

Media Release

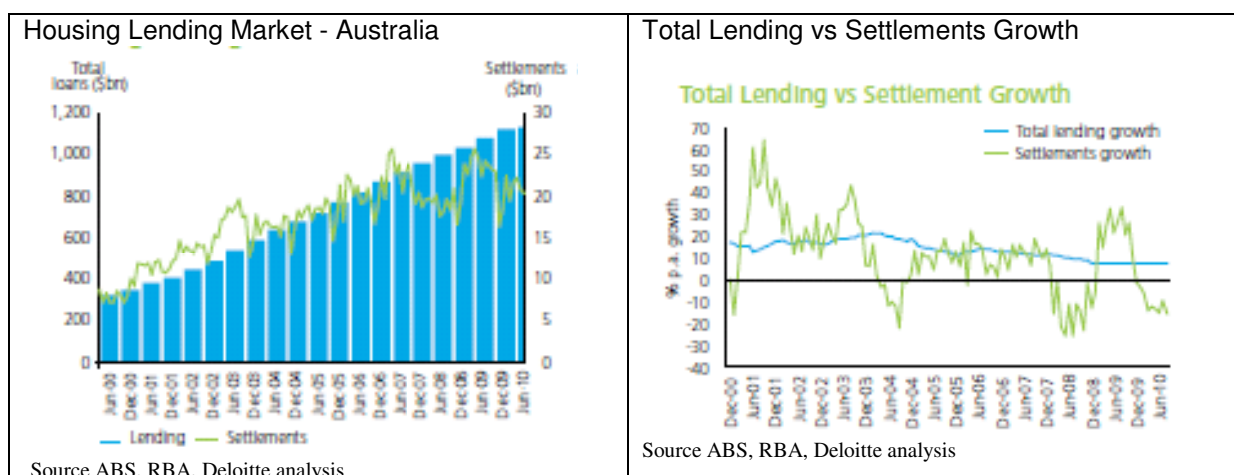
FOR IMMEDIATE RELEASE

Australia's mortgage industry prepares for a transformational year which promises a reformed agenda

16 December 2010: The annual *Deloitte Australian Mortgage Report: 2011 Reforming the Agenda* reveals that despite mortgage lending continuing to slow in 2010, positive signs are emerging. "The \$1.1 trillion of outstanding mortgage lending rivals the current \$1.3 trillion superannuation sector in both size and significance," said James Hickey, a banking partner with Deloitte Actuaries and Consultants.

On the basis of research and the opinions expressed in the report's roundtable of a cross-section of leading Australian lenders, the trends anticipated for mortgage lending in 2011 are ones which will "reform the agenda".

"While 2010 was a slower year for settlements, encouragingly national settlements still averaged \$20bn per month of new lending, comparable to levels in 2007 prior to the global financial crisis. Provided unemployment levels remain contained over the next year and interest rates stay around current medium levels, we expect growth in settlements of between 5% and 10%," Hickey said.



"We expect growth in mortgage settlements to return, and funding to continue to recover as new options for competition are explored. The outlook for 2011 is geared to consumers benefitting from strengthened lending guidelines and improved choices," he said.

Funding levels and pricing improving

Banking Partner and Deloitte Australian Securitisation lead Graham Mott said, “The changes announced by the Treasurer in his Banking Reform Package, to allow covered bonds and support the facilitation of bullet RMBS, are two critically important announcements. They will ensure a price effective option for banks and non-banks of all sizes to deliver better mortgage pricing to consumers.

“Although there is still some way to go until the regulators give them the green light, the industry expects to see Australia’s first covered bond issued in the first half of 2011,” Mott said. “Even at the lower 5% level mooted by commentators, the major banks and non-banks could issue more than \$90bn of covered bonds which would be greater than the current RMBS levels,” he said.

“In addition the expected improvement in pricing for Residential Mortgage Backed Securities (RMBS) in 2011 will be as a result of continued support from the Australian Office of Financial Management (AOFM). In the short term, lenders will be able to rely on this channel to more openly promote and seek new lending,” Mott said.

The Deloitte Australian Mortgage Report: 2011 Reforming the Agenda predicts increased competition with second tier banks competing far more openly. “Credit unions are already seeking out ways to flex a combined balance sheet to deliver funding options while retaining their individual local presence,” said Hickey. “Non banks are also expected to increasingly return as funding levels come back to positive levels enabling them to not just survive off the margins of their back books, but originate more substantial new lending. Although the government intention to remove mortgage exit fees will require this sector to reconsider their pricing to remain competitively viable,” he said.

Above all the outlook through a ‘reformed agenda’ will benefit consumers and mortgage borrowers. “The raft of important regulatory protections which are coming in force in 2011 via the National Consumer Credit Protection Act will give greater transparency of lending information and are designed to ensure lenders and mortgage brokers always act in the best interest of the borrower,” said Hickey.

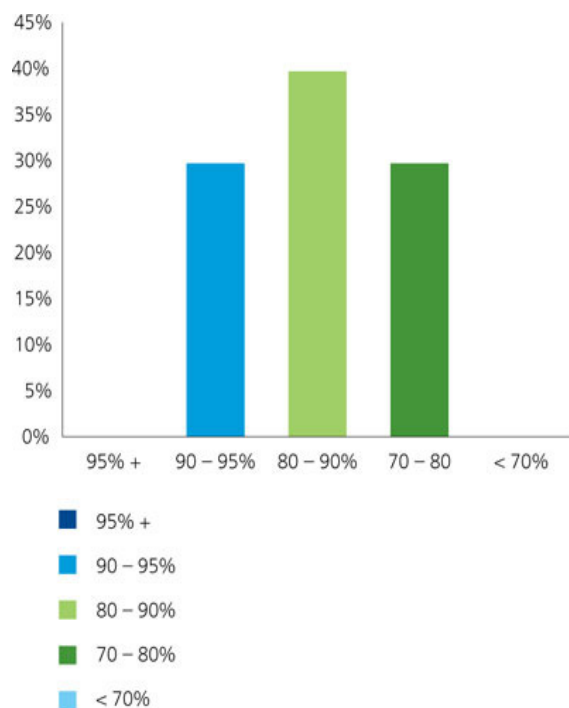
The Act will rationalise the smaller brokers and strengthen the top 10 mortgage brokers,” he said.

“The lending roundtable in the *Deloitte Australian Mortgage Report* predicted the ‘deposit wars’ of 2010 would continue into 2011 albeit at more sustainable levels to underpin the funding base of the major banks,” Mott noted. “However the recent announcement by the Treasurer in his Banking Reform Package that acknowledged the need for structural change, are positive. Options for taxation incentives on deposits are also expected to be addressed in the 2011 Tax Summit.”

The wide ranging roundtable of lenders involving two of Australia’s big four major banks, regional banks, brokers, non bank wholesale prime and specialists lenders, explored the reasons for the current trends, discussed consumer sentiment and appetite, shared some of the industry constraints and gave a forward prognosis for the sector. The discussion covered:

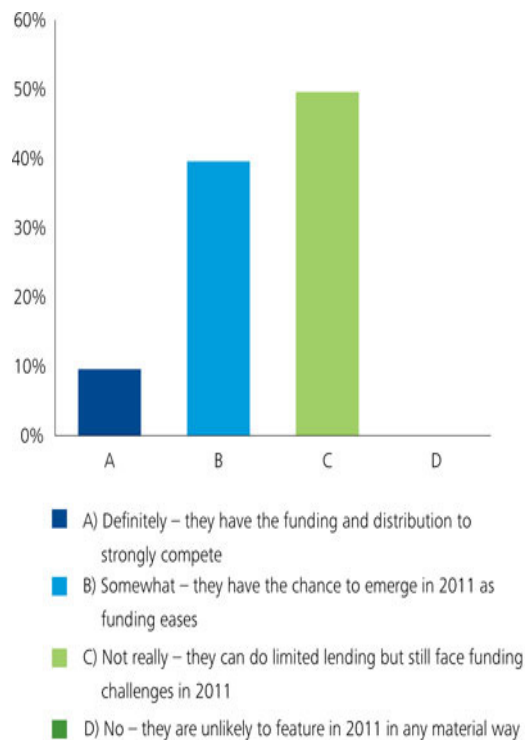
1. Sector outlook for 2011vs 2010
2. Competition
3. Margins and credit performance
4. Regulation and product design
5. Distribution and mortgage brokers

Big 4 bank share of settlements in 2011



Deloitte Australian Mortgage Report

Credit unions, building societies and non-banks vs. big banks



Deloitte Australian Mortgage Report

“Contrary perhaps to popular opinion, competition amongst Australia’s big four lenders and larger regional banks exists. There were material price differentials across the big four in 2010 driven by distinct positioning strategies. This was a marked difference from pre GFC where any price differential came from the non-bank lenders,” said Hickey.

“The situation leading into 2011 is one where all Big Four banks are priced differently and are taking a diverse range of headline rates, discount offers, fee waivers and relationship pricing combinations to the consumer,” he said.

“Following the Treasurer’s recent announcements, there will be increased opportunity for even more choice from regional banks, foreign banks, credit unions, building societies, non bank lenders and new entrants,” Mott added.

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