

## BANKS' HOUSING LOAN CHARACTERISTICS – DECEMBER QUARTER 2011

APRA data on the characteristics of housing loan approvals suggest that banks' lending standards were broadly unchanged in the December quarter. Approvals of low-doc and non-standard loans continued to account for a very small share of the market. While approvals of loans with high loan to-valuation ratios (LVRs) increased, this likely reflected some pull-forward of demand from first home buyers ahead of the expiry of stamp duty exemptions in NSW at the end of 2011; liaison with the major banks suggests that their LVR policies have not been changed recently.

### Lending standards

Approvals of low-doc loans continued the downward trend seen in recent years, falling by about 20 per cent in the quarter to \$1.2 billion (or 1.9 per cent of total housing loan approvals), to be around the lowest level reported since the series began in 2008. This reflected decreases across most banks

Approvals of loans to owner-occupiers rose by 4.4 per cent in the quarter to \$42 billion. This largely reflected an increase in loans with high LVRs (loans with LVRs greater than 90 per cent were up 22 per cent and loans with LVRs between 80 and 90 per cent were up 3 per cent). For most banks, the share of owner-occupier loans with LVRs above 90 per cent increased. This increase largely appears to have reflected greater first-home-buyer (FHB) activity, arising from the expiry of FHB stamp duty exemptions in

**Table 1**  
**Banks' Housing Loan Characteristics**

	As at December 2011			
	Approved in quarter \$m	Share <sup>(a)</sup> %	Quarterly growth %	Year-ended growth %
<b>All approvals</b>	62,079		2.9	4.2
Owner-occupiers	42,002		4.4	5.3
Investors	20,077		0.0	1.8
<b>LVR&gt;90</b>	9,125	14.7	19.3	51.4
Owner-occupiers	7,120	17.0	21.7	49.4
Investors	2,005	10.0	11.4	59.0
<b>80&lt;LVR&lt;90</b>	12,412	20.0	3.6	0.6
Owner-occupiers	9,021	21.5	3.3	0.3
Investors	3,391	16.9	4.4	1.6
<b>60&lt;LVR&lt;80</b>	24,645	39.7	-2.1	1.6
Owner-occupiers	15,583	37.1	-1.0	2.8
Investors	9,062	45.1	-3.9	-0.4
<b>LVR&lt;60</b>	15,897	25.6	2.5	-6.3
Owner-occupiers	10,278	24.5	3.7	-6.1
Investors	5,619	28.0	0.3	-6.7
<b>Interest only<sup>(b)</sup></b>	20,887	33.6	-1.9	-1.2
Owner-occupiers	9,491	22.6	-3.9	-4.9
Investors	11,395	56.8	-0.1	2.1
<b>Low-documentation</b>	1,162	1.9	-20.4	-52.4
Owner-occupiers	780	1.9	-20.2	-44.7
Investors	382	1.9	-20.7	-62.8
<b>Other<sup>(c)</sup></b>	1,384	2.2	-8.1	24.6
Owner-occupiers	825	2.0	-7.5	29.2
Investors	559	2.8	-8.9	18.5

(a) Share within total approvals for borrower type

(b) Includes mortgages with 100 per cent offset accounts

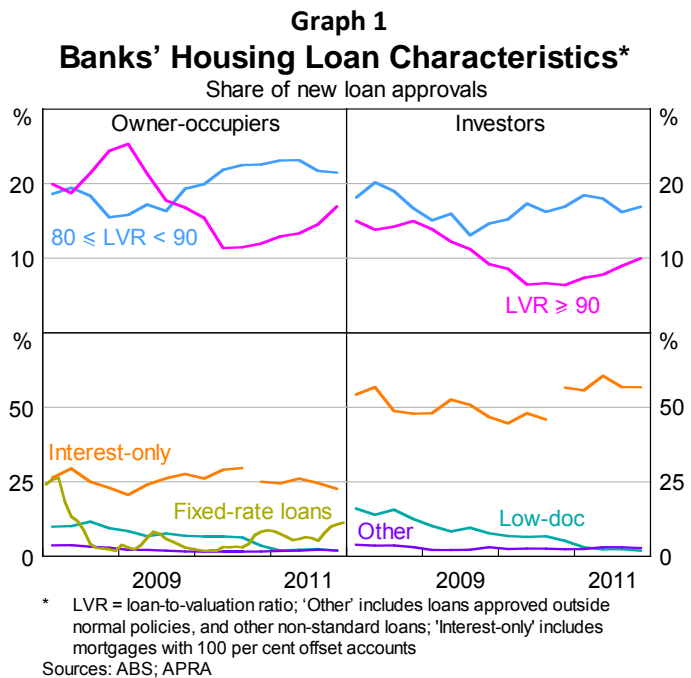
(c) Includes loans approved outside normal policies, and other non-standard loans

Sources: APRA; RBA

NSW at the end of 2011. Some first-home buyers might have also been attracted into the market over the past year or so since lenders resumed offering loans with 95 per cent LVRs.

The value of loan approvals to investors remained largely unchanged in the December quarter 2011. This largely reflected a rise in approvals for loans with high LVRs (loans with LVRs above 90 per cent were up 11 per cent and loans with LVRs between 80 and 90 per cent were up 4 per cent), partly offset by a decline in loans with LVRs between 60 and 80 per cent (down 4 per cent). The share of high LVR loan approvals to investors remains well below that of owner-occupiers, with the difference widening in the quarter.

Approvals of loans falling outside of banks' normal debt-serviceability policies and other non-standard loans fell by 8.1 per cent in the quarter, more than offsetting the increase in the previous quarter. These types of loans remain a very small share of overall approvals.



Financial Stability Department  
3 April 2012

## BANKS' HOUSING LOAN CHARACTERISTICS — MARCH QUARTER 2012

Preliminary APRA data on the characteristics of housing loan approvals suggest that banks' lending standards were broadly unchanged in the March quarter 2012. The value of total housing loan approvals decreased by 8 per cent in the quarter, driven disproportionately by reductions in approvals at the major banks. The share of approvals with high loan-to-valuation ratios (LVRs) fell slightly, possibly reflecting subdued first-home buyer (FHB) activity following expiration of stamp duty exemptions in New South Wales. Approvals of low-doc loans continued to fall, with these loans making up 1.3 per cent of new lending.

### Lending standards

Approvals of low-doc loans continued to trend downwards, falling by almost 35 per cent in the quarter to \$759 million (or 1.3 per cent of total housing loan approvals) – the lowest level reported since the series began in 2008 (Graph 1). This decrease reflected reductions across most banks, including all of the major banks. This trend is likely largely a result of the National Consumer Credit Protection (NCCP) legislation, which requires lenders to ensure that loans are suitable for borrowers (for example, by collecting business activity statements from self-employed applicants).

Approvals of loans to owner-occupiers fell by 8.6 per cent in the quarter to \$38 billion. In terms of LVRs, the decrease was broad based. The largest fall in the quarter came from a 13 per cent reduction in the value of high-LVR loan approvals (loan approvals with LVRs of at least 90 per cent); as a result, the share of owner-occupier loan approvals with high LVRs fell by 1 percentage point, to 16 per cent. This decrease (which was primarily driven by substantial falls across of the banks) may have partially reflected subdued FHB activity following expiration of stamp duty exemptions in New South Wales at the end of 2011. Nonetheless, it is possible that

**Table 1**  
Banks' Housing Loan Characteristics  
As at March 2012<sup>(a)</sup>

	Approved in quarter \$m	Share <sup>(b)</sup> %	Quarterly growth %	Year-ended growth %
<b>All approvals</b>	57,131		-8.0	13.5
Owner-occupiers	38,392		-8.6	13.0
Investors	18,739		-6.7	14.6
<b>LVR≥90</b>	7,987	14.0	-12.5	42.8
Owner-occupiers	6,197	16.1	-13.0	41.3
Investors	1,790	9.6	-10.7	48.5
<b>80≤LVR&lt;90</b>	11,267	19.7	-9.2	3.7
Owner-occupiers	8,102	21.1	-10.2	3.2
Investors	3,165	16.9	-6.7	4.9
<b>60≤LVR&lt;80</b>	22,294	39.0	-9.5	10.2
Owner-occupiers	14,078	36.7	-9.7	9.1
Investors	8,216	43.8	-9.3	12.2
<b>LVR&lt;60</b>	15,584	27.3	-2.0	14.2
Owner-occupiers	10,015	26.1	-2.6	13.4
Investors	5,569	29.7	-0.9	15.7
<b>Interest-only<sup>(c)</sup></b>	18,881	33.0	-9.6	8.4
Owner-occupiers	8,559	22.3	-9.8	3.0
Investors	10,323	55.1	-9.4	13.3
<b>Low-documentation</b>	759	1.3	-34.6	-34.5
Owner-occupiers	466	1.2	-40.2	-29.5
Investors	293	1.6	-23.2	-41.2
<b>Other<sup>(d)</sup></b>	1,358	2.4	-1.9	34.2
Owner-occupiers	768	2.0	-6.9	26.0
Investors	590	3.1	5.5	46.7

(a) Data are preliminary

(b) Share within total approvals for borrower type

(c) Includes mortgages with 100 per cent offset accounts

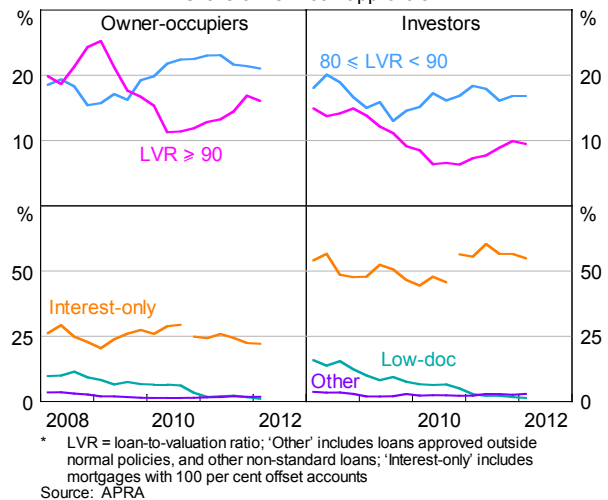
(d) Includes loans approved outside normal policies, and other non-standard loans

Source: APRA

reductions in overall FHB activity were, to some extent, offset by an increase in the share of FHBs loan approvals with high LVRs; estimates from Fujitsu Australia indicate that this share has increased over the six months to March 2012.<sup>3</sup>

The value of loan approvals to investors fell by 6.7 per cent in the quarter (1.9 percentage points less than the fall in owner-occupier approvals), reflecting decreases in approvals across all LVR categories. The share of high-LVR investor loan approvals was broadly steady and remained well below that of owner-occupiers, although the difference narrowed in the quarter.

**Graph 1**  
**Banks' Housing Loan Characteristics\***  
 Share of new loan approvals



Approvals of loans falling outside of banks' normal debt-serviceability policies and other non-standard loans fell by 1.9 per cent in the quarter. This was driven by a 6.9 per cent reduction in approvals for owner-occupiers, which was partially offset by a 5.5 per cent increase in approvals for investors. These types of loans remained a very small share of total approvals (2.4 per cent in the March quarter 2012). The share of interest-only loan approvals also fell over the quarter for both owner-occupiers and investors.

Financial Stability Department  
15 May 2012

## BANKS' HOUSING LOAN CHARACTERISTICS — JUNE QUARTER 2012

Consistent with recent bank liaison, preliminary APRA data on the characteristics of housing loan approvals suggest that banks' lending standards were broadly unchanged in the June quarter 2012. The share of approvals with high loan-to-valuation ratios (LVRs) continued to be influenced by first-home buyer (FHB) incentives: it rose slightly due to a pull-forward in FHB demand in response to the expiration of some state government incentives in Victoria and Queensland. Approvals of low-doc loans continued to fall, with these loans making up only 1 per cent of new lending.

**Table 1**  
**Banks' Housing Loan Characteristics**  
June quarter 2012<sup>(a)</sup>

	Approved in quarter \$m	Share <sup>(b)</sup> %	Quarterly growth %	Year-ended growth %
<b>All approvals</b>	63,422		11.0	5.5
Owner-occupier	41,438		7.9	4.4
Investor	21,985		17.3	7.6
<b>LVR≥90</b>	9,091	14.3	13.8	32.1
Owner-occupier	6,958	16.8	12.3	31.6
Investor	2,133	9.7	19.2	34.0
<b>80≤LVR&lt;90</b>	12,669	20.0	12.4	-1.6
Owner-occupier	8,939	21.6	10.3	-2.8
Investor	3,730	17.0	17.9	1.5
<b>60≤LVR&lt;80</b>	25,833	40.7	15.9	5.1
Owner-occupier	15,798	38.1	12.2	3.8
Investor	10,035	45.6	22.1	7.0
<b>LVR&lt;60</b>	15,829	25.0	1.6	0.2
Owner-occupier	9,743	23.5	-2.7	-2.6
Investor	6,086	27.7	9.3	5.0
<b>Interest-only<sup>(c)</sup></b>	23,374	36.9	23.8	2.9
Owner-occupier	10,458	25.2	22.2	1.1
Investor	12,917	58.8	25.1	4.4
<b>Low-doc</b>	739	1.2	-2.7	-46.1
Owner-occupier	438	1.1	-6.0	-50.6
Investor	301	1.4	2.6	-37.8
<b>Other<sup>(d)</sup></b>	2,114	3.3	54.9	53.1
Owner-occupier	1,384	3.3	79.1	85.3
Investor	730	3.3	23.2	15.2

(a) Data are preliminary

(b) Share of total approvals for borrower type

(c) Includes mortgages with 100 per cent offset accounts

(d) Includes loans approved outside normal policies, and other non-standard loans

Source: APRA

### Lending standards

Following substantial falls in the previous two quarters, approvals of low-doc loans fell by a further 2.7 per cent in the June quarter, to be 1.2 per cent of total housing loan approvals — the lowest share reported since the series began in 2008 (Graph 1). Reflecting the downward trend in low-doc loan approvals since 2008, the value of outstanding low-doc loans as a share of total outstanding loans fell 0.3 percentage points to 5 per cent in the quarter, compared to its peak of 8 per cent in 2008. Although some banks reported increased approvals of low-doc loans in the quarter, the low-doc share of loan approvals remained small across banks, with no bank's share exceeding 4 per cent. In comparison, some banks reported shares of around 50 per cent in 2008.

Approvals of loans to owner-occupiers increased by 7.9 per cent in the quarter. This increase may have partially reflected a pull-forward in FHB demand in response to the expiration of some state government incentives in Queensland at the end of April, and in Victoria at the end of June. Consistent with this, the share of owner-occupier loan approvals with LVRs of at least 90 per cent increased by 0.7 percentage points in the June quarter, to 17 per cent, while the share with LVRs between 80 and 90 per cent increased by half of a percentage point, to 21.6 per cent.

at least 90 per cent increased by 0.7 percentage points in the June quarter, to 17 per cent, while the share with LVRs between 80 and 90 per cent increased by half of a percentage point, to 21.6 per cent.

The value of loan approvals to investors increased more sharply than for owner-occupiers in the quarter (17.3 per cent versus 7.9 per cent). The share of investor loan approvals with LVRs of at least 90 per cent was broadly steady in the quarter, as was the share with LVRs between 80 and 90 per cent.

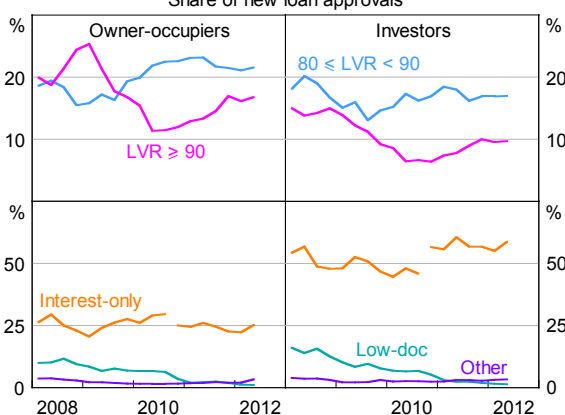
The value of interest-only loan approvals rose by 23.8 per cent in the quarter. In terms of loan purpose, the rise was broad based; the interest-only share of loan approvals increased by around 4 percentage points for investors, to 59 per cent, and by around 3 percentage points for owner-occupiers, to 25 per cent.

banks wrote more than half of their loans as interest-only in the quarter; around 75 per cent of these banks' investor loan approvals were interest-only.

Approvals of loans falling outside of banks' normal debt-serviceability policies (and other non-standard loans) increased sharply in the quarter, though from a very low base.

Nevertheless, these types of loans remained a very small share of total loan approvals, at 3.3 per cent in the June quarter.

**Graph 1**  
**Banks' Housing Loan Characteristics\***  
 Share of new loan approvals



\* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans; 'Interest-only' includes mortgages with 100 per cent offset accounts  
 Source: APRA



Financial Stability Department  
3 August 2012

## RECENT TRENDS IN HOUSING LOAN ARREARS

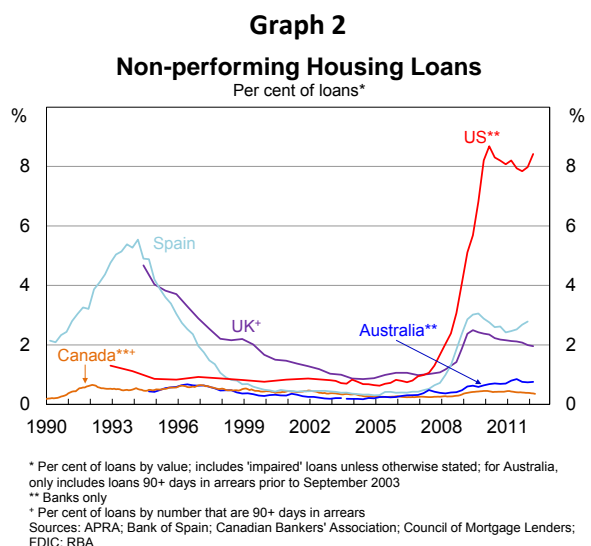
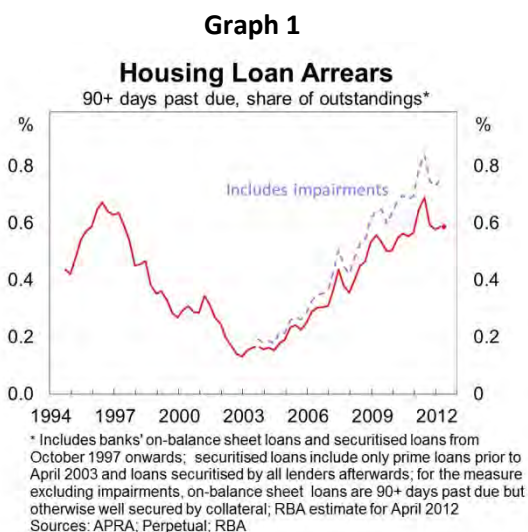
This note investigates movements in housing loan arrears using a new method of weighting securitised housing loan arrears data. It finds that after a prolonged period of increasing arrears rates, the share of housing loans in 90+ day arrears eased from June 2011 to March 2012. Despite this, the collateral quality of these loans has continued to trend down. The rise in arrears was associated with lower lending standards in the pre-crisis period, spikes in unemployment, softer economic conditions in some regions, and weakness in dwelling prices. Some of these factors have continued to put upward pressure on arrears more recently. However, on balance, these factors have been offset by lower interest rates, tightened lending standards, and improved economic conditions in some places (such as Western Australia).

Two accompanying file notes are included: [Securitised Housing Loan Arrears — A Change in Methodology](#) and [Total Housing Loan Arrears](#).

### Overall Housing Loan Arrears

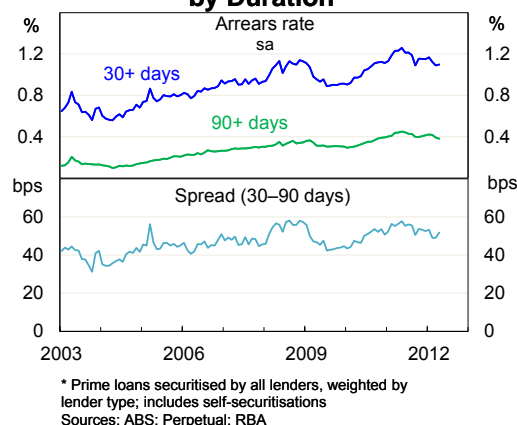
Following a broadly steady rise beginning in 2003, the share of housing loans in 90+ day arrears fell slightly over the second half of 2011 before steadying in the March quarter 2012 (Graph 1). The recent improvement reflected falls in arrears rates for on- and off-balance sheet loans. Despite the recent improvement, the quality of loan collateral has continued to decline: the share of impaired housing loans — loans not well-secured by collateral — has gently trended up over recent years to around 0.2 per cent. Although elevated compared to the early 2000s, housing loan arrears are below their late 1990s peak and remain low compared to most international peers (Graph 2).

This note examines movements in housing loan arrears, focusing on the post-financial crisis rise and the more recent fall. Most analysis is based on securitisation data, as these can be disaggregated in more ways than on-balance sheet data.<sup>1</sup> It is worth noting that these data have become less representative in recent years, with the decline in new issuance causing the share of housing credit that is securitised (including self-securitisations) to fall from around one-quarter in mid-2007 to roughly 15 per cent in March 2012.



<sup>1</sup> In contrast to previous FS notes using Perpetual data, most arrears rate series in this note include self-securitisations and are weighted by lender type. For details on this change in methodology, see ["File Note: Securitised Housing Loan Arrears — A Change in Methodology"](#), FS note.

**Graph 4**  
**Securitized Housing Loan Arrears**  
**by Duration\***



Another leading indicator of stress is the 30+ day arrears rate; households may enter 30+ day arrears accidentally or for liquidity or solvency reasons, while those in 90+ day arrears are more likely to be dealing with solvency issues. Securitisation data suggests that, during the rise in arrears between mid-2009 and mid-2011, the 30+ day arrears rate rose more quickly than the 90+ day arrears rate (Graph 4). The widening of the spread between these arrears rates may have been due to an increase in liquidity problems, potentially because of households' unwillingness to realise capital losses in an environment of weak asset prices. The sizeable persistent difference between 30+ day and 90+ day arrears rates – along with the fact that this measure of 30–90 day arrears is higher than the 90+ day measure – suggests that a large share of households in 30+ day arrears cure before entering 90+ day arrears.<sup>2</sup>

Households that leave 90+ day arrears may do so through curing (which includes selling) or defaulting. In terms of curing, HILDA Survey data suggest that around 63 per cent of households that were behind schedule in one survey year were no longer behind in the following year.<sup>3</sup> Consistent with this, in 2010, of households reporting to have missed a mortgage repayment in the past year, two thirds were no longer behind schedule when interviewed. However, around one quarter of households missing repayments expected to move homes in the next 12 months, compared to 7 per cent of all owner-occupier households in general.

### State and region

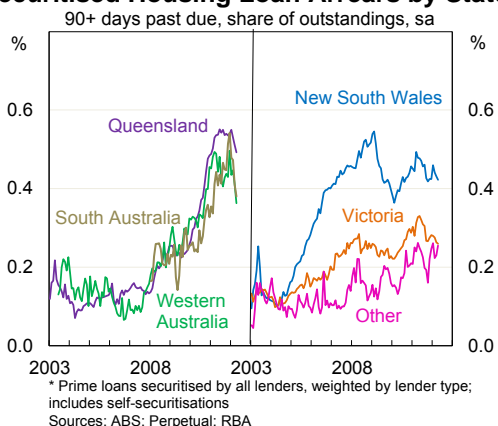
According to securitisation data, the arrears rate rose across most states from 2009 to 2011, especially in Queensland, Western Australia and South Australia (Graph 6). These rises were all accompanied by spikes in unemployment and softness in dwelling prices (Graph 7). The rise was sharpest in Queensland, particularly in areas affected by the downturn in tourism activity, such as

<sup>2</sup> This may include households that have accidentally entered arrears.

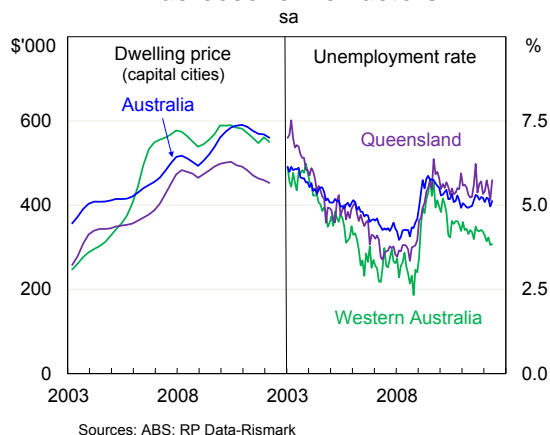
<sup>3</sup> This estimate is calculated using an unbalanced panel for all years from 2001 to 2010 and includes households that moved between the two survey years.

south-east and far-north Queensland.

**Graph 6**  
**Securitized Housing Loan Arrears by State\***



**Graph 7**  
**Macroeconomic Factors**

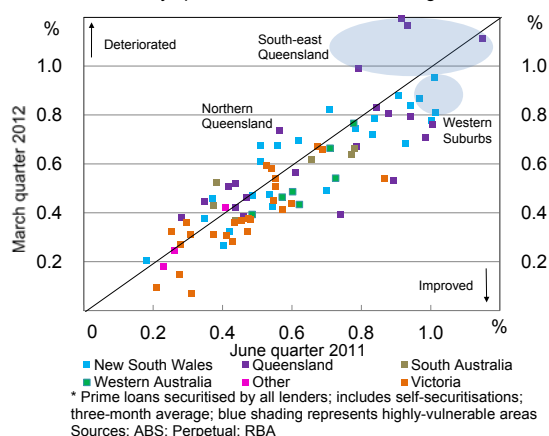


More recently, arrears rates have generally eased across states. Graph 8 shows securitized arrears rates by region for the June quarter 2011 and the March quarter 2012. Regions that fall below the black line had improved arrears outcomes, while those above deteriorated.

- In Queensland, the arrears rate steadied around mid-2011 and fell in the first four months of 2012. However, it remains elevated, in part because the state's unemployment rate has not improved much and housing prices have been relatively weak. Arrears rates in some of the state's coastal regions have also continued to deteriorate.

**Graph 8**

**Securitized Housing Loan Arrears by Region**  
90+ days past due, share of outstandings, nsa

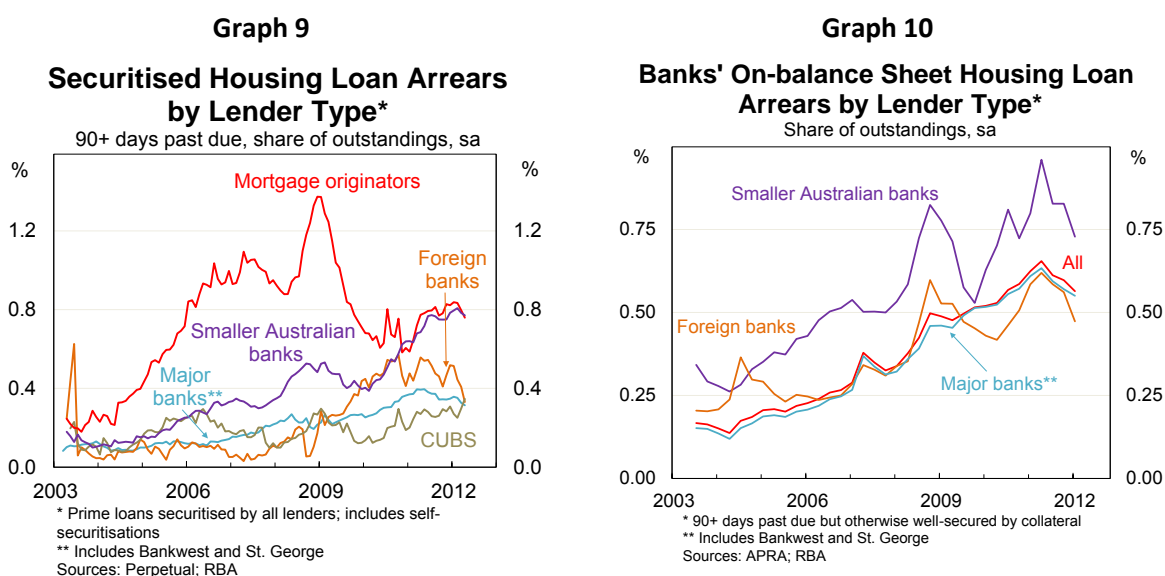


- The arrears rate in Western Australia has fallen sharply since mid-2011, with most regions improving. This likely reflects better labour market conditions, as reflected in the fall in unemployment, and is consistent with the Genworth Homebuyer Confidence index, which shows that confidence in Western Australia improved more than in any other state over the six months to March 2012.
- The arrears rate in South Australia (which, due to a smaller sample, is fairly volatile) decreased substantially over the first four months of 2012.

- In New South Wales, the arrears rate has fallen around 7 basis points from its March 2011 peak of 0.5 per cent. This reflects decreased or steady arrears rates in most parts of the western suburbs, where arrears rates have been among the highest in Australia. However, arrears increased slightly in a number of other regions, including the Central Coast and the Murray.
- The arrears rate in Victoria improved by about 7 basis points from its mid-2011 peak. This improvement was broad-based, with many regions improving and few deteriorating. This is somewhat surprising, given the weakness in the state's housing and labour markets.

### Lender type

The rise and fall in arrears rates on housing loans has generally been reflected across all lender types (Graphs 9 and 10). However, there are differences in arrears rates that seem to largely reflect lenders' geographical exposures. Arrears rates have risen the most at the smaller Australian banks, and remain high despite improving recently.



Arrears rates for mortgage originators, whose lending was almost exclusively off-balance sheet, followed a different path than those of other lenders. Following a peak of around 1.4 per cent in January 2009, the arrears rate fell to 0.6 per cent in late 2010, before rising slightly recently. The difference in timing was largely due to these lenders' different exposures. In 2004 and 2005, the share of mortgage originators' loans to households in New South Wales averaged 56 per cent, with many of these to households in Western Sydney.

### Lending standards

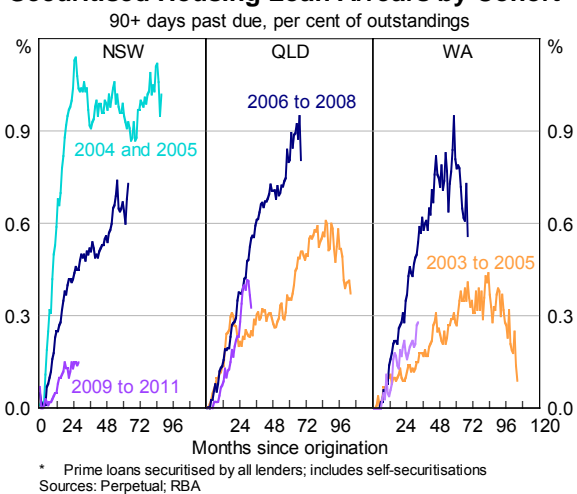
#### Cohort analysis

Most of the increase in arrears rates in recent years has been due to loans settled before the crisis. According to securitisation data, in New South Wales, the 2004–05 cohort has performed worst, while for Queensland and Western Australia it was the 2006–08 cohort (Graph 11). Since then, lending standards have tightened. Loan performance for the 2009–2011 cohort has been better than the preceding cohorts, although only slightly in Queensland. The more recent cohorts are yet to

reach their peak arrears period, but because lending standards have improved, it is unlikely they will reach rates similar to those of previous cohorts.<sup>6</sup>

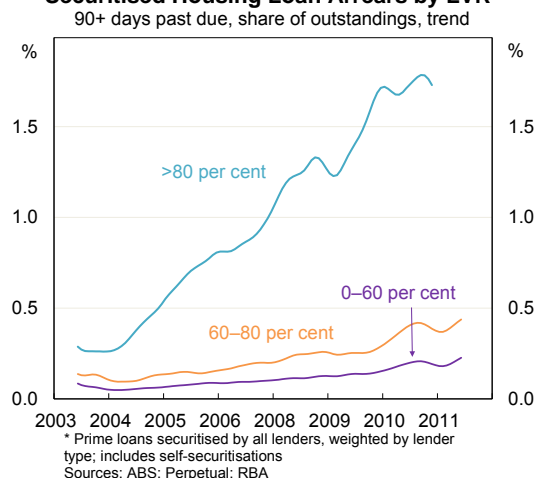
**Graph 11**

**Securitised Housing Loan Arrears by Cohort\***



**Graph 12**

**Securitised Housing Loan Arrears by LVR\***



*Loan-to-valuation ratios*

Tightened lending standards have been reflected in the fall in the share of high-LVR loan approvals: the share of loan approvals with LVRs above 90 per cent was 14 per cent in the March quarter 2012, compared to 18 per cent in 2008.<sup>7</sup> High-LVR loans are typically riskier than other loans; the arrears rate on securitised loans with LVRs above 80 per cent peaked at around 1.8 per cent in early 2011 (four times higher than the arrears rate for loans with LVRs between 60 and 80 per cent; Graph 12). While data quality is imperfect, the easing in arrears since mid-2011 appears to be due to a decline in the arrears rate for loans with LVRs above 80 per cent.

*Low-doc<sup>8</sup>*

Since the financial crisis, growth in low-doc lending — lending where borrowers can provide less evidence of debt-servicing ability than normal — has been stemmed by tightened credit standards and repricing of risk. The enacting of the National Consumer Credit Protection laws in mid-2010 further slowed low-doc loan approvals. Accordingly, the value of low-doc loans as a share of outstanding loans has fallen; as a share of on- plus off-balance sheet loans outstanding, the value of outstanding low-doc loans fell to 5½ per cent in the March quarter 2012 from 8 per cent in 2008. While the rise in the arrears rate on low-doc loans was steeper than for prime loans in general, the low-doc arrears rate improved over the nine months to March 2012 (Graph 13).

*Non-conforming*

Non-conforming loans — the closest Australian equivalent to US sub-prime loans — as a share of total housing credit peaked at around 0.5 per cent in the lead-up to the financial crisis, before falling to around 0.2 per cent in March 2012 (Graph 14). Arrears on these loans were easily the highest of any product lenders offered in Australia, remaining above 7 per cent from mid-2007 to the start of

<sup>6</sup> Another factor affecting the arrears rate has been loan seasoning. Loans tend to reach peak arrears between 2 and 5 years after origination. As a result, the strong growth in credit in the years prior to the crisis and high use of refinancing has likely been applying upward pressure on arrears rates recently. This pressure is likely to be affecting securitisation data more than on-balance sheet data.

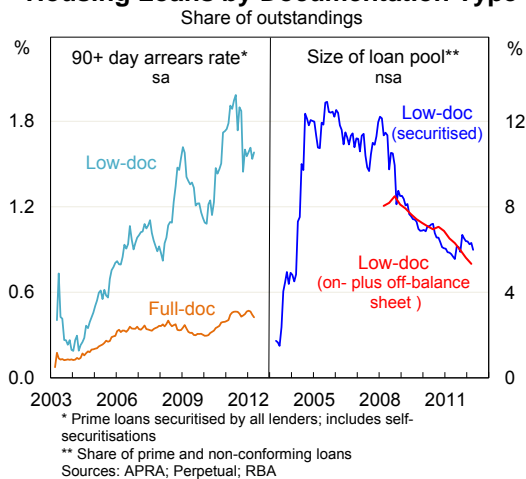
<sup>7</sup> See [“Banks’ Housing Loan Characteristics — March Quarter 2012”](#), FS note.

<sup>8</sup> Low-doc and non-conforming arrears rates are unweighted. For the reasoning behind this, see [“File Note: Securitised Housing Loan Arrears - A Change in Methodology”](#), FS note.

2011, and falling to around 5.6 per cent in March 2012. The decline is probably due to a lack of new non-conforming lending rather than an improvement in conditions; many of the loans that were in 90+ day arrears likely defaulted and were removed from the sample.

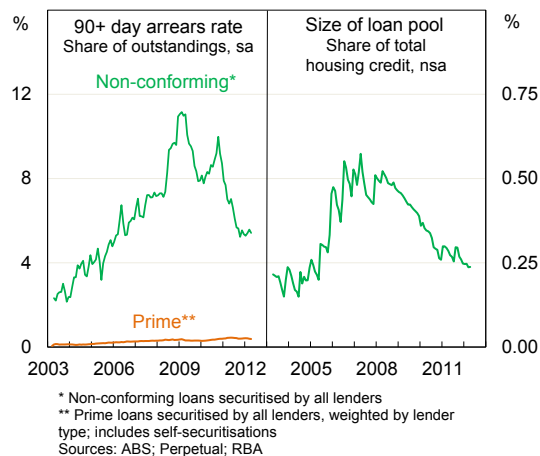
**Graph 13**

**Housing Loans by Documentation Type**



**Graph 14**

**Housing Loans by Asset Class**



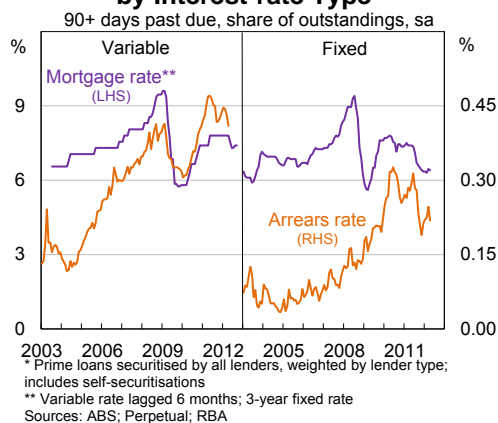
**Interest rates**

Changes in interest rates tend to have a lagged effect on arrears rates. This is reflected in the relationship between variable mortgage rates and arrears rates on variable-rate loans; sizeable changes in variable mortgage rates led both the fall in the arrears rate on variable-rate loans in 2009 and the subsequent rise from early 2010 (Graph 15). Simple correlations suggest that a change in policy rates takes around six months to have its peak effect on housing loan arrears rates. This implies that the reductions in policy rates at the end of 2011 have likely played a role in the fall in arrears in recent months, although the full effects may not yet have filtered through.

It is likely that fixed mortgage rates affect arrears on fixed-rate loans with a much greater lag than in the variable-rate case. After peaking at around 9½ per cent in mid-2008, 3-year fixed rates fell to around 5½ per cent by early-2009 (Graph 8). However, the arrears rate on fixed-rate loans continued to increase until mid-2010; some households who locked in fixed rates close to the 2008 peak may subsequently have struggled to service their mortgage. More recently, the arrears rate on fixed-rate loans has fallen considerably; households who took up 3-year fixed-rate mortgages in 2008 would have been able to renegotiate a substantially lower mortgage rate in 2011.

**Graph 15**

**Securitised Housing Loan Arrears by Interest-rate Type\***

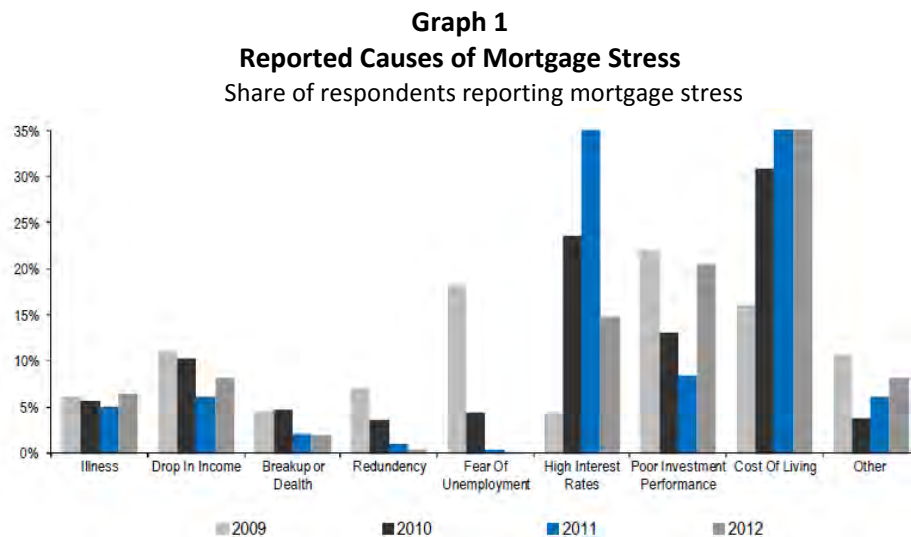


## AUSTRALIAN MORTGAGE INDUSTRY REPORT – MARCH 2012

Fujitsu Australia and J.P. Morgan recently released their biannual [report](#) on the Australian mortgage industry. Included in the report were results of the most recent Fujitsu Australia survey of banking customers, which indicate that the main causes of mortgage stress were the cost of living and poor investment performance. The report also highlights increases in initial loan-to-valuation ratios (LVRs), the uptake of fixed-rate loans, and the use of brokers in mortgage origination.

### Mortgage stress

The latest Australian Mortgage Industry report contains information from a survey of 26 000 banking customers conducted by Fujitsu Australia in February 2012. According to this, the primary reported causes of mortgage stress<sup>1</sup> were: the cost of living (35 per cent of respondents, flat since July 2011); and poor investment performance (20 per cent of respondents, up from less than 10 per cent in July 2011). Stress caused by high interest rates fell substantially from 35 per cent of respondents in July 2011 to 15 per cent in February 2012, consistent with the reductions in housing loan rates at the end of 2011 (Graph 1).



Source: Fujitsu Australia

### Asset quality and loan characteristics

Data from Fujitsu Australia show that 30+ day arrears rates on housing loans continued to increase over 2011. This is consistent with data from Perpetual showing that the 30+ day arrears rate increased over the first half of 2011 before decreasing over the latter half of the year.<sup>2</sup> The report argues that the recent increases in arrears rates have mainly been driven by a general deterioration in asset quality for each loan origination year, rather than by ageing of the 2008 loan vintage.<sup>3</sup> This is somewhat inconsistent with previous analysis by the Bank. Quarterly data from Genworth Financial (which cover loans with LVRs between 80 per cent and 100 per cent) suggest that arrears rates have been improving for some loan cohorts recently. In particular, the 90+ day arrears rate for the 2008

<sup>1</sup> Fujitsu Australia differentiate between: 'mild stress', where respondents are maintaining repayments by reprioritising expenditure, borrowing more on loans or cards, and refinancing; and 'severe stress', where respondents are behind with their repayments, are trying to sell, are trying to refinance, or are being foreclosed on.

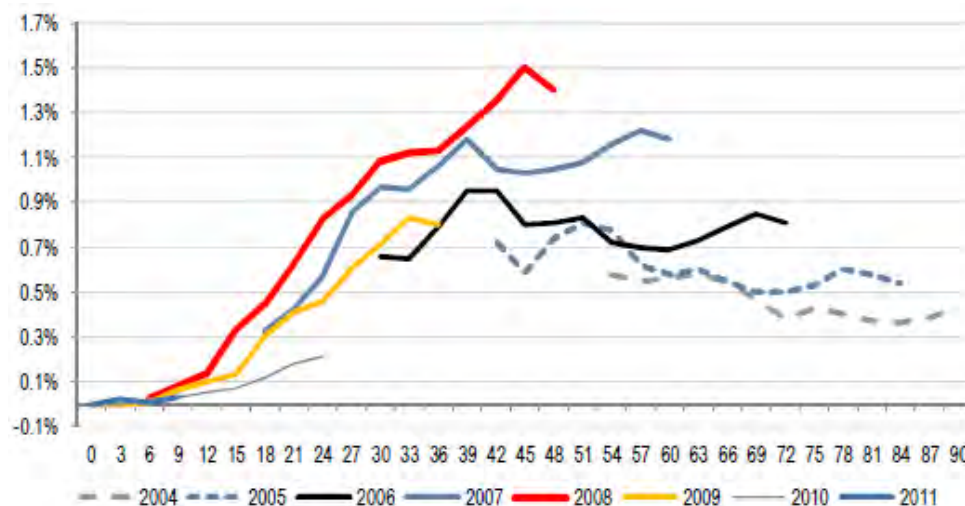
<sup>2</sup> See ["Securitized Housing Loan Arrears — December 2011"](#), FS note.

<sup>3</sup> This argument was also made in the October 2011 Australian Mortgage Industry [report](#).



vintage decreased by around 0.1 percentage points between the September and December quarters of 2011 (Graph 2). This was attributed to the 50 basis point reduction in the cash rate at the end of 2011, with highly-g geared households being given some ‘breathing room’ in meeting mortgage repayments.

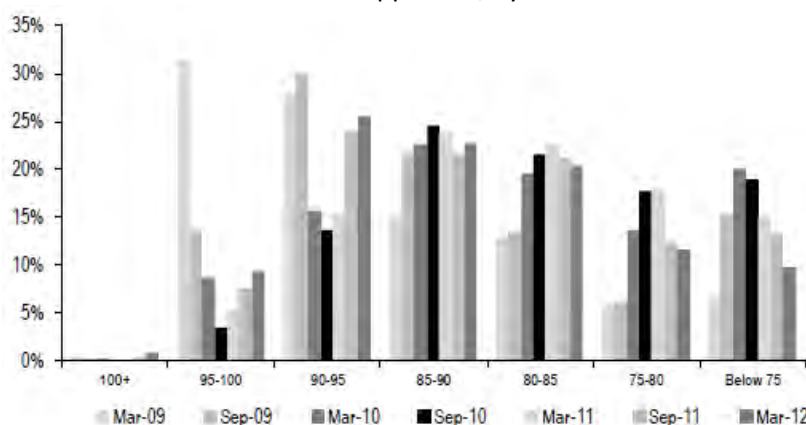
**Graph 2**  
**90+ Day Mortgage Arrears**  
 Share of outstandings, by origination year\*



\* Loans with 80–100 per cent LVRs (i.e. LMI eligible); last data point is the December quarter 2011  
 Sources: Genworth Financial; J.P. Morgan estimates

Comparable to findings in APRA data, the report cites figures from Australian Finance Group (AFG) — Australia’s largest mortgage broking group — showing that average initial LVRs had increased 3 percentage points over 2011 to 66 per cent.<sup>5</sup> This is said to be due to banks relaxing lending standards to increase mortgage volumes, as well as increased first-home buyer (FHB) activity. Estimates from Fujitsu Australia suggest that LVRs within the FHB category are increasing; the share of FHB approvals with LVRs greater than 90 per cent has increased substantially over the two years to March 2012 (Graph 3).

**Graph 3**  
**Approvals to FHBs**  
 Share of approvals, by LVR

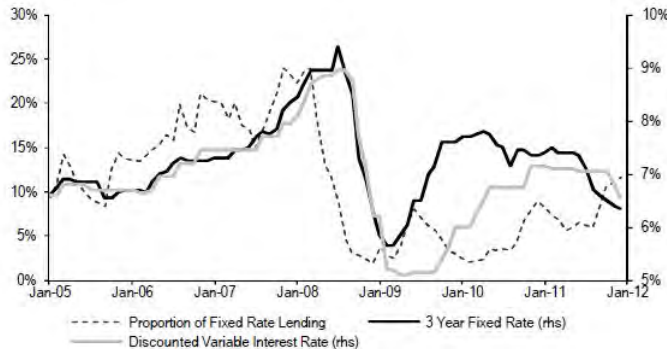


Source: Fujitsu Australia estimates

<sup>5</sup> For more information on the APRA data, see [2011](#), FS note.

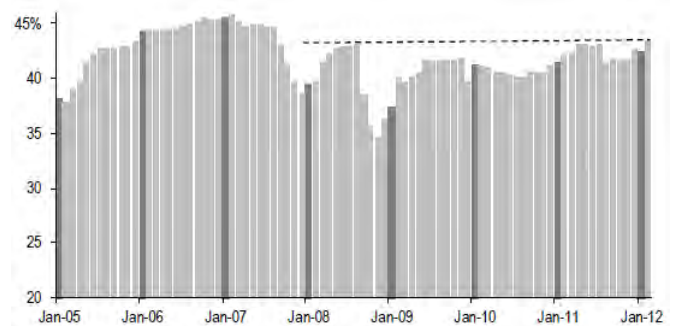
The share of new fixed-rate loans continued to increase since October 2011, reaching around 10 per cent in January 2012 — the highest level since 2008 (Graph 4). This likely reflects the lower cost of fixed-rate loans relative to variable-rate loans, although it may also be associated with recent uncertainty about lenders’ loan pricing related to volatility in their funding costs. The authors believe that the share of new fixed-rate loans will remain at higher levels relative to the trough of 2009, as the 3-year fixed rate is ‘potentially closer to finding a floor’.

**Graph 4**  
**Fixed-rate Loans**  
 Share of new housing loans



Source: ABS

**Graph 5**  
**Broker-originated Loans\***  
 Share by number of new housing loans



\* Dashed line indicates February 2012 level  
 Source: Fujitsu Australia estimates

Fujitsu Australia estimates show modest growth in the share (by number) of new loans originated by brokers (up by roughly one percentage point over the year to February 2012 to around 43 per cent), although this share is still below the levels seen in 2006 and 2007 (Graph 5). In particular, continued to increase its use of brokers — its share of new lending originated by brokers increased by about 5 percentage points between September 2011 and March 2012, to 45 per cent. An increase in the use of brokers in loan origination may indicate greater competition between lenders, and has been associated in the past with weakening credit quality.

## NEGATIVE EQUITY OF AUSTRALIAN HOUSEHOLDS

RP Data recently released its quarterly [Baseline Equity Report](#), finding that the share of dwellings in negative 'baseline' equity – where the property is valued at less than its last sale price – rose 2.7 percentage points to 6.4 per cent over the second half of 2011. This 'baseline' concept differs from negative equity in the traditional sense – where the property is valued at less than its outstanding mortgage. A traditional estimate of negative equity can be approximated based on data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey; at end January 2012, we estimate that around 2 per cent of owner-occupier households may have been in negative equity (or 4 per cent of indebted owner-occupier households). The estimates from RP Data may be useful, as they offer some timely information on changes in the equity position for Australian households on a more granular basis than could reasonably be estimated using the HILDA Survey.

### Negative 'baseline' equity

According to RP Data, the share of dwellings in negative 'baseline' equity – where the property is valued at less than its last sale price – rose from 3.7 per cent in the June quarter 2011 to 6.4 per cent in the December quarter 2011 (Table 1). Of these properties in 'negative' baseline equity, more than 40 per cent were bought in the past two years and 75 per cent in the past five years. The rise was reflected across all states, though particularly in Queensland, where around 20 per cent of dwellings in the far North and the Gold Coast were said to be in negative 'baseline' equity. The share of dwellings in negative 'baseline' equity was also particularly high in certain rural areas of Western Australia that have limited mining exposure. The movements are largely consistent with changes in housing price indices provided by RP Data-Rismark.

**Table 1: Negative Equity**  
Share of dwellings, 2011

	Jun	Sep	Dec
NSW	3.3	3.9	4.4
Vic	1.8	2.4	3.8
Qld	6.3	9.2	11.7
SA	3.0	4.1	5.8
WA	4.9	6.3	8.5
Tas	3.5	4.1	5.9
NT	4.4	5.2	6.0
ACT	1.0	1.2	2.0
<b>Total</b>	<b>3.7</b>	<b>4.9</b>	<b>6.4</b>

Source: RP Data

RP Data's estimates do not incorporate the size of each household's mortgage and as a result are not directly comparable to traditional negative equity measures. Since households tend to borrow less than the value of their property the RP Data estimates could at best be considered a maximum.<sup>1</sup> This leads to two questions: what share of Australian households are really in negative equity; and, are the estimates from RP Data useful?

### Comparing the estimate to the HILDA Survey

The HILDA Survey contains disaggregated data on self-assessed owner-occupier housing values and mortgage debt that can be used to estimate the share of households in negative equity. This suggests that 1.6 per cent of owner-occupier households were in negative equity around the second half of 2010 (Graph 1).<sup>2</sup> Incorporating the more recent falls in housing prices and approximating the amount of debt owner-occupier households have repaid sees this rise to 2 per cent by January 2012, or to around 4 per cent of owner-occupier households with mortgage debt (see Appendix A). This

<sup>1</sup> APRA data suggest that in the year to the December quarter 2011, around two-thirds of banks' loan approvals had a loan-to-valuation ratio of below 80 per cent.

<sup>2</sup> According to the Household Expenditure Survey, the share of households in negative equity was 0.7 per cent in FY2010, or 2.3 per cent of owner-occupier households with mortgages.

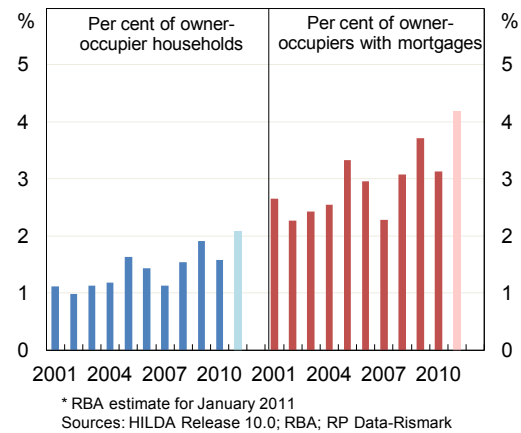
suggests that the share of households in negative equity could be around its highest level since at least 2001. However, this estimate of negative equity should be treated with caution: the sample size is small;<sup>3</sup> loans approved since the survey are excluded; and, surveyed households tend to be overly optimistic about the value of their houses. Adjusting for some of these issues suggests that the estimate is probably a slight underestimate (see Appendix B). In addition, the HILDA Survey only covers owner-occupier households, whereas the RP data cover all dwellings.

### Are the estimates from RP data useful?

The small sample size and low frequency of the HILDA Survey data hamper the usefulness of this estimate. It is for this reason the analysis from RP Data may have value; while the share of households in negative 'baseline' equity is not overly meaningful, the movements likely give a fairly timely indicator of changes in actual negative equity for a large number of regions. This information is useful, as households in negative equity are more likely to default if they experience a shock (for example, become unemployed). As a result, changes in RP Data's measure of negative 'baseline' equity may have some leading indicator properties for other measures of housing stress (for example, arrears and applications for possession), where these tend to be lagging indicators. However, RP data have only released three quarters of estimates, restricting more detailed analysis. The increase in the share of households in negative equity can also be seen through an increase in banks' impairments – loans that are doubtful and not well secured – as a share of non-performing loans (Graph 2).

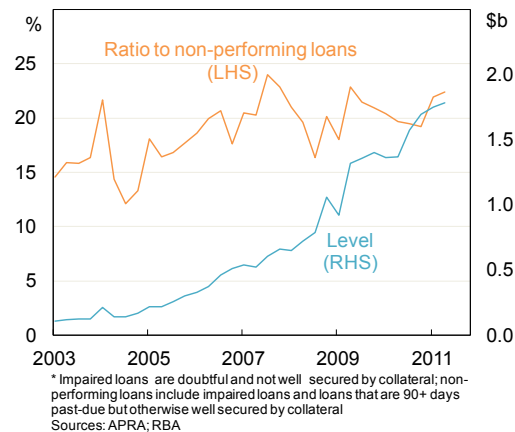
**Graph 1**

### Negative Equity in the HILDA Survey\*



**Graph 2**

### Banks' Impaired Loans\*



<sup>3</sup> 75 households were in negative equity in 2010 with this increasing to 96 households in the January 2012 estimate.

## Appendix A

A five-part process is used to bring forward the estimate of negative equity from the HILDA Survey to January 2012. For each household:

- Self-assessed housing values are assumed to change at the same rate as housing price indices provided by RP Data-Rismark (Table A);
- Reported usual repayments are assumed to grow at the same rate as the ABS measure for wage growth (4.5 per cent);
- The forward measures of reported usual repayments are separated into principal, interest and excess repayments using a credit-foncier model. It is assumed that interest rates are constant at 6.6 per cent and all loan terms are 25 years. Adjustments are made to incorporate loan refinancing;
- Reported current mortgage debt is reduced by the estimated required principal and excess repayments; and,
- The updated estimates of housing price and debt are used to calculate LVRs, and each household with an LVR above 100 per cent is said to be in negative equity.

**Table A: Housing Price Values in Negative Equity Estimate**  
Per cent change from September 2010 to January 2012

Sydney - apartment	-2.5	Perth - apartment	-6.2
Sydney - house	-5.1	Perth - house	-4.8
Sydney - other dwelling	-4.7	Perth - other dwelling	-4.9
Other NSW	0.8	Other WA	-4.3
Melbourne - apartment	-3.8	Hobart - apartment	6.1
Melbourne - house	-7.8	Hobart - house	-8.7
Melbourne - other dwelling	-7.4	Hobart - other dwelling	-7.4
Other Victoria	-2.5	Other Tasmania	-4.3
Brisbane - apartment	-7.1	NT - apartment	-16.1
Brisbane - house	-9.7	NT - house	-20.1
Brisbane - other dwelling	-9.4	NT - other dwelling	-19.3
Other Queensland	-2.8	ACT - apartment	-8.0
Adelaide - apartment	-2.5	ACT - house	-3.4
Adelaide - house	-5.1	ACT - other dwelling	-3.7
Adelaide - other dwelling	-4.7		
Other SA	-2.4		

Source: RP Data-Rismark

## Appendix B

The updated estimate of negative equity is likely to underestimate the percentage of households in negative equity. It does not incorporate new loans from 2011 and households tend to be overly optimistic about their house price. Crude adjustments for these issues suggest that, on average, the estimate of negative equity may rise to around 3½ per cent of owner-occupier households (or 7 per cent of owner-occupier households with mortgage debt).

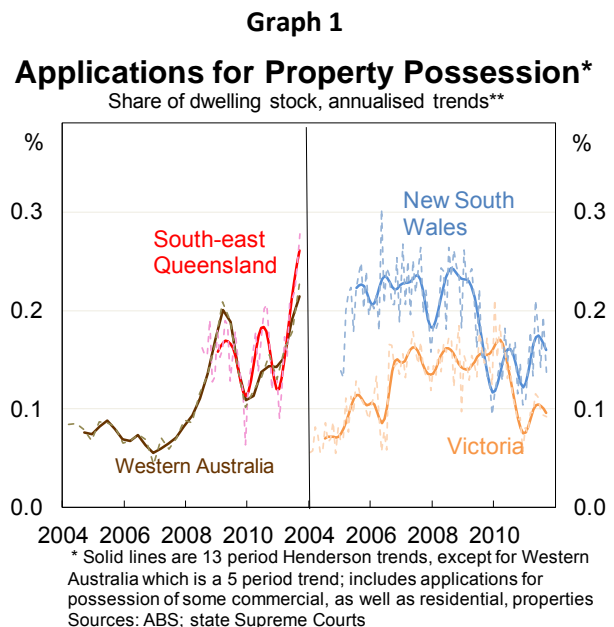
To account for new lending, the share of households that took out loans or refinanced in 2010 and then fell into negative equity by January 2012 is assumed to be the same for 2011. This pushes up the share of owner-occupier households estimated to be in negative equity by half a percentage point. As for the overly optimistic housing prices, Goodman and Ittner ([1992](#)) calculate that US households over-estimate the value of their house by an average of 6 per cent. Simplistically correcting for this by shifting the self-assessed values of housing prices by this amount raises the share of households in negative equity by 0.8 percentage points to 2.8 per cent.

## PROPERTY POSSESSIONS 2011

*The annualised trend in court applications for property possessions as a share of the dwelling stock in South-east Queensland and Western Australia rose briskly in the first three quarters of 2011, to be at the highest levels for which data are available. Forward-looking measures suggest the trend may ease a little in the short-term but will remain elevated: the rate of increase in 90+ day arrears rates on loans to investors and second-home owners in Queensland and Western Australia slowed over 2011, after having risen strongly over the past few years. The annualised trend in applications for possessions in New South Wales and Victoria rose in the first half of 2011, before easing in the three months to October 2011.*

Applications for property possession data from the state Supreme courts are now available up to October 2011 for New South Wales, Victoria and Queensland and September 2011 for Western Australia. Key points:

- In **South-east Queensland**, the annualised trend in applications for property possessions as a share of the dwelling stock climbed sharply in the ten months to October 2011, to a peak of 0.26 per cent (Graph 1). There were 1 637 applications for possession in these ten months, compared to 1 441 in the corresponding period in 2010 (Graph 2). Annual data imply that in 2011 more applications will be submitted to the Brisbane Supreme and County courts than in any year since at least 2000.<sup>1</sup> Liaison suggests that most applications have been taken out on properties in the Gold Coast.
- Similarly, in **Western Australia**, the annualised rate of applications trended up in the nine months to September 2011 to a peak of 0.21 per cent. Over this period, 1 139 applications were taken out, the highest level in any corresponding period in at least the past decade.
- The annualised rate of possession applications in **New South Wales** trended up over the first half of 2011, to 0.17 per cent, before easing in recent months to 0.16 per cent. There were 3 425 applications in the ten months to October 2011, slightly above the corresponding period in 2010, but below that in each corresponding period from 2005 to 2009. In 2011 to October, most applications for possession were taken out on properties in western Sydney, followed by the central coast (Graph 3).
- In **Victoria**, the trend in the annualised rate of property possession eased in the three months to October 2011 to be 0.10 per cent, below the peak at the start of 2010 of 0.17 per cent. There were 1 711 applications for possession filed in the ten months to October 2011, 10 per cent above the corresponding period in 2010.



<sup>1</sup> In the year to October 2011, the Brisbane courts processed about 90 per cent of all applications for possession in Queensland.

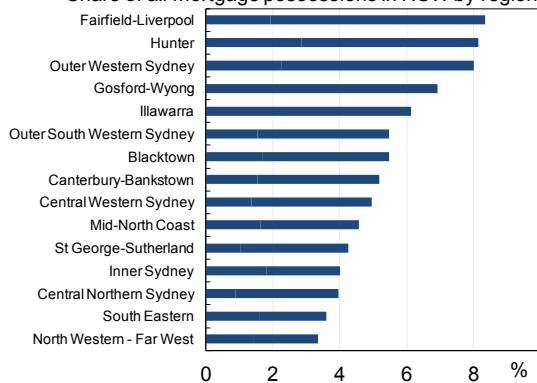
## Writs of possession

Applications for property possession generally do not indicate the lender can immediately evict the borrower. Typically, after obtaining an application for possession, the lender must then obtain a 'writ of possession'. Data on writs are only available for New South Wales (Graph 3). In 2011, around three-quarters of properties in New South Wales that had an application taken out against them also had a writ. However, only around one third of these writs were actually executed, implying that only one quarter of properties that had applications taken out against them were ultimately repossessed.

Graph 3

### Applications for Mortgage Possession

Share of all mortgage possessions in NSW by region\*



\* Possession are for January 2011 to October 2011; top 15 regions  
Sources: New South Wales Department of Attorney General and Justice

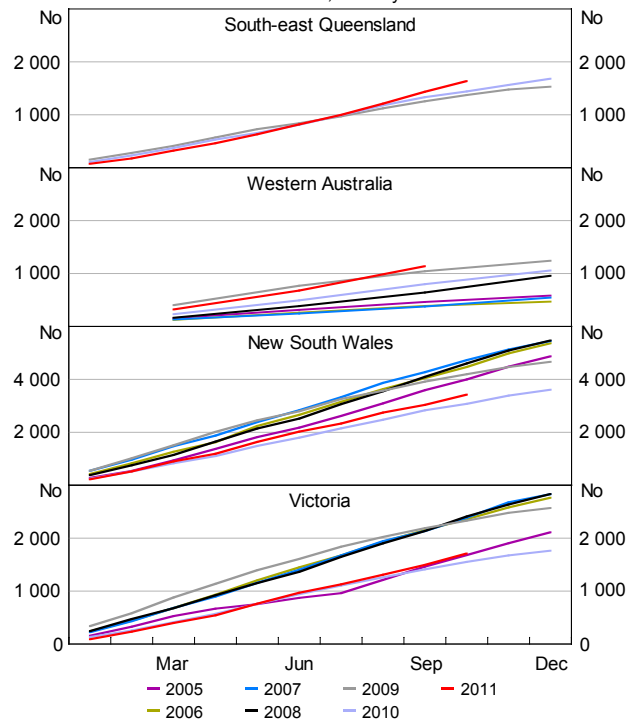
## Outlook

Mortgage possessions are a lagged indicator of household distress, with applications for possession being initiated some time after the loan has fallen into arrears.<sup>2</sup> Furthermore, most borrowers in arrears will self-cure or sell before technically defaulting. Liaison suggests that investors and second-home owners are more likely to have applications for mortgage possession taken out against them than owner-occupiers. Therefore, arrears on investors and second-home owners potentially provide a good leading indicator.

Graph 2

### Applications for Property Possession

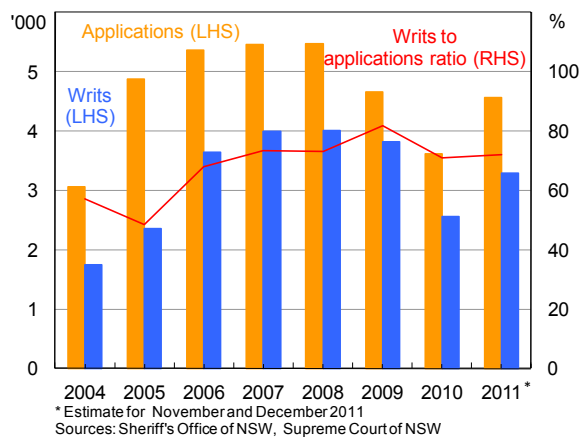
Cumulative, monthly



Graph 4

### Applications and Writs of Possession

New South Wales



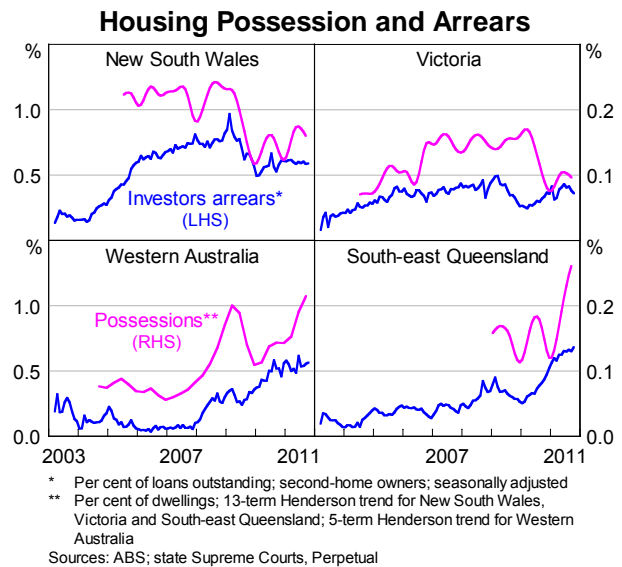
<sup>2</sup> The National Consumer Credit Protection Act 2009 requires that, before court action or repossession, lenders must provide a default notice giving borrowers at least 30 days to repay any arrears.

Previous research suggests that entire possessions process typically takes between 6 to 13 months to complete after a loan initially falls into arrears.

The movement in 90+ day arrears rates on investor and second-home loans leads possession applications fairly consistently in most years. There are, however, instances where movement in possession rates are not reflected in the respective arrears rates (for example, the uptick in possessions over 2011 in New South Wales was not present in the arrears data). Nonetheless some broad observations can be made. In Western Australia and Queensland, the increase in arrears rates for investor and second-home loans slowed over 2011 but still remained high. This may suggest that the recent upward trend in possession applications in these states may slow going forward, but are likely to remain elevated. In New South Wales and Victoria, these arrears rates have been more steady, as have with the rates of possession applications.

Another factor affecting mortgage possession rates is banks' willingness to give borrower's time to sort their finances out or sell properties themselves.

**Graph 5**

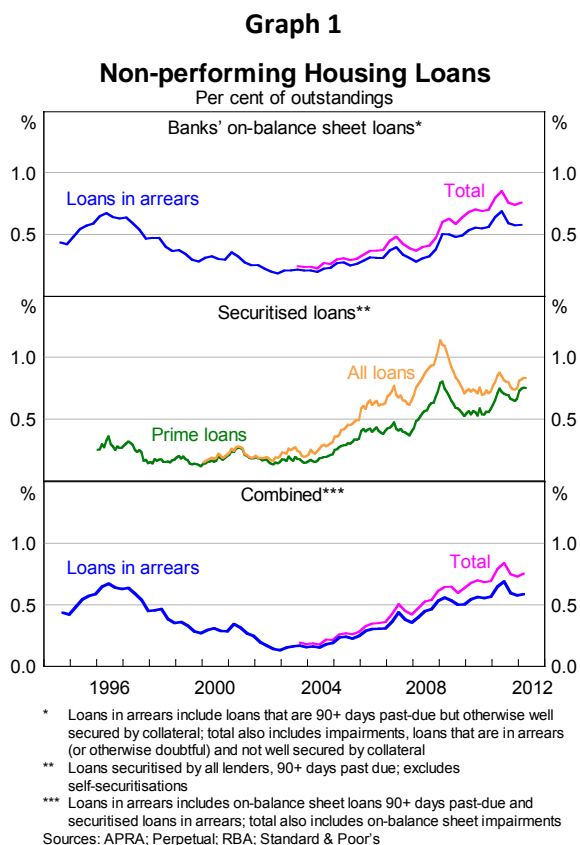




## FILE NOTE: TOTAL HOUSING LOAN ARREARS

There are a number of different ways that housing loan arrears rates can be presented. At the aggregate level, we often graph on-balance sheet and securitised loan arrears separately. In the March 2012 Financial Stability Review, the Bank published a series of the arrears rate on total (on- and off-balance sheet) housing loans arrears for the first time. Trends in on- and off-balance sheet arrears rates have been broadly similar; combining these series can simplify analysis, particularly for an external audience. Because on- and off-balance sheet arrears data can be disaggregated in different ways, the best way to present these data will vary with the analytical purpose. This note details the construction of the combined series.

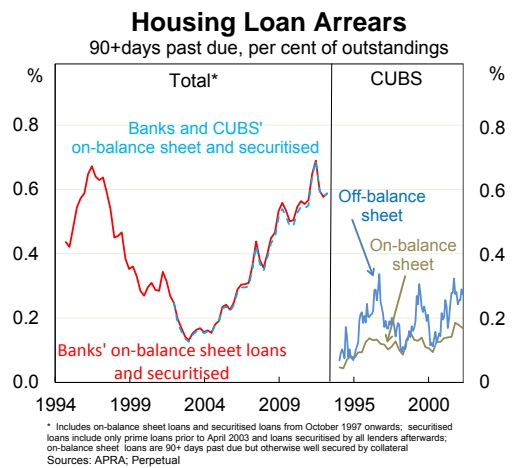
### Total housing loan arrears



## Impaired loans

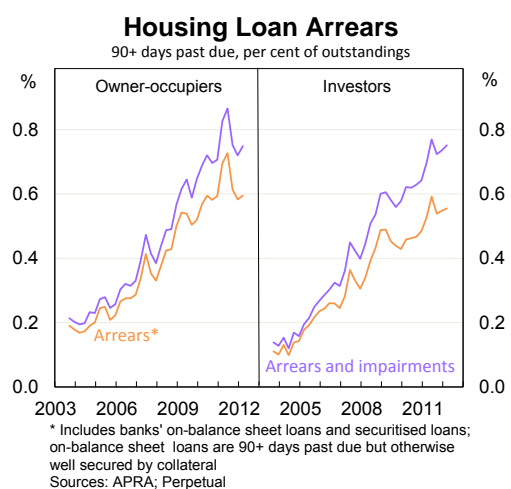
impaired housing loans are relatively small (though they have increased over the past decade from 0.03 per cent of on-balance sheet loans in 2003 to around 0.2 per cent in March 2012).

**Graph 4**



## Borrower type: investor and owner-occupier arrears

Graph 5



in March 2012, 62 per cent of impaired housing loans were to investors, when investors accounted for only one third of all housing loans. (This is also the case when examining on-balance sheet arrears by borrower type.)

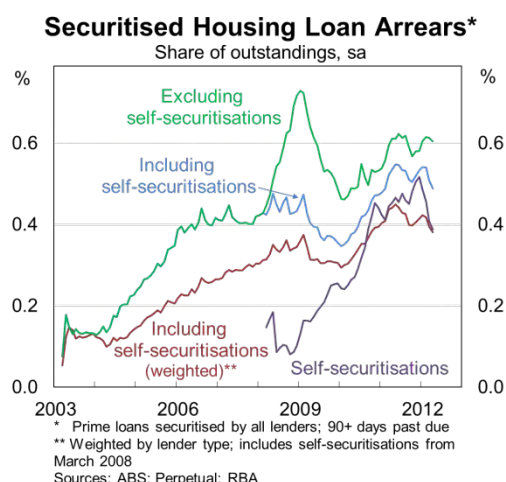
**FILE NOTE: SECURITISED HOUSING LOAN ARREARS — A CHANGE IN METHODOLOGY**

### **Effects of including self-securitisations and weighting**

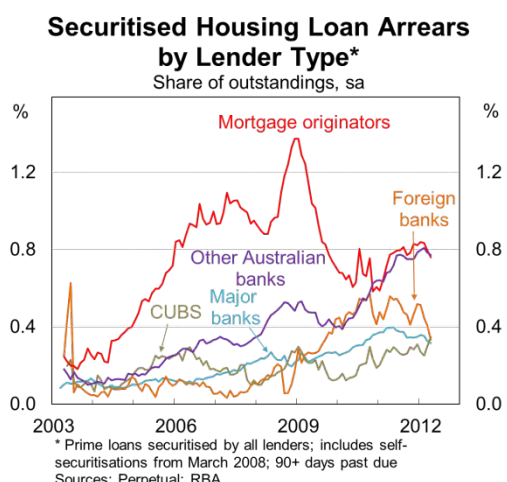
There is a noticeable difference between the arrears rates on securitised loans depending on whether they include or exclude self-securitisations. The series excluding self-securitisations rose rapidly in 2008 before falling in 2009, while the series including self-securitisations was relatively stable over this period (Graph 3). The two series displayed similar movements between the start of 2011 and March 2012, although the series excluding self-securitisations has been, on average, around 7 basis points higher than the series including self-securitisations.

Movements in weighted arrears rates closely match those in the self-securitisation inclusive series. However, the weighted arrears rate is shifted down by an average of 0.1 percentage points (Graph 3). This is because the weight attached to the major banks (which, on average, have a relatively low arrears rate) is greater than their share of outstanding securitised housing loans, while other Australian banks and mortgage originators (who both have higher arrears rates on average) receive lower weights than their shares of the securitised pool

**Graph 3**



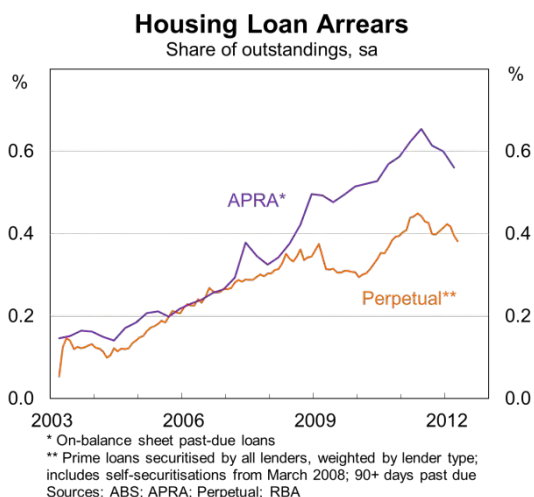
**Graph 4**



**How do weighted securitised arrears rates compare to on-balance sheet arrears rates?**

The weighted securitised arrears rate matches banks' on-balance sheet arrears data (from APRA; which includes self-securitisations) quite closely up until 2007 (Graph 5). After 2009, the weighted arrears rate is about 0.2 percentage points lower than on-balance sheet arrears, although they display broadly similar movements. It appears that the loan quality of self-securitised loans is higher than banks' other loans. However, the weighted arrears series moved in the opposite direction to on-balance sheet arrears in the December quarter 2011. This may partially reflect an increase in the arrears rate on self-securitised loans as they approach their peak arrears age of 2 to 5 years.

**Graph 5**

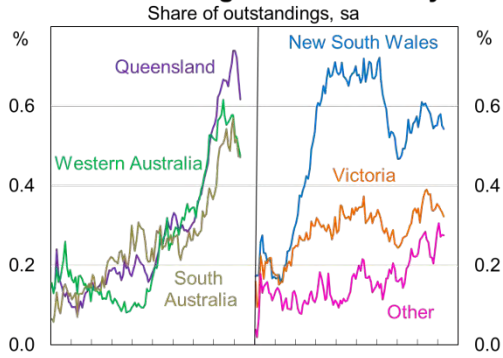


**By state disaggregation**

When weighting state arrears, the profile of the New South Wales arrears rate changes noticeably and the series shifts down by about 0.2 percentage points. Similarly, for Queensland, the unweighted arrears rate increased noticeably over the year to December, before falling over the March quarter of 2012; in comparison, the weighted arrears rate trended sideways over most of 2011, before falling over the March quarter of 2012 (Graphs 6 and 7).

**Graph 6**

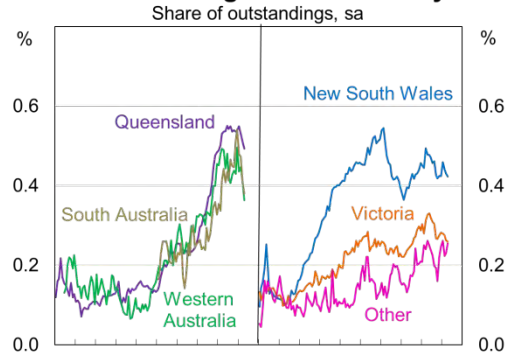
**Securitised Housing Loan Arrears by State\***



\* Prime loans securitised by all lenders; includes self-securitisations from March 2008; 90+ days past due  
Sources: Perpetual; RBA

**Graph 7**

**Securitised Housing Loan Arrears by State\***



\* Prime loans securitised by all lenders, weighted by lender type; includes self-securitisations from March 2008; 90+ days past due  
Sources: ABS; Perpetual; RBA