

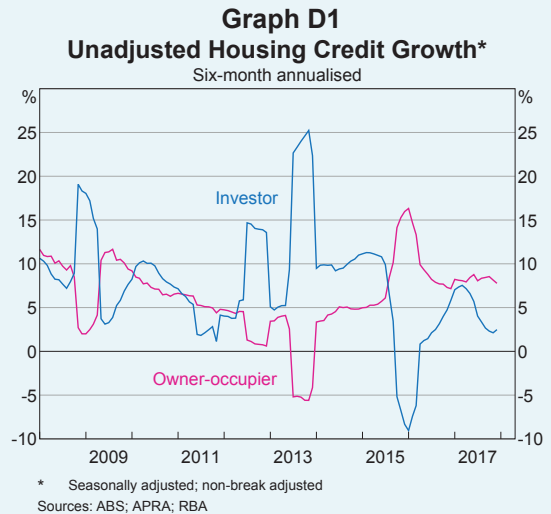
Box D

Measures of Investor and Owner-occupier Housing Credit

Developments in investor and owner-occupier housing credit have attracted considerable attention in recent years. The RBA publishes these data as part of Australia's *Financial Aggregates* on a monthly basis. This box outlines some of the considerations involved in compiling these data.

Measuring the Level and Growth Rate of Housing Credit

The *Financial Aggregates* statistical release contains data on the levels of credit extended by financial intermediaries to Australian businesses and households, including the levels of investor and owner-occupier housing credit.¹ Sometimes, factors other than demand and supply can affect the growth of these series (Graph D1). Examples include changes in the availability of data from lenders, or changes arising from lenders reporting a reclassification of investor and owner-occupier loans at a particular time.² Each month, based on information provided by institutions, the RBA makes an assessment about whether any of the changes in the unadjusted data are being driven by such reporting changes. The RBA publishes growth rates adjusted to remove the effect of these breaks in order to aid the interpretation of the underlying growth in credit.



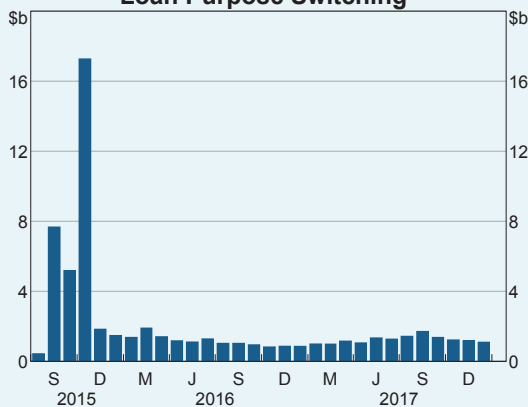
Switching Between Investor and Owner-occupier Housing Loans

In mid 2015, some banks decided to introduce interest rate differentials between investor and owner-occupier housing loans in response to regulatory measures. For a few months thereafter, a large amount of outstanding housing credit was reported as having switched from investor to owner-occupier (Graph D2). While the published growth rates for *total* housing credit were not affected by this switching, it had a substantial effect on the unadjusted growth rates of investor and owner-occupier credit. It was considered likely that many of these loans had switched purpose at some earlier date. But there was a greater incentive to report such switches after the pricing differential came into effect. So a decision was made to adjust the published

1 See RBA statistical tables D1 and D2, available at <<https://www.rba.gov.au/statistics/tables/>>.

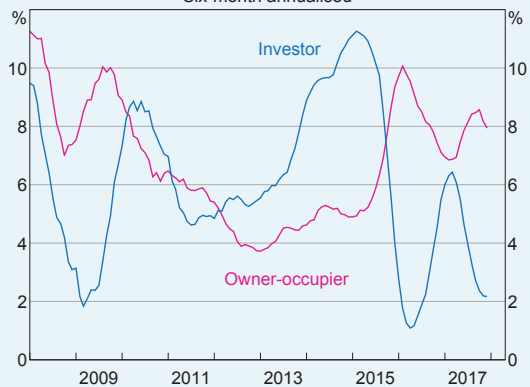
2 See Lowe P (2015), 'Remarks at FINSIA Regulators Panel', FINSIA Regulators Panel, Sydney, 5 November for a discussion of the drivers of the volatility observed in this series between 2012 and 2015.

Graph D2
Loan Purpose Switching*



* Net value of loans switching from investor to owner-occupier within the same lender
Sources: APRA; RBA

Graph D3
Housing Credit Growth*
Six-month annualised



* Seasonally and break adjusted
Sources: ABS; APRA; RBA

growth rates for investor and owner-occupier credit to remove the effect of this switching.³

Following the large amount of switching that initially occurred around the second half of 2015, the amount of switching each month has decreased significantly and appears to have been relatively stable for some time now. Indeed, these flows appear to reflect consistent behaviour that occurs from month to month. As a result, it now appears unnecessary to adjust the published growth rates to undo the effect of these regular switching flows. Accordingly, henceforth, adjustments for switching flows will only be applied to the growth figures over the period from mid to late 2015 when reported switching was unusually large, but not thereafter. The resulting break-adjusted growth rates are shown in Graph D3. Additionally, the RBA will publish data on aggregate switching flows to assist with the understanding of this switching behaviour.⁴ ❖

³ That is, for the purposes of calculating adjusted growth rates, the loans reported as having been switched from investor to owner-occupier in the month are removed from the flow of owner-occupier credit and added back to the flow of investor credit. The value of switching recorded has been reported in the *Financial Aggregates* press release since September 2015.

⁴ Graph D2 shows switching flows at the aggregate level; break adjustments are carried out at the institution level.

