland, Western Australia and South Australia
Sources: RBA; RP Data-Rismark

Table 2

Dwelling Price Growth

As at 21 May 2012; per cent

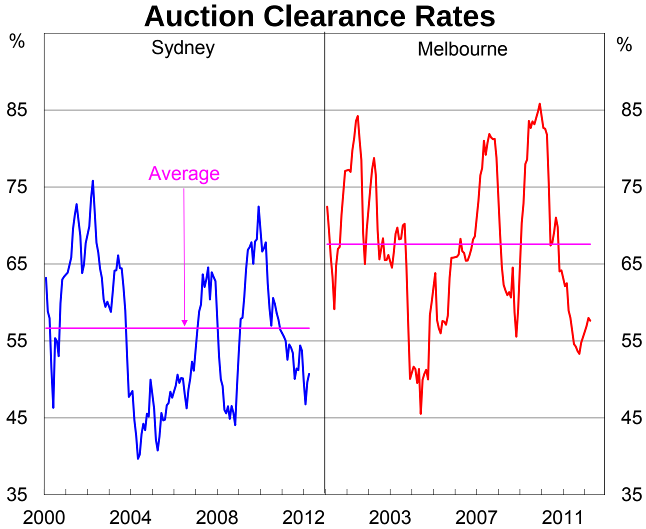
	Monthly	Quarterly	Yearly
Sydney	-1.5	-2.1	-4.2
Melbourne	-1.1	-3.6	-7.4
Brisbane	-0.4	-1.7	-6.2
Perth	-0.8	-0.4	-3.2
Adelaide	2.1	0.8	-1.7
Australia	**-1.1**	**-2.0**	**-4.9**

Sources: RBA; RP Data-Rismark

Auction clearance rates remain below average in both Melbourne and Sydney, although they have risen above their late 2011 troughs (Graph 16). Preliminary national turnover for the March quarter is around 4 per cent of the dwelling stock, which is close to its historical low of the early 1990s. This has led to a high stock of unsold homes (3.4 per cent of the dwelling stock), though listings have fallen by around 5 per cent since the December peak (Graph 17).

Graph 16

Auction Clearance Rates

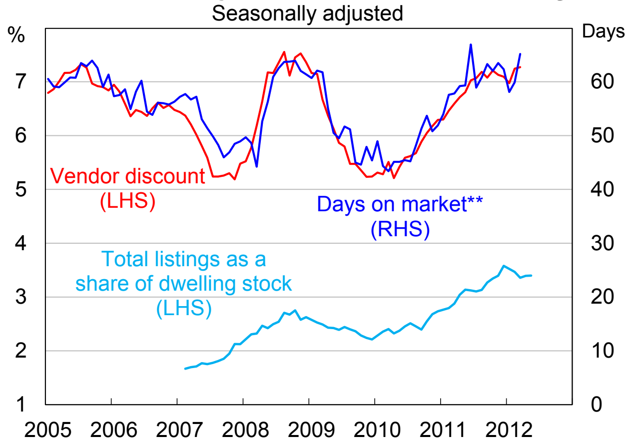


Sources: APM; RBA; REIV, RP Data

Graph 17

Discounts, Days on Market and Listings*

Seasonally adjusted



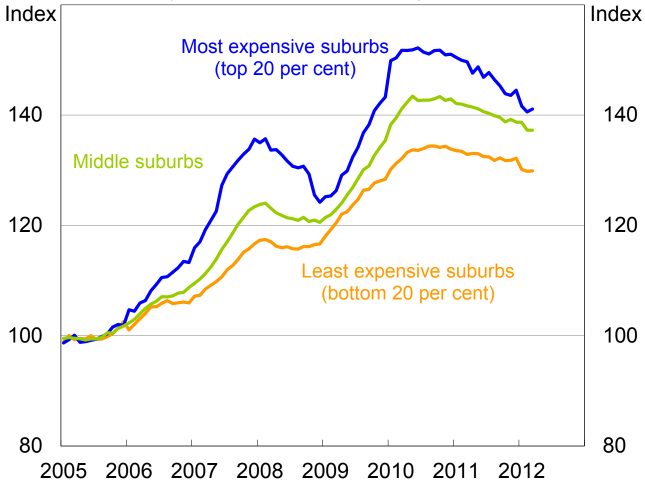
* Weighted by capital city dwelling stock; dwelling stock estimated from 2006
** Excludes withdrawn properties
Sources: ABS; RBA; RP Data

Year-ended prices have fallen further in more expensive suburbs than in more affordable suburbs, and apartment prices have held up better than house prices (Graphs 18 & 19).

Graph 18

State Capital Dwelling Prices

By suburb cost, 2005 average = 100

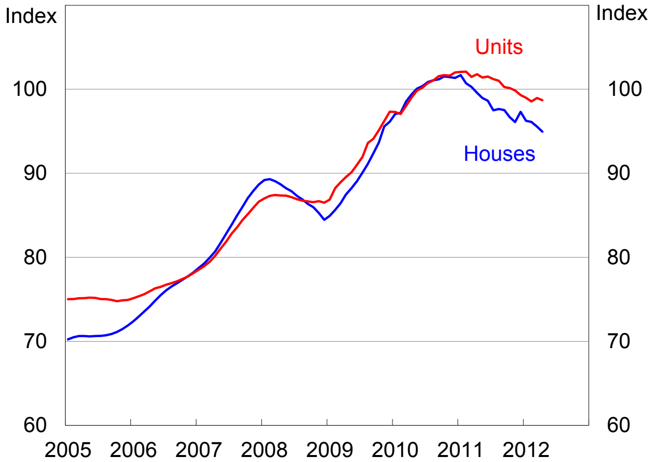


Source: RBA; RP Data-Rismark

Graph 19

House and Unit Prices

2010 = 100



Source: RP Data-Rismark

POSSIBLE MORTGAGE BROKER DISCUSSION TOPICS – JUNE 2012

Loan pricing and lending standards

- How have housing loan discounts changed over the past six months or so (both in an advertised and unadvertised sense)? What is the typical advertised and total discount to the SVR on a loan of $250 000, $500 000, etc?

- Has a pricing differential re-emerged between low-doc and full-doc loans?

- What is your overall impression of changes to lending standards and serviceability policies? Are there particular market segments where competition is more or less intense? Have lenders changed how they process applications and ensure loans meet their lending standards?

- Have you seen any change in policies on valuing properties, or the frequency with which properties are revalued when a request for refinancing or additional funds is made?

- Has there been an increase in low-doc lending over the past year? Has there been an increase in high-LVR lending over the past year? What has driven any changes?

- Has there been any change in the range of products offered (e.g. to particular types of borrowers)?

Dwelling Prices Monthly Review – May 2012

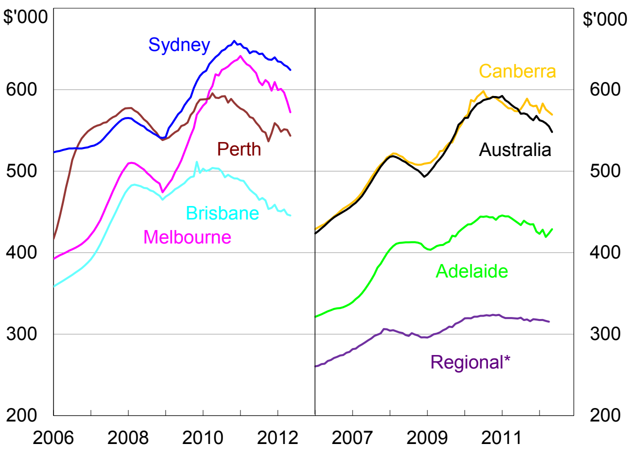
The established housing market remains weak, with data from RP Data-Rismark (RP) indicating a seasonally adjusted fall of 1.3 per cent in May, to be down 2.4 per cent over the quarter and 5.2 per cent over the year. Since the 2011 peak prices have fallen by 7½ per cent, which is larger than the 2008 downturn. Falls have been broad based: Prices in Melbourne and Brisbane fell by 6 to 8 per cent over the year, and the other mainland capitals have fallen by between 1 and 4 per cent.

Dwelling Prices

Seasonally adjusted data from RP suggests that capital city dwelling prices fell 1.3 per cent in May, to be down 2.4 per cent over the quarter and 5.2 per cent over the year (non-seasonally adjusted data show similar falls). The current peak-to-trough decline is larger in magnitude than the 2008 downturn (7½ per cent versus 5 per cent), and the current episode has lasted 6 months longer (Graph 1).

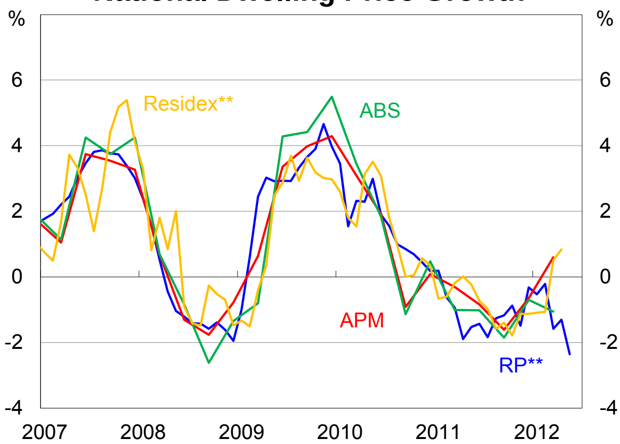
The RP index – which is the timeliest index – indicates weaker growth than the last read from alternative sources (APM, ABS and Residex) (Graph 2). June quarter APM and ABS data will be available on 27 July and 1 August, respectively.

Graph 1
Dwelling Prices



* Excluding apartments; measured as areas outside of capital cities in mainland states
Sources: RBA; RP Data-Rismark

Graph 2
National Dwelling Price Growth*



* Quarterly growth rates; ABS measure refers to house prices
** Monthly frequency
Sources: ABS; APM; RBA; Residex; RP Data-Rismark

There is broad weakness across the major capital cities in year-ended terms (Table 1). Melbourne is the weakest market, with prices falling by 2.2 per cent in May alone, to be down 8.3 per cent over the year. Brisbane also remains weak, with prices having fallen by 12 per cent since the 2010 peak. Prices in Sydney, Perth and Adelaide fell by between 2 and 4 per cent in year-ended terms, though prices in Adelaide and Perth have been broadly flat over the past six months.

Table 1: Dwelling Price Growth - May 2012
Seasonally adjusted; per cent

	Monthly	Quarterly	Yearly	Houses y/y	Units y/y
Sydney	-0.6	-1.5	-3.5	-4.5	0.8
Melbourne	-2.2	-4.7	-8.3	-8.7	-5.3
Brisbane	-0.3	-1.1	-6.0	-6.2	-4.0
Perth	-1.3	-0.9	-3.8	-4.0	-1.1
Adelaide	1.2	0.2	-2.4	-2.6	0.2
Canberra	-0.6	-2.3	-0.8	-0.8	-0.8
Darwin	-0.5	0.4	-1.1	0.3	-6.4
Australia	**-1.3**	**-2.4**	**-5.2**	**-5.8**	**-1.5**

Source: RP Data-Rismark

Even though there have been steep falls in Melbourne dwelling prices from the 2011 peak, prices rose considerably from the 2008 trough (Table 2).

Table 2: Changes from Troughs and Peaks - May 2012

Seasonally adjusted

	Trough	Peak	Trough-Peak % change	Peak-Current % change
Sydney	Dec-08	Nov-10	22.0	-5.4
Melbourne	Dec-08	Jan-11	35.3	-10.8
Brisbane	Dec-08	Apr-10	8.4	-11.6
Perth	Dec-08	Aug-10	10.0	-9.4
Adelaide	Feb-09	Jan-11	10.4	-5.9
Australia	**Dec-08**	**Jan-11**	**20.1**	**-7.5**

Source: RP Data-Rismark

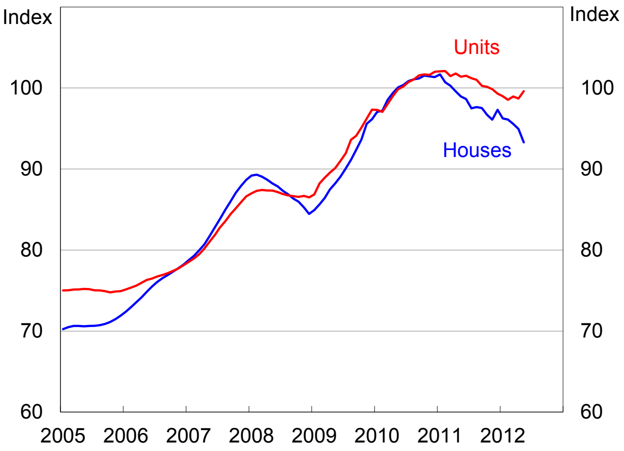
House and Apartment Prices

Apartment prices *rose* by 0.9 per cent in May, in contrast to house prices which fell by 1.6 per cent (Graph 3). Unit prices have held up much better than house prices, down 2½ per cent from the peak compared to house prices which have fallen by 8 per cent.

Graph 3

House and Unit Prices

2010 = 100

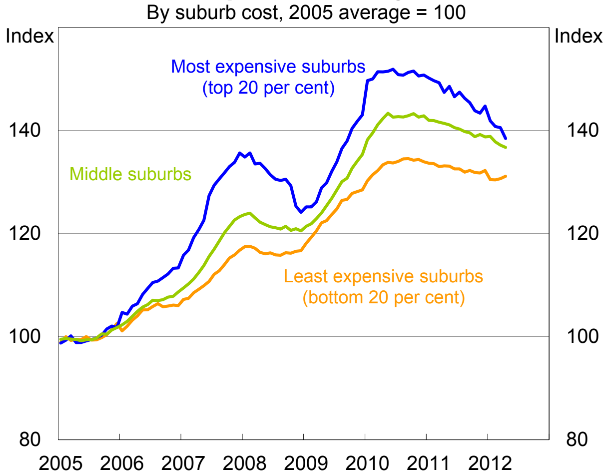


Source: RP Data-Rismark

Graph 4

State Capital Dwelling Prices

By suburb cost, 2005 average = 100



Source: RBA; RP Data-Rismark

Market Segments within Capital Cities

In April, dwelling prices in more expensive suburbs continued to fall faster than in other suburbs. Over the year, dwellings in the dearest 20 per cent of suburbs have fallen by 6 per cent, compared with falls of around 2-3 per cent in other suburbs (Graph 4).

Regional House Prices

House prices in non-capital city areas fell by 0.3 per cent in April, with falls in all mainland states except Queensland. In year-ended terms all states recorded falls (of between ½ to 3½ per cent). Regional prices in New South Wales and Queensland have been roughly flat since 2010, while Western Australia, Victoria and South Australia are the weakest markets relative to their peaks (although there was a very large run-up in prices in the years prior).

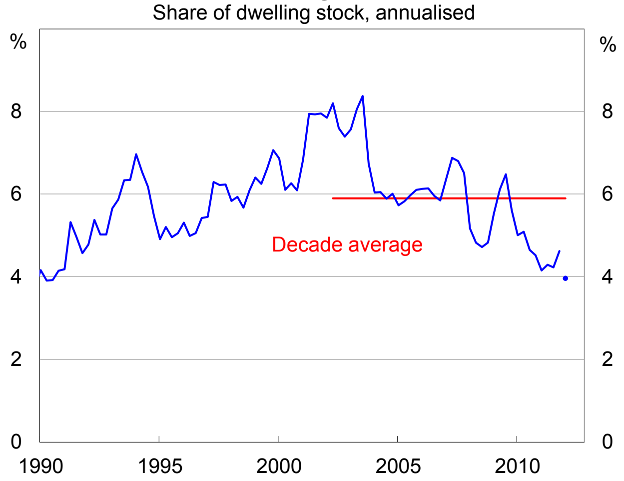
Turnover, Discounting, Listings and Days on Market

National turnover in the March quarter was very low and is close to its historical low of the early 1990s (Graph 5). To secure a sale, vendors are offering large discounts relative to original listing prices, and it is taking a relatively long time to sell a property (Graph 6). The low turnover rate has led to a high stock of unsold homes (currently 3½ per cent of the dwelling stock), although property listings have fallen by 6 per cent relative to the December peak. Part of this fall might reflect a pick-up in turnover in the December quarter but it could also be attributable to discouraged potential sellers withholding properties from the market.

Graph 5

National Dwelling Turnover Rate

Share of dwelling stock, annualised

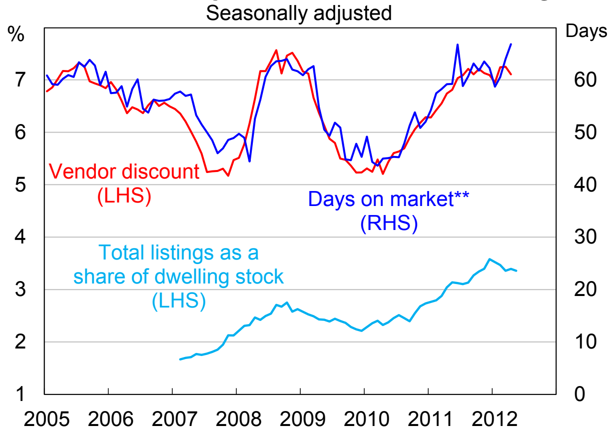


Sources: ABS; RBA; RP Data-Rismark

Graph 6

Discounts, Days on Market and Listings*

Seasonally adjusted



* Weighted by capital city dwelling stock; dwelling stock estimated from 2006

** Excludes withdrawn properties

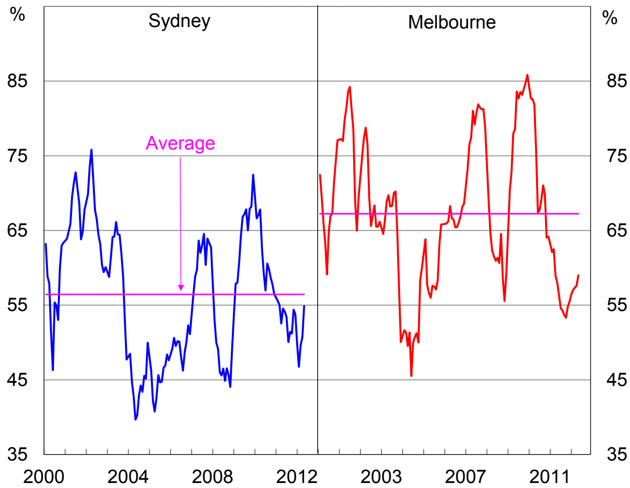
Sources: ABS; RBA; RP Data

Auctions, Affordability, Sentiment

Auction clearance rates remain below average in Melbourne, and to a lesser extent Sydney, although they have risen above their respective troughs in late 2011 (Graph 7). Despite improving housing affordability and a tight rental market, consumer sentiment towards purchasing a house has fallen since the beginning of the year.

Graph 7

Auction Clearance Rates



Sources: APM; RBA; REIV; RP Data

Assessment

The residential property market remains weak: prices are down 7½ per cent from the 2011 peak and in fact the pace of price decline has accelerated in the past 3 months according to RP. Turnover is near historical lows which has led to a high stock of unsold homes, vendors are offering large discounts and dwelling investment is subdued. The only tentative sign of improvement is a rise in auction clearance rates in both Sydney and Melbourne. Normally higher clearance rates indicate a more buoyant market and rising prices, it is however possible that rising clearance rates are simply the result of sellers adjusting their expectations downward to come into line with lower market prices.

Another interesting development is that up until recently prices were universally falling, but now there are more differences across the capital cities: Melbourne is the weakest, followed closely by Brisbane. On the other hand Perth and Adelaide have shown signs of stabilisation over the past six months. Prices in Sydney continue to fall, albeit more moderately.

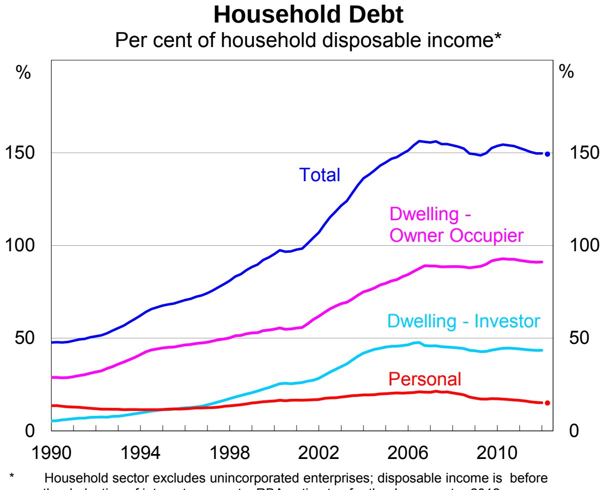
Also coming into the mix are some changes in state housing initiatives such as stamp duty exemptions and first home owner grants. Sydney and Melbourne (which comprise 60 per cent of the capital city dwelling stock and 40 per cent of national turnover) have recently withdrawn policy measures that could weigh on market activity for the remainder of 2012.

Financial Conditions Section
Economic Analysis Department
1 June 2012

Household interest payments (including FISIM) fell modestly to be just below 11 per cent of disposable income. This largely reflects lower average outstanding rates on housing and personal debt over the quarter.

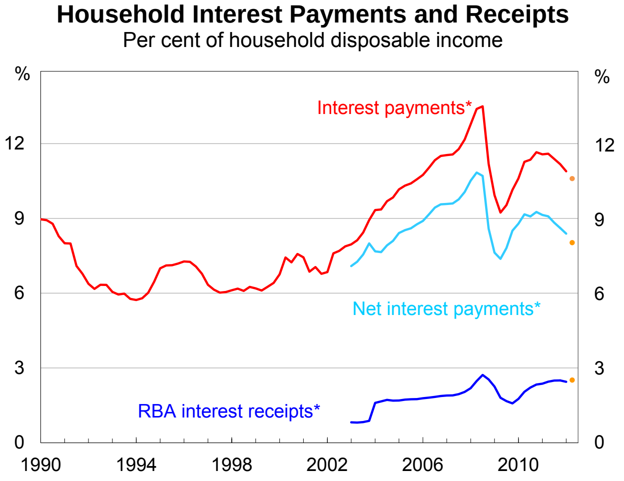
Household Debt and Interest

Graph 5



* Household sector excludes unincorporated enterprises; disposable income is before the deduction of interest payments; RBA estimates for the June quarter 2012
Source: ABS; RBA

Graph 6



* Excluding unincorporated enterprises; disposable income is before interest payments; RBA estimates for the current quarter
Sources: ABS; RBA

Household debt increased by 1.2 per cent in the March quarter, which saw the debt-to-income ratio remain around 150 per cent of annual household disposable income (Graph 5). The ratio of debt-to-income is expected to remain at its current level in the June quarter with annual income growth expected to be broadly in line with credit growth.

Interest payments fell modestly to just below 11 per cent of household disposable income, reflecting lower average outstanding rates on housing and personal credit over the quarter. Interest payments are ¾ percentage points lower than at their December 2010 peak, and 2.6 percentage points lower than at the September 2008. The interest payments burden is expected to fall further in the June quarter as a result of lower average lending rates (the cash rate was cut in May and June 2012).

Household interest receipts (excluding FISIM) according to the RBA measure are estimated to have grown in line with income in the March quarter to remain at 2½ per cent of household disposable income (Graph 6).

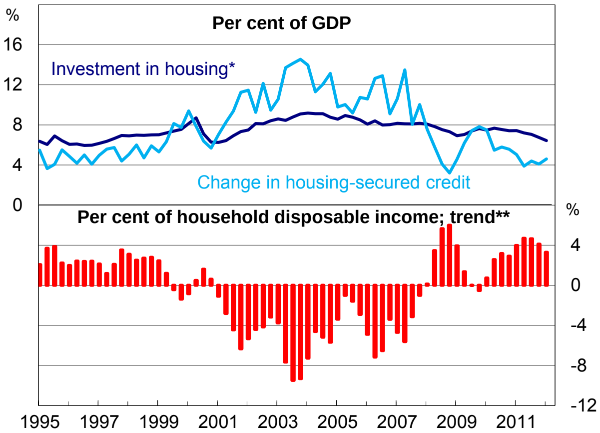
With a decline in interest payments and no significant changes in interest receipts, relative to income, household **net interest payments** fell to be 8.4 per cent of household disposable income in the March quarter, and are expected to fall further in the June quarter (Graph 6).

Housing Equity Injection

In trend terms, **housing equity injection** is estimated to have been around 3.3 per cent of household disposable income in the March quarter, down from around 4.1 per cent in the December quarter (Graph 7). The raw data suggests that housing equity injection was 2.8 per cent of disposable income in the March quarter, down from around 4.2 per cent last quarter.

Graph 7

Housing Equity Injection



*Assumes 50 per cent of new dwellings are built upon newly-acquired land from outside the household sector

**Household disposable income excludes unincorporated enterprises and is before interest payments

Sources: ABS; Australian Treasury; RP Data-Rismark; RBA

Next release: 5 September 2012

Financial Conditions Section
Economic Analysis Department
6 June 2012

THE DECLINE IN MORTGAGE PREPAYMENT AND ITS IMPLICATIONS

The mortgage prepayment rate in Australia is currently around its lowest level in over a decade. The decline owes to lower housing turnover and refinances, and possibly an easing in lending standards.

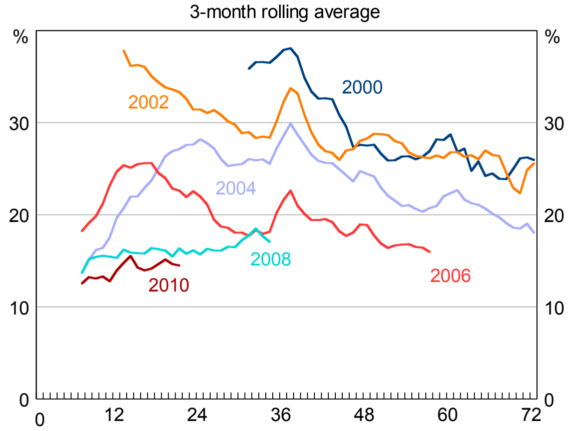
Overview

Most Australian borrowers repay their mortgage ahead of schedule. The extent of prepayment has important implications for the evolution of financial institutions' balance sheets and profits, and the risk characteristics of housing loans.

Debt serviceability

More recent borrowers tend to have lower prepayment rates (Graph 5). These differences are most pronounced for full prepayments, generally reflecting the different paths of house prices, incomes, and interest rates faced by each cohort. Partial prepayments are also lower for more recent cohorts. This partly reflects both the structural decline in interest rates which increased borrowers' capacity to service debt as well as some easing in lending standards. The increase in loan-to-income ratios over the past decade is estimated to have contributed about 15 percentage points to the fall in the aggregate prepayment rate for the 2010 cohort compared with the 2000 cohort (Graph 6).

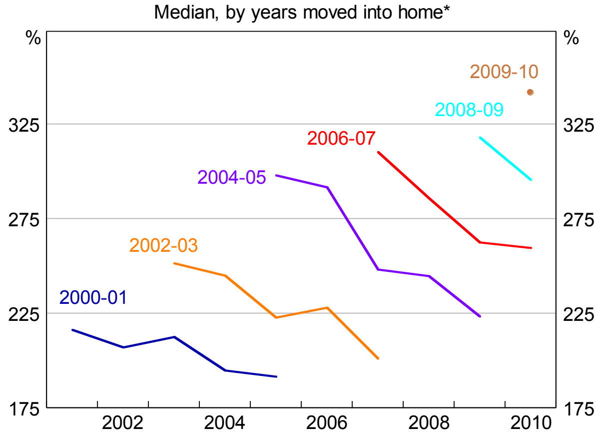
Graph 5
Mortgage Prepayment Rate by Cohort*
3-month rolling average



* Variable-rate loans only. Selected major banks' securitised mortgages. For each annual cohort, individual month's prepayment rates are weighted by the value of loans outstanding by age

Sources: Perpetual; RBA

Graph 6
Home Loan to Income Ratios
Median, by years moved into home*



* Only includes households who have had, or currently hold, owner-occupier housing debt

Sources: HILDA Release 10.0; RBA

Risks to loan quality

The decline in the prepayment rate does not necessarily mean that credit quality has weakened. Indeed, while prepayments have trended down over recent years, the average buffer has increased,

HILDA data suggest that about half of borrowers are ahead on their mortgages and that large buffers are fairly common. Nevertheless, many households had little or no buffer and, as such, the true downside risks to loan quality could be greater than implied by aggregate measures. A forthcoming Financial Stability note will re-examine the distribution of mortgage buffers in Australia.

Institutional Markets Sections
12 June 2012

HOUSING AFFORDABILITY AND THE RENTAL MARKET– MARCH QUARTER 2012

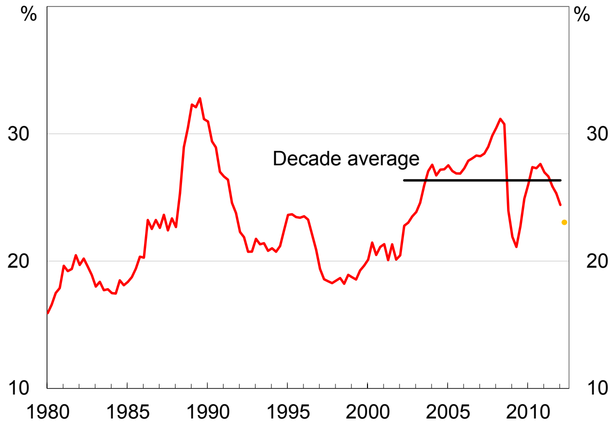
The proportion of disposable income required to meet repayments on new housing loans fell in the March quarter and housing affordability (measured by the dwelling price-to-income ratio) improved, reflecting a fall in dwelling prices, slightly lower lending rates and an increase in income. Affordability is expected to continue improving in the June quarter.

National Affordability

Graph 1

Repayments on New Housing Loans

Per cent of household disposable income*

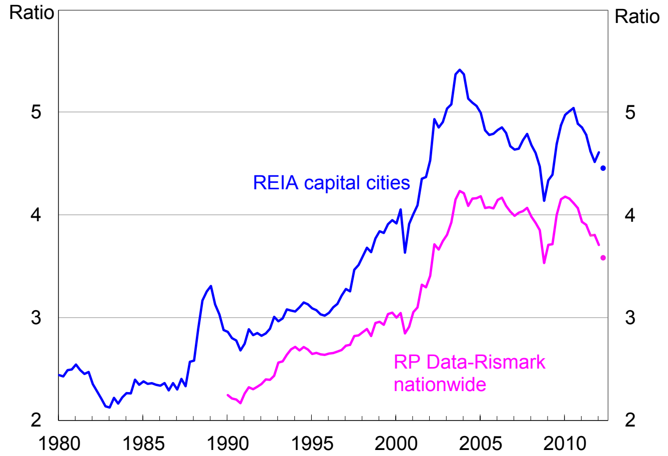


* Housing loan repayments calculated as the required repayment on a new 80 per cent LVR loan with full documentation for the nationwide median-price home. Based on capital city house price data prior to 1990; Household disposable income is before interest payments; RBA estimate for June quarter 2012

Sources: ABS; RBA; RP Data-Rismark

Graph 2

Dwelling Prices to Income*



* Ratio of dwelling price to average household disposable income; income is before the deduction of interest payments; dwelling prices are medians; RBA estimates for June quarter 2012

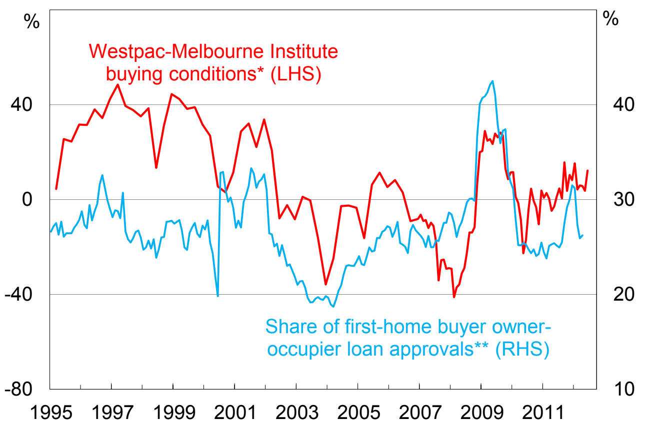
Sources: ABS; RBA; REIA; RP Data-Rismark

The share of household disposable income required to meet new loan repayments fell by around 1 percentage point in the March quarter to be around 24½ per cent, reflecting a fall in dwelling prices, slightly lower mortgage rates and an increase in income (Graph 1). The improvement in **housing affordability** is also evident in the price-to-income ratio, which fell slightly to 3.7, based on RP data (Graph 2). Affordability is expected to improve further in the June quarter as a result of lower dwelling prices, lower quarter-average lending rates and higher income.

Graph 3

Sentiment Regarding Buying Conditions

Non seasonally adjusted



* Percentage deviation from average since 1999; monthly estimates up to June 2012

** Monthly estimates up to March 2011

Sources: ABS; Westpac/Melbourne Institute Survey

In line with the improvement in affordability, **sentiment** towards buying a dwelling rose in the March quarter.[1] The first-home-buyer share of owner-occupier loan approvals fell in the March quarter to be broadly around its 2010/2011 average after increasing in the second half of 2011 ahead of the cessation of some first-home-buyer stamp duty concessions in NSW (Graph 3). Over the past three months to April, the value of loan approvals for investors has been broadly flat.

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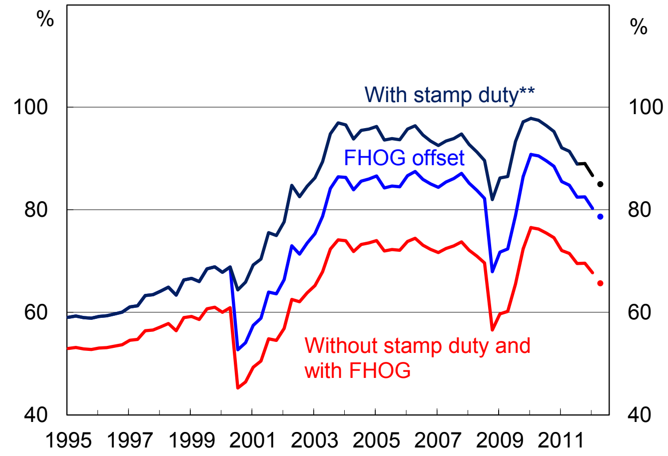
[1] To gauge sentiment toward buying a dwelling households are asked whether now is a good or bad time to buy.

Access to the housing market also improved in the March quarter, with the share of household disposable income required for a deposit declining by around 2¼ percentage points to 86.7 per cent (Graph 4). Accessibility is expected to improve again in the June quarter.

Graph 4

Deposit for a Home Loan*

Per cent of annual household disposable income



* Calculated as 20 per cent of the nationwide median-priced home. Disposable income excludes unincorporated enterprises and is before the deduction of interest payments; RBA estimates for June quarter 2012

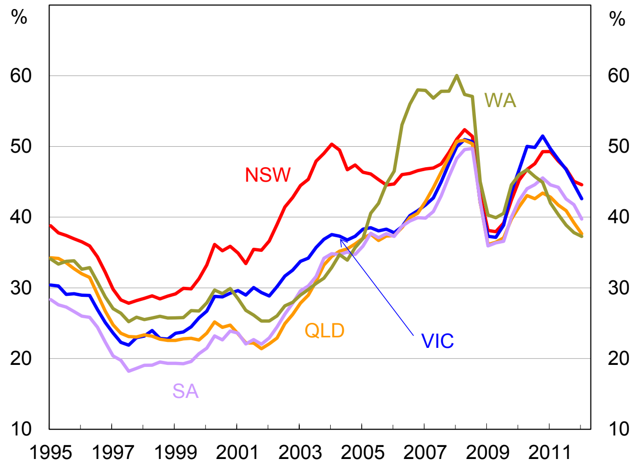
** Uses NSW stamp duty rates

Sources: ABS; RBA; RP Data-Rismark

Graph 5

State Monthly Loan Repayments*

Per cent of compensation of employees per income earner



* Assumes a 20 per cent deposit on a median-priced dwelling, 25-year mortgage and constant repayments

Sources: ABS; APM; RBA

State Affordability

Loan repayments as a proportion of compensation of employees fell in all mainland states in the March quarter (Graph 5). Western Australia and Queensland continue to be the most affordable states according to this measure, with monthly loan repayments at around 37 per cent of wages. The least affordable states were New South Wales and Victoria, with monthly loan repayments around 45 and 43 per cent of wages respectively.

Financial Conditions Section
Economic Analysis Department
15 June 2012