

Housing affordability a global challenge, new international mortgage trends report finds

9 June 2011: Leading international lenders mortgage insurer, Genworth Financial (Genworth) has today released the inaugural Genworth International Mortgage Trends Report detailing the results of a survey of borrower sentiment and mortgage market trends in eight countries across four continents.

The report is based on a survey of more than nine thousand current and aspiring homebuyers from Australia, Canada, India, Ireland, Italy, Mexico, the UK and the US, comparing borrower attitudes in those countries towards the economy, their personal finances, and the mortgage market.

The findings identify common trends, comparative borrowing behaviour and socio-demographic differences between the eight markets surveyed with the deterioration in housing affordability for first homebuyers (FHBs) a common theme.

“In almost all of the countries surveyed, housing affordability is keeping FHBs out of the market, though the factors behind this lack of affordability differ, and range from rising costs of living and fears of interest rate rises, to lack of housing availability and rising house prices,” said Genworth Australia CEO, Ellie Comerford.

First Homebuyers struggle worldwide with lack of housing affordability but many say now is a good time to buy for those who can afford it

In the US, Canada and Australia, debt is weighing down many who are trying to get a foot on the property ladder, with one in five potential FHB respondents spending more than half their income on debt repayments. In stark contrast, less than one in ten Mexican and Indian potential FHBs are suffering the same debt burdens. This is largely driven by cultural differences, with many potential FHB respondents in Mexico and India living with at least one other generation, allowing faster accumulation of savings.

These high debt levels of potential FHBs in some countries are exacerbating the affordability challenge, causing the average age of new homebuyers to steadily increase in all countries except India. The average age of a FHB across all countries surveyed has increased from approximately 27 in the 1970s to approximately 30 in the 2000s.

“Australian FHBs are facing a worsening situation, with the average age of potential homebuyers accessing the local market increasing at a faster rate than average,” Comerford said.

However, it’s not all bad news for FHBs. In some of the countries surveyed, many FHB respondents think now is a good time to buy a home, largely because house prices have recently fallen. This contrasts with borrower sentiment in countries where house prices have appreciated.

“The Australian market, like the Indian and Canadian markets, is characterised by rapid property price rises in recent years, deterring potential FHBs, and explaining why potential Australian FHBs surveyed don’t think now is a good time to buy, even though they desire to,” said Comerford.

Australians more comfortable with higher debt levels but pay down debt faster

Australian homebuyers are more indebted than borrowers in other surveyed countries, with 39% of respondents using over half their income to service debt. Although quite highly indebted, Australian borrowers are still more likely to pay down their debt faster than required, with 45% of those surveyed overpaying their mortgage in the last year; the second highest proportion of all surveyed countries.

“Whether for financial or cultural reasons, Australians are the most relaxed about being highly leveraged, with one in three comfortable borrowing more than 80% of their home’s value: the highest proportion of the eight countries surveyed,” said Comerford.

Borrowers worried about personal finances – the majority easily meets mortgage repayments

Homebuyers in many of the countries surveyed are more concerned about their personal finances than their nation’s economy. The findings show only one third of respondents feel positive about their nation’s economy, with respondents in Australia among the most positive.

For Australian homebuyers, the rising cost of living was the primary reason driving concern about personal finances, with 84% of those surveyed worried about how this will impact their personal finances and their ability to repay their mortgages over the next 12 months.

“Growing concern about the rising cost of living among Australian homebuyers is affecting their confidence in the housing market and could impact struggling borrowers in the future,” said Comerford.

Despite concerns across the countries surveyed, 78% of respondents said they easily met their repayments over the past year, and going forward, 77% expected to easily meet their repayments in the coming year. In addition, there was almost no correlation between the level of debt in each country and the proportion anticipating repayment problems.

Most borrowers positive about mortgage insurance

The survey findings also indicate that while awareness of lenders mortgage insurance varied greatly, the majority of borrowers and potential borrowers in all countries agree that lenders mortgage insurance could help FHBs get into their homes sooner. Indeed, more than two thirds of Australian borrowers who took part in the survey agree that lenders mortgage insurance is a helpful product for FHBs, slightly above the average for the surveyed countries.

“At a time when the dream of owning a property looks increasingly unattainable, risk products such as lenders mortgage insurance are helping aspiring homebuyers buy a home sooner. Lenders mortgage insurance protects lenders against borrower default, and in many countries enables lenders to offer higher loan-to-value ratio loans than they would otherwise be able to,” said Comerford.

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About Genworth Financial

As a leading provider of Lenders Mortgage Insurance (LMI) in Australia and New Zealand, Genworth seeks to make homeownership more accessible to borrowers. With more than 45 years of residential property market data and trends, and experience insuring over 2,500 residential mortgages every week, Genworth has built a reputation for providing unique insights into Australia’s evolving mortgage market.

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About the Genworth International Mortgage Trends Report (Report)

Research for the Report was commissioned by Genworth and conducted by independent research firm, Retail Finance Intelligence (RFi). The report is based on survey results of over 9000 adults from eight countries and, while the information contained in it is current as at the date of publication, it is subject to change without notice. Please refer to the full Report for further information in relation to its methodology and findings.

About Lenders Mortgage Insurance (LMI)

LMI is one of the most popular ways to achieve the dream of home ownership sooner for borrowers that do not have a large deposit. Many banks and lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. LMI protects lenders against a loss should a borrower default on their home loan. If the security property is required to be sold as a result of the default, the net proceeds of the sale may not always cover the full balance outstanding on the loan. By using LMI, lenders are able to pass on this risk to a mortgage insurer such as Genworth, which enables them to offer the same loan amount but require less deposit.