



2ND QUARTER NEW MORTGAGE LENDING TRENDS

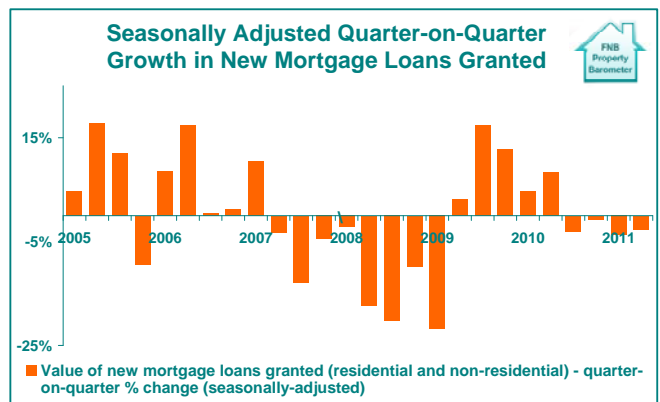
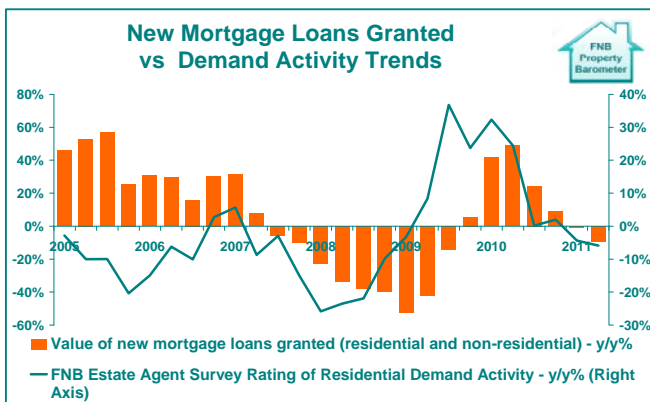
The tapering off the growth rate in the value of mortgage loans being granted continued in the 2nd quarter, according to SARB Quarterly Bulletin.

14 September 2011

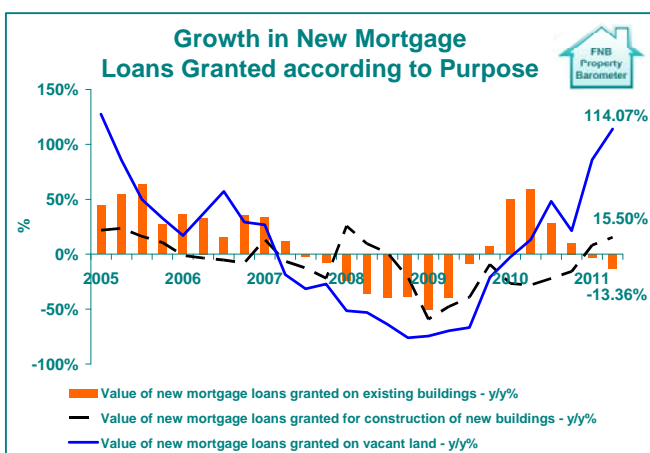
The September SARB Quarterly Bulletin provides some public insight as to patterns in new mortgage lending in the 2nd quarter of 2011. When it comes to the trend in the value of new mortgage loans granted (residential and non-residential included), it was not too surprising to see a further year-on-year decline in the value of loans granted. The overall mortgage market is dominated by residential mortgages, and this segment thus sets the trend.

The FNB Estate Agent Survey's Residential Demand Rating is a fairly good leading indicator of residential mortgage grant trends, and thus for total mortgages granted. The demand rating's year-on-year growth, too, has been negative in the 1st 2 quarters of 2011, with agents suggesting that the market has settled after a 2009/early-2010 surge.

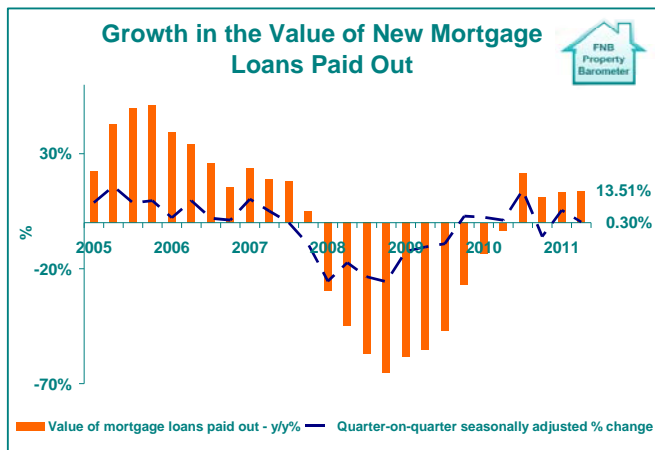
So, after a year-on-year decline in the value of mortgages granted to the tune of -1.2% in the 1st quarter, the pace of decline accelerated to -9.7% in the 2nd quarter of 2011. On a seasonally-adjusted basis, the quarter-on-quarter rate of change for the 2nd quarter was -2.7%, which is the 4th consecutive quarter of decline by this measure.



The SARB Quarterly Bulletin also splits new mortgage loan grants according to purpose. From this we can see that the largest segment of the new mortgage market, i.e. existing buildings, showed weakening growth into negative territory, recording a -13.4% decline in the 2nd quarter. By comparison, it would appear that the new development sector has bigger plans, with mortgage grants for construction of new buildings accelerating to 15.5% year-on-year growth from the previous quarter's 8.3%, while vacant land mortgages shot up off an extremely low base to 114.1% growth, from a previous quarter's 86.1%



The vacant land growth rate should be read with caution, though. The vacant land market remains weak, having experienced by far the most extreme slump of all the segments back in 2007-2009. It thus comes off a very low base.



Examining the value of loans paid out, which can be expected to lag the trend in loans granted, the 2nd quarter growth rate was +13.5%, virtually unchanged from the 13.5% year-on-year growth of the 1st quarter. On a quarter-on-quarter seasonally-adjusted basis, however, the growth rate was +0.3% in the 2nd quarter, down from the +5.5% of the 1st quarter, which indeed suggests a flattening out in the 2nd quarter (although quarter-on-quarter figures can admittedly be erratic)

CONCLUSION

Some data adjustments to the two major new mortgage sub-sets, namely residential and commercial segments, from early in 2011 make analysis of segment data difficult. However, the residential sector, being the largest segment of the mortgage market, remains the key trendsetter for the overall mortgage market.

The new residential mortgage sector is one of the economy's leading sectors. As such, one could expect that its growth rate has been tapering off for quite some time (similar to the broadly slowing growth rate that one finds in the new vehicle sector), with an economy slowing and possibly headed for recession, and with the major stimulus of aggressive SARB interest rate cuts in 2008/9 having worn thin. The SARB Quarterly Bulletin data regarding the total value of new mortgages granted therefore presents little in the way of surprises, showing further year-on-year weakening.

The declining growth trend more-or-less tracks, with a lag, the year-on-year change in the demand rating provided by the FNB Estate Agent Survey panel, and we believe that this is supportive of our view that, in an environment of weak residential property and mortgage demand, house prices will remain under pressure in the near-to-medium term.

JOHN LOOS:
FNB HOME LOANS STRATEGIST
011-6490125
John.loos@fnb.co.za

EWALD KELLERMAN:
PROPERTY MARKET ANALYST
011-6320021
ekellerman@fnb.co.za

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