LOMAS, Phil

From: THOMPSON, Chris
Sent: Tuesday, 28 June 2011 15:27
To: ELLIS, Luci
Subject: FW: Non-peforming housing loans... [SEC=UNCLASSIFIED]
Attachments: NPHL.docx

FYI. Interesting comparison of bank and CUBS NPLs. Recent increase in NPLs is evident for CUBS as well, though the increase in the March quarter is not quite so sharp. It's interesting that for CUBS, a higher share of their non-performing housing loans are classified as impaired than past-due.

From: TELLEZ, Eduardo
Sent: Tuesday, 28 June 2011 12:19
To: THOMPSON, Chris
Cc: GORAJEK, Adam
Subject: Non-peforming housing loans... [SEC=UNCLASSIFIED]

Chris
Please find attached a graph comparing non-performing housing loans for CUBS and banks. Some key points:

- Impaired assets for both types of institutions are very similar.
- Past-due loans for CUBS are significantly lower than for banks (even lower than impairments).

At this point, we are not sure why the CUBS's past-due loans are so low.
Regards
Ed

Ed Tellez | Analyst | Financial Stability Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
p: +61 2 9551 8516 | f: +61 2 9551 8052 | w: www.rba.gov.au

LOMAS, Phil

From: THOMPSON, Chris
Sent: Wednesday, 29 June 2011 18:37
To: ELLIS, Luci; DONOVAN, Bernadette; STIEHM, Susan
Subject: FW: Business Spectator chart [SEC=UNCLASSIFIED]
Attachments: image001.png

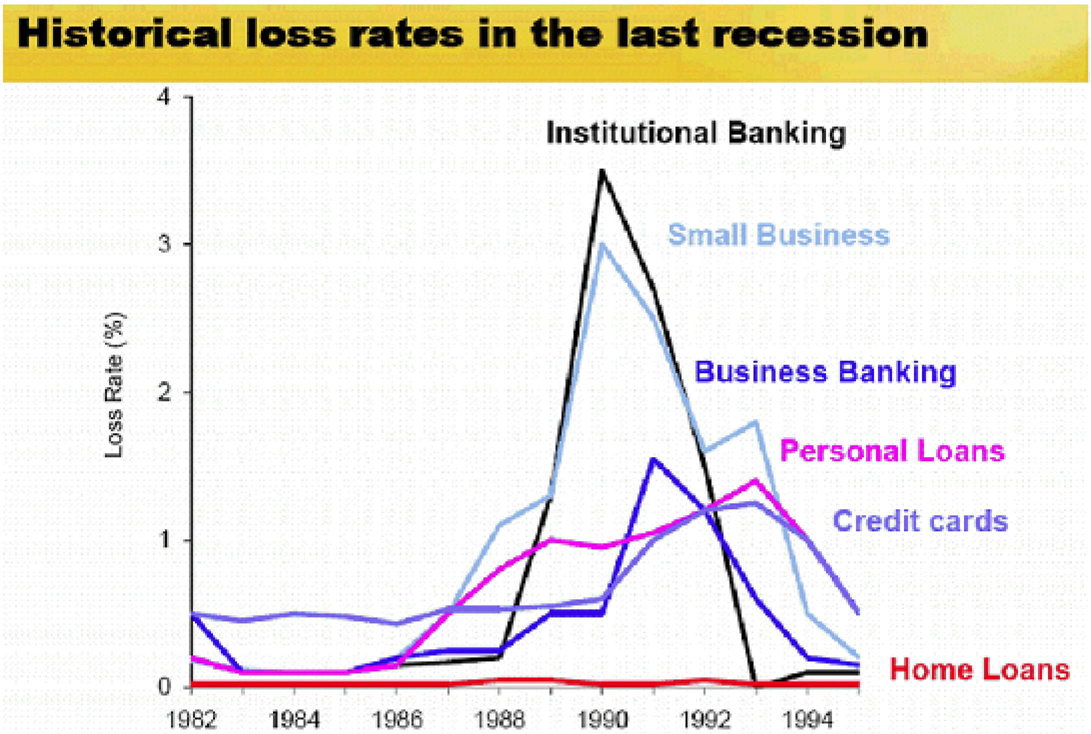
Interesting graph. The data are actually CBA's loss rates during the early 1990s, not banks in general.

From: CHAMBERS, Mark
Sent: Wednesday, 29 June 2011 16:42
To: THOMPSON, Chris
Subject: Business Spectator chart [SEC=UNCLASSIFIED]

Chris,

I came across this chart in a Business Spectator article (by Chris Joye) a couple of days ago.
Might be of interest.

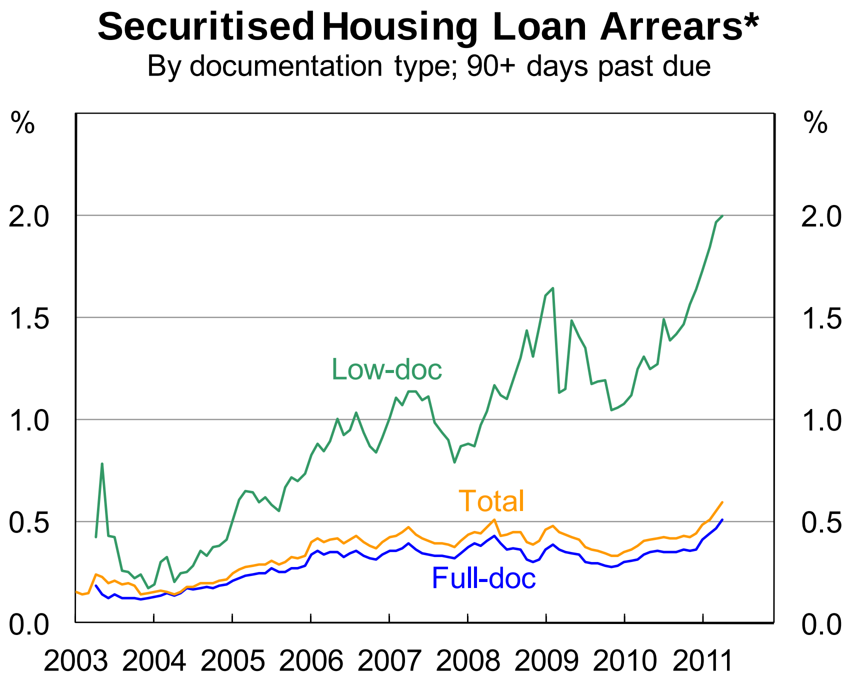
-Mark



http://www.businessspectator.com.au/bs.nsf/Article/banks-property-housing-lending-APRA-RBA-credit-ris-pd20110628-J8UEX?OpenDocument&src=is

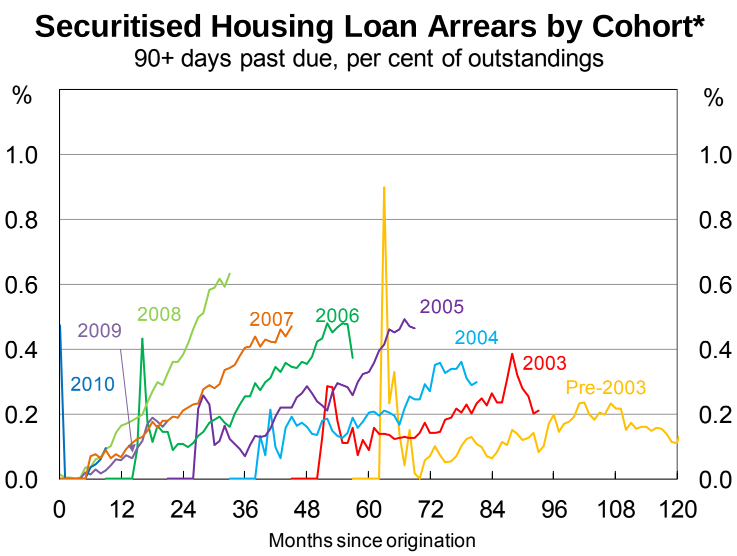
Mark Chambers | Senior Manager, Payments System Stability | Payments Policy Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000, Australia
p: +61 (0)2 9551 8702 | f: +61 (0)2 9551 8024 | w: www.rba.gov.au

Although the arrears rate on low-doc loans is far higher than that of full-doc loans, low-doc loans are shrinking as a percentage of the pool (to around 6 per cent including self-securitisations) and are therefore not contributing a large amount to the total arrears rate.



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

Hard to know what to make of the cohorts graph for self-securitised loans only, as it is discontinuous for earlier cohort years and therefore hard to compare across years and to data excluding self-securitisations.



* Full-doc and low-doc loans self-securitised by all lenders, excludes loans that have not been self-securitised
Source: Perpetual

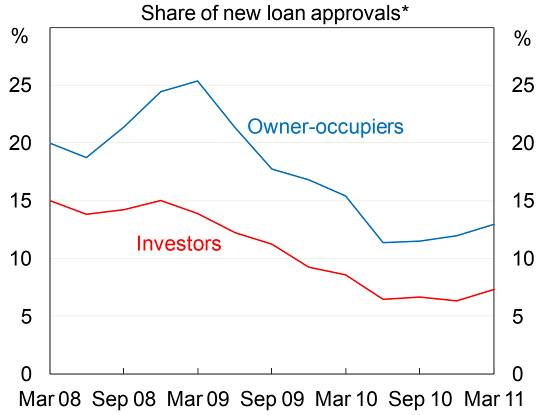
RESIDENTIAL PROPERTY INVESTORS

There are several attributes of investor mortgage lending that differentiate it from owner-occupier lending. These attributes potentially make lending to investors more procyclical and more prone to losses than lending to owner-occupiers. Despite this potential vulnerability, the performance of investor loans has not differed markedly than that of owner-occupiers in recent years. However, new investor borrowing does appear to be more pro-cyclical than that of owner-occupiers, potentially amplifying house price cycles and losses on loans backed by residential property during downturns periods of property price weakness.

Graph 1

Loans with LVR>90%

Share of new loan approvals*

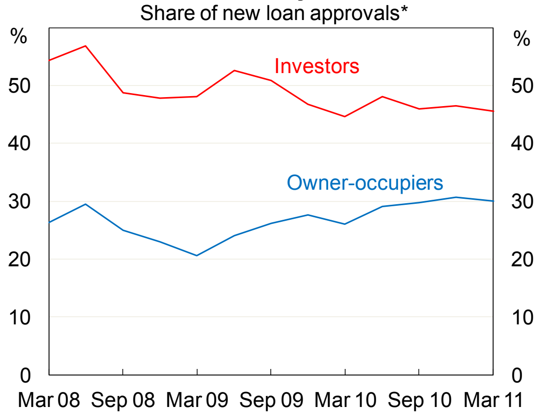


Sources: APRA

Graph 2

Interest-only Loans

Share of new loan approvals*



* Includes mortgages with 100 per cent offset accounts

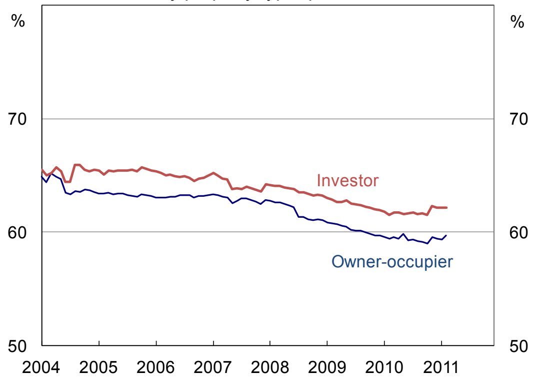
Sources: APRA

A higher share of investor loans tend to be made on an interest-only basis (Graph 2). This in part reflects the tax benefits available to investors. Because of this, the average LVR of outstanding investor loans may be higher than that of owner-occupier loans, despite the former initially being more highly leveraged on average. Indeed, this is the case for securitised loans (Graph 3). Tax Office data shows that the proportion of investors using gearing has tended to increase over time (Graph 4) and that investor debt servicing burdens have tended to increase over time.

Graph 3

Average Current LVR

By property type, per cent*



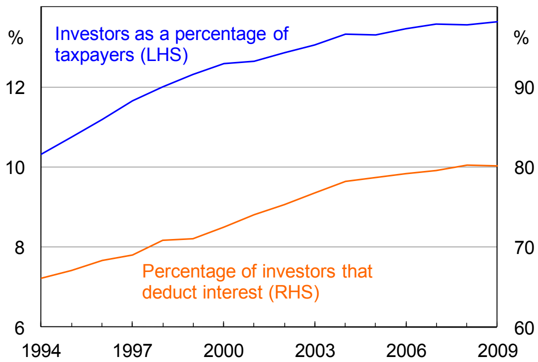
* Full-doc and low-doc loans securitised by all lenders. Excludes self-securitisations.

Sources: Perpetual; RBA

Graph 4

Property Investors*

Per cent of taxpayers



* Investors defined as taxpayers that receive gross rental income

Source: Australian Taxation Office

Investor loans have also tended to comprise a slightly higher share of loans with low-documentation than owner-occupier loans, possible because the lending decision hinges more around the ability of the investment to cover the mortgage repayments rather than the credit worthiness of the the borrower.

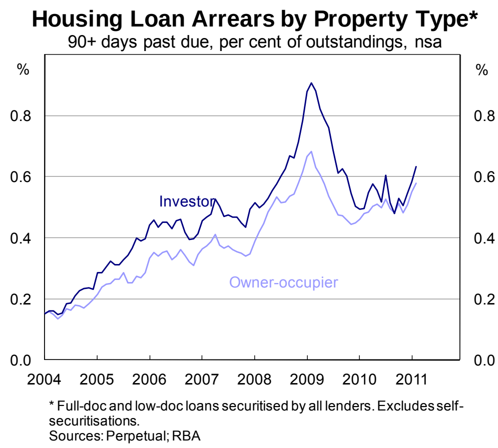
It is difficult to say which type of lending is more risky based solely on these loan characteristics. From a loss given default perspective, although owner-occupier loans are initially more leveraged, their risk diminishes more quickly than investor loans as the loan amortises. To get a better understanding of the probability of default, we need to take a closer look at the characteristics of the borrowers themselves.

How have investors performed over the global financial crisis compared to owner-occupiers?

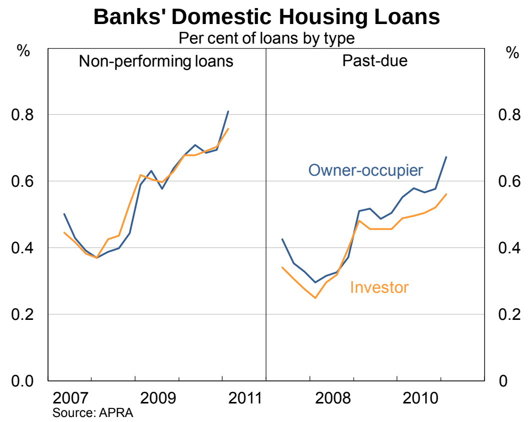
Aggregate

For securitised mortgages, the 90+ day arrears rate has consistently been higher for investor loans than for owner-occupiers loans, although the gap has narrowed since 2010 (Graph 5). Recent liaison with suggested that for insured loans, the investor delinquency rate is roughly double that of owner-occupiers. In contrast, investor loans on banks' balance sheets have performed in line with owner-occupier loans (Graph 6). This is despite both sources having a similar compositional split between investor and owner-occupier loans. This suggests that the quality of securitised and insured investment loans is particularly poor, even compared to the quality of securitised and insured owner-occupier loans (which themselves are likely to be lower quality on average than on-balance sheet loans).

Graph 5



Graph 6



attributed some of the weakness in the investor loans to considerable speculation by investors in the housing market prior to 2005, with investors looking for rapid capital gains. thought that the more recent higher arrears rate for investor loans reflected a level of over commitment by investors. Contributing factors were house price declines, vacancy periods that were not factored into mortgage servicing and interest rate increases.

It is therefore not clear whether investor loans have performed more poorly than owner-occupier loans over recent years. But, even in the data sources that suggest that they have performed relatively worse, arrears rates have still remained low by international standards.

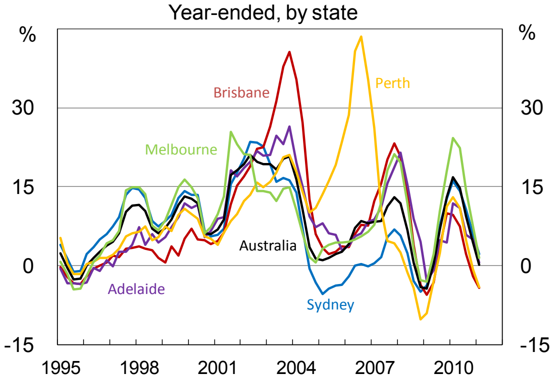
By state

State level data suggests that investor lending is more pro-cyclical than owner-occupier lending. For example, both Queensland and Western Australia saw a more rapid growth in investor than owner-occupier approvals during their periods of strong house price growth between 2002 and 2008 Approvals then dropped off significantly once property price growth in these states weakened. Similarly, in NSW investor approvals grew rapidly up to 2004, but levelled off after as property prices remained broadly flat. However, there is little evidence that investor loan arrears are more pro-cyclical than owner-occupiers; securitised arrears rates by state show similar trends for both.

Graph 9

House Prices Growth

Year-ended, by state



Source: APM

Conclusion

Although property investors have certain characteristics that suggest that they might be higher risk than owner-occupier loans, there is no strong evidence to suggest that their performance has differed markedly in recent years. However, new investor lending does seem to be more pro-cyclical than new owner-occupier lending. This could amplify cyclical house price movements and therefore the losses on loans backed by residential property, even in the absence of investor loans directly performing more poorly than owner-occupier loans.

Rob Johnson
Financial Stability
8 July 2011

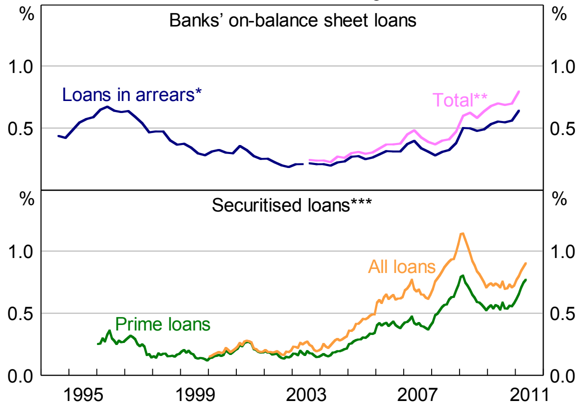
12 July 2011

1. HOUSEHOLD ARREARS AND STRESS

<table>
<tr><th>Comments</th><th>Links</th><th>Graph</th></tr>
<tr><td></td><td></td><td>

Non-performing Housing Loans

Per cent of outstandings



* Loans that are 90+ days past-due but otherwise well secured by collateral
** Includes 'impaired' loans that are in arrears (or are otherwise doubtful) and not well secured by collateral
*** Loans securitised by all lenders, 90+ days past-due; excludes 'self-securitisations'
Sources: APRA; RBA; Standard & Poor's

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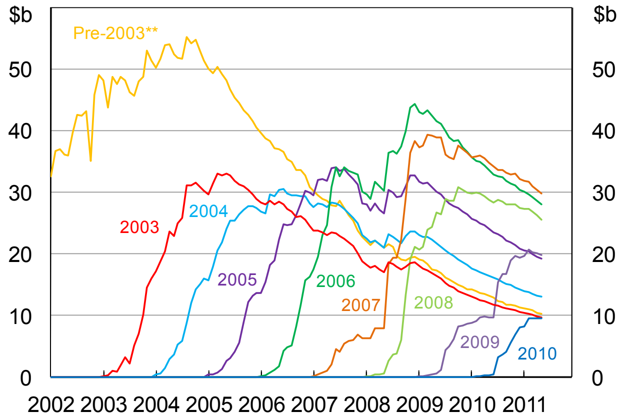
Housing Loans Outstanding*

By origination year



* Prime loans securitised by all lenders, including self-securitisations.
** Loans originated between 1995 and 2002
Sources: Perpetual; RBA

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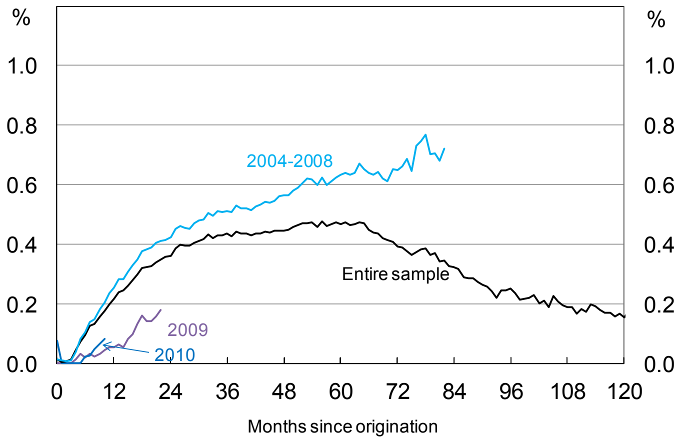
Securitised Housing Loan Arrears by Cohort*

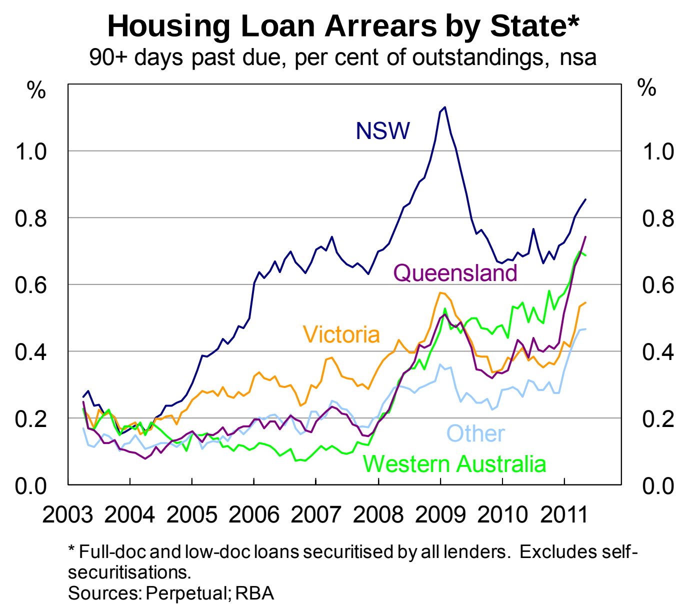
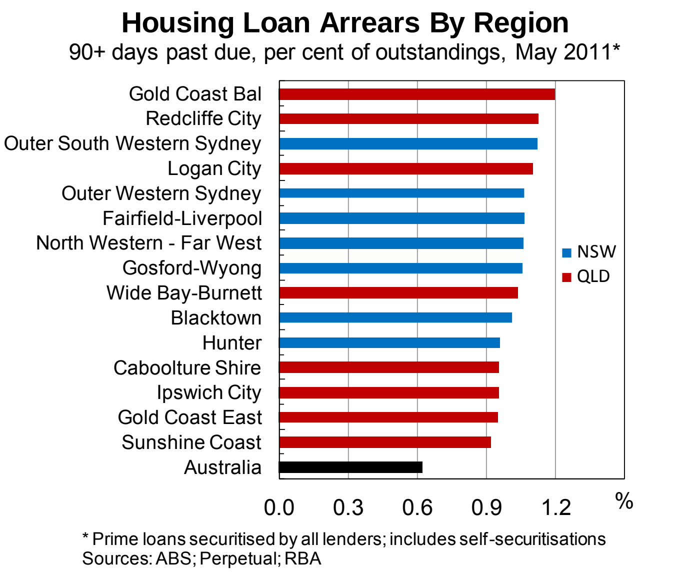
90+ days past due, per cent of outstandings



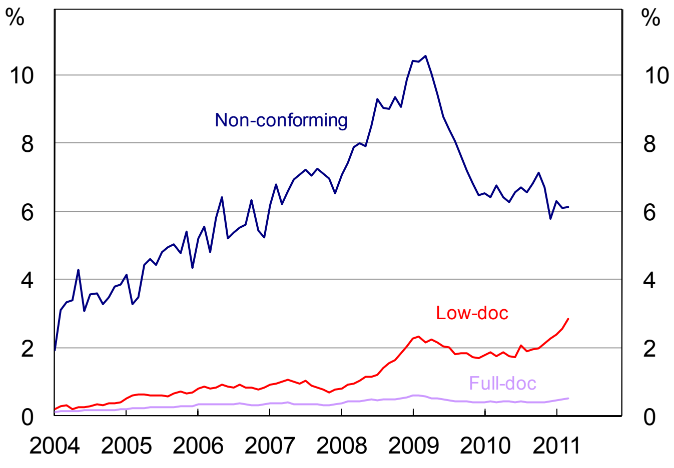
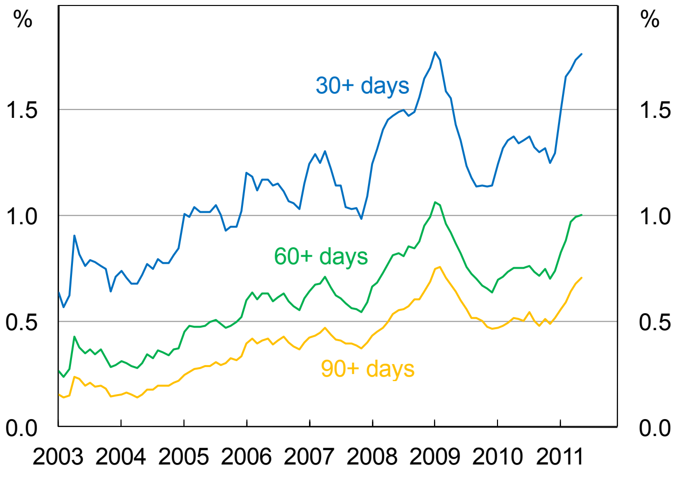
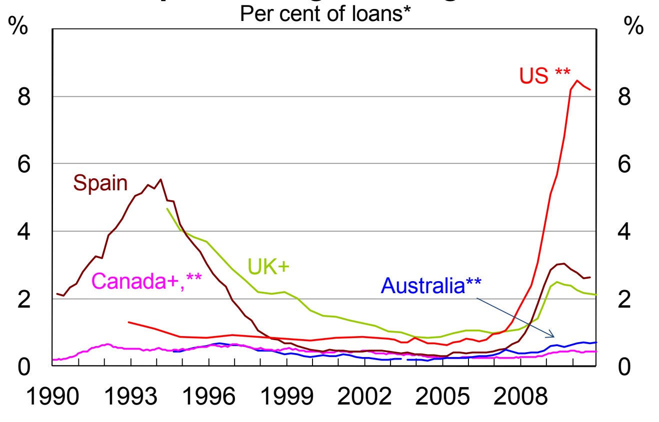
* Full-doc and low-doc loans securitised by all lenders, includes self-securitisations
Source: Perpetual

</td></tr>
</table>

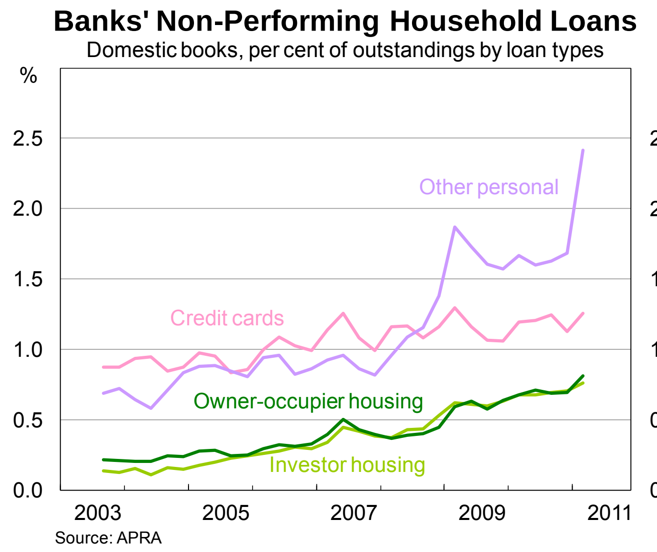
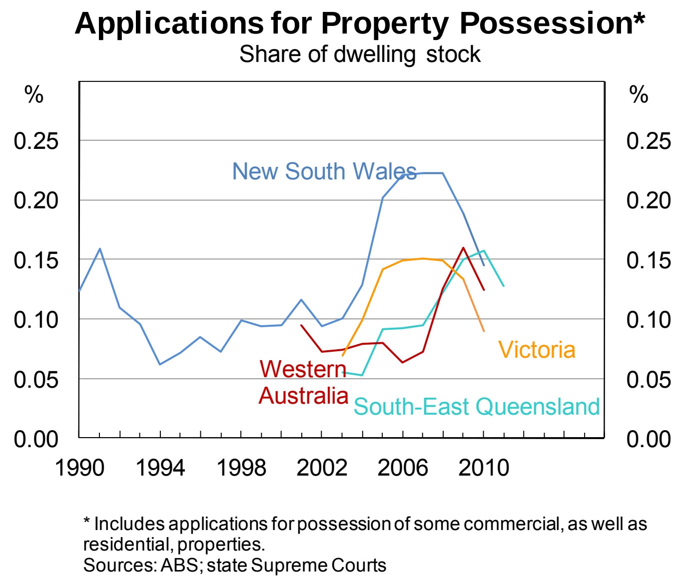
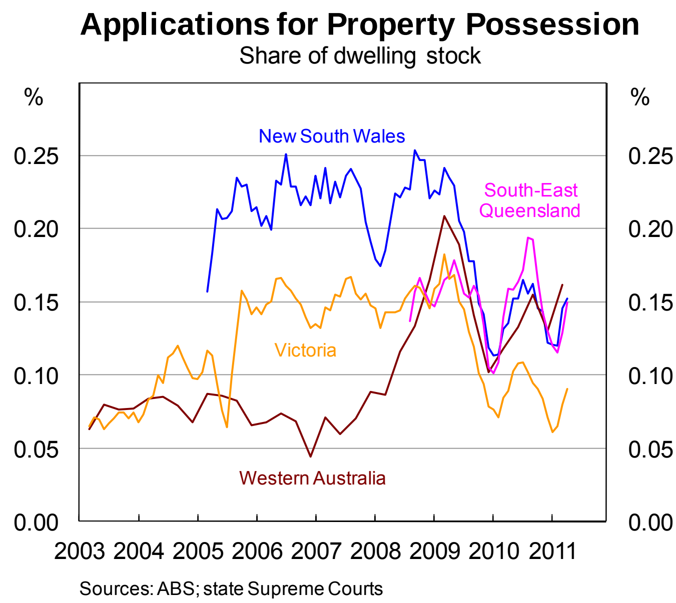
12 July 2011

Comments	Links	Graph
		
		

12 July 2011

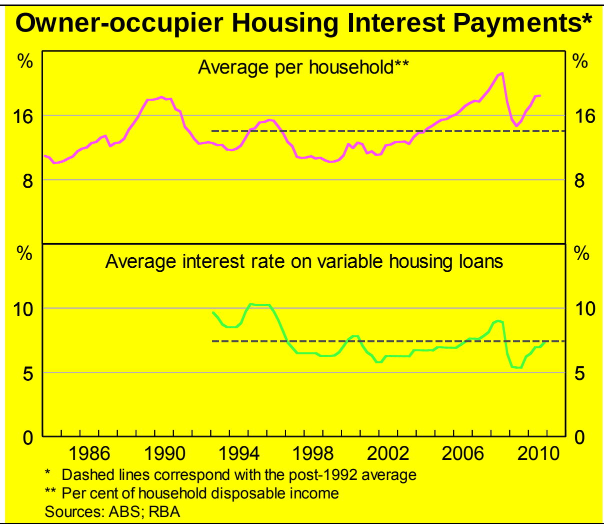
Comments	Links	Graph
		Housing Loan Arrears by Loan Type* 90+ days past due, per cent of outstandings  * Securitised loans Sources: Perpetual; RBA; Standard & Poor's
		Securitised Housing Loan Arrears* Per cent of outstandings, nsa  * Full-doc and low-doc loans securitised by all lenders. Excludes self-securitisations. Source: Perpetual
		Non-performing Housing Loans Per cent of loans*  * Per cent of loans by value. Includes 'impaired' loans unless otherwise stated. For Australia, only includes loans 90+ days in arrears prior to September 2003. ** Banks only. + Per cent of loans by number that are 90+ days in arrears. Sources: APRA; Bank of Spain; Canadian Bankers' Association; Council of

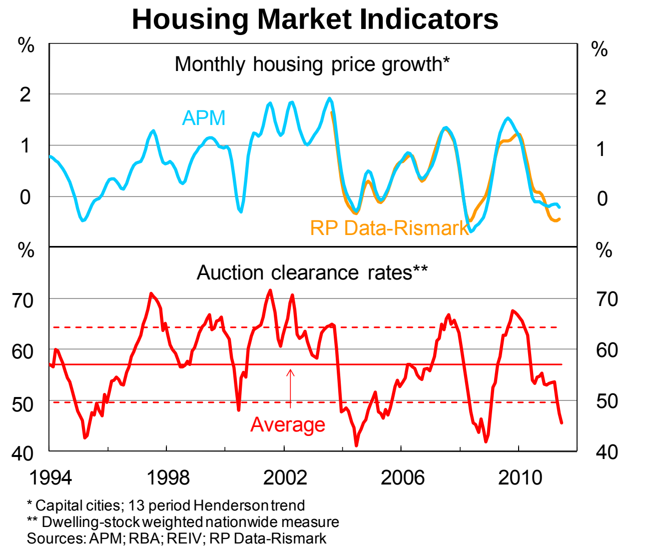
12 July 2011

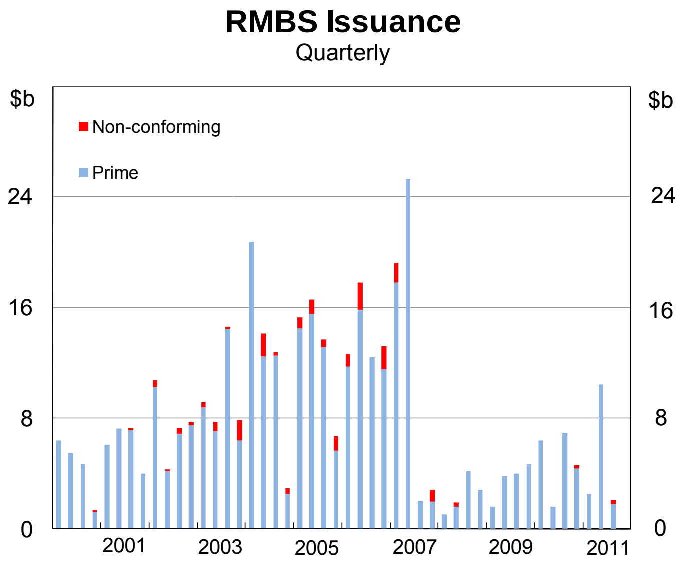
Comments	Links	Graph
		
		
		

12 July 2011

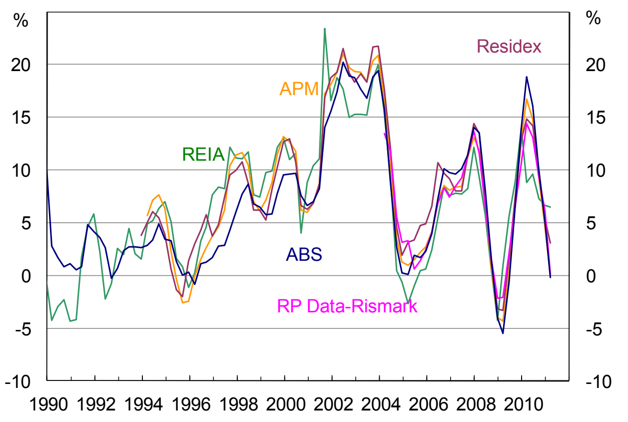
2. HOUSING MARKET INDICATORS







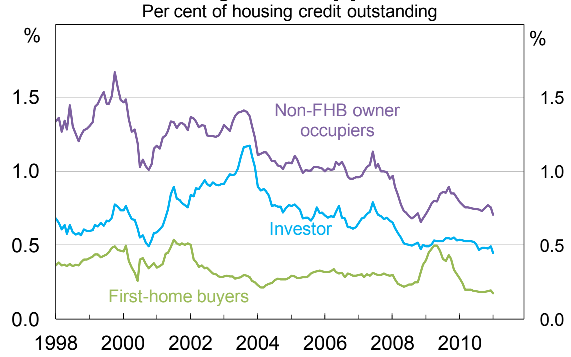
12 July 2011

		House Prices Year-ended percentage change  Sources: ABS; APM; CBA; REIA; RP Data-Rismark

12 July 2011

Housing Loan Approvals*

Per cent of housing credit outstanding

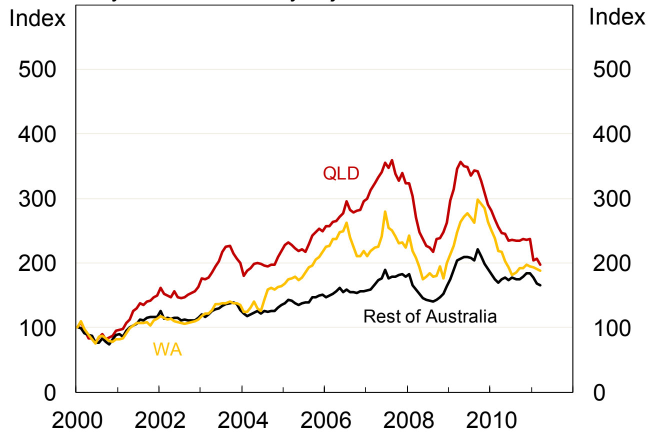


* Excludes owner-occupier refinancing and investor approvals for new construction and by 'others'

Sources: ABS RBA

Owner-occupier Loan Approvals

By state, seasonally adjusted, Jan 2000=100*

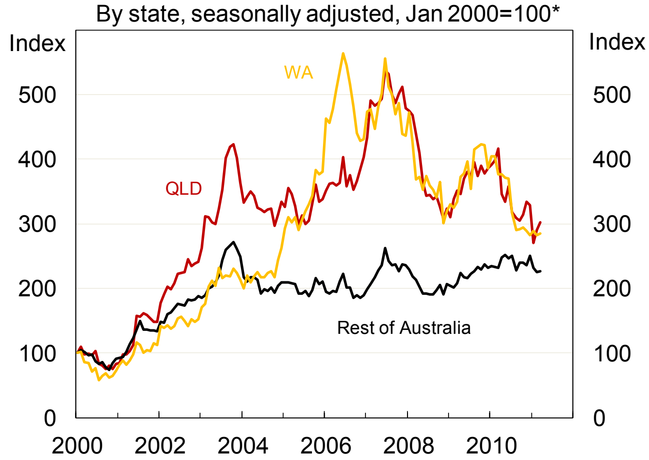


* Excludes refinancing; estimate for March 2011

Sources: ABS; RBA

Investor Loan Approvals

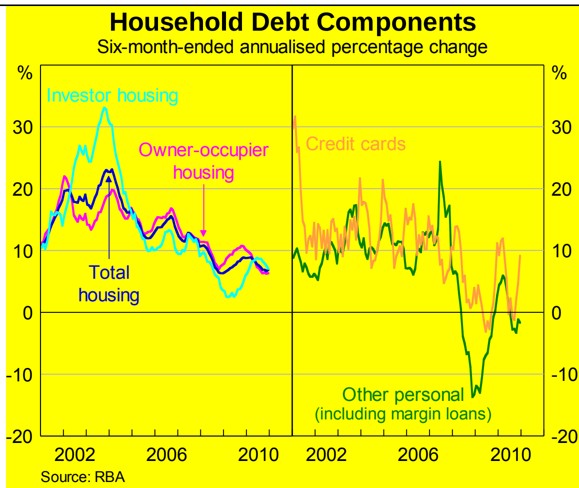
By state, seasonally adjusted, Jan 2000=100*



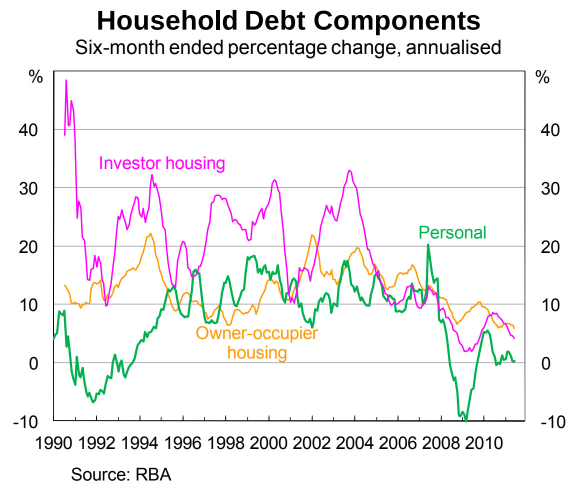
* Estimate for March 2011

Sources: ABS; RBA

12 July 2011



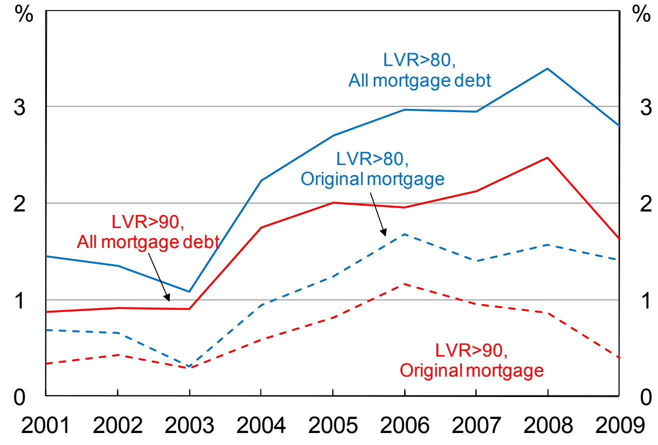
Household Debt Components
Six-month-ended annualised percentage change
Investor housing
Owner-occupier housing
Total housing
Credit cards
Other personal
(including margin loans)
%
30
20
10
0
-10
-20
2002
2006
2010
Source: RBA



Household Debt Components
Six-month ended percentage change, annualised
Investor housing
Personal
Owner-occupier housing
%
40
30
20
10
0
-10
1990 1992 1994 1996 1998 2000 2002 2004 2006 2008 2010
Source: RBA

Households With Low Equity and High Repayments

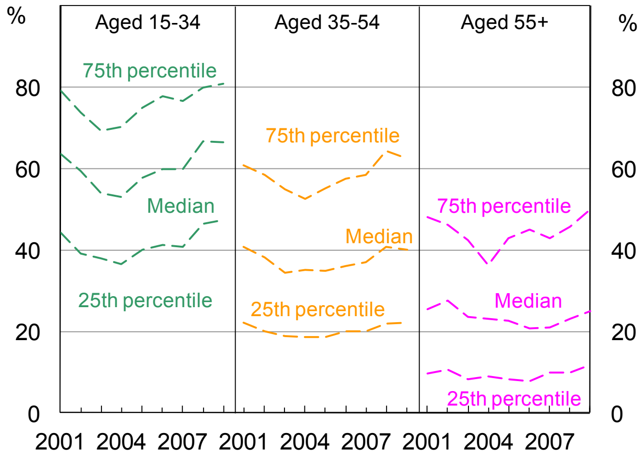
Per cent of households with owner-occupier debt*



* Repayments on corresponding debt greater than 50 per cent of household disposable income
Source: HILDA Release 9.0

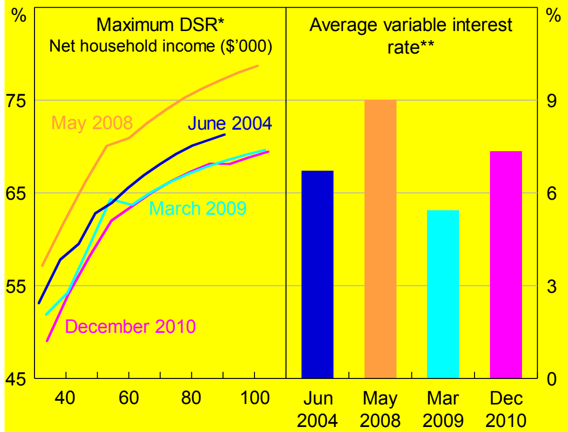
Loan-to-valuation Ratios

Indebted owner-occupiers by age



Source: HILDA Release 9.0

Maximum Debt-servicing Ratio and Interest Rates

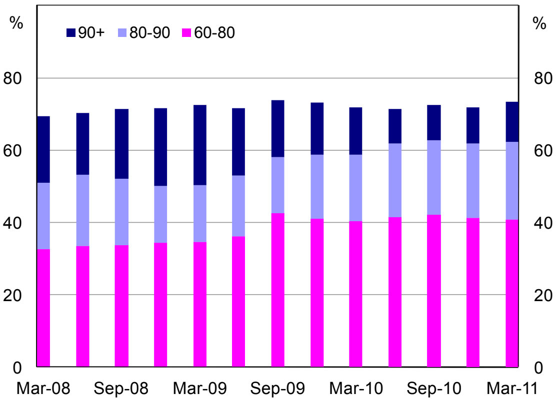


* Loan repayments as a share of net income; single individual, 20 years; assuming constant repayments
** On full-doc housing loans
Sources: ATO; RBA; company websites

12 July 2011

Banks' Origination LVRs

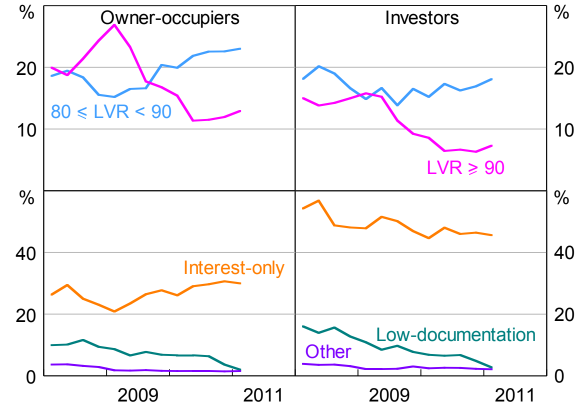
Per cent of housing loans originated in the quarter



Source: APRA

Banks’ Housing Loan Characteristics*

Share of new loan approvals

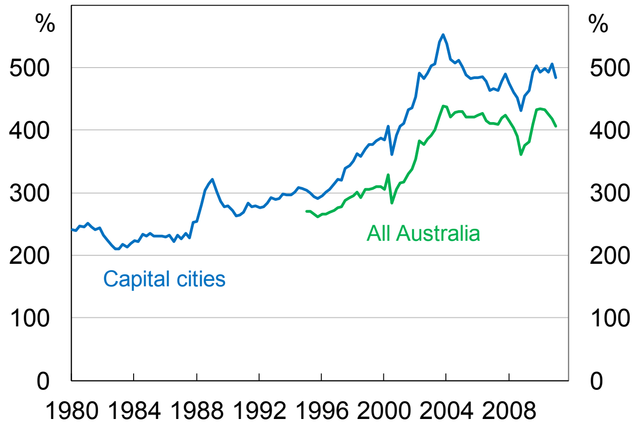


* LVR = loan-to-valuation ratio; ‘Other’ includes loans approved outside normal policies, and other non-standard loans; ‘Interest-only’ includes mortgages with 100 per cent offset accounts

Source: APRA

Dwelling price-to-income ratio

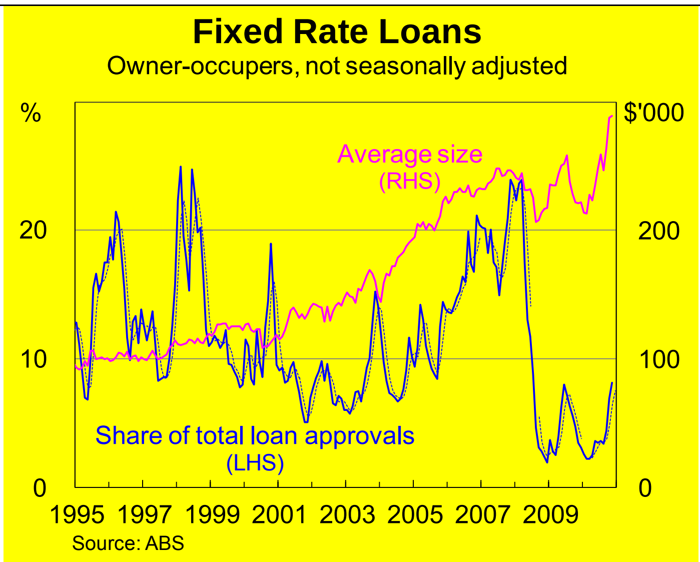
Per cent to average household disposable income*



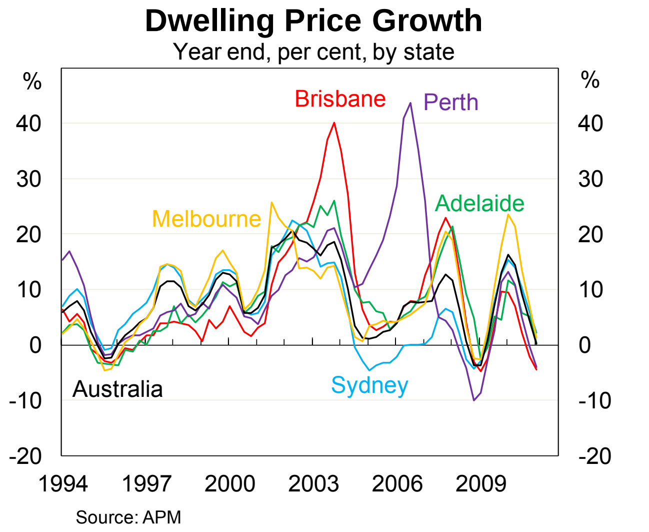
* Household disposable income after tax and before interest payments, excluding unincorporated enterprises

Sources: ABS; APM; REIA; RBA;

12 July 2011



Fixed Rate Loans
Owner-occupers, not seasonally adjusted
%
$'000
Average size
(RHS)
Share of total loan approvals
(LHS)
0
10
20
0
100
200
1995 1997 1999 2001 2003 2005 2007 2009
Source: ABS



Dwelling Price Growth
Year end, per cent, by state
%
%
Brisbane
Perth
Melbourne
Adelaide
Australia
Sydney
40
30
20
10
0
-10
-20
1994 1997 2000 2003 2006 2009
Source: APM

LOMAS, Phil

From: JOHNSON, Robert
Sent: Monday, 18 July 2011 18:06
To: Notes policy groups
Subject: Securitised housing loan arrears - May 2011 [SEC=UNCLASSIFIED]

Key points:

- Arrears rates on securitised housing loans continued to increase in May. The 90+ days arrears rate is now around 20 basis points higher than at the end of 2010 and only 3 basis points below its peak in early 2009. Seasonal factors are only a small contributor to the recent increase, which is also evident when self-securitised loans are included in the pool.
- Although the arrears rate on fixed-rate loans has trended up since the end of 2007, the increase in the arrears rate over 2011 has been much sharper for variable-rate loans. This suggests that interest rates may be a key factor behind the recent increase in arrears rate. However, loans made since 2009 have performed relatively well given their seasoning, reflecting the tightening in lending standards in late 2008 and early 2009.
- The 90+ days arrears rate on low-doc loans, which now account for less than 8 per cent of the prime securitised mortgage pool, remains around five times the arrears rate on full-doc prime loans.
- The 90+ days arrears rate rose in all states in May, with the exception of Western Australia where it moderated by 1 basis point. The increase was largest in Queensland, taking the cumulative increase in its arrears rate to 32 basis points since the start of the year. Queensland now has the second highest arrears rate after New South Wales. Some of this increase likely reflects the recent natural disasters in this state.

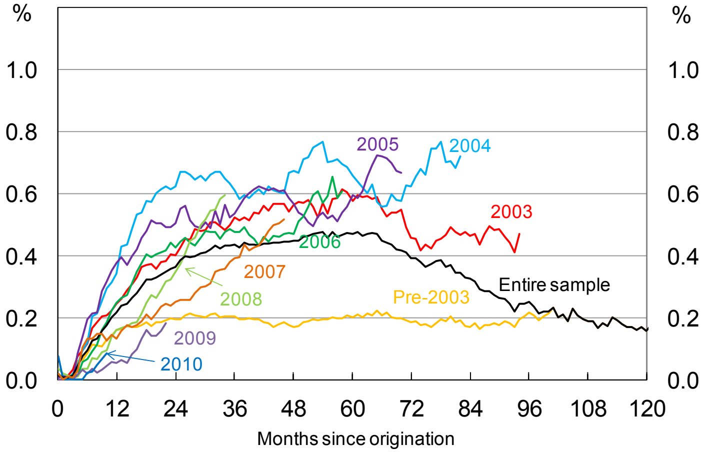
For more information, please see D11/134402

Rob Johnson | Senior Analyst | Financial Stability Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
p: +61 2 9551 8546 | f: +61 2 9551 8052 | w: www.rba.gov.au

Graph 1

Securitised Housing Loan Arrears by Cohort*

90+ days past due, per cent of outstandings

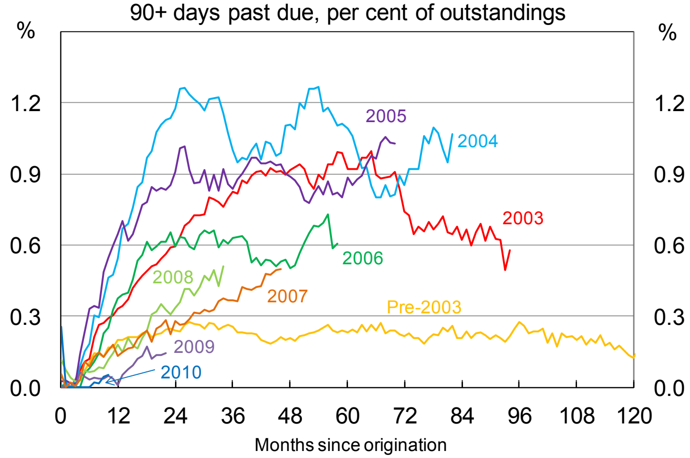


* Full-doc and low-doc loans securitised by all lenders, includes self-securitisations
Source: Perpetual

Graph 2

Securitised Housing Loan Arrears by Cohort New South Wales*

90+ days past due, per cent of outstandings

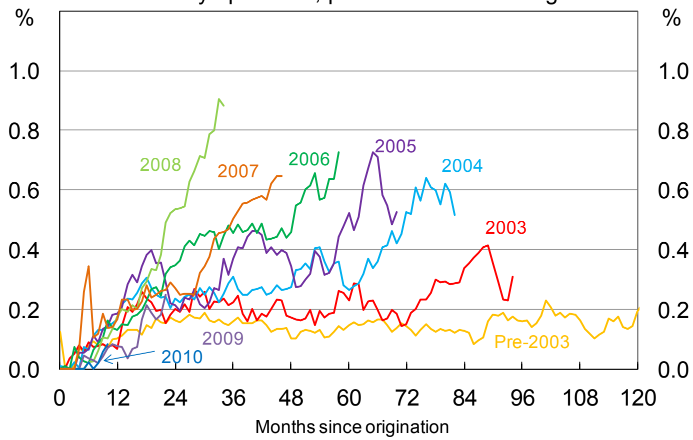


* Full-doc and low-doc loans securitised by all lenders, includes self-securitisations
Source: Perpetual

Graph 3

Securitised Housing Loan Arrears by Cohort Queensland*

90+ days past due, per cent of outstandings

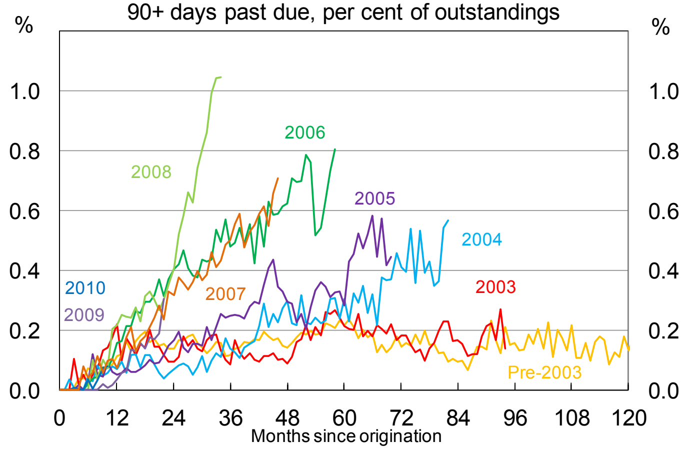


* Full-doc and low-doc loans securitised by all lenders, includes self-securitisations
Source: Perpetual

Graph 4

Securitised Housing Loan Arrears by Cohort Western Australia*

90+ days past due, per cent of outstandings



* Full-doc and low-doc loans securitised by all lenders, includes self-securitisations
Source: Perpetual

From: VAN UFFELEN, Luke
To: ELLIS, Luci; THOMPSON, Chris
Cc: DONOVAN, Bernadette; BAILEY, Owen; TELLEZ, Eduardo
Subject: Bank of Queensland Basel II Pillar 3 Disclosure - May 2011 [SEC=UNCLASSIFIED]
Date: Thursday, 28 July 2011 17:46:24

Bank of Queensland Basel II Pillar 3 Disclosure – May 2011

Bank of Queensland released its May Quarter 2011, Basel II Pillar 3 disclosure yesterday. The key points are:

- The ratio of non-performing loans was 2.9 per cent, up from 2.7 per cent in the previous quarter. Specifically, the ratio of non-performing residential mortgages increased to 1.5 per cent from 1.4 per cent while the ratio of 'other' (i.e. business and personal) non-performing loans increased to 6.9 per cent from 6.1 per cent over the quarter.

Luke Van Uffelen
Financial Stability Department
28 July 2011