

Managing and Mitigating Mortgage Risk in the Future

Ian Graham
Chief Executive Officer
QBE Lenders' Mortgage Insurance

The Retail Financial Lending Summit
Thursday, 13 May 2010



observations on the global financial crisis

**“ There are no new ways to lose money,
only new people who did not know
the old ways ”**



housing bubble: what people are saying?

“Australia is in the midst of an unsustainable housing bubble that could burst at any time, warns Edward Chancellor, who predicted the global credit bust of 2007 – May 2010.”

“In the absence of higher unemployment, much higher interest rates or a big supply increase, a US style collapse in Australian house prices is unlikely – Shane Oliver, AMP April 2010.”

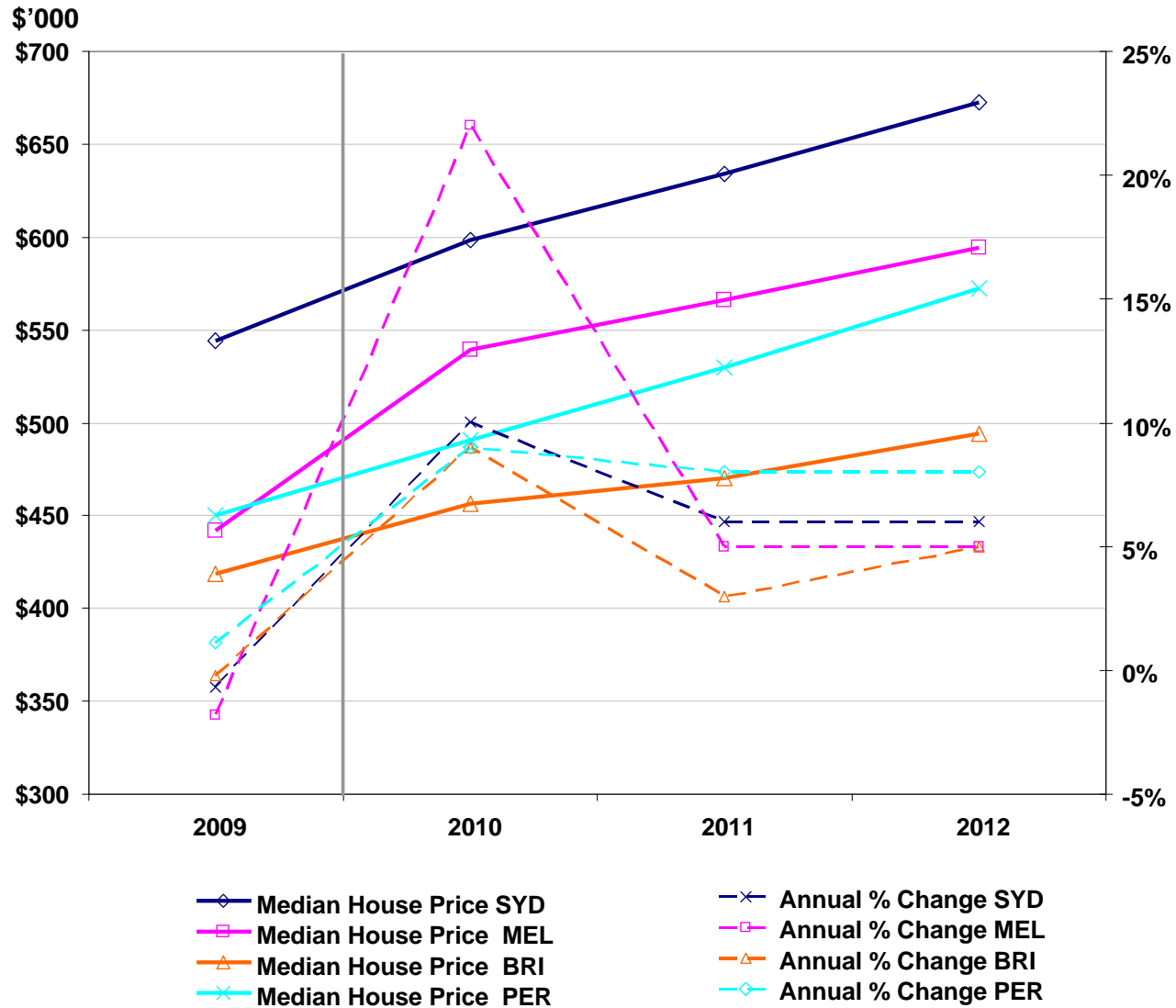
“Australian Property Monitors continues to believe that the medium-to-long-term outlook for property prices remains strong, as demand continues to outstrip supply – March 2010.”

“We expect that the recent increases in interest rates and the likely future extra 50 basis points of tightening will lead to an orderly slowdown in the pace of house price increases settling any concerns of a speculative boom – Bill Evans, Westpac April 2010.”

“It finds no evidence of systematic bubbles in advanced and emerging market economies and across asset classes in the near term – IMF Report April 2010.”

outlook for the Australian housing market: 2010-2012

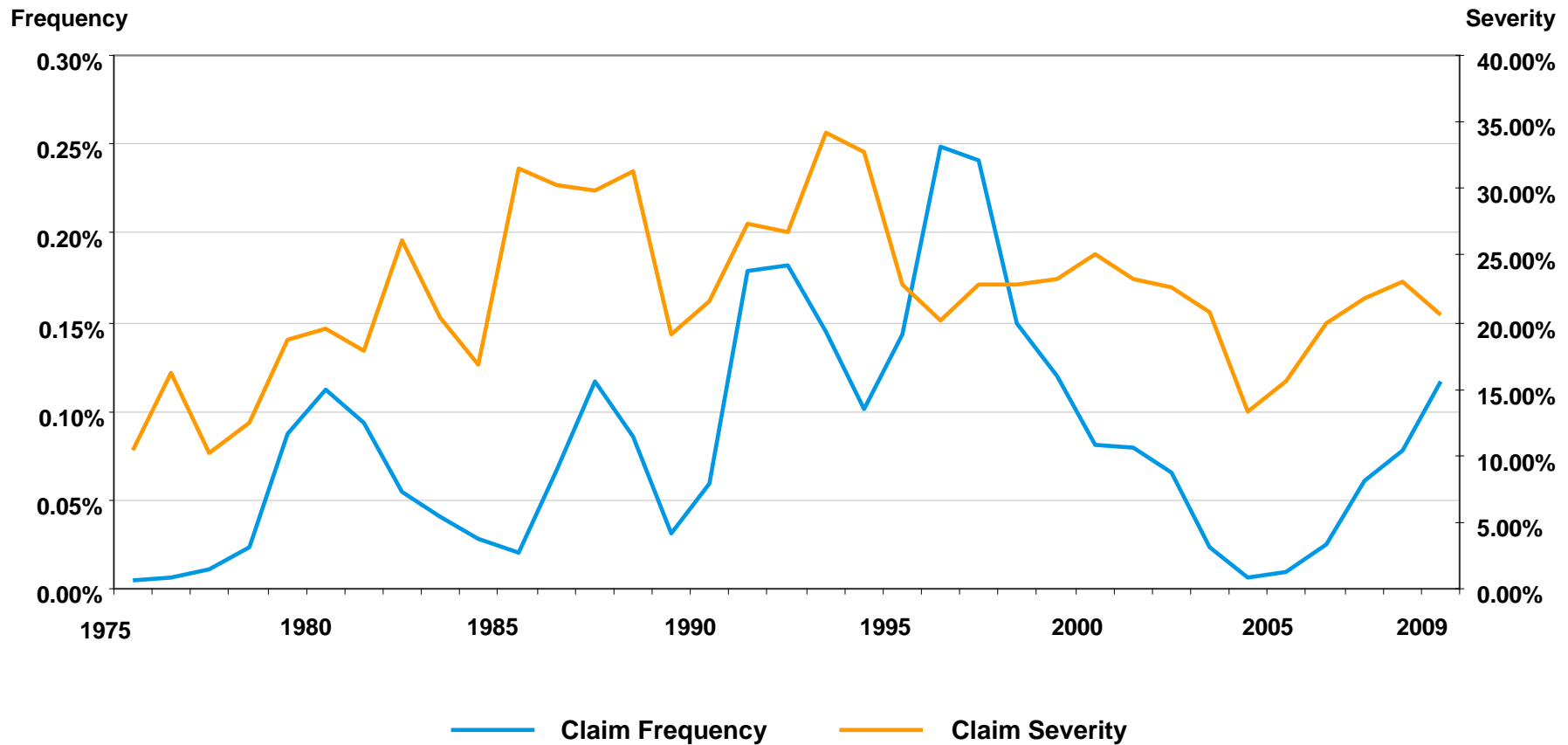
Median House Price Trends – BIS Shrapnel Forecasts



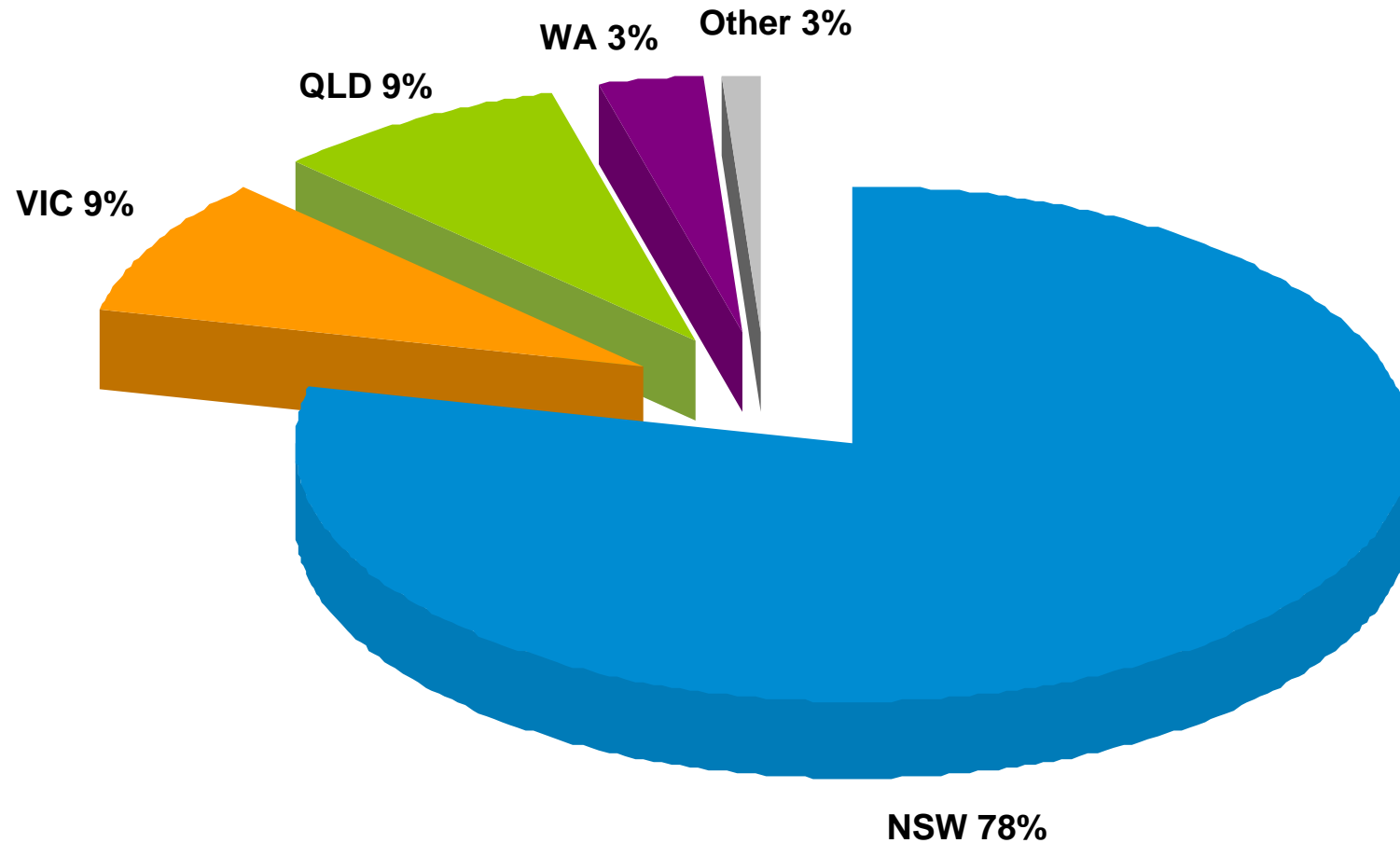
housing bubble: perception vs. reality

Characteristics	2004	Today
Aggressive lender competition	Yes – new entrants drove competition	No – Lender consolidation and funding squeeze
Relaxation of lending standards	Yes – less focus on servicing / verification, Low Doc, No Doc	No – Tighter credit policy and mortgage origination
New mortgage products	Yes – Low Doc, No Doc, high risk products	No – High risk products no longer available
Sharp increase in leverage	Yes – 100% - 110% LTV lends	No – Maximum LVR 90% - 95% restricted refinance cash outs
Spruiking of excessively optimistic investments	Yes – Inner city apartments, two tiered marketing – valuation issues	No – Limited activity / developments to date
Dominance of investors	Yes – more than 30% of new lending	No – 15% of new lending

our claims frequency and severity by claim years



mortgage insured claims paid in 2008 and 2009



insights from our claims experience in 2008 - 2009

Risk Factors	Mortgage Decision Tool	Insights
Market Risk Score	Interest rate – 90 day bill rate. Unemployment rate. House price % change.	Key drivers reduced from five to three. GDP and vacancy rate drivers removed. Now based on three year forecasts.
Loan risk score - Borrower factors	Multiple borrowers are better risk. Professionals are lower risk. Corporate borrowers are higher risk. Older borrowers are higher risk.	Investor borrowers have performed worse than owner occupied borrowers in this cycle. With the exception of borrowers under 23, the first home buyer group 25-39 is a lower risk group.

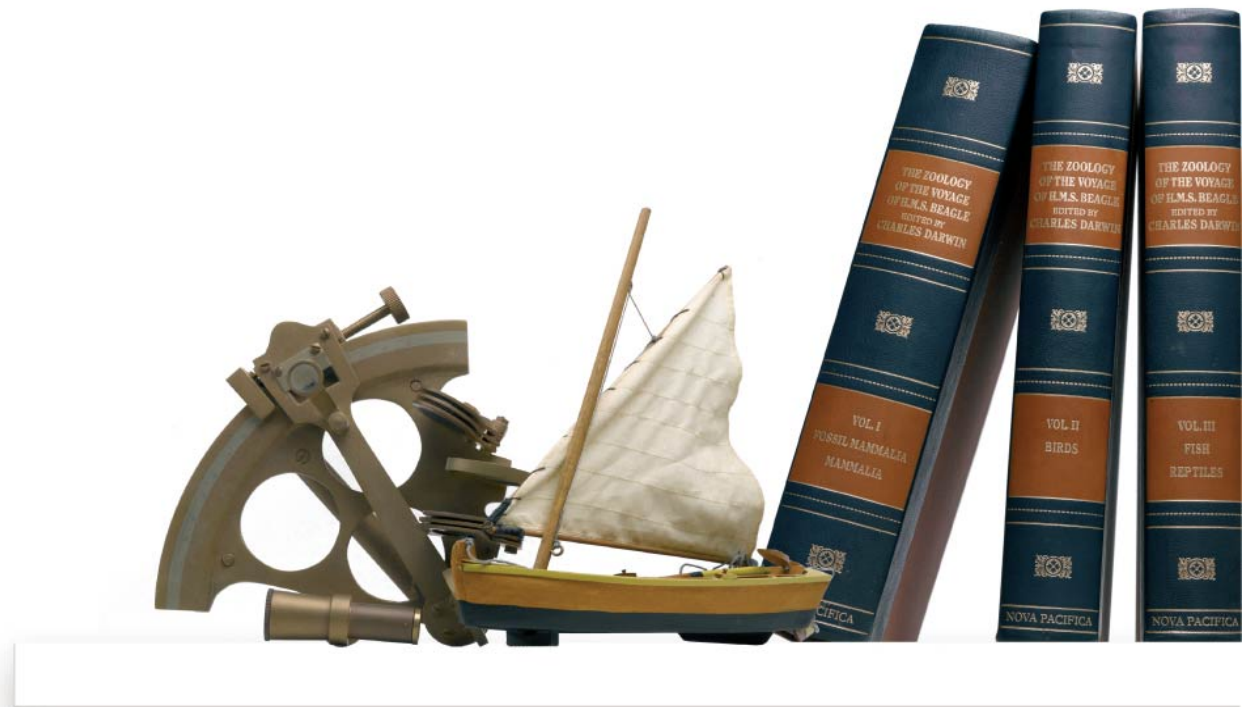
insights from our claims experience in 2008 - 2009

Risk Factors	Mortgage Decision Tool	Insights
Loan risk score - Mortgage loan factors	Mutuals are lower risk than banks. Refinance (with cash out) high risk. Low doc significantly higher risk.	APRA regulated entities are lower risk than unregulated lenders. Multiple top up loans to support lifestyle choices are a risk to be aware of.
Loan risk score - Property factors	Multiple securities are lower risk. Non-metro regions higher risk. Unit / apartment higher risk. House / dual occupancy better risk.	Metropolitan covers all state and territory capital cities in Australia. Regional covers all major centres outside the metropolitan capital cities. National covers anything outside metropolitan / regional centres.

the GFC has reinvigorated regulators and lenders focus on managing the risks in the residential mortgage lending market

- Back to the future and the fundamentals – just how far back do we need to go - the 90s, 80s, 70s or 60s?
- Housing markets in Australia are cyclical and there will be regional market stresses from time to time ... bubble, boom or bust?
- Legacy mortgage platforms, policies, processes and cultures present an operational risk challenge for all lenders.
- Introduction of National Consumer Credit Protection (responsible lending provisions) will change mortgage lending in the future.

Imi inspiring confidence



Disclaimer:

This material was prepared by QBE Lenders' Mortgage Insurance Limited (QBE LMI). It is provided for information purposes only and is not intended to constitute legal, financial or other professional advice. While based on information believed to be reliable, no guarantee is given that it is accurate or complete. The opinions, forecasts, assumptions, estimates, derived valuations and target price(s) (if any) contained in this material are as of the date indicated and are subject to change at any time without prior notice. Neither QBE LMI nor other persons shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material.

QBE LMI owns copyright in this material. This material may not be reproduced, redistributed, or copied in whole or in part for any purpose without QBE LMI's prior written consent.

