National Consumer Credit Protection Act

The National Consumer Credit Protection Act 2009 (NCCP), which includes the National Credit Code (NCC), was introduced on 1 July 2010, although some of the requirements were slowly transitioned into effect. The NCC replaces previous state-based consumer credit codes and the Uniform Consumer Credit Code (UCCC) and is administered by ASIC. The reforms encourage responsible lending to households as well as introducing more specific provisions regarding credit cards, reverse mortgages, investment lending, consumer leases, the treatment of borrowers suffering financial hardship and provisions to stop predatory lending.

Institutional Markets Section
Domestic Markets
13 August 2012

From:
Sent: Tuesday, 14 August 2012 4:53 PM
To:
Cc:
Subject: RE: Inquiry [SEC=UNCLASSIFIED]
Attachments: Low-doc loans.docx

Hi

have put together some information on low-doc loans prevalence and arrears rates (attached).

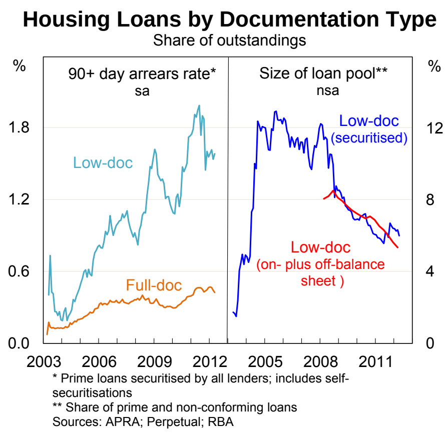
- The Pillar 3 reports do not mention low-doc loans.
- APRA's website didn't have any relevant info (except for a 2003 report which said "there is insufficient Australian data at this stage to determine the loss rates on Low Doc loans")
- APRA's 2003 residential mortgage stress test mentioned low-doc in the intro but haven't used the concept in any of their calculations
- A 2011 Genworth report stated that "loss exposure on the low doc product is limited by maximum LTV policy restrictions". This is as expected. [However, a 2001 report by the LMI Standing Committee shows that claim severity is not correlated with LVRs.]

Regards,

| Financial Stability Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW

Low doc loans

Graph 1



The decline in low-doc lending is associated with tightened credit standards and improved practices, repricing of risk and the enation of the National Consumer Credit Protection (NCCP) laws in mid-2010.

The 90+ day arrears rate on securitised low-doc loans peaked at 2.1 per cent in early 2011, compared to 0.5 per cent for full-doc loans around this time (Graph 1, RHS). In line with the improved practices, arrears rates on low-doc loans have since fallen, reaching 1.6 per cent in April 2012. The arrears rate on all housing loans (on- and off-balance sheet) has eased since mid-2011 to be 0.6 per cent as at June 2012.

There is limited evidence to estimate the extent that loss rates on low-doc loans differ to full-doc loans. However, there is good reason to believe they are not unduly different. Securitised arrears data and previous FS analysis suggest that LVR criteria remained tighter for low-doc lending than full-doc lending.[1] This implies that while relatively more low-doc loans have defaulted (the probability of default is higher), the losses from defaulted loans are likely to have been smaller (the loss given default is lower).

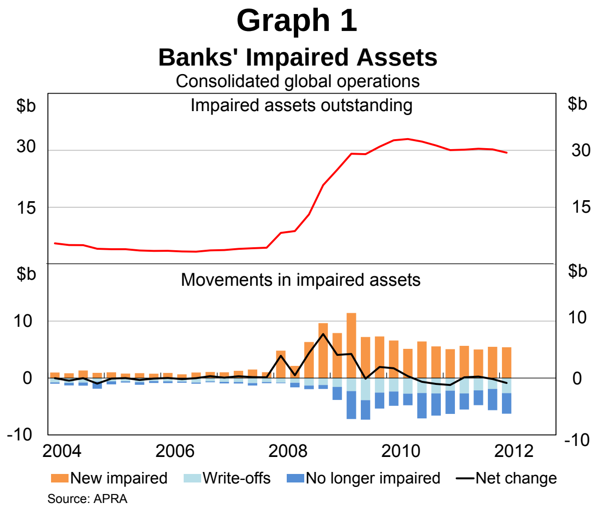
Comment [BT1]: We don't have it on hand, but if there is demand we can pull out low doc arrears by state and cohort…However, sample size is not going to be great.

Comment [BT2]: I can put a graph together on this if wanted.

[1] *See Financial Stability Review September 2005, Box B*

LIAISON WITH BANKS ON THE FLOW OF NEWLY IMPAIRED ASSETS

Quarterly inflows of banks' newly impaired assets have been relatively constant during 2010–2012, at a much higher level than prior to the recent financial crisis (Graph 1). This has contributed to the stock of impaired assets remaining little changed over 2010–2012. We recently liaised with the banks that account for most of the flow of newly impaired assets to better understand the reasons for its elevated level. Key themes from the liaison were:



Other

- The continued inflow of impaired assets appears to be partly due to banks' weaker **lending standards** in the pre-crisis period.

  - stated that new impaired assets in the post-crisis period are partly due to transactions written in the strong credit growth pre-crisis period. In hindsight, the structuring of these transactions could be considered 'slightly aggressive'.

- smaller banks noted that the majority of new impaired loans in the post-crisis period were originated prior to the crisis. indicated that the pre-crisis (2006–2008) vintage continues to show the highest level of stress.

- thought the level of impaired assets in the pre-crisis period was lower than ‘normal’ due to the benign economic conditions prevailing during this period. They perceived the higher level of impaired assets in recent years as a return to a more ‘normal’ level. This argument might have merit but it is difficult to determine a ‘normal’ level of impaired assets.

- No bank reported a change in **policies or practices** that was contributing to the elevated level of new impaired assets.

Financial Stability Department
15 August 2012

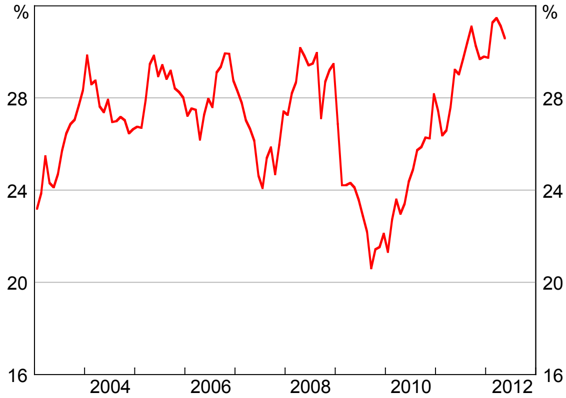
Housing Sector

Use of Data

DM also considers the implications for lenders' future credit growth and infers their funding tasks. DM examines the market shares of lenders each month as a cross-check of its monitoring of credit standards and as a rough gauge of competition in the mortgage market.

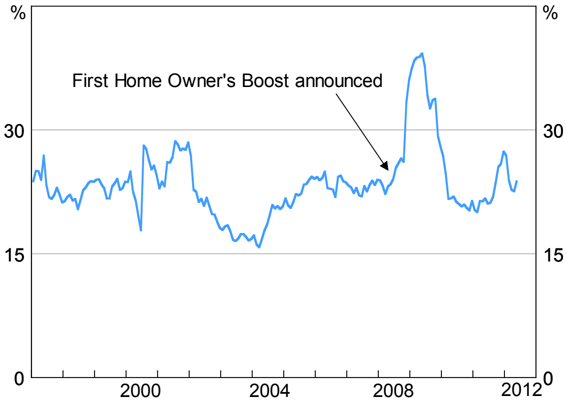
The housing approvals data are also used for a range of internal analytical purposes. The Bank uses the data to consider the extent to which speculative investors may be driving house price movements and the level of refinancing activity, given refinances typically have higher arrears rates than new loans (Graph 3).[1] Similarly, a higher proportion of lending to first home buyers – which typically have lower deposits – may signal greater risk for lenders (Graph 4). The Bank also examines the share of housing loans which are approved at fixed rates to gauge the potential for interest-rate reset shock to be building in the household sector (Graph 5).

Graph 3
Owner-occupier Approvals for Refinancing
Share of total owner-occupier approvals



Source: ABS

Graph 4
First-home Buyer Approvals
Share of owner-occupier approvals



Source: ABS

[1] A rise in the share of refinancing activity may also reflect the expiry of a large number of fixed-rate loans.

Issue date	Deal name	LVR
13/11/2008	FirstMac Mortgage Funding Trust Series 2-2008	69
17/11/2008	SMHL Securitisation Fund 2008-2	65
5/12/2008	Challenger Millenium Series 2008-2 Trust	69
11/12/2008	RESIMAC Premier Series 2008-1	70
6/03/2009	Series 2009-1 Harvey Trust	67
13/03/2009	TORRENS Series 2009-1 Trust	68
23/03/2009	Progress 2009-1 Trust	69
3/04/2009	REDS 2009-1	55
9/04/2009	Liberty Prime Series 2009-1	69
16/04/2009	Challenger Millennium Series 2009-1 Trust	69
11/05/2009	SMHL Securitisation Fund 2009-1	65
22/05/2009	RESIMAC Premier Series 2009-1	72
1/06/2009	FirstMac Mortgage Funding Trust Series 1-2009	74
9/07/2009	WB Trust 2009-1	68
14/07/2009	Light Trust No. 2	61
20/08/2009	Apollo Series 2009-1 Trust	68
28/08/2009	GBS Receivables Trust No. 4	58.7
15/10/2009	Liberty Prime Series 2009-2	64.2
21/10/2009	RESIMAC Premier Series 2009-2	76.2
10/11/2009	FirstMac Mortgage Funding Trust Series 2-2009	73.9
22/01/2010	Progress 2010-1 Trust	66.2
9/02/2010	REDS 2010-1	58.6
25/02/2010	Series 2010-1 Harvey Trust	63
5/03/2010	SMHL 2010-1	62.8
17/03/2010	Torrens Series 2010-1 Trust	64
26/03/2010	Illawarra Series Trust 2010-1	66
12/05/2010	Resimac Premier Series 2010-1	70
28/05/2010	Apollo Series 2010-1 Trust	63
2/07/2010	SMHL Securitisation Fund 2010-2E	62
8/07/2010	Torrens Series 2010-2 Trust	64
23/07/2010	ConQuest 2010-2 Trust	64
11/08/2010	Liberty Prime Series 2010-1	70
18/08/2010	REDS Trust Series 2010-2	56
26/08/2010	PUMA Masterfund P-16 Series A	65
6/09/2010	FirstMac Mortgage Funding Trust Series 1-2010	76
23/09/2010	SMHL Securitisation Fund 2010-3	64
14/10/2010	IDOL Trust series 2010-1	68
10/11/2010	Light Trust No. 3	68
19/11/2010	Resimac Premier Series 2010-2	74.7
26/11/2010	Pinnacle Series Trust 2010-T1	61.5
10/12/2010	Torrens Series 2010-3 Trust	64.9
15/12/2010	WB Trust 2010-1	63.2
7/04/2011	Barton Series 2011-1 Trust	61
8/04/2011	Liberty Prime Series 2011-1	69.3
15/04/2011	PUMA Masterfund P-17 Series	63.62
13/05/2011	Resimac Premier Series 2011-1	75.4
20/05/2011	Progress 2011-1 Trust	64.2
10/06/2011	IDOL Trust Series 2011-1	66.2
11/07/2011	HBS Trust 2011-1	60.7
14/07/2011	Torrens Series 2011-1(E) Trust	63.8
12/10/2011	SMHL Series Securitisation Fund 2011-2	62.1
28/10/2011	Torrens Series 2011-2 Trust	62.5
11/11/2011	IDOL Trust Series 2011-2	59.8
23/11/2011	Apollo Series 2011-1 Trust	64.2
20/12/2011	FirstMac Mortgage Funding Trust Series 2-2011	68.93
29/03/2012	IDOL Trust Series 2012-1	61.9
13/04/2012	SMHL Securitisation Fund 2012-1	62.7
18/05/2012	Progress 2012-1 Trust	64.1
1/06/2012	Premier Series 2012-1	70
3/08/2012	FirstMac Mortgage Funding Trust Series 1-2012	67.9

Summary on banks' property valuation practices

Liaison over the past six months suggests that banks have taken a more conservative approach to valuations, notably for residential property. More generally, contacts report that banks have become more selective in their lending activities and are seeking to limit their exposure to certain industries, including property and construction.

Residential properties

i) New detached housing

Homebuilders report that there has been an increase in contract cancellations due to difficulties in accessing finance for purchasers. Many contacts argue that this reflects unduly conservative bank valuations that limit the ability of customers to borrow, and that the difference between the contract value and bank valuation continues to rise. However, others argue that lower bank valuations simply reflect a fall in prices between the signing of a contract to build and the subsequent settlement (mostly reflecting the recent declines in land prices).

ii) Established housing

There is mixed evidence in relation to banks' valuation practices for established properties. Some contacts report that conservative valuations are limiting the amount of borrowing that investors can access

Valuation practices on established property do not appear to be affecting lending to SMEs, as contacts report that banks are focusing more on the ability of the SME seeking funds to service debt, rather than the value of the loan collateral (typically the family home).

iv) Apartments

For purchasers, contacts suggested that private valuers have not necessarily become more conservative on apartment valuations over the past year (they have always been conservative due to potential claims against them from the banks) but that the banks have become stricter in enforcing valuation methodologies at the time of settlement.

For developers, construction financing is based on presales achieving around 120 per cent debt coverage rather than the valuations of the development.

CONFIDENTIAL

MEMORANDUM FOR THE BOARD **MARCH 2012 MEETING**

Financial Stability

Banks' non-performing asset levels have come down a little recently, but they remain elevated, particularly for business loans.

The household sector has continued to show a more cautious approach towards its finances in recent years, which is helping improve its resilience to possible shocks.

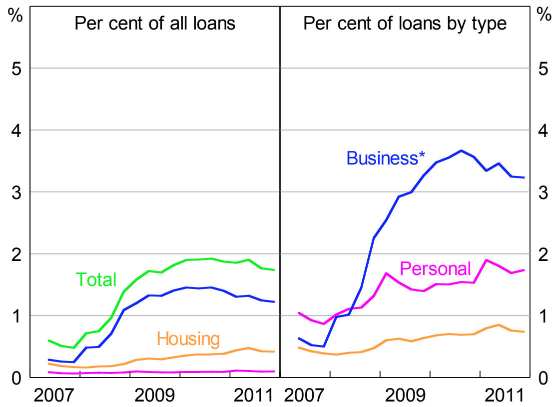
many households are choosing to repay their debt more quickly than required. Strong income growth is also helping to underpin households' debt-servicing capacity. Accordingly, aggregate measures of household financial stress remain low, though mortgage arrears rates are still somewhat higher than a few years ago.

Asset performance

It is notable that quarterly inflows of newly impaired assets have been relatively constant over the past two years, at a much higher level than prior to the crisis (Graph 21). During 2011, the rate at which loans were moving out of impairment due to write-offs or 'curing' was similar to the inflows of newly impaired assets, resulting in little change in the level of impaired assets. The apparent stickiness in banks' impaired assets over the past few years could reflect a number of factors, including the pressures some businesses are facing from the high exchange rate and subdued domestic retail spending, and recent weakness in house prices making it harder for mortgage borrowers in trouble to refinance.

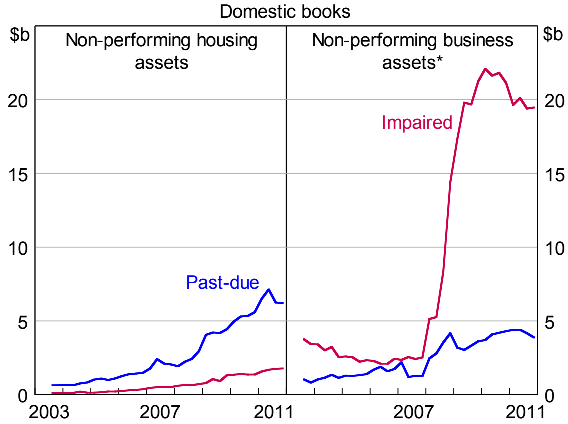
For housing loans, the non-performing ratio has drifted up over the past few years, though it did come down a little in the second half of 2011, to around 0.7 per cent in December, driven by a fall in past-due loans. Though they still account for only a small share of banks' total non-performing housing loans, impaired housing loans (those not well-secured by collateral) have drifted up in recent years, consistent with the weakness in housing prices in many parts of the country (Graph 23). According to liaison with the major banks, past-due housing loans have declined partly because some banks have implemented more concerted collections processes: they recognise that allowing borrowers to stay in arrears when house prices are falling is not in the best interest of the borrowers or the bank.

Graph 22
Banks' Non-performing Assets
Domestic books



* Includes lending to financial businesses, bills and debt securities and other non-household loans
Source: APRA

Graph 23
Banks' Asset Performance
Domestic books



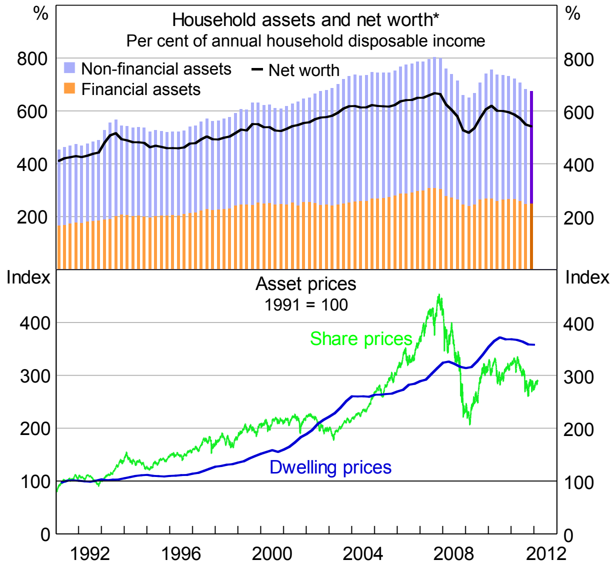
* Includes lending to financial businesses, bills and debt securities and other non-household loans
Source: APRA

In APRA's credit conditions survey, banks reported lower margins in housing loans over the second half of 2011, which most of them attributed to higher funding costs, although some also mentioned that competition in a 'weak market' was affecting pricing Other aspects of banks' mortgage lending standards appear to have been broadly unchanged over this period. Banks have recently responded to lower margins by reducing the interest rate discounts they offer on new housing loans and, in mid February, many of them raised their standard variable housing loan rates, even though the cash rate had not changed. Mortgage refinancing activity, which was particularly strong during most of 2011, has declined in recent months, perhaps reflecting some change in competitive pressures.

Domestic Finances

Households

Graph 40
Household Assets and Asset Prices



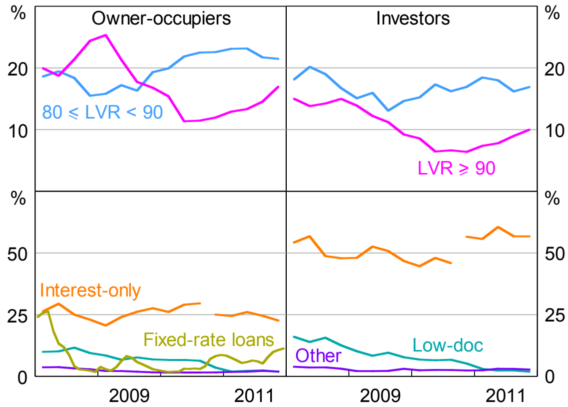
* Includes income and financial assets of unincorporated enterprises and is before interest payments; RBA estimates for December quarter 2011

Sources: ABS; APM; Bloomberg; RBA; REIA

. Recently the weakness in assets has been driven by falls in dwelling prices, which were down about 3 per cent on an average nationwide basis over the year to December 2011; prices declined in most cities over the year. There are tentative signs that housing market conditions are stabilising, in that dwelling prices were broadly unchanged over the three months to February. At the national level, the ratio of dwelling prices to income has fallen over the past year, and is below the average of the past decade, while rental yields have begun to pick up, assisted by stronger rental growth as well as lower prices.

Housing loan approvals data point to continued modest growth in housing credit in the immediate period ahead. Although the value of approvals increased a little over the six months to December, it remained well below the peaks seen in recent years (Graph 43). The increase was largely driven by a pick-up in approvals to first-home buyers, partly reflecting a 'bring-forward' of demand ahead of the expiry of first home buyer stamp duty exemptions in New South Wales on 31 December 2011. Some first home buyers might have also been attracted into the market because some lenders have recently resumed offering loans with 95 per cent loan-to-valuation ratios (LVRs). Consistent with this, the share of new owner-occupier housing loans with an LVR above 90 per cent has risen from a trough of 9½ per cent in the June quarter 2010 to 14½ per cent in the December quarter 2011 (Graph 44). The share of owner-occupier housing loans approved at fixed interest rates has also increased over this period, to about 11½ per cent in December, a little above its long-run average. This increase may be associated with recent uncertainty about lenders' loan pricing as demand for fixed-rate loans has typically fallen during periods of monetary policy easing. The share of interest-only (including 100 per cent offset) loans was broadly steady in 2011, while low-doc and other non-standard loans continued to account for a very small share of the market.

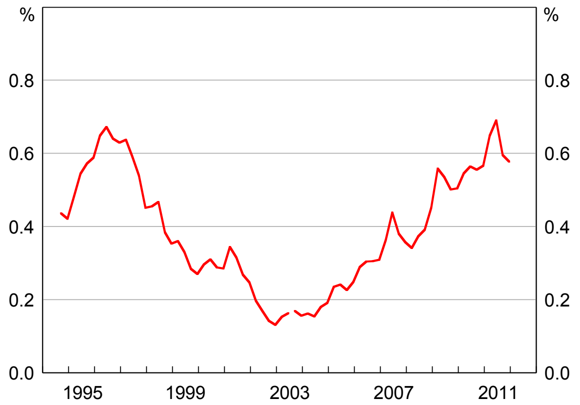
Graph 44
Banks' Housing Loan Characteristics*
Share of new loan approvals



* LVR = loan-to-valuation ratio; 'Other' includes loans approved outside normal policies, and other non-standard loans
Sources: ABS, APRA

aggregate indicators of financial stress show that the household sector has been coping well with its debt level. While arrears rates on mortgage payments are still above average, they have eased a little recently, and remain low by international standards. The 90-day arrears rate for housing loans (on banks' domestic books plus securitised housing loans) declined to 0.6 per cent in December, from 0.7 per cent in mid 2011 (Graph 48).

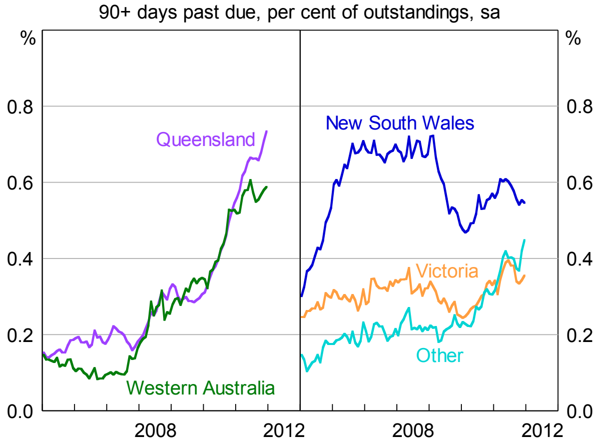
Graph 48
Housing Loan Arrears
90+ days past due, per cent of outstandings*



* Includes banks' on-balance sheet loans and securitised loans from October 1997 onwards; securitised loans include only prime loans prior to April 2003 and loans securitised by all lenders afterwards; on-balance sheet loans are 90+ days past due but otherwise well secured by collateral
Sources: APRA; Perpetual; RBA

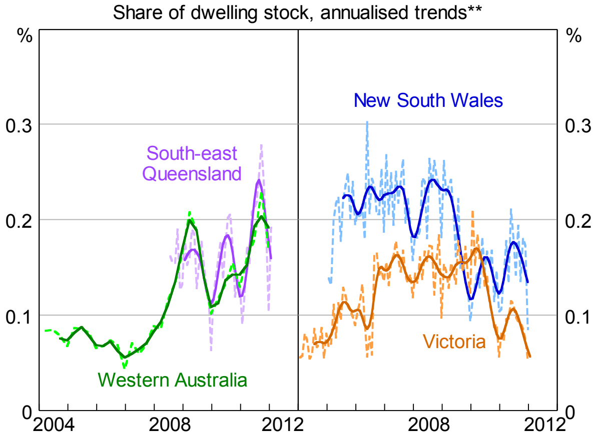
While the aggregate mortgage arrears rate has come down recently, there has been some divergence in loan performance across the states. Although compositional change amongst lenders has distorted the history, securitisation data suggest that arrears rates on housing loans in Queensland and Western Australia have increased the most over the past few years, and have yet to show any significant signs of improvement; many of the loans in arrears were originated between 2006 and 2008, towards the end of the period of rapid housing price growth in those states, which was followed by falls in prices (Graph 50). Detailed regional data suggest that arrears rates are particularly high on the Gold Coast and Sunshine Coast, regions that are quite dependent on tourism and have higher unemployment rates than the state average. By contrast, arrears rates have declined from recent peaks in New South Wales and Victoria.

Graph 50
Securitised Housing Loan Arrears by State*
90+ days past due, per cent of outstandings, sa



* Prime loans securitised by all lenders; includes self-securitisations
Sources: Perpetual; RBA

Graph 51
Applications for Property Possession*
Share of dwelling stock, annualised trends**



* Includes applications for possession of some commercial, as well as residential, properties
** Solid lines are 13-period Henderson trends, except for Western Australia which is a 5-period trend
Sources: ABS; state Supreme Courts

The developments in state arrears rates have also been reflected in higher rates of lender property possession in Queensland and Western Australia in the past year, although these have eased in recent months (Graph 51). In contrast, possessions have either stabilised or improved for households in most other states. Bankruptcy rates have broadly fallen across states since 2009, although less so in Queensland and Western Australia. Overall, though, the number of households whose financial difficulties have deteriorated to the extremes of bankruptcy or lender property possession is very low in absolute terms.

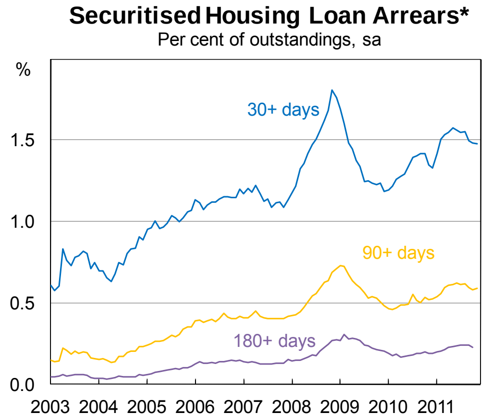
SECURITISED HOUSING LOAN ARREARS – NOVEMBER 2011

According to Perpetual data, the seasonally-adjusted 90+ day arrears rate on prime securitised mortgages rose fractionally in November 2011 to around 0.6 per cent. This arrears rate has fallen by 3 basis points since August 2011, but remains 5 basis points above the level at the start of 2011. In Queensland, the arrears rate continued to rise in November, having more than doubled since mid 2010, to overtake that of New South Wales for the first time since at least 2003. This reflects increases in arrears across most of Queensland, particularly the South-east corridor (excluding Brisbane). While across Australia the performance of loans originated in 2009 and 2010 has generally been better than loans from preceding years, loans originated in Queensland during 2009 and 2010 are showing signs of underperformance.

- The seasonally-adjusted 90+ day arrears rate on prime securitised mortgages rose by 1 basis point over November 2011 to around 60 basis points (Graph 1). This arrears rate has fallen by 3 basis points since August 2011, but remains 5 basis points above the rate at the start of the year. This movement is largely consistent with the 90+ day arrears rate of the major banks.

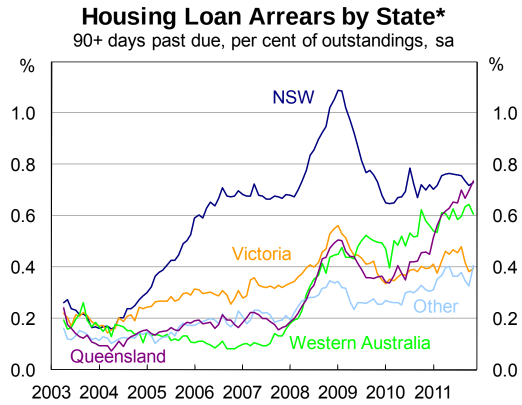
- The arrears rate continued to rise in Queensland in November 2011 to 74 basis points, having more than doubled since mid 2010, to overtake that of New South Wales for the first time since at least 2003 (Graph 2). This is reflected across much of Queensland, particularly the South-east corridor (excluding Brisbane) (Graph3). This at least partially reflects the seasoning of the securitised loan pool; loosening lending standards during the boom in housing prices; and, economic conditions with Queensland's unemployment rate (in trend terms) the highest of all states in November 2011.

Graph 1



* Prime loans securitised by all lenders; excludes self-securitisations.
Source: Perpetual

Graph 2

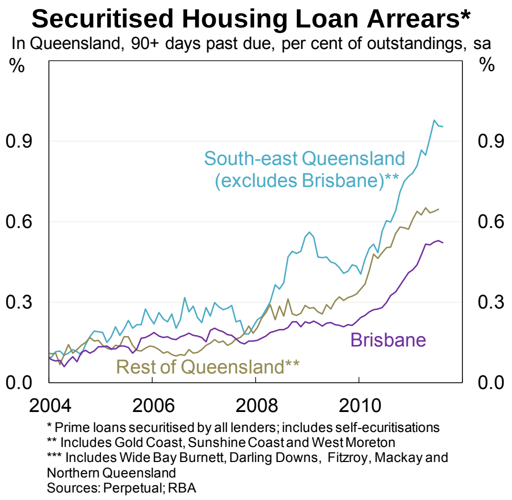


* Prime loans securitised by all lenders; excludes self-securitisations.
Sources: Perpetual; RBA

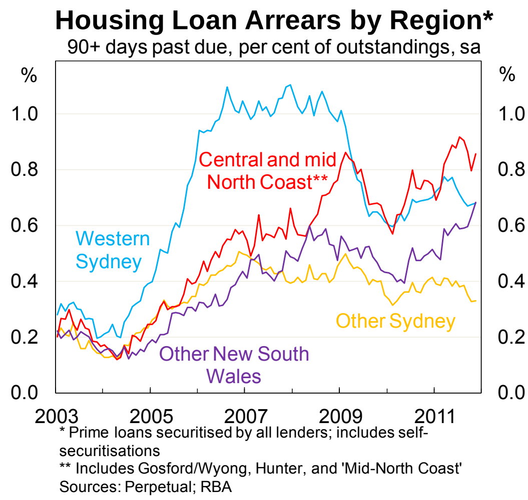
- The movement in arrears rates in the other states has been more positive. In Western Australia, the arrears rate edged down in November 2011 to be roughly the same as in the middle of the year (though is still at an elevated level). In New South Wales, the arrears rate has largely tracked sideways in 2011, as an increase in arrears in the central and mid-north coasts of New South Wales has largely been offset by a fall in Western Sydney (Graph 4).

- The regions in Australia that have the highest arrears rates have changed over the past few years (Graph 5 and 6). In November 2007, regions in western Sydney and north-western Melbourne tended to have the highest arrears rates. In November 2011, while some regions in western Sydney still had relatively high arrears rates, they had largely been overtaken by regions in South-east Queensland, and the central and mid-north coasts of New South Wales.

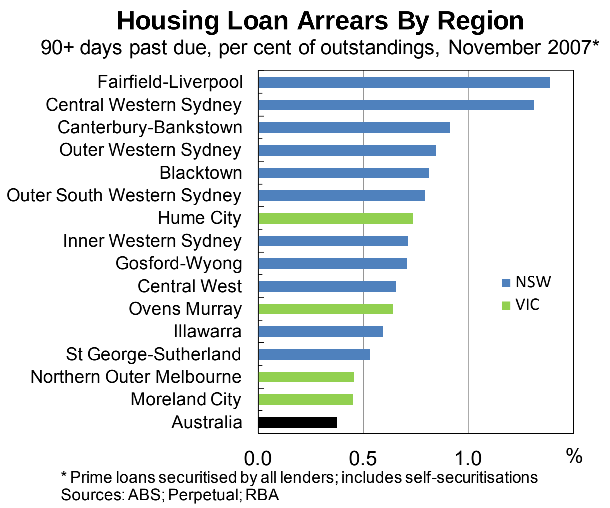
Graph 3



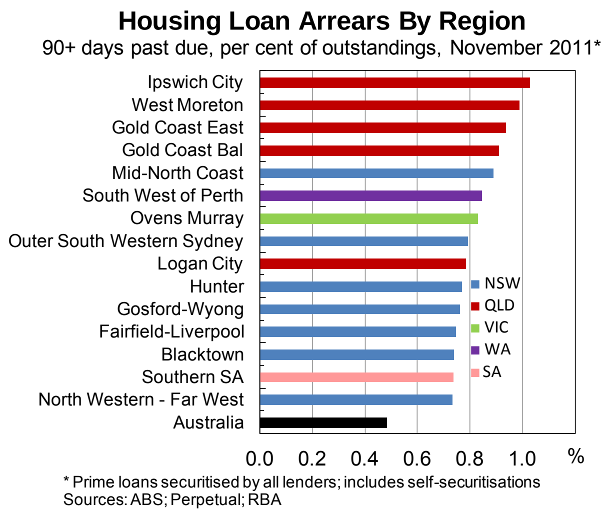
Graph 4



Graph 5



Graph 6



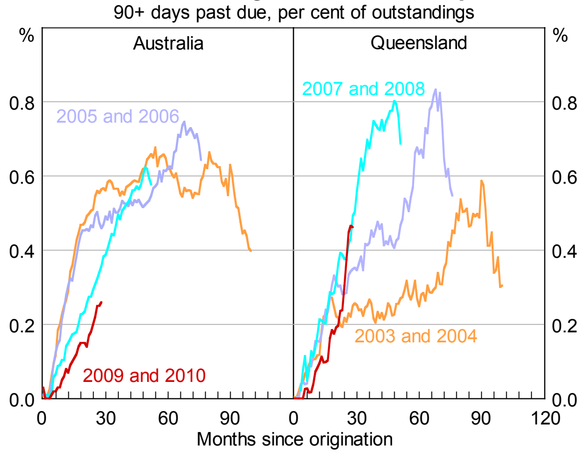
- The performance of securitised loans that were originated in 2009 and 2010 generally continues to be better than those from most preceding years (Graph 7). That said, the performance of loans originated in Queensland during that period appears to have shown some deterioration, and is now comparable to that of loans originated in 2007 and 2008 (although, during 2009 and 2010 there was significantly less securitisation activity).

- The arrears rate on variable-rate loans ticked up in November 2011 to 65 basis points, to be just below the rate from the middle of the year (Graph 8). Given the lag between arrears and economic conditions, the reduction in policy rates at the start of November is unlikely to have had much, if any, effect. The arrears rate on fixed-rate loans has largely tracked sideways over the past year or so.

- Over recent months, the difference in 90+ day arrears rates on investor and owner-occupier loans has narrowed, with the arrears rate on investor loans 8 basis points higher than owner-occupier loans at the end of November.

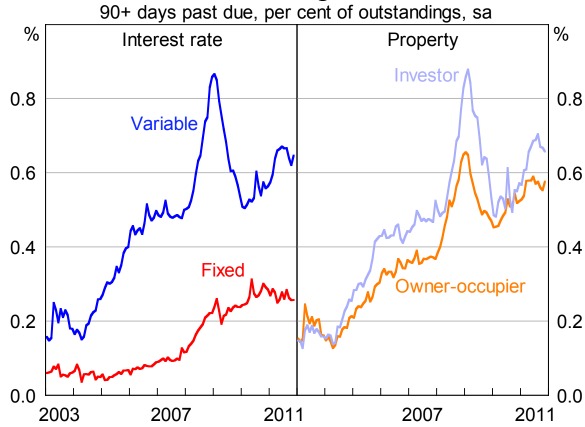
- The 90+ day arrears rate on low-doc loans (which account for 7 per cent of the securitised loan pool) has edged down since peaking in August, but remains nearly six times that of full-doc loans (Table 1).

Graph 7
Securitised Housing Loan Arrears by Cohort*
90+ days past due, per cent of outstandings



* Prime loans securitised by all lenders; includes self-securitisations
Sources: Perpetual; RBA

Graph 8
Securitised Housing Loan Arrears*
90+ days past due, per cent of outstandings, sa



* Prime loans securitised by all lenders; excludes self-securitisations
Sources: Perpetual; RBA

Table 1: Securitised RMBS 90+ Days Arrears Rates
Per cent of prime outstandings[(a)], seasonally adjusted

	Nov 2011	Oct 2011	Sep 2011	Nov 2010
Loan documentation type				
Full-doc	0.46	0.45	0.45	0.39
Low-doc	2.71	2.63	2.79	2.04
Non-conforming	5.48	5.25	5.61	9.09
State				
NSW	0.73	0.72	0.74	0.70
Vic	0.39	0.38	0.42	0.39
Qld	0.74	0.70	0.67	0.46
WA	0.61	0.64	0.63	0.58
Other	0.41	0.33	0.35	0.31
Interest type				
Variable	0.65	0.62	0.64	0.56
Fixed	0.26	0.26	0.26	0.29
Loan type				
Owner-occupier	0.58	0.55	0.56	0.52
Investor	0.66	0.67	0.67	0.55
Loan size				
Less than 250k	0.44	0.44	0.44	0.33
250k to 500k	0.64	0.59	0.61	0.51
More than 500k	1.00	0.97	0.95	0.99

(a) Excludes self-securitisations
Sources: Perpetual; RBA

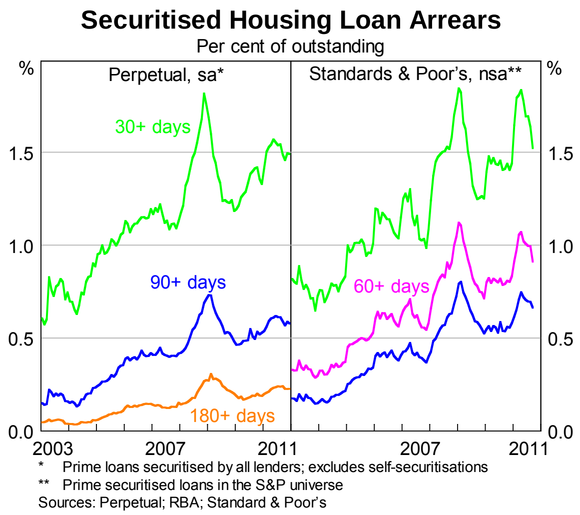
Financial Stability Department
30 January 2012

SECURITISED HOUSING LOAN ARREARS – DECEMBER 2011

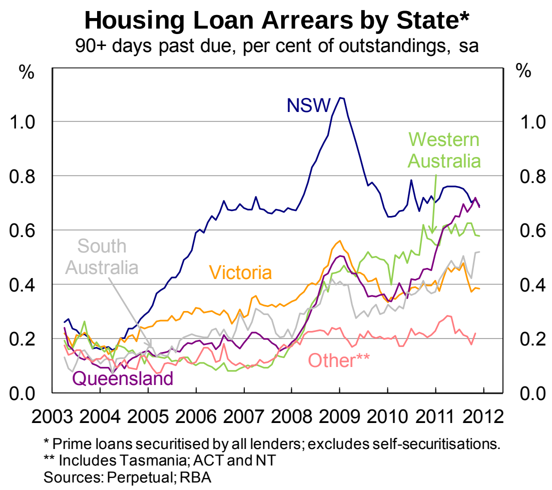
The seasonally adjusted 90+ day arrears rate on prime securitised loans remained fairly steady over December 2011, having fallen by 4 basis points since the 2011 peak in June. The arrears rates fell or tracked sideways across all mainland states in December 2011, and since June 2011 they have fallen across all states except for Queensland. The arrears rate on variable-rate loans ticked down in December 2011, although given the lag between arrears and economic conditions, the reduction in policy rates at the start of November is unlikely to have had much effect.

- According to Perpetual data, the seasonally adjusted 90+ day arrears rate on prime securitised loans remained steady over December 2011, at 0.55 per cent (Graph 1, LHS). This rate has fallen by 4 basis points since May, after rising in early 2011. This is consistent with movements in the arrears rates of major banks' on-balance sheet loans. S&P have released reasonably comparable securitised arrears data to September 2011, showing a similar but slightly steeper decline in arrears rates since April (Graph 1, RHS).[2]

Graph 1



Graph 2



- The arrears rates fell across all mainland states in December 2011, except for Western Australia and South Australia where they tracked sideways (Graph 2). Since May 2011, when the Australia wide arrears rate began to decline, arrears rates have fallen across all states except for Queensland.

- Queensland accounted for 6 of the 15 regions with the highest arrears rates at the end of December 2011, with most of these in the south-east corridor (excluding Brisbane) (Graph 3). This largely reflects the weakness in the housing market in this region, following the strong growth in housing prices in 2008 and early 2009. The underperformance of the region's economy is also likely to be playing a role: the unemployment rate in the Gold and Sunshine coasts averaged around 6 per cent over the six months to December, slightly higher than Queensland's average rate of 5.7 per cent and 5.2 per cent in Australia.

- On a nationwide basis, the arrears rate on variable-rate loans ticked down in December 2011 to be 5 basis points below the rate from the middle of the year (Graph 4). Given the lag

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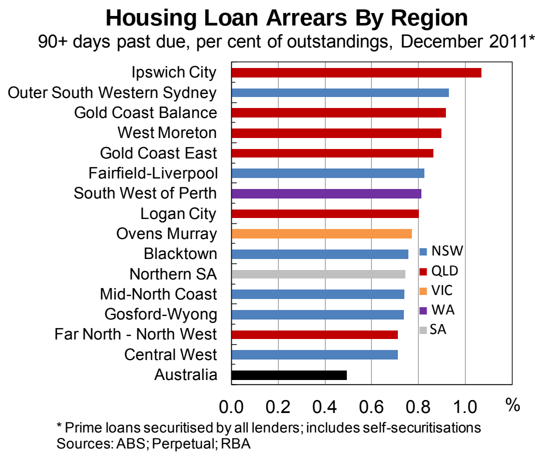
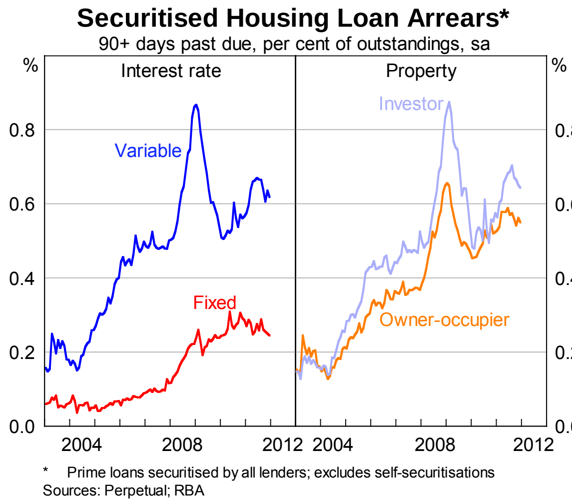
The difference is likely because S&P do not seasonally adjust their data, and they may potentially analyse is slightly different loan pool (although the size of the securitised loan pools is comparable).

between arrears and economic conditions, the reduction in policy rates at the start of November 2011 is unlikely to have had much effect on arrears rates.

Graph 3



Graph 4

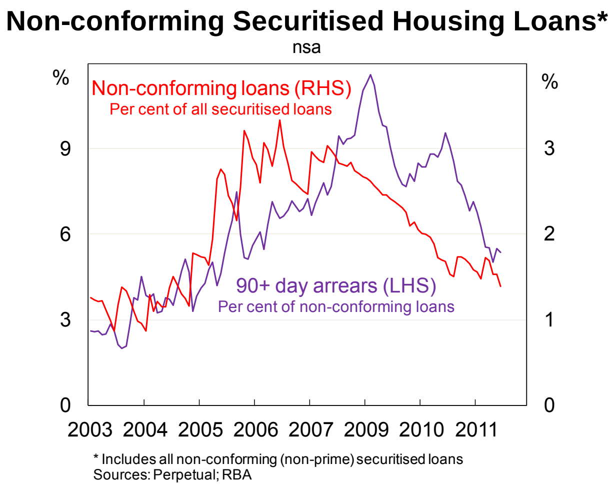


- The arrears rates on owner-occupier and investor loans declined slightly in December 2011. The arrears rate on investor loans has been around 9 basis points higher than for owner-occupier loans for the past two months, after narrowing from around 13 basis points in the middle of the year.

- Since August 2011, the arrears rate on low-doc loans has fallen by over 20 basis points to 2.6 per cent (Table). [4]

- Outside of the prime market, the arrears rate on non-conforming loans has fallen by over 4 percentage points since end 2010. In part, this reflects a fall in the share of newly written non-conforming loans, owing to the slowing in the securitisation market and tightening in lending standards in recent years (Graph 5).[5]

Graph 5



Table

Table 1: Securitised RMBS 90+ Days Arrears Rates

Per cent of prime outstandings[a], seasonally adjusted

	December 2011	November 2011	October 2011	December 2010
Loan documentation type				
Non-conforming loans[b]	5.42	5.53	5.27	8.66
Full-doc	0.45	0.45	0.45	0.40
Low-doc	2.61	2.70	2.63	2.07
State				
NSW	0.69	0.71	0.70	0.73
Vic	0.38	0.39	0.37	0.40
Qld	0.69	0.72	0.69	0.45
WA	0.58	0.58	0.63	0.57
Other	0.42	0.40	0.32	0.30
Interest type				
Variable	0.62	0.64	0.61	0.57
Fixed	0.24	0.25	0.25	0.29
Loan type				
Owner-occupier	0.55	0.56	0.54	0.52
Investor	0.64	0.65	0.67	0.58
Loan size				
Less than 250k	0.41	0.42	0.43	0.33
250k to 500k	0.61	0.62	0.58	0.54
More than 500k	0.99	0.97	0.98	0.99

(a) Excludes self-securitisations
(b) Per cent of non-conforming loans
Sources: Perpetual; RBA

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[4] Low-doc loans accounted for 6 per cent of the prime securitised loan pool at end December 2011.
[5] Please see FS Note (forthcoming) on developments in securitised arrears over 2011.

- Moody's recently released a special report, containing analysis of 30+ day arrears rates on securitised loans over the year to September 2011. This is consistent with Perpetual data. Moody's notes that 30+ day arrears rates on securitised loans rose over the past year, but they expect them to stabilise in 2012 with the exception of tourist areas (particularly the Sunshine and Gold coasts). However, they expect defaults to increase, because of rises in unemployment and underemployment in certain sectors.

Financial Stability Department
14 February 2012

BANKS' HOUSING LOAN CHARACTERISTICS – SEPTEMBER QUARTER 2011

APRA data on the characteristics of housing loan approvals suggest that banks eased lending standards a little in the September quarter. Specifically, approvals of loans with high loan-to-valuation ratios (LVRs) increased, as did approvals of low-doc and non-standard loans. At the other end of the spectrum, approvals for loans with LVRs below 60 per cent declined.

Lending standards

Approvals of *low-doc* loans rose by 6 per cent in the quarter to a nine-month high of $1.5 billion (or 2.4 per cent of total housing loan approvals in the quarter). Despite this, the value of these approvals remained well below that of any quarter from 2008 to 2010. The increase was mostly due to banks, approving over 70 per cent of all low-doc loans in the quarter (although, for these banks, low-doc loans were less than 5 per cent of their total housing approvals).

Approvals of loans falling outside of banks' normal debt-serviceability policies, and other non-standard loans, rose by 9 per cent in the quarter to its highest in over two years, at $1.5 billion (or 2.5 per cent of total housing loan approvals in the quarter). By bank, the rise was reasonably broad-based, with sizable increases at banks (the same that increased approvals for low-doc loans) and a foreign subsidiary.

Table 1: Banks' Housing Loan Characteristics
As at September 2011[a]

	Approved in quarter $m	Share[b] %	Quarterly growth %	Year-ended growth %
All approvals	59,689		-0.8	4.4
Owner-occupiers	39,810		0.3	5.4
Investors	19,880		-2.7	2.4
LVR>90	7,649	12.8	11.2	36.1
Owner-occupiers	5,849	14.7	10.6	35.1
Investors	1,800	9.1	13.0	39.3
80<LVR<90	11,984	20.1	-6.9	3.0
Owner-occupiers	8,737	21.9	-5.0	2.9
Investors	3,248	16.3	-11.6	3.2
60<LVR<80	25,173	42.2	2.4	4.6
Owner-occupiers	15,742	39.5	3.5	6.1
Investors	9,431	47.4	0.6	2.1
LVR<60	14,883	24.9	-5.8	-6.0
Owner-occupiers	9,481	23.8	-5.2	-6.1
Investors	5,401	27.2	-6.8	-5.9
Interest only[c]	21,121	35.4	-7.0	5.2
Owner-occupiers	9,791	24.6	-5.4	-12.4
Investors	11,331	57.0	-8.5	27.1
Low-doc	1,453	2.4	6.0	-60.7
Owner-occupiers	974	2.4	9.8	-59.2
Investors	480	2.4	-0.9	-63.4
Other[d]	1,506	2.5	9.1	37.7
Owner-occupiers	892	2.2	19.4	50.7
Investors	614	3.1	-3.1	22.4

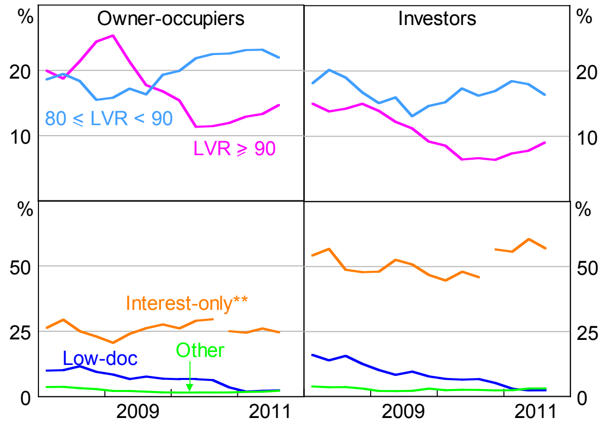
(a) Data is preliminary
(b) Share within total approvals for borrower type
(c) Includes mortgages with 100 per cent offset accounts
(d) Includes loans approved outside normal policies, and other non-standard loans
Sources: APRA; RBA

Approvals of loans to owner-occupiers rose fractionally in the quarter. This largely reflects an increase in loans with LVRs above 90 per cent (up 10 per cent), partially offset by a fall in loans with LVRs below 60 per cent and between 80 and 90 per cent (each down 5 per cent). For most banks, the share of owner-occupier loans with LVRs above 90 per cent increased. The recent increase in part represents a continuation of loosening lending standards that has also generally been present in the APRA credit conditions surveys. Information from private analysts, RateCity, indicates 70 per cent of lenders now offer loans with LVRs up to 95 per cent. On the demand side, appetite by first-home buyers may have increased over the period, potentially influenced by changes to first-home buyer stamp duty exemptions that expired at the end to 2011.

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

** Interest-only loans adjusted due to changes in data management at one major bank

Source: APRA

Approvals for loans to investors declined by about 3 per cent in the quarter. While the decline could have partly been a result of weaker investor demand given falling housing prices, banks also seem to have become more cautious about lending to investors than owner-occupiers. Low-doc loan approvals to investors fell by 1 per cent, while rising by 10 per cent for owner occupiers. Similarly, loan approvals falling outside of banks' normal debt-serviceability policies and other non-standard loans fell by 3 per cent for investors, but rose by 20 per cent for owner occupiers. However, the rise in the share of approvals for loans with LVRs above 90 per cent was larger for investors than for owner-occupiers.

Financial Stability Department
5 January 2012