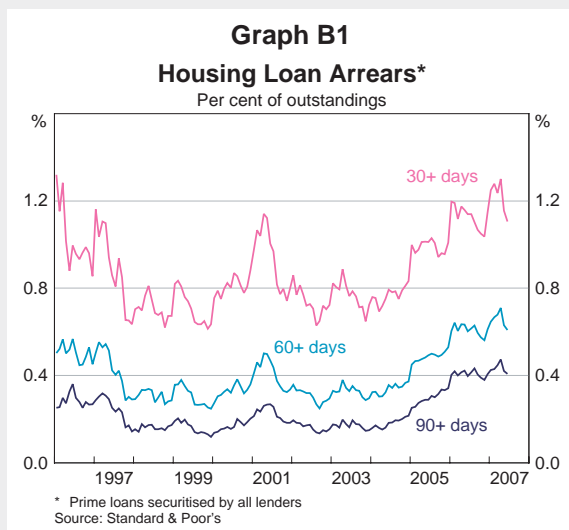


Box B: Arrears and Repossessions

The share of housing loans that is in arrears has increased over recent years but remains at relatively low levels. Most households that fall behind in their mortgage payments eventually

make up the overdue payments and return to their original repayment schedule, that is, they 'self cure'. Consistent with this, the proportion of securitised housing loans in arrears by 90 days or more is always considerably lower than the share that is at least 30 days in arrears. As at June 2007, 1.11 per cent of (securitised) loans were more than 30 days past due, compared with 0.41 per cent that were more than 90 days in arrears (Graph B1). The difference in the duration of arrears is more pronounced for low-doc loans, reflecting the fact that these borrowers are more likely to have



'lumpy' income flows.

For some borrowers who cannot rectify their repayment difficulties, one possibility is to refinance their loan, often with a non-conforming lender. In many cases, however, this is unlikely to be a longer-term solution, given the higher interest rates involved and the transaction costs associated with refinancing.

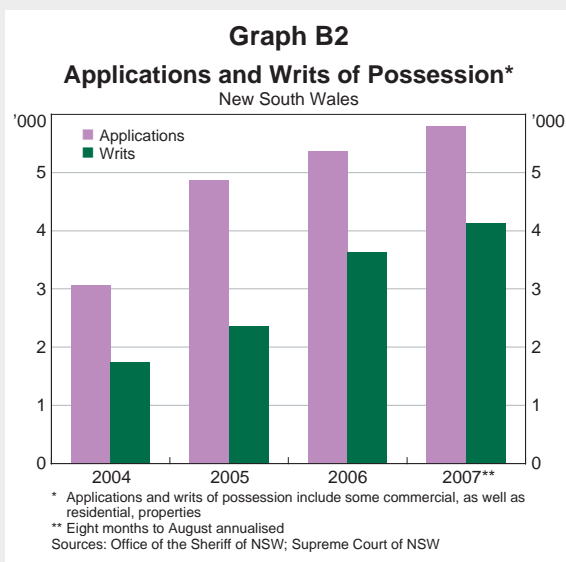
An alternative is for the borrower to voluntarily sell the property. While this is usually a difficult decision, liaison suggests that voluntary sales often achieve a 15 to 20 per cent higher price than mortgagee-in-possession sales.

Another alternative is for the borrower to access some of their superannuation in order to get loan repayments back on schedule. Borrowers can do this either by applying to the Australian Prudential Regulation Authority for the early release of some of their superannuation benefits on 'compassionate grounds' or, if they are in receipt of a Commonwealth income support payment, by applying directly to the trustees of their superannuation fund on the grounds of severe financial hardship. To some extent, the increased use of these options over recent years reflects a growing awareness by borrowers of their availability.

Given these avenues of resolution, only a small percentage of borrowers who fall into arrears have their property repossessed by the lender. There are a number of steps involved in this legal process, with its exact nature depending on the jurisdiction, as well as other factors, such as the

method of filing the claim. In New South Wales, for example, there are three broad steps. First, the lender must submit an application to the Supreme Court of NSW after the borrower has failed to service the loan, generally for a number of months. A judgement in the lender's favour does not, however, entitle the lender to evict the borrower. Instead, the lender must also obtain a 'writ of possession' from the Supreme Court, although it is possible for this second step to be undertaken at the same time as the first step. Third, the writ must then be executed on the borrower. The avenues discussed earlier are no longer available once a writ has been executed. Liaison suggests that the entire repossession process often takes up to a year.

Comprehensive data on the number of applications and writs are not available for all states, and there are limited data available on the number of writs that are actually executed. The Supreme Court of NSW and the Office of the Sheriff of NSW have, however, provided NSW data to the Bank. These data show that there were 5 368 applications for repossession to the Court in 2006, equivalent to 0.23 per cent of the number of private dwellings in the State (Graph B2).¹ Over the same period, the Court granted 3 642 writs of possession. The ratio of writs to applications – at around two thirds – was higher than in the



previous two years and was higher again for the first eight months of 2007 (although a small part of this rise reflects recent changes in procedural practices between the Supreme Court and the Office of the Sheriff of NSW).

A comparison of applications for repossession in NSW, relative to the State's number of dwellings, and arrears rates since the early to mid 1990s reveals that, over this period, there has been an increase in the number of repossessions for a given number of loans in arrears. Over the same period, there has been a significant increase in the relative importance of 'non traditional' lenders, and liaison suggests that these lenders act relatively quickly to obtain and execute repossession judgments. ↗

¹ This compares with an arrears rate of 0.69 per cent for (securitised) housing loans made to borrowers in NSW. This does not imply that one third – 0.23 versus 0.69 – of borrowers in arrears are subject to an application for repossession; liaison suggests that the average amount of time spent in arrears is less than four months, whereas the repossession rate of 0.23 per cent refers to all repossessions in the entire year.