

Genworth Financial launches Homebuyer Confidence Index

7th September 2010: Leading lenders mortgage insurer Genworth Financial (Genworth) has today launched the Genworth Homebuyer Confidence Index (GHCI) – a single measure of borrower and would-be borrower sentiment.

The index is based on consumer attitudinal data collected by Genworth over the last five years and shows that homebuyer confidence is back to pre-Global Financial Crisis levels; however, cautious optimism should prevail, with a number of signals suggesting confidence is on a delicate balance.

Results from the GHCI indicate that stronger employment was a primary driver behind the high levels of confidence, with the index reaching 99.1 in 2010, down slightly from 99.5 in 2009, and from a baseline of 100.0 set in 2007.

“Higher levels of employment, lower interest rates and government stimulus helped first homebuyers to meet their mortgage repayments over the past year,” said Acting CEO, Paul Caputo. “If employment continues to improve however, this will put pressure on inflation and, in-turn, current interest rate levels,” Mr Caputo said.

While most borrowers have comfortably met their mortgage repayments, rising interest rates and the rising cost of living are a key concern for homebuyers. The GHCI shows the proportion of respondents who expect to experience repayment difficulties in the next 12 months has jumped from 15% to 20% over the past year. Of these, the amount blaming the rising cost of living has increased to 61% from 48% in 2009, while 61% also nominated interest rates.

Return of the rent trap

Meanwhile, the rental trap is set to return for many would-be homebuyers who are renting and finding rent rises, coupled with increasing costs of living, is hindering their efforts to save for a deposit.

In fact, the survey results indicate that saving for a home is harder than it was before the Global Financial Crisis, particularly as housing is getting less affordable. Just 25% thought it was a good time to buy a house in 2010, a sharp plunge from the 50% in 2009.

“Rising interest rates have had a marked influence on confidence. That said, there will still be opportunities for would be homebuyers who are well positioned to service a loan but don’t have a large deposit. Lenders mortgage insurers are still insuring 95% LVR loans to suitable applicants, which helps make homeownership possible sooner,” Mr Caputo said.

The history of the Aussie homebuyer

Genworth has modelled data from between 2005 and 2010 to track key changes in the index and therefore sentiment in the mortgage market over time. The index shows a strong reduction in confidence in 2007-2008, falling from 100 to 92.4, but rising again by 7.7% to 99.5 in 2008-2009. Between 2009 and 2010 there was a small decrease of 0.4% to 99.1.

“Our historical modeling shows that while confidence has fallen slightly, it is significantly up on 2008 when falling interest rates could not offset recession fears,” Mr Caputo said.

What the Genworth Homebuyer Confidence Index Measures

The GHCI measures the attitudes of home loan borrowers to their own mortgage and the overall mortgage market at a given time, combining this with non-borrower attitudes towards the mortgage market.

The index is based on three factors including the respondents' ability to service debt, the past and future repayment ability of home loan borrowers, the levels of comfort with LVRs (loan to value ratios) and whether or not respondents believe it's a good time to buy a home.

The GHCI and accompanying analysis will be released bi-annually as part of the '**Streets Ahead**' report.

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 close to 3,000 residential mortgages every week, Genworth has built a reputation for providing unique insights into Australia's evolving mortgage market. For more information visit genworth.com.au.

About Lenders Mortgage Insurance (LMI)

LMI is a financial product that helps borrowers who do not have a large deposit achieve the dream of home ownership sooner. Many banks and lending institutions require borrowers to contribute a 20% deposit before they will agree to provide a loan. LMI protects lenders against loss should a borrower default on their home loan and 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 credit risk to a mortgage insurer such as Genworth, which enables them to offer the same loan amount on the same general terms, but require less as a deposit.

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