



MORTGAGE MARKET UPDATE

PROPERTY MARKET ANALYTICS

HOME LOANS DIVISION

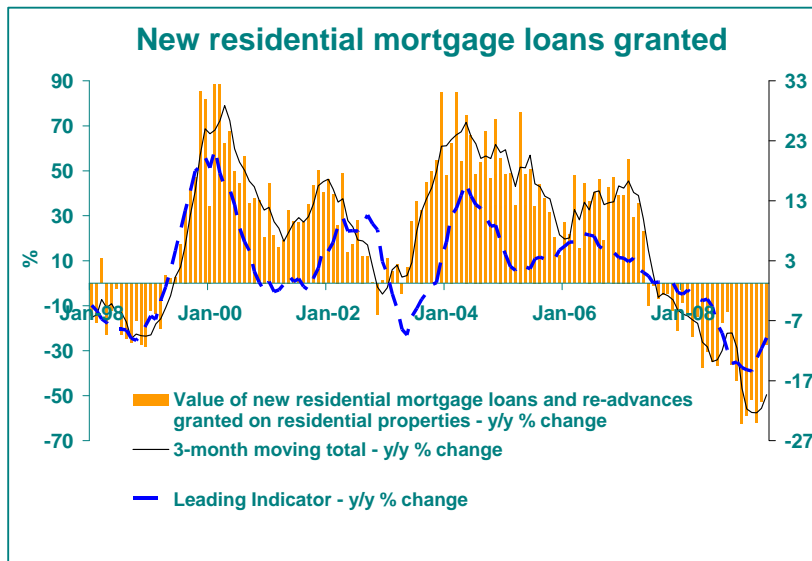
– Still weak, but mild improvement in the second quarter residential new mortgage loan numbers

John Loos: Strategist
011-649 0125
john.loos@fnb.co.za

4 September 2009

NEW MORTGAGE GROWTH STILL NEGATIVE YEAR-ON-YEAR, BUT MAY BE STARTING TO TURN THE CORNER SLOWLY

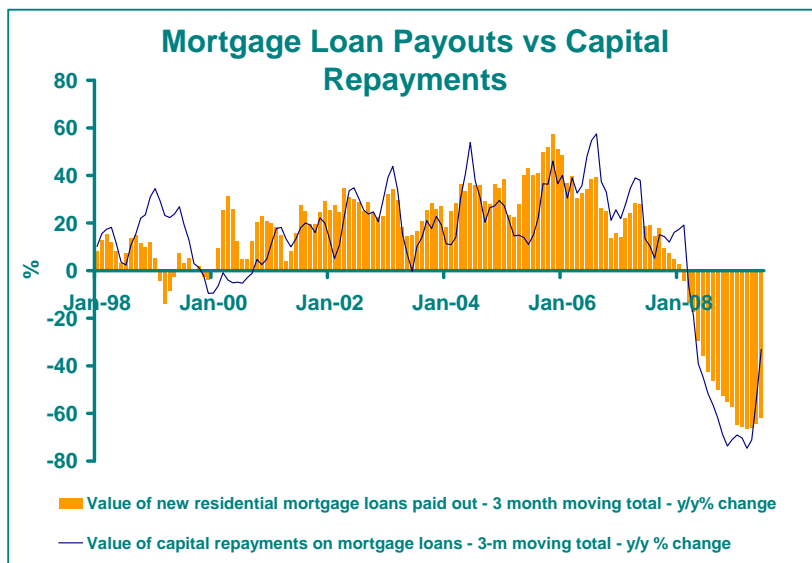
The release of the SARB Quarterly Bulletin for September provides the picture for new mortgage loans in the 2nd quarter of 2009. It showed that for the 2nd quarter as a whole, the year-on-year rate of decline in new mortgage loans and re-advances looked slightly better, recording a -49.3% year-on-year fall as compared to -57.5% for the 1st quarter.



Looking at the figures month by month, however, the improvement appeared more impressive towards the end of the 2nd quarter, with the June year-on-year decline far less at -27.3%. On a quarter-on-quarter basis, the 2nd quarter total of R35.718bn's worth of loans granted was 1% up on the 1st quarter number.

While one cannot draw hard and fast conclusions about a trend change based on one quarter, it is believed that the 2nd quarter number represents a mild turn for the better as a result of the sharp drop in interest rates and an economic growth rate that looks set to emerge slowly from recession, along with mild relaxation of credit criteria by certain banks.

The SARB Composite Leading Business Cycle Indicator began to turn the corner in the 2nd quarter, and the accompanying graph indicates that the rate of growth in new residential mortgage loans granted tracks the Leading Indicator relatively well.



Taking a look at mortgage loans paid out (bear in mind that there is a non-residential component in this number but residential is the big driver), the year-on-year rate of decline also remains extreme. But once again, the 2nd quarter's decline of -61.7% was slightly less than the 1st quarter's -66.4%, and by June the year-on-year rate of decline had diminished further to -53.7%.

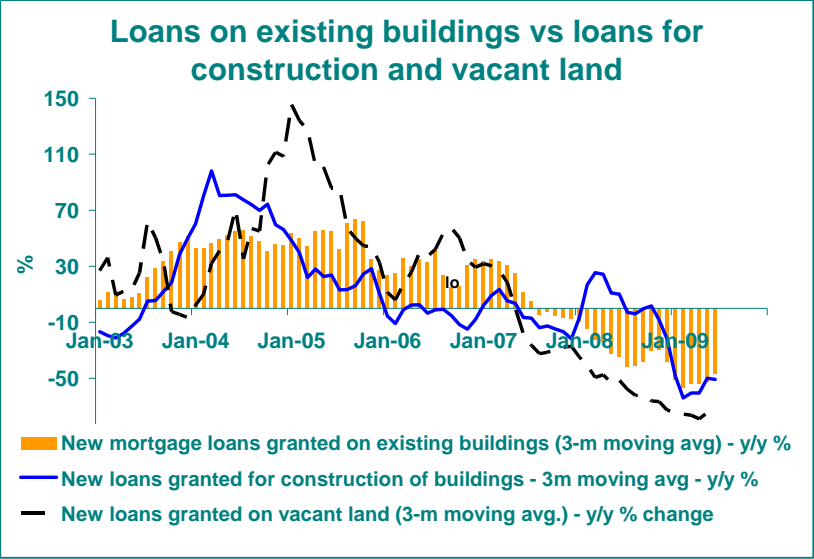
Therefore, while the picture certainly still remains extremely weak, there are signs that we may be slowly turning the corner after a huge pullback on mortgage (and overall household) borrowing.

On the capital repayments side (also including a non-residential component, but residential is

the big component), encouraging is the fact that the SARB reports a significantly smaller year-on-year rate of decline in capital repayments on mortgage loans, to the tune of -33.1% in the second quarter, compared with a massive -74.6% decline in the 1st quarter year-on-year. For the month of June the year-on-year decline in the value of capital repayments was a mere -12.3%, and quarter-on-quarter the value of

The information in this publication is derived from sources which are regarded as accurate and reliable, is of a general nature only, does not constitute advice and may not be applicable to all circumstances. Detailed advice should be obtained in individual cases. No responsibility for any error, omission or loss sustained by any person acting or refraining from acting as a result of this publication is accepted by FirstRand Group Limited and / or the authors of the material.

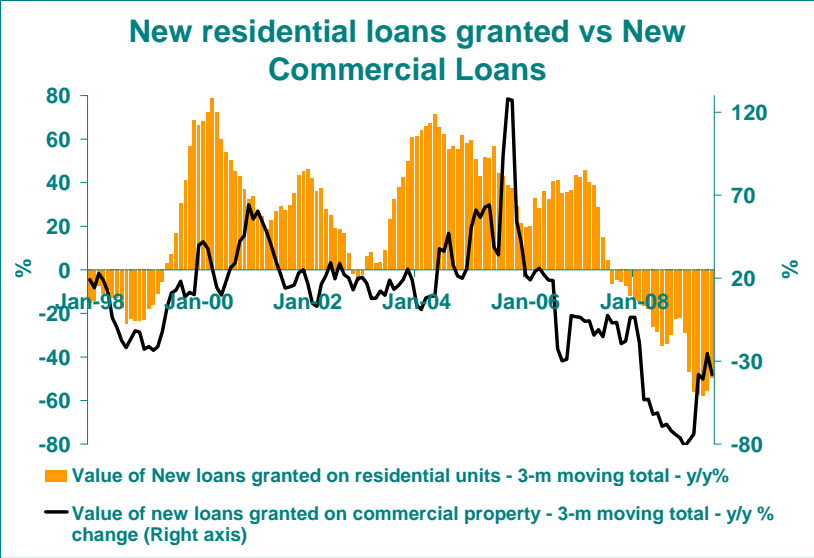
capital repayments was +59.4% higher in the second quarter compared to the preceding quarter. This may be an early sign of things to come in terms of a more rapid paying down of total mortgage debt outstanding in the coming months, assisting the currently very high overall debt-to-disposable income ratio to lower levels in future.



Examining new mortgage loans granted split into loans on existing buildings, construction of buildings and vacant land, not surprisingly is that the funding of vacant land purchases has fared worst (given a sharp drop in new buildings planned). The value of new mortgage loans on vacant land dropped by -73.3% in the 2nd quarter year-on-year, compared to building construction loans falling by a lesser -50.9% and loans on existing buildings declining by 47.1% year-on-year.

The rates of decline of all 3 categories, however, all experienced mild improvements (diminished) in the 2nd quarter compared to the 1st quarter.

Finally, taking a look at the split between new residential mortgage loans granted and commercial property loans granted, it is clear that the commercial sector has also been severely affected by the economic slowdown. Although the year-on-year rate of decline in new commercial loans granted also appears significantly better than its low of -81.4% for the 4th quarter of 2008, the rate of decline of -38.1% in the 2nd quarter of 2009 remains weak.



CONCLUSION

Although the SARB New mortgage loan numbers remain very weak compared to prior years, it is believed that the mildly diminished rates of year-on-year decline in value of new mortgage lending indicate a household sector that has begun to respond positively to sharp interest rate cuts, and that moderate strengthening in the growth rates (slowly away from negative to towards positive growth) will follow. In the coming quarters, new mortgage value growth is expected to rely increasingly on a stronger economy, with the SARB Leading Indicator having started to point the way up, and such mild improvement is expected to lead the FNB House Price Index out of deflation in 2010.

Mortgage Market Summary

END OF PERIOD	2004	2005	2006	2007	2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Mar-09	Apr-09	May-09	Jun-09	Jul-09
Total Mortgage Market (R'm)														
Total Mortgage Advances (R'm)	412 769	526 647	684 593	853 819	966 921	941 733	966 921	981 192	983 387	981 192	982 059	982 266	983 387	982 819
y/y % change	24.4	27.6	30.0	24.7	13.2	16.6	13.2	11.2	8.2	11.2	10.6	9.4	8.2	6.4
Banking Sector - New mortgage loans and re-advances granted per property type (R'm)														
Residential dwellings	179 316	248 800	338 327	364 575	271 276	59 867	57 399	35 347	35 718	13 859	10 346	11 611	13 761	-
y/y % change	60.9	38.7	36.0	7.8	-25.6	-30.0	-28.9	-57.5	-49.6	-51.7	-62.2	52.9	27.3	-
<i>Of which: Residential re-advances</i>									11 400	5 509	3 299	3 487	4 614	-
Commercial premises and other	49 668	82 171	79 491	73 207	23 578	5 327	3 787	4 767	4 192	2 352	1 089	1 516	1 587	-
y/y % change	25.3	65.4	-3.3	-7.9	-67.8	-71.9	-81.4	-38.1	-38.1	-2.6	-56.9	11.2	37.3	-
Farms	3 251	4 373	5 125	3 626	3 794	1 034	866	558	499	226	160	166	173	-
y/y % change	116.0	34.5	17.2	-29.2	4.6	8.5	-12.2	-33.8	-52.5	-12.7	-50.9	54.4	52.1	-
Total	232 234	335 348	422 941	441 410	298 643	66 227	62 050	40 674	40 406	16 438	11 594	13 290	15 522	-
y/y % change	52.2	44.4	26.1	4.4	-32.3	-37.2	-39.2	-55.6	-48.7	-47.6	-61.6	50.2	28.9	-
Banking Sector - New mortgage loans granted per application (R'm)														
Construction of buildings	27 565	32 445	30 941	28 574	29 927	7 231	4 658	3 757	4 185	1 875	1 166	1 618	1 401	-
y/y % change	73.4	17.7	-4.6	-7.7	4.7	-0.3	-22.3	-60.5	-50.9	-40.3	-63.1	46.5	39.9	-
Existing Buildings	189 411	277 697	357 851	384 052	256 668	56 462	55 677	35 916	35 268	14 210	10 151	11 294	13 823	-
y/y % change	48.4	46.6	28.9	7.3	-33.2	-38.3	-38.0	-53.9	-47.1	-47.1	-60.3	49.9	25.3	-
Vacant Land	15 261	25 206	34 149	28 784	12 049	2 534	1 715	1 000	953	353	277	378	298	-
y/y % change	68.1	65.2	35.5	-15.7	-58.1	-62.6	-72.8	-76.4	-73.3	-74.3	-81.0	66.2	69.8	-
Banking Sector - Payouts and Capital Repayments (R'm)														
Total loans paid out per period	220 206	313 886	399 295	461 727	276 271	62 127	51 233	29 845	28 396	10 949	9 195	9 010	10 191	-
y/y % change	32.2	42.5	27.2	15.6	-40.2	-50.0	-57.3	-66.4	-61.7	-62.9	-68.3	61.0	53.7	-
Capital repayments per period	146 613	183 527	250 359	297 877	156 192	28 659	24 441	16 294	25 974	5 038	8 781	8 092	9 101	-
y/y % change	28.7	25.2	36.4	19.0	-47.6	-61.7	-70.9	-74.6	-33.1	-73.1	-45.4	34.5	12.3	-
Total Banking Sector Mortgages Outstanding (R'm)														
Farm Mortgages	3 559	4 126	4 700	5 372	6771.0	6 417	6 771	7 132	7296.6	7 132	7 157	7 256	7 297	-
y/y % change	5.2	15.9	13.9	14.3	26.0	24.6	26.0	23.6	19.4	23.6	20.7	19.5	19.4	-
Housing Advances: Total	327 953	426 205	546 197	684 317	753122.0	736 735	753 122	766 362	768410.8	766 362	766 957	767 451	768 411	-
y/y % change	25.9	30.0	28.2	25.3	10.1	14.5	10.1	8.9	7.1	8.9	9.0	8.0	7.1	-
Commercial Property Advances: Total	74 336	91 644	129 488	170 252	209882.2	198 016	209 882	212 018	214170.2	212 018	212 829	213 488	214 170	-
y/y % change	19.7	23.3	41.3	31.5	23.3	26.3	23.3	25.1	17.2	25.1	21.0	19.3	17.2	-
Total Banking Sector Mortgage Loans Outstanding	405 847	521 974	680 384	852 639	969775.0	941 168	969 775	985 750	990127.0	985 750	986 943	988 439	990 127	-
y/y % change	24.5	28.6	30.3	25.3	13.7	16.8	13.7	12.1	9.3	12.1	11.5	10.4	9.3	-
Household-Related Debt and Deposits (R'm)														
Household Debt	478 741	585 541	726 270	867 635	1 002 020	986 973	1 002 020	1 013 684	1 012 116	1 013 684	1 014 519	1 014 080	1 012 116	1 014 223
y/y % change	26.5	22.3	24.0	19.5	15.5	17.7	15.5	6.2	4.6	6.2	5.9	5.3	4.6	4.0
Household Deposits held by banks	283 750	319 095	363 113	423 700	501878.0	482 385	501 878	508 165	511738.0	508 165	510 710	511 165	511 738	-
y/y % change	9.7	12.5	13.8	16.7	18.5	16.1	18.5	14.1	9.4	14.1	12.3	11.6	9.4	-