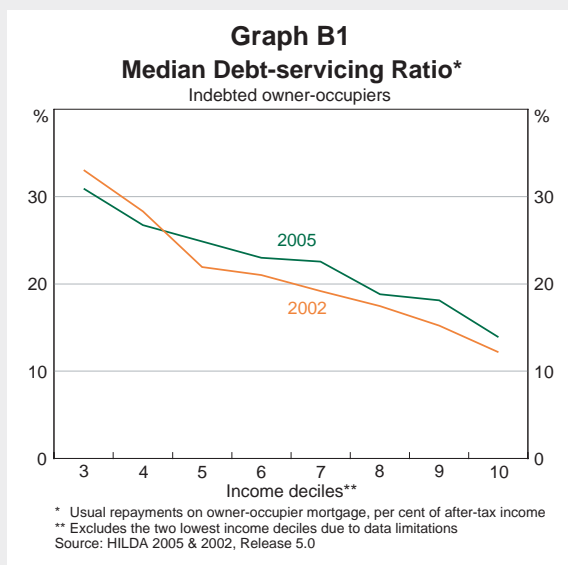


## Box B: Disaggregated Analysis of Owner-occupier Housing Debt and Assets

In assessing the vulnerability of households to changes in economic and financial conditions, the distribution of debt across households, as well as its aggregate level, is important. The main source of disaggregated data on household debt and assets is the Household, Income and Labour Dynamics in Australia (HILDA) Survey. This box examines data from the recently released 2005 survey, comparing the results with those from the 2002 survey.<sup>1</sup>

The 2005 survey continues to show that household debt is concentrated among higher-income households. Of the one third of Australian households that had owner-occupier debt in 2005, those in the top 30 per cent of the income distribution held close to 60 per cent of debt by value, while those in the bottom 40 per cent owed less than 10 per cent. Compared to 2002, there has been a slight increase in the share of debt owed by higher-income households.



According to the survey, in 2005 the median owner-occupier debt-to-income ratio of those households with debt was 190 per cent, up from 160 per cent three years earlier. For these households, the median debt-servicing ratio (interest and principal repayments on owner-occupier debt as a share of after-tax income) was 21 per cent, up by around 2½ percentage points since 2002, reflecting both higher debt levels and an increase in interest rates. Across the income distribution, the increase in debt-servicing ratios was evident for middle and upper-income households (Graph B1).

The survey also shows that the share of households with very high debt-servicing ratios – above 50 per cent – remained fairly low at around 5½ per cent, with lower-income households disproportionately represented within this group.

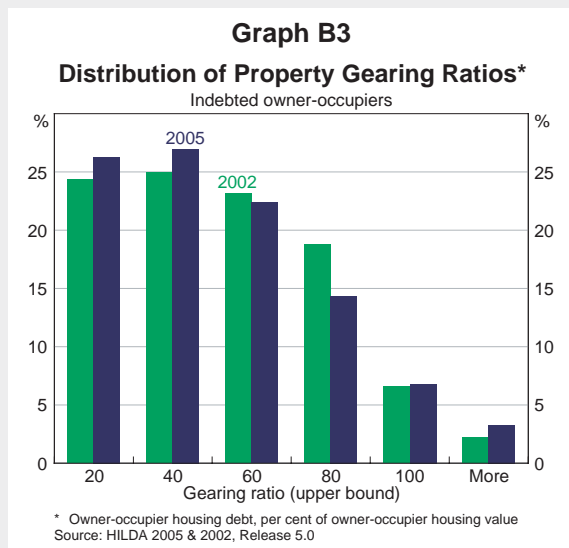
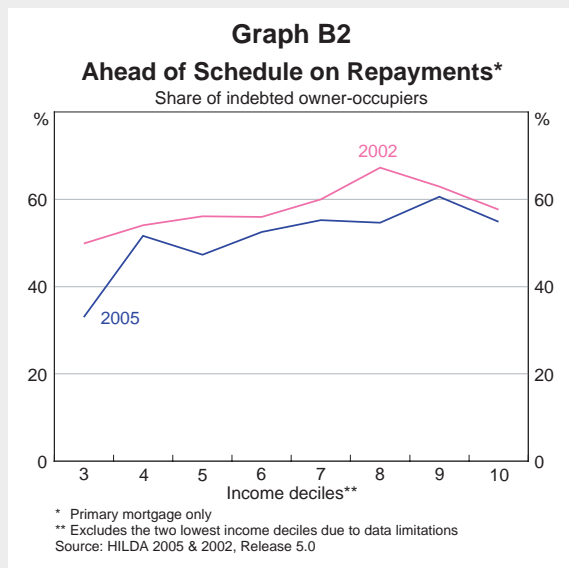
One buffer that households can have against a change in their financial circumstances is mortgage prepayments – the amount by which they are ahead of schedule in their mortgage repayments. The latest data show that just over one half of indebted owner-occupier households

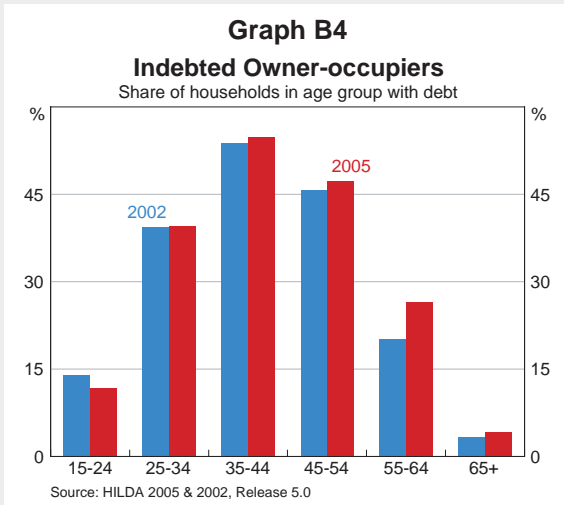
<sup>1</sup> This box updates results from Box A in the March 2005 Financial Stability Review, which were based on data from the 2002 HILDA survey. Note that the 2002 HILDA survey data have been revised since 2005.

are ahead in their mortgage repayments. This figure is consistent with our recent discussions with banks, which suggest that one quarter of owner-occupier borrowers are ahead of schedule by more than a year. Compared with 2002, the share of households reporting that they are ahead of schedule on their mortgage repayments declined a little, which is consistent with newer borrowers being less able to build up prepayment buffers given higher interest rates (Graph B2). Higher-income households were still more likely than lower-income households to be ahead of schedule on their mortgage repayments in 2005.

The disaggregated data also show that most home-owners have considerable equity in their homes, so that even if house prices were to fall significantly, they would be unlikely to find themselves in a negative equity position. Three quarters of indebted owner-occupier households had a property gearing ratio – the ratio of owner-occupier housing debt to housing value – of 60 per cent or less in 2005 (Graph B3). This was slightly higher than in 2002, indicating that average gearing declined over the period. This reduction was more pronounced among lower-income households, with the median gearing ratio of households in the third and fourth income deciles falling by around 10 percentage points. Given that the median amount of outstanding owner-occupier debt increased between 2002 and 2005, the fall in gearing is due to the growth in house prices that occurred in this period, particularly in 2002 and 2003.

One of the reasons behind the increase in household debt at an aggregate level over the past decade or so has been an increase in the share of households with an owner-occupier mortgage. The disaggregated data show that between 2002 and 2005, the increase has been particularly





noticeable for households in the 55-64 year old age group (Graph B4). The households in this age group, however, tend to have lower debt-servicing and gearing ratios than younger households (Graph B5). Moreover, the median debt-servicing ratio for indebted owner-occupier households aged 55-64 years fell slightly between 2002 and 2005, while for younger households it increased. ✎

