Let the good times roll
2014-15 Records

The Good ones…

• Total outstanding residential housing finance $1.5 trillion (June-15)
• Monthly housing commitments (proxy for settlement flow) $34.7 billion (June-14)
• Interest rates record lows c4.45% DVR (Dec-14)
• Defaults and losses record lows <15bps impair. exp. (majors)
• Margins sustainable >220bps (majors); >15% ROE
• Technology advancements PEXA; e-docs settlement
• Competition Majors <70% lending 2014

The Not So Good Ones…

• First Home Buyers crowded out <15% of lending
• Investor lending 40% of settlements
• Property vs salary growth Gap growing
• Geographic “haves” / “have nots” Syd/Melb vs rest of Australia
• Competition Majors vs non-majors
Settlement Growth has accelerated since Dec 2010

Residential Housing - up and to the right!
Home ownership is Australia’s largest and one of its most important capital markets

Frank Ganis (Macquarie Bank)

The Australian residential real estate market is worth $5.7 trillion and its home loan value is worth $1.5 trillion

Bill Armour (ANZ)
Existing borrowers and investors continuing to drive the market

What categories of consumer will drive the greatest growth over the next 3 years?

**Primary Response**
(100% selected)

- Refinancers / Upgraders

**Other responses**

- First home buyers
- Overseas investors
- Local Investors (non-SMSF)
- SMSF investors

Source: Deloitte Mortgage Survey
What is your biggest concern for the mortgage market in 2015?

Two answers selected

- A - Unsustainable housing price increases
- B - Possibility of macro-prudential limits on lending being introduced
- C - Increase in official interest rates
- D - Down-turn in economic growth
- E - Inappropriate lending issues arise bringing media and political spotlight on mortgage lending

Source: Deloitte Mortgage Survey
One thing is clear, digital and data will be the main game for mortgages over the next three years.

For lenders, brokers and consumers, the digital and data revolution will produce significant change in how we think of the traditional mortgage in the future
How informed are consumers about mortgages now vs 3 years ago?

Source: Deloitte Mortgage Survey
What features will be the most important to consumers in selecting a mortgage provider over the coming 12 months?

Two answers selected

- Competitive interest rates (7)
- Information and customer service (2)
- Product features (e.g., flexible repayments, switching etc.) (3)
- Technology enabled (innovation and accessibility) (4)

Source: Deloitte Mortgage Survey
Where is the largest digital opportunity in mortgages in the next 2 years?

A - A straight through online mortgage
B - Back office efficiency for lenders (improving response times and customer satisfaction)
C - Reaching customers well in advance of the traditional settlement entry point
D - Capturing, storing and using ‘big data’ provided by customers to tailor offerings and processes
E - Delivering an omni-channel experience for the customer
F - Online comparators or other offerings emerging that disrupt traditional branch and broker sales

Two answers selected

Source: Deloitte Mortgage Survey
What are the greatest challenges to innovation among the majors?

Two answers selected

- **Technology Constraints**

**Responses:**
- A - Funding constraints
- B - Regulatory constraints
- C - Culture that is not supportive of innovation
- D - Technology constraints (e.g., multiple and incumbent systems)
- E - Organisational bandwidth available to implement innovation
- F - Scale of investment in existing business models
How can innovation be pursued while increasing margin?

- A - Free up capital for innovation by increasing cost-savings in other areas
- B - Take a long-term view and invest in innovation today with the expectation that margin will increase tomorrow
- C - Other (please specify)

The ‘FinTechs’ Dilemma:
- Adopt and improve innovations after they have been proved by others
- Selective partnering with start-ups outside of the group
“I think digital is going to impact all of our businesses more dramatically than our generation understands … We are a technology company that sells financial services.”

James Sheffield (CBA)
In summary.....

• **Growth** dynamics solid
• **Existing borrowers** to remain the source of most lending activity (upgraders/refinances)
• **FHBs a structural issue** - but they are innovating to get into the market (FHI’s)

• **Margins** and performance to remain solid for majors
• But **non-majors still challenged** on margin sustainability and scale

• **Technology** is rapidly evolving and driving innovation and simplicity
• **Omni-channel experience** in the mortgage process needs to be a reality
• **Digital** will change the way mortgages are being offered – for lenders and brokers
• How and when to access “**FinTechs**” will be key questions for majors
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