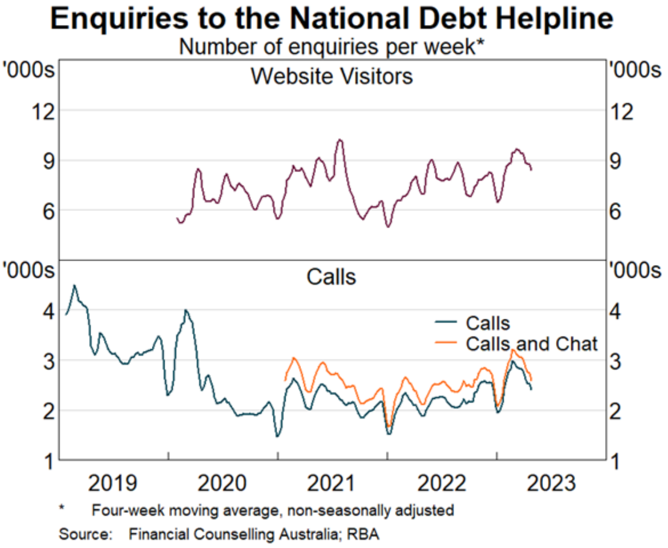
From:
Sent: Monday, 15 May 2023 4:49 PM
To: FS - Households Businesses and Credit
Cc: LOPEZ, Claude; CASSIDY, Natasha; BRISCHETTO, Andrea; JONES, Bradley
Subject: National Debt Helpline Update - April 2023 [SEC=OFFICIAL]

The National Debt Helpline (NDH) is a not-for-profit service that helps people tackle debt problems. Total consumer interactions with the NDH (including calls, chats and website visits) declined in March and April, coming of a peak in February. Rent, mortgage stress and bills remain key concerns for NDH website visitors.

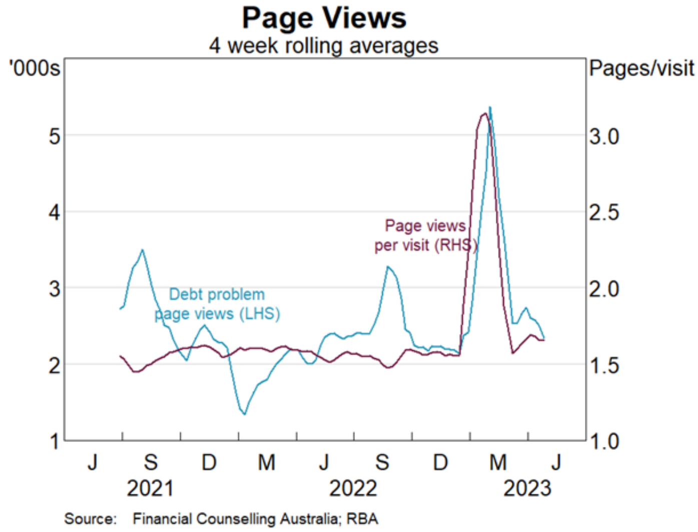
Key takeaways from the data, week ending April 30:

- The number of website visitors fell in April, but remain at elevated levels relative to previous months (Graph 1, panel 1). Call and chat interactions have also came down off recent highs (Graph 1, panel 2). The NDH notes this as a recurring seasonal trend due to public holidays in April.
- Page views per visit and hits on debt problem pages moderated over March and April after a significant peak in January (Graph 2).
- Rental and mortgage stress continue to drive page views. The share of general page searches for help with mortgage stress remains elevated despite recent declines. Other website searches contributing to page views include household expenses (such as bills) and personal debt (such as Centrelink and other debts).
- Though NDH interactions have fallen overall, insights from liaison suggest that households are facing financial stress and demand for community resources remains high.

Graph 1



Graph 2



Note: The data are non-seasonally adjusted. There is reasonable evidence to believe that NDH interactions are affected by seasonal factors, however, seasonal adjustments for these data are not reliable given the short series.

Some further caveats are important to note. Changes to the website's structure and changing consumer awareness of the NDH can affect website visits and calls and chat numbers, and the short history of the series means it is unclear how demand for NDH services translates to financial stability risks. HBC will continue to monitor NDH data.

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w: www.rba.gov.au

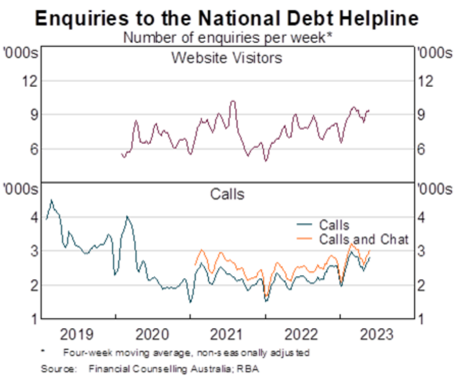
From:
Sent: Thursday, 15 June 2023 12:19 PM
To: FS - Households Businesses and Credit
Cc: CASSIDY, Natasha; JONES, Bradley; BRISCHETTO, Andrea; LOPEZ, Claude
Subject: National Debt Helpline Update - May 2023 [SEC=OFFICIAL]

The National Debt Helpline (NDH) is a not-for-profit service that helps people tackle debt problems. Total consumer interactions with the NDH (including calls, chats and website visits) rose in May to just below their recent February peak. Mortgage stress, rent and bills remain key concerns for NDH website visitors.

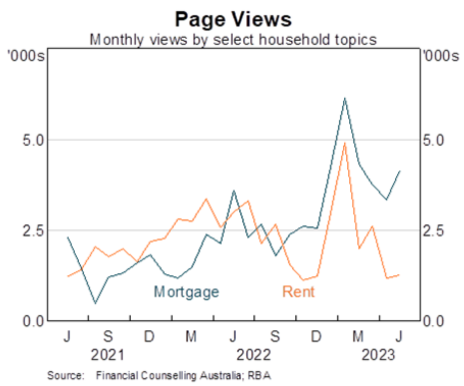
Key takeaways from the May data:

- Website, call and chat interactions climbed in May after a decline in April (Graph 1, four-week moving averages).
- Mortgage stress continues to drive page views (Graph 2).
    - Across the site, views on mortgage-related issues picked up again in May after declining from a recent peak.
    - 'Early release [of super] to pay mortgage arrears' and 'No interest loan scheme' were among the most visited pages in the month.
    - Westpac also recently reported increased calls to its hardship hotline.
- Page views for debt problems pages picked up (Graph 3).
- Other website searches contributing to page views include rent, household expenses (bills) and personal debt (such as Centrelink).

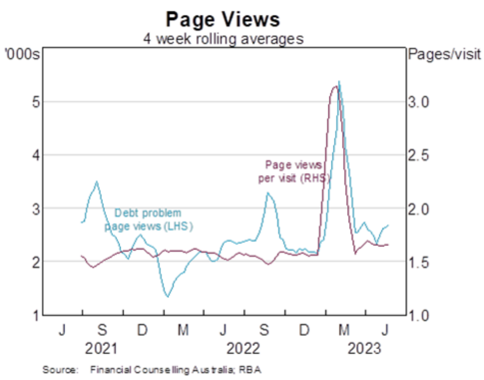
Graph 1



Graph 2



Graph 3



Note: The data are non-seasonally adjusted. There is reasonable evidence to suggest that NDH interactions are affected by seasonal factors, however, seasonal adjustments for these data are not reliable given the short series. Further, changes to the website's structure and changing consumer awareness of the NDH can affect website visits and calls and chat numbers, and the short history of the series means it is unclear how demand for NDH services translates to financial stability risks. HBC will continue to monitor NDH data.

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8.50 notes

- Lots of media articles about spread of mortgage stress + QoN about geographical distribution of mortgage stress. HBC are looking at this – for both the QoN as well as possibly using some of the disaggregation in upcoming FSR and/or material for speeches.

- Definition of mortgage stress can vary: – Narrow (those households in arrears) vs broad (defined here as spending more than 30 per cent of income on mortgage payments and having an income in the bottom quarter of mortgagor incomes). Some survey measures – such as the often cited DFA Analysis – define stress as a scoring on a range of questions such as "needing to refinance", "needing to cut back on spending on luxury goods" or "do you have mortgage stress".

- For the QoN: we were planning on showing some graphs/tables on mortgage stress – narrowly defined in arrears or those with a high repayment burden/low income. There is little material variation geographically in indicators of mortgage stress across Australia.

- Arrears rates do not vary much geographically and are similar across rural and urban areas (with a few exceptions). There are some regions in NT, FNQ and Tasmania with higher arrears rates.

- Borrowers with a high repayment burden are not necessarily in financial stress presently but would be at risk of becoming stressed if they suffer unexpected shocks to their income or expenses. Borrowers with a high repayment burden tend to be concentrated in regional areas (Figure 1), especially in the South East and Tasmania.
- Nationally, the share of borrowers with a high repayment burden is 18 per cent of loans and the arrears rate is 0.3 per cent of loans.
- Overall, more than 10 per cent of borrowers have a high repayment burden in 128 SA3s (out of 1,266) nationally.

- One obvious shortcoming of the current approach to high repayment burden (bottom income quartile + LSR > 30%) is that borrowers in the cities have higher incomes than those in the regions. Therefore city SA3s are systematically less likely to have borrowers in the bottom income quartile (as measured nationally). This biases our at-risk shares for SA3s in the cities downward. To get around this we could repeat the exercise but calculate the income quartiles restricted to each city (rather than nationally).

- We are also planning to explore different cuts of the data (e.g. FHB, new loans, low buffers, different income thresholds). possibly using some of the disaggregation in upcoming FSR and/or material for speeches. Also looking to get access to data on hardship calls etc to bank.

- Also, now have a dashboard of early indicators of financial stress

From note:

The [National Debt Helpline](#) (NDH) is a not-for-profit service that helps people tackle debt problems. Total consumer interactions with the NDH (including calls, chats and website visits) rose in May to just below their recent February peak. Mortgage stress, rent and bills remain key concerns for NDH website visitors.

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- Page views for debt problems pages picked up (Graph 3).
- Other website searches contributing to page views include rent, household expenses (bills) and personal debt (such as Centrelink).
-

From:
Sent: 3 1:07 PM
To:
Cc: FS - HBC Management
Subject: Geographical distribution of mortgage stress [SEC=OFFICIAL]

See the analysis has done below. We will use some of this for the parliamentary QoN.

As discussed happy for you to send your metrics/graphs over and we can work into our briefing. We will share with you before we send it up the line.

is on leave this week, so will resume work on it on Monday 26th. We plan to send over to Tash by next Wednesday 28th ahead of it going to SD on Friday 30th.

Cheers

From:
Sent: Friday, 16 June 2023 1:53 PM
To: BRISCHETTO, Andrea CASSIDY, Natasha
Cc:
Subject: RE: 8:50 Charts [SEC=OFFICIAL]

No problem, I've updated the charts and added some dots!

On your questions, there are no brighter patches of higher arrears in the cities and the zoomed in areas are **LSR > 30 for the lowest income quartile**.

One other note, in the FSR we said "[t]he share of low-income mortgagors (defined as the bottom quartile of mortgagor incomes) devoting more than one-third of their income to servicing their housing loan has increased from around one-quarter before the first increase in interest rates in May 2022 **to around 45 per cent in January 2023**." That's still consistent with the numbers in these maps.

Thanks,

From: BRISCHETTO, Andrea
Sent: 16 June 2023 13:01
To: HUGHES, Adam CASSIDY, Natasha
Cc:
Subject: RE: 8:50 Charts [SEC=OFFICIAL]

Thanks

Can I just confirm re the first figure that relates to arrears that there's no more lighter patches of high arrears when you zoom into the capital cities?

Just checking is the cut shown in the close up graphs **LSR > 30 for the lowest income quartile**? Also, is it possible to put red dots or something where the capital city CBDs are in the close ups for those geographically challenged among us?

Could you please put then put all these graphs in the 850 deck with appropriate headings and the red dots as per above: D22/119485
I've put the first one is as an example.

Many thanks,
Andrea

From:
Sent: Friday, 16 June 2023 11:22 AM
To: BRISCHETTO, Andrea CASSIDY, Natasha
Cc:
Subject: 8:50 Charts [SEC=OFFICIAL]

Hi both,

Following our chat yesterday I've pulled together the below. Let me know if you have any questions!

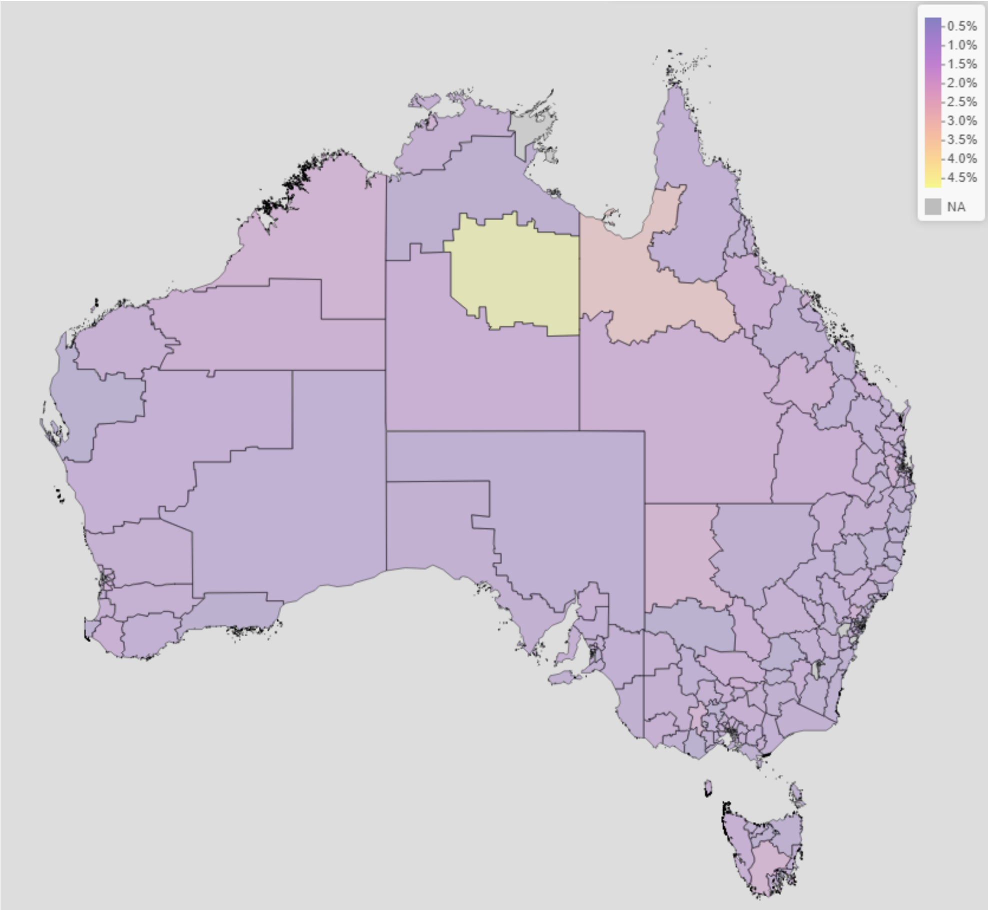
Thanks,
Adam

Notes:

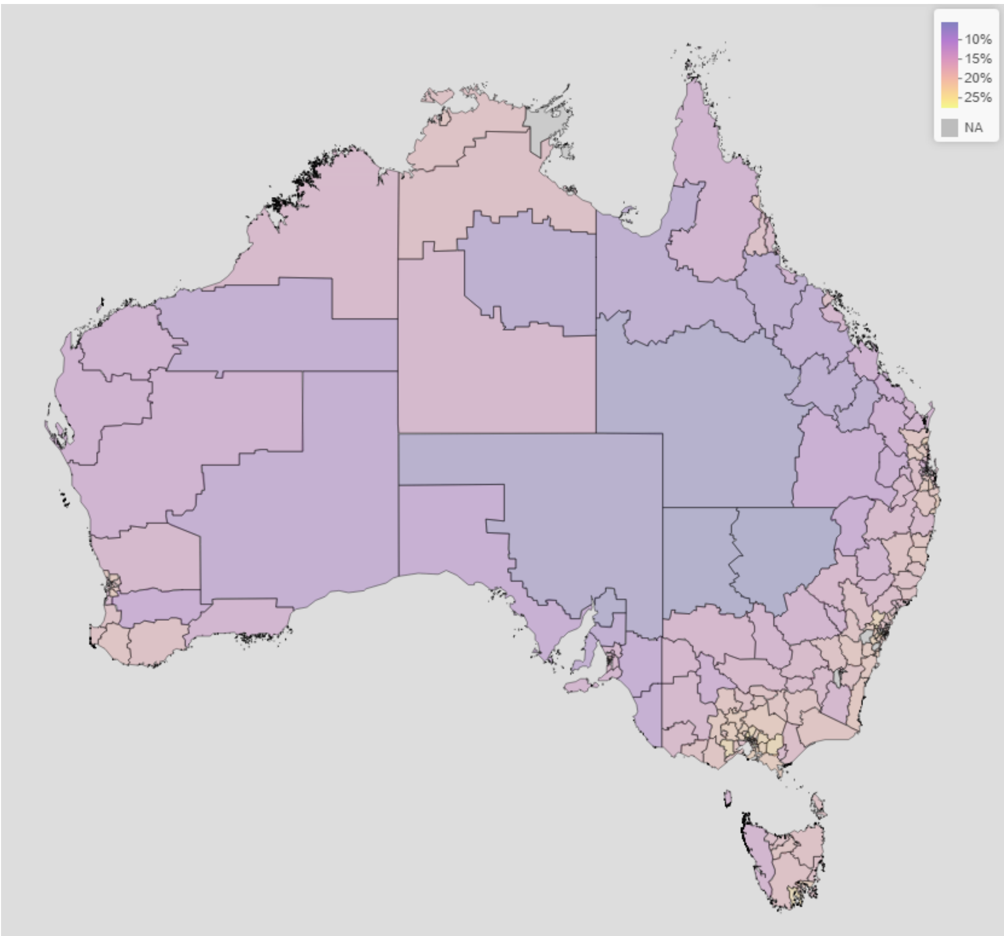
1. All by SA3 - other geographic breakdowns are available, but postcodes have too many missing values and larger areas lose resolution. We know from previous work that state-by-state differences are small.
2. These are for all loans (including both owner-occupier and investor borrowers)
3. Scale runs from blue (low values) to yellow (high values).
4. LSR measurements are hard to calculate exactly - we use *current* scheduled balances relative to *income at origination* grown forwards using WPI so there's some uncertainty introduced during the calculation.
5. High LSR is concentrated in East Coast cities. Shares increase materially when interacted with the lowest income quartile, and some rural area shares increase.
6. Arrears do not vary much by region, aside from high rates in Outback NT and QLD.

Arrears

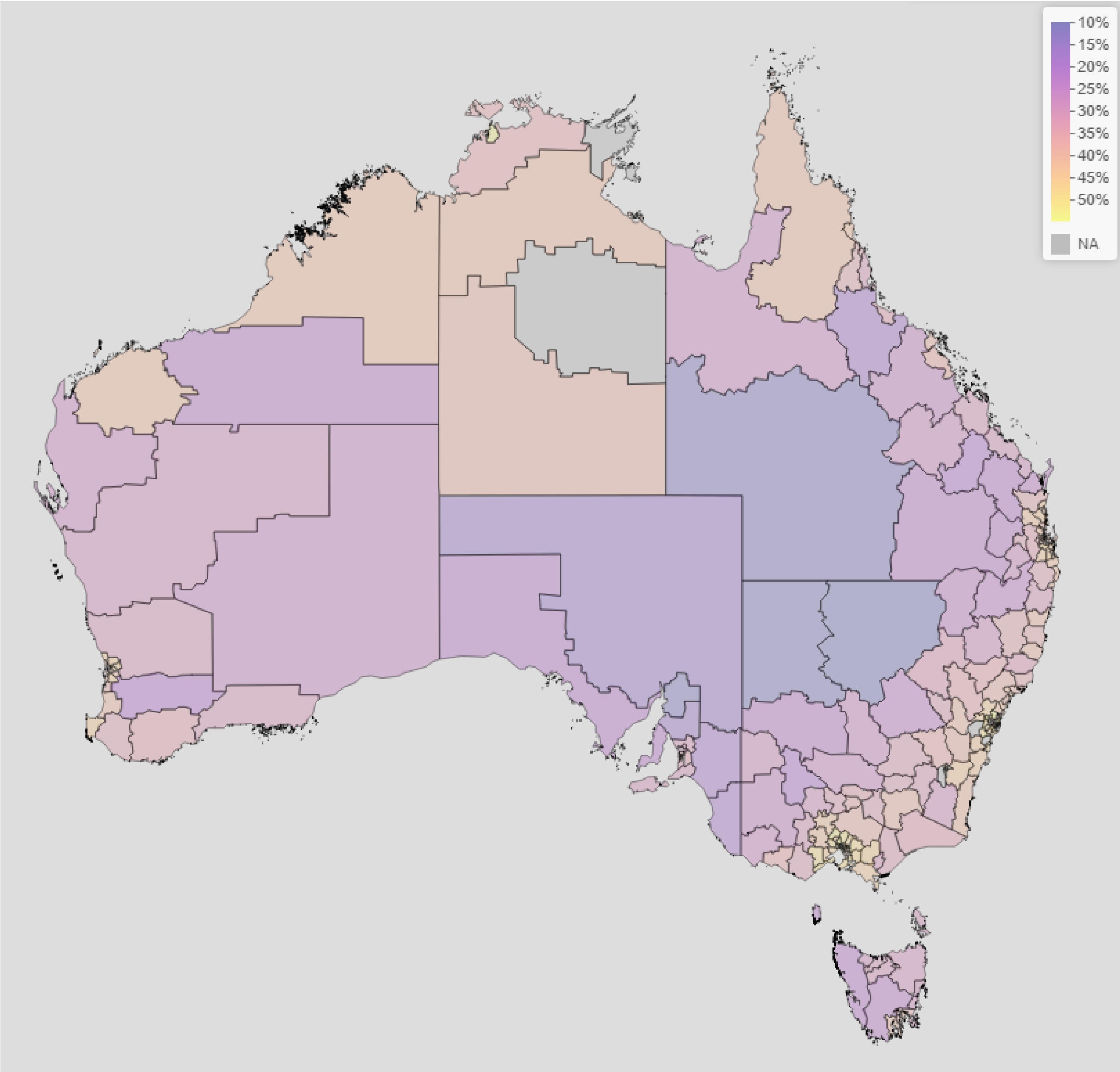
Arrears



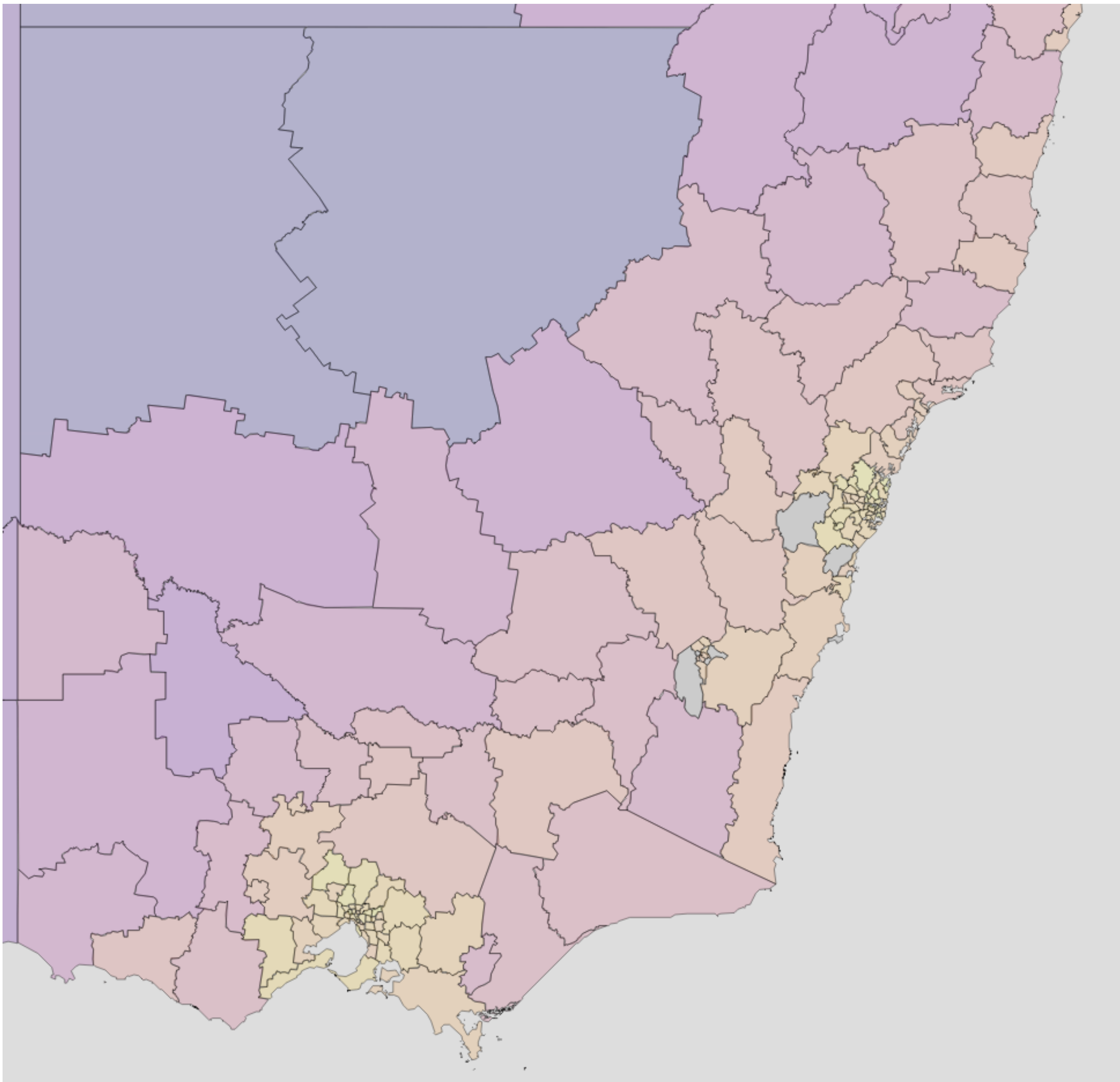
LSR > 30



LSR > 30 for the lowest income quartile (e.g. share of borrowers in the lowest income quartile who have an LSR greater than 30%).

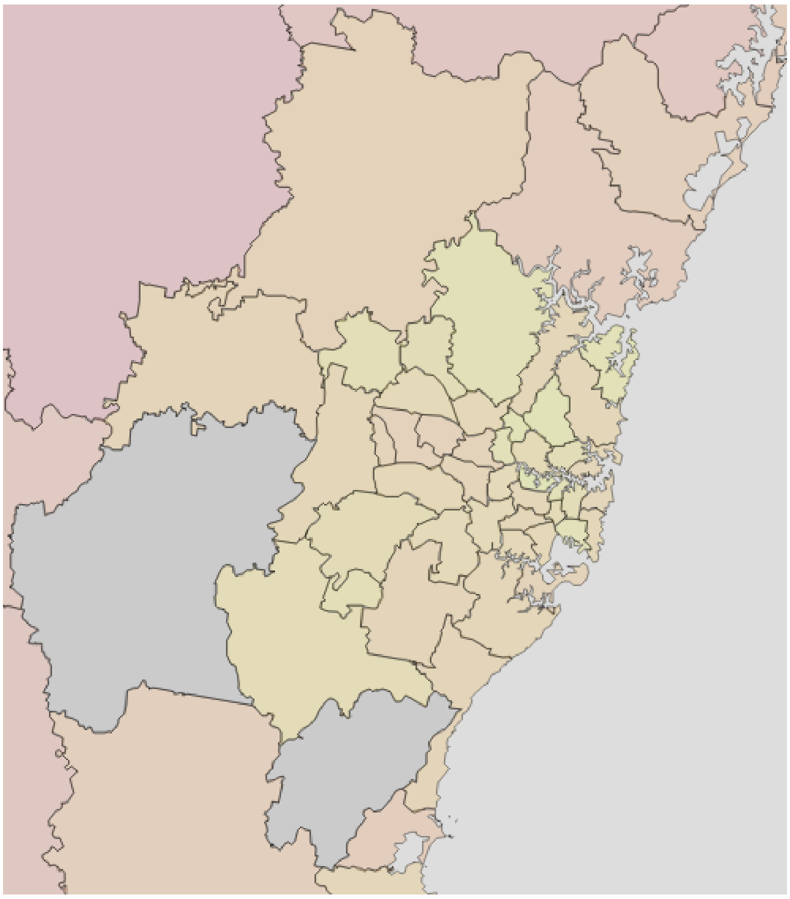


1. Rural areas are relatively high in WA and NT. But the highest shares are in suburban Sydney and Melbourne.

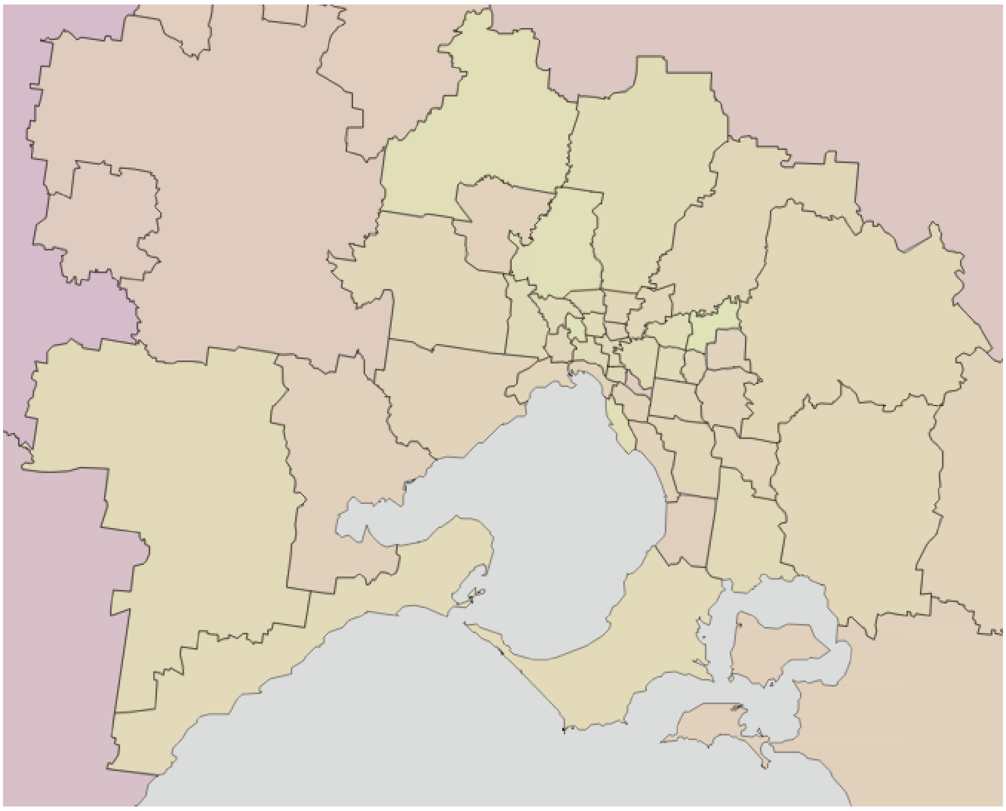


1. Other cities (Perth, Adelaide, Brisbane) have higher values than their state/national values.

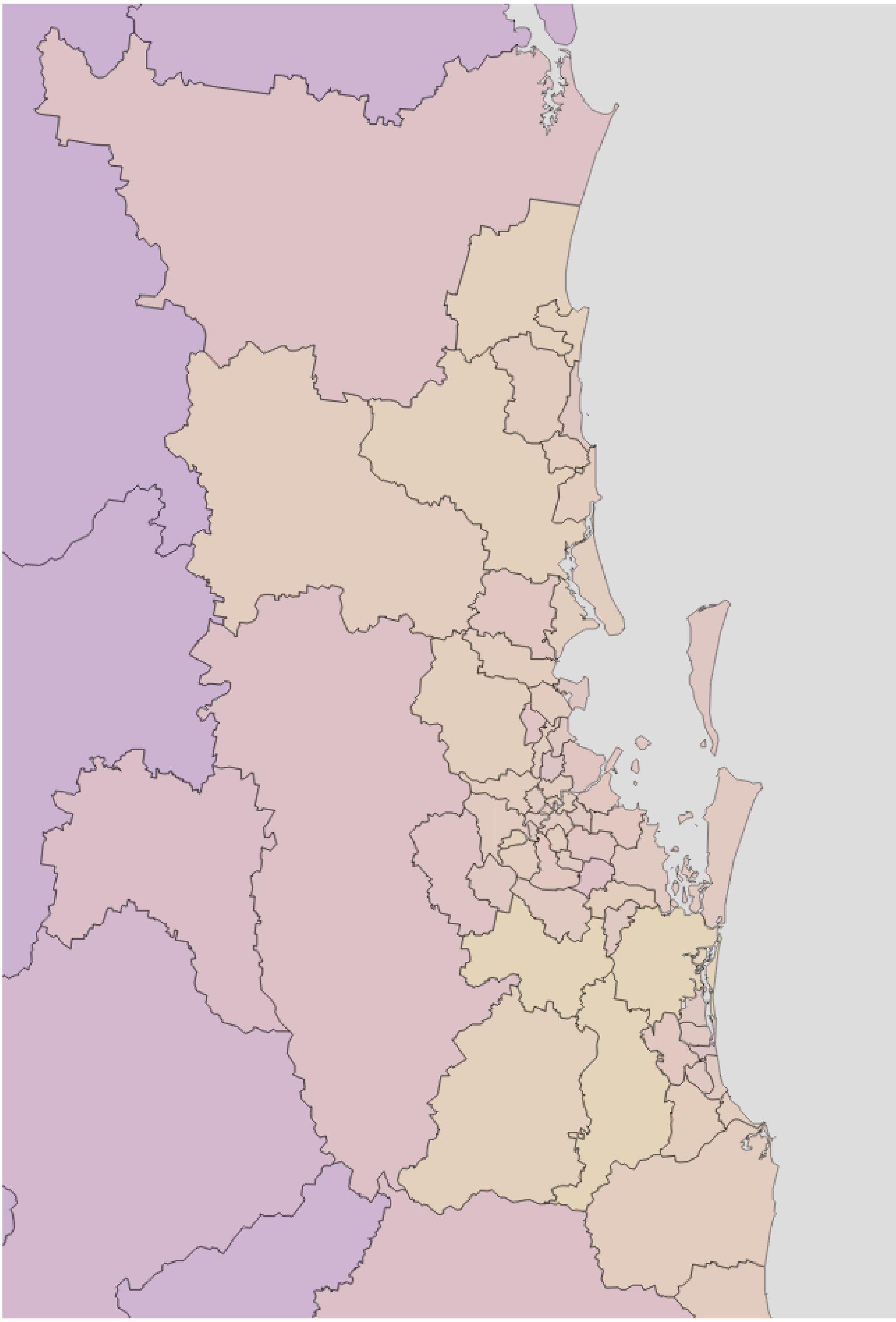
Sydney



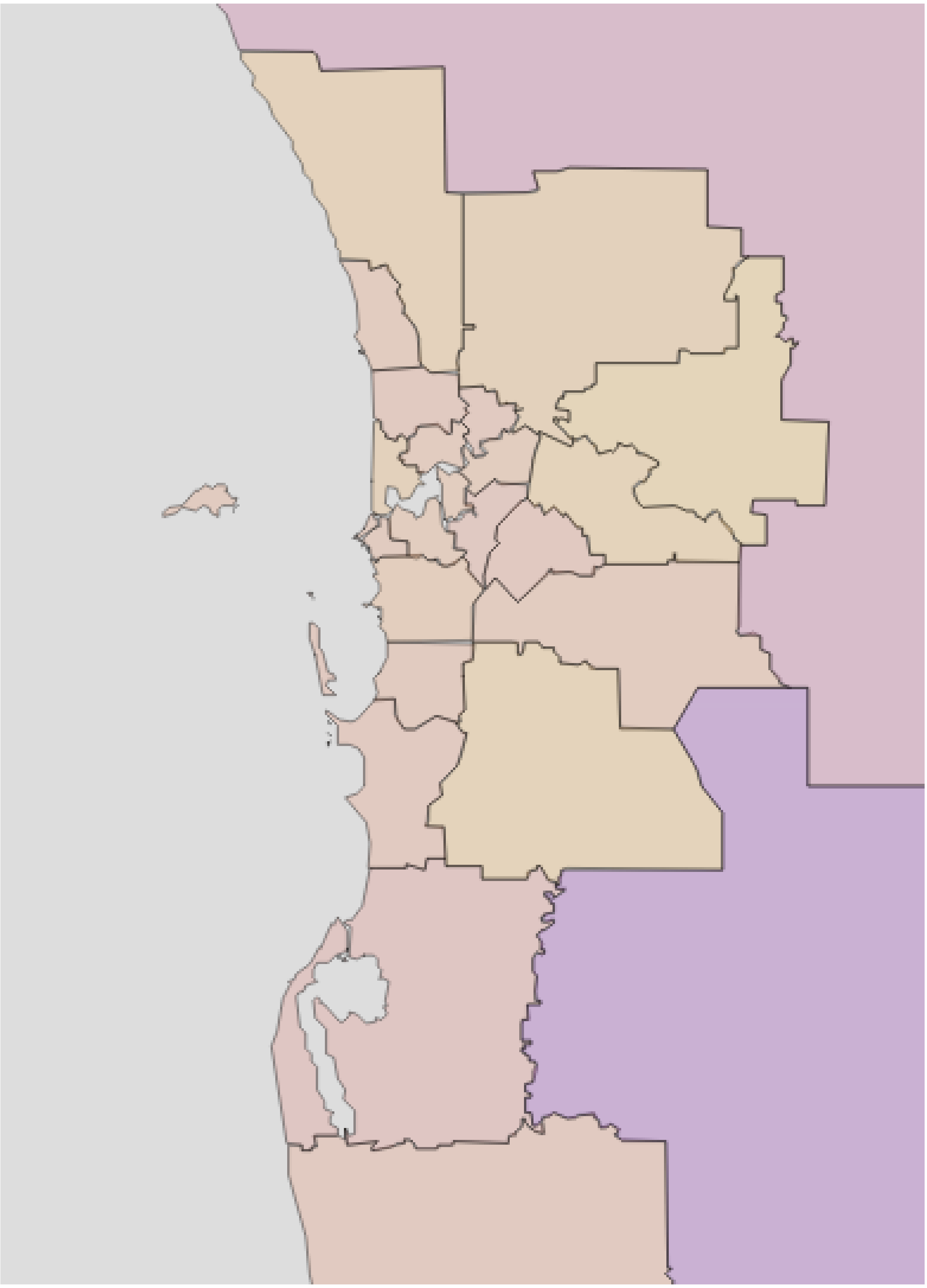
Melbourne



Brisbane



Perth



From:
Sent: Thursday, 29 June 2023 2:28 PM
To: LOWE, Phil
Cc: 8.50 attendees; BRISCHETTO, Andrea; CASSIDY, Natasha; FS - HBC Management
Subject: Geographic dispersion of arrears in Sydney [SEC=OFFICIAL]

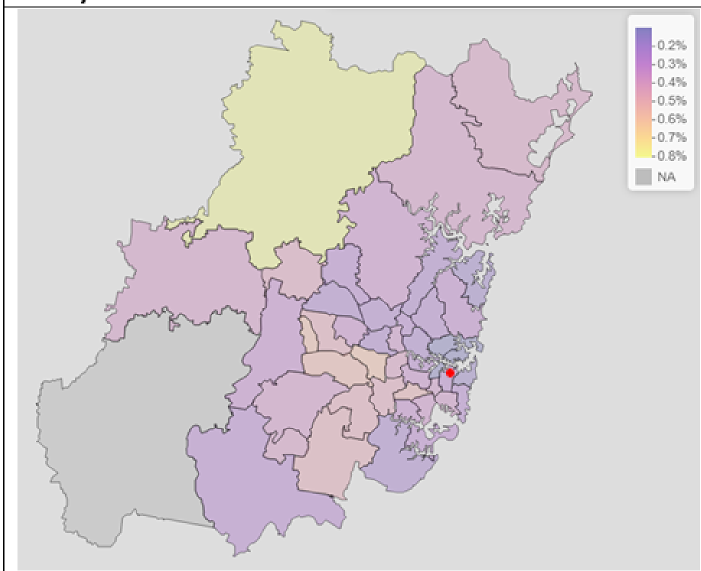
Phil,

As you requested at the 8:50 on Wednesday (following Natasha's presentation on the geographical dispersion of mortgage stress), choropleth maps of arrears rates in Sydney are below. We are planning to explore more work in this space (e.g. other metrics of stress).

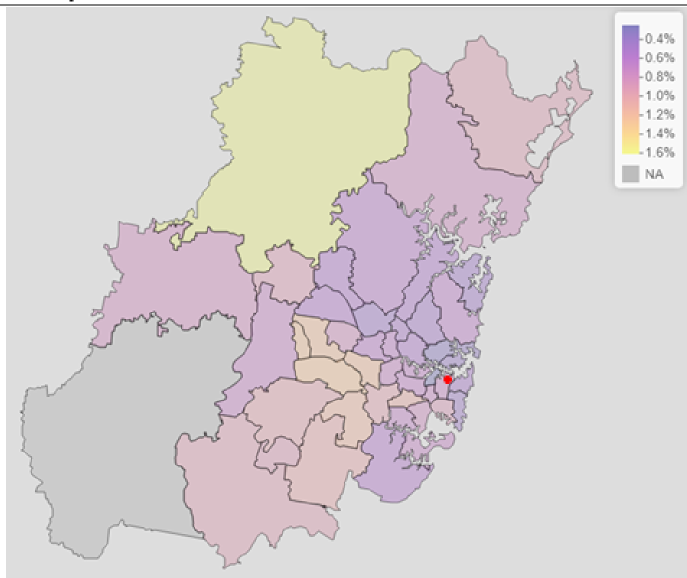
Key points:

- There is little material variation across Greater Sydney;
- South-western suburbs have slightly higher arrears rates than inner city area;
- The pattern does not change whether we consider 90 or 30 day arrears, only the level.

90 day arrears



30 day arrears



Many thanks,

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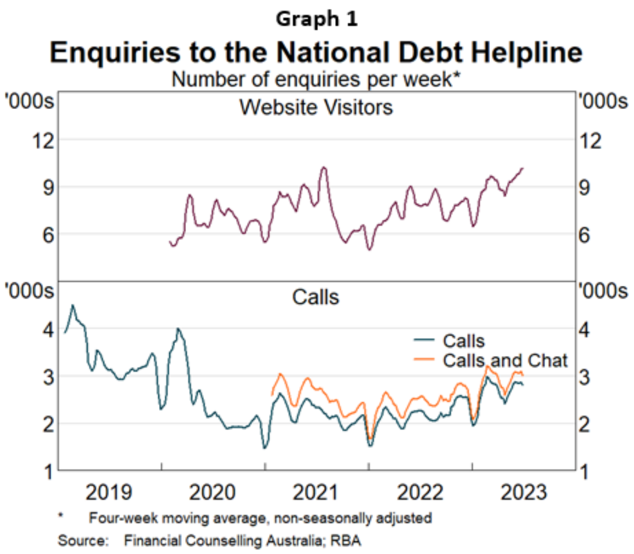
From:
Sent: Wednesday, 19 July 2023 2:00 PM
To: FS - Households Businesses and Credit
Cc: JONES, Bradley; CASSIDY, Natasha; BRISCHETTO, Andrea; LOPEZ, Claude
Subject: National Debt Helpline Update - June 2023 [SEC=OFFICIAL]

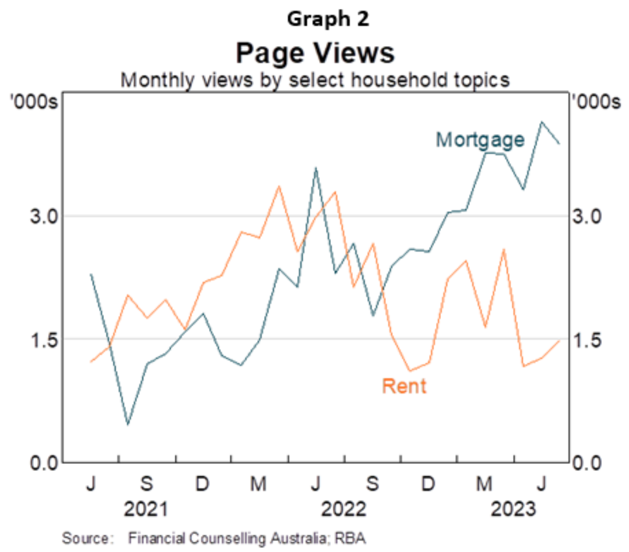
Note: Data collection issues resulted in page views from late December 2022 to early February 2023 being **double counted**. This drove a large, temporary spike in page views (see comparison chart below).

The National Debt Helpline (NDH) is a not-for-profit service that helps people tackle debt problems. Website, call and chat interactions with the NDH remained high in June, website views continued to climb while call and chat interactions moderated. Mortgage stress, rent and bills remain key concerns for NDH website visitors. A large revision has been made to the back history of website page views, driven by a data collection issue.

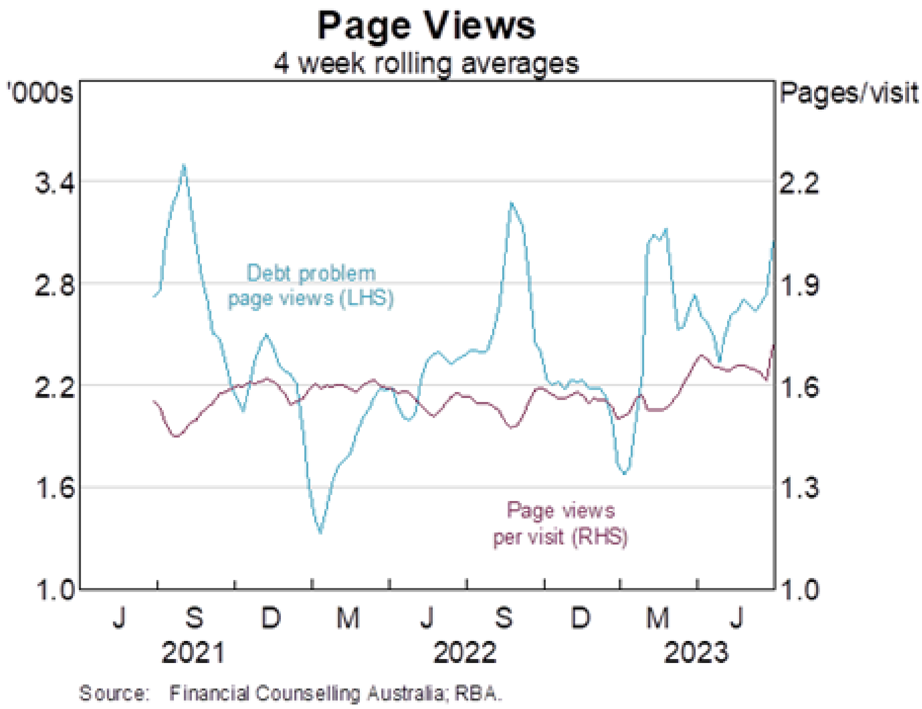
Key takeaways from the June data:

- Website visitors grew further in June. Call and chat volumes remained high but moderated below the previous February peak (Graph 1, four-week moving averages).
- Mortgage stress is driving monthly page views (Graph 2).
- Mortgage-related topics page views rose to a (short) series high in June after climbing steadily over 2023.
    - Among the top pages in June were two 'early release of super' pages (one 'due to severe financial hardship' and the other 'to pay mortgage arrears or rates'), and 'no interest loan scheme'.
        - Clicks on the super pages come specifically from search queries about accessing super early (either generally, or to service mortgages) rather than originating from general search queries about mortgage assistance.
    - Increased interaction with the NDH about mortgages is consistent recent small increases in hardship calls noted in banks' parliamentary testimony. Some banks noted that the pick-up in hardship calls is mostly driven by customers seeking to understand their options (rather than seeking forbearance now).
- Debt problem pages (and page views per visit) both ticked up sharply in June (Graph 3). A data collection issue led to double-counting of page views from late December 2022 to early February 2023. This drove a sharp, temporary spike in page views.
- Other website searches contributing to page views include rent, household expenses (bills) and personal debt (such as Centrelink).





Graph 3*



Note: The data are non-seasonally adjusted. There is reasonable evidence to suggest that NDH interactions are affected by seasonal factors, however, seasonal adjustments for these data are not reliable given the short series. Further, changes to the website's structure and changing consumer awareness of the NDH can affect website visits and calls and chat numbers, and the short history of the series means it is unclear how demand for NDH services translates to financial stability risks. HBC will continue to monitor NDH data.

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From:
Sent: Tuesday, 25 July 2023 4:58 PM
To: FS Analysts
Cc: JONES, Bradley
Subject: Read out: National Debt Helpline call [SEC=OFFICIAL]

Hi all

Yesterday afternoon Brad and I met with reps from the National Debt Helpline (covering NSW, VIC and WA). They shared their observations from calls received over the past year or so – many of which were harrowing at a personal level – and gave us insights into the process involved for those that are in formal hardship arrangements with their lenders. Some themes to emerge were as follows.

- **The NDH has observed a significant increase in hardship requests and call on resources provided by financial counsellors**. Many callers are referred to the NDH by their lender, where seeking advice from a financial counsellor is typically part of the hardship arrangement process. Some callers were reaching out prior to entering into a hardship arrangement with their lender – for instance to understand what options were available to them if they could no longer service their debts (a prospect that was looming large). But many callers were referred once their initial hardship arrangement with their lender was coming to an end and they were seeking an extension. Banks did not set a demanding bar for the first hardship arrangement (typically 3-6 months), but set a higher bar for granting a second carve-out (which included having a credible path back to full debt-servicing). Consistent with increased calls to the NDH, one representative noted that it can take 6-8 weeks for a client to get an appointment to see a financial counsellor (if at all). Demand for these resources is expected to increase over the coming period, particularly since seeing a financial counsellor is required by lenders for those in hardship arrangements and the full effects of higher interest rates and cost of living pressures were still filtering through. It was noted that even a modest increase in unemployment would impose a call on counselling services that could not be met with current resourcing budgets.

- **Calls regarding mortgage stress were more common than for rental stress, though in the current tight rental market, resolving housing stress was compounded by the lack of (affordable) rental stock.** In many cases, callers were noting that the cost of renting was at least as high as servicing a mortgage, and hence selling their home and moving into a rental property was not going to relieve housing cost stress for them. This was considered to be a dynamic that was different to previous monetary policy tightening cycles, and raised the prospect that some households could transition directly from home ownership to being homeless, without the usual interim step of renting in between. It was not uncommon for callers to report a 'roof ratio' (housing costs/disposable income) of 50-70 per cent.

- **The NDH is experiencing an increasing volume of calls from people who have not experienced financial hardship (or drawn on social services) previously**. Many callers were gainfully employed. Examples were given of mortgagees on six figure salaries residing in prosperous suburbs of Sydney. This new cohort of 'solid middle to upper income' callers was on top of the more familiar cohort at the lower end of the income distribution who had more often required (or been close to requiring) the help of financial counsellors and social services.

- **There is a long lag between people first experiencing financial stress, and showing up in official data on loan arrears.** For cultural and legal reasons, Australian borrowers place an extremely high premium (more so than elsewhere) on meeting the commitments they have with their mortgage lenders. They will typically avail of every option available to them – legal or otherwise – prior to selling their home or moving into foreclosure. The NDH reported a significant number of callers experiencing hardship who are accruing additional debts via credit cards, BNPL, borrowing from friends and family, and increasingly unpaid obligations to the ATO, their utilities providers and council rates (it was noted that some councils don't escalate on unpaid rates for up to 3 years, and some folks experiencing financial stress were aware of this). Additionally, underinsurance was becoming an increasing problem (borrowers did not have enough spare income to pay insurance premiums for their homes, cars or personal belongings), and some borrowers were asking about how they could qualify to tap into their superannuation balances (see early release of super). All of this meant that there was a long lag between households making significant adjustments to their personal finances as they become more stressed (especially if they had managed to 'roll over' a hardship arrangement for up to 12 months), and falling into arrears as reported in the official data. One takeaway from this discussion was that we need to be reviewing a wider range of 'leading edge' data to better understand how arrears and NPLs (and household consumption) could evolve in the period ahead.

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From:
Sent: Friday, 5 May 2023 10:41 AM
To:
Subject: RE: Bus and CP analytical priorities update [SEC=OFFICIAL]

My take on analytical priorities:

- **What is an appropriate threshold for mortgage stress?** Testing an appropriate LSR threshold that is predictive of mortgage arrears. Does this threshold vary with income, geography or other variables? Is LSR by itself a sufficient predictor of arrears or is interacting with other variables (such as the level of debt) matter?

- **Can prepayment patterns tell us anything about financial stress and/or potential consumption responses from higher interest rates?** Investigating characteristics of borrowers persistently withdrawing from their prepayments and whether persistent withdrawals are predictive of arrears.

From: BRISCHETTO, Andrea
Sent: Thursday, 1 June 2023 9:50 AM
To: FS - HBC Management
Cc: LOPEZ, Claude; CASSIDY, Natasha
Subject: Question from Senate Estimates [SEC=OFFICIAL]

Hi HBC
Please see below from Brad. We can discuss when we catch up later this morning.
Thanks,
Andrea

at Senate Estimates yest Dean Smith (Lib Senator for WA) asked us to identify what we know about mortgage stress along geographical lines, which we took to refer to SA3 breakdowns (not just state). The related discussion had been about stress being felt in the outer suburbs. We took the question on notice. Phil was asking about it this morning as well. So might want to put HBC on notice that we will have to look into this ahead of the Bank responding to all the questions on notice (there were quite a few yest, albeit this was the only one I could recall being FS-related). I think the Bank has until June 19 to respond to QoN.

Andrea Brischetto | Head of Financial Stability Department
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
w: www.rba.gov.au

SENATE ECONOMICS COMMITTEE
BUDGET ESTIMATES 2023-24
HEARING DATE 16 JUNE 2023

Questions in Writing

Senator DEAN SMITH:

Question 1:

Senator DEAN SMITH: Is the bank able to do an exercise, in the public interest, about the geographic disbursement of the mortgage pain that has been referenced in the Statement of monetary policy—a geographic exercise in terms of the retail experiences of lower income families et cetera? I know you said it was a national experience, but, in terms of where the mortgage pain is most pronounced, are you able to do an exercise at a high level to identify those geographic areas?

Mr Lowe: That data must exist somewhere between the bank regulators and the banks. The banks are very helpful in sharing their data with us, so we'll explore that and see what we can provide for you.

The Reserve Bank of Australia monitors a range of indicators of potential mortgage stress. Examples include whether borrowers are behind on their loan payments (in arrears) and borrowers with a high repayment burden (defined here as spending more than 30 per cent of their household income on mortgage payments while also having an income in the bottom quartile of mortgagor incomes). There is currently little material variation in the geographic incidence of these indicators of mortgage stress. However, household survey measures of financial stress and disaggregated spending data are also monitored; the latter has shown a bit more geographical variation in mortgage stress.

Borrowers who enter arrears on their loan are likely to have entered financial stress, especially if they have missed multiple loan payments (measured by being more than 90 days in arrears). Arrears rates do not vary much geographically and are similar across rural and urban areas (with a few exceptions; Tables 1-2).

Borrowers with a high repayment burden are not necessarily in financial stress but would be at risk of becoming stressed if they suffer unexpected shocks to their income or expenses. Lower income borrowers with a high repayment burden tend to be concentrated in regional areas (Figure 1, Tables 3-4), especially in southeast Victoria and in Tasmania. Analysis of card spending data by region showed that regions that had a greater share of mortgages with a high repayment burden had reduced spending by more than other regions.

This analysis underpinning the tables and figures uses the Bank's loan-level Securitisation dataset (covering around one-third of housing lending) and the shares are calculated on number of loans (not loan balances). Loan payments are calculated on *current* scheduled balance and are compared to *income at loan origination* grown forward by aggregate wages growth. Our analysis also does not consider other debts a borrower may have (including second mortgages).

Table 1: Share of borrowers in 90 day arrears by State or Territory

State or Territory	Share of borrowers in 90 day arrears
NSW	0.31%
VIC	0.37%
QLD	0.29%
SA	0.33%

State or Territory	Share of borrowers in 90 day arrears
WA	0.43%
TAS	0.29%
NT[1]	0.73%
ACT	0.21%

Table 2: SA3 regions with the highest share of borrowers in 90 day arrears[2]

SA3 Name	Share of borrowers in 90 day arrears
Barkly (NT)	2.8%
Outback – North (QLD)	1.7%
Central Highlands (TAS)	1.4%
Norfolk Island	1.3%
Kimberly (WA)	1.0%

SA3 Name	Share of borrowers in 90 day arrears
Darwin City (NT)	1.0%
Maryborough – Pyrenees (VIC)	1.0%
Moira (VIC)	1.0%
Litchfield (NT)	1.0%
Glenelg – Southern Grampians (VIC)	0.9%

Table 3: Share of borrowers with a high mortgage burden by State or Territory

State or Territory	Share of borrowers with a high mortgage burden
NSW	8.9%
VIC	11.6%
QLD	9.8%
SA	10.8%

State or Territory	Share of borrowers with a high mortgage burden
WA	11.2%
TAS	14.7%
NT	9.7%
ACT	8.8%

Table 4: SA3 regions with the highest share of borrowers with a high mortgage burden

SA3 Name	Share of borrowers with a high mortgage burden
Huon – Bruny Island (TAS)	19.2%
Maryborough – Pyrenees (VIC)	18.4%
Norfolk Island	18.4%
Brimbank (VIC)	17.9%
Brighton (TAS)	17.8%

SA3 Name	Share of borrowers with a high mortgage burden
Loddon – Elmore (VIC)	17.8%
Sorell – Dodges Ferry (TAS)	17.5%
Hobart – North West (TAS)	17.5%
Baw Baw (VIC)	16.9%
Bendigo (VIC)	16.8%

[1] The NT has a small sample size; around 14,000 loans out of 2.1 million loans nationally in the Securitisation data. Arrears rates for the NT need to treated with caution.

[2] SA3 is a statistical measure of geography designed to provide a regional breakdown of Australia. They generally have a population of between 30,000 and 130,000 people (ABS 2021).

Figure 1: Share of borrowers with a high mortgage burden by SA3

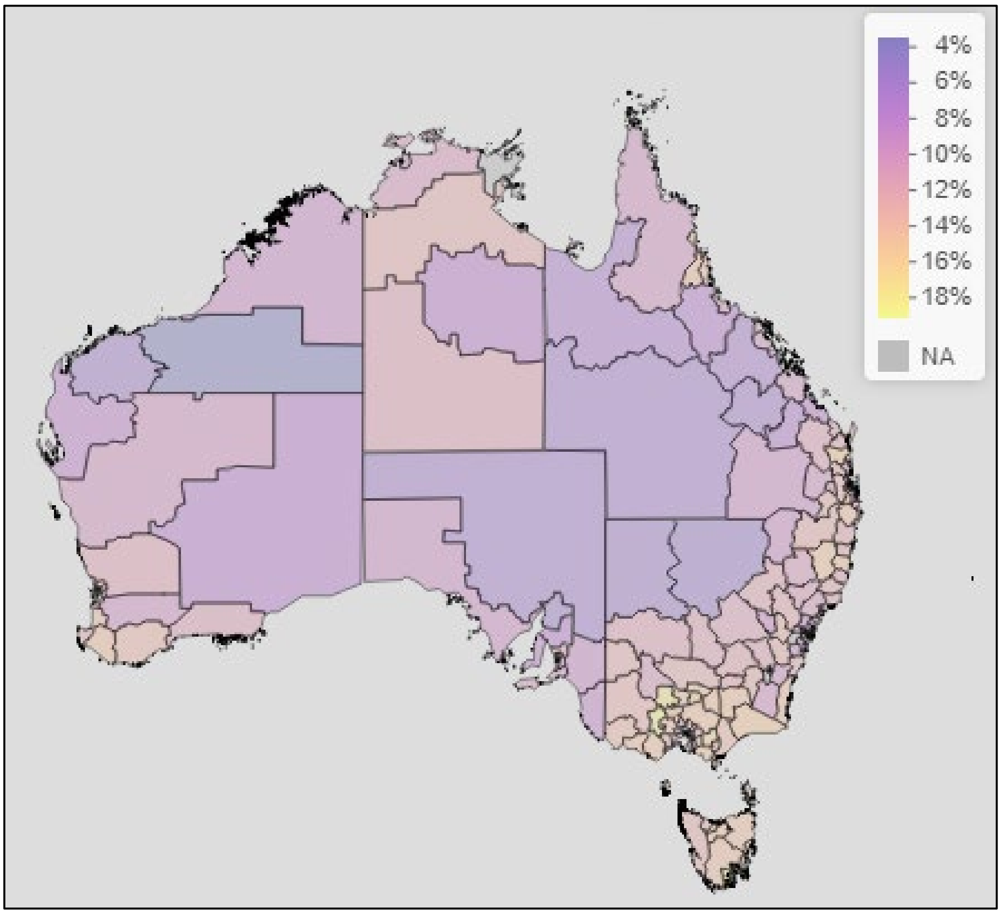
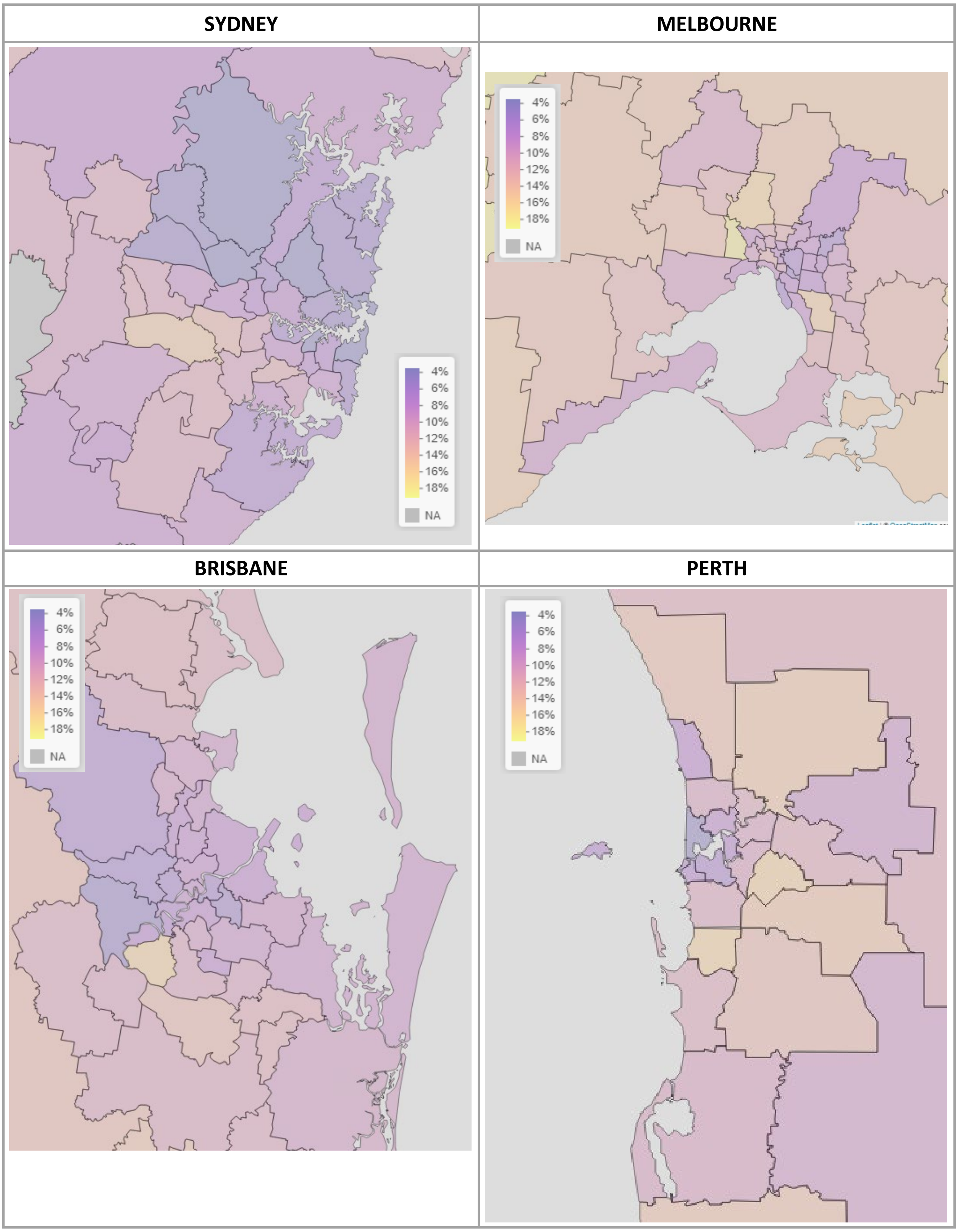


Figure 2: Share of borrowers with a high mortgage burden by SA3: major cities



From:
Sent: Wednesday, 21 June 2023 11:36 AM
To: ROSEWALL, Tom
Cc: EA - DAT - Management
Subject: RE: Senate Estimates - questions on notice [SEC=OFFICIAL]

Thank you Tom.

Yes that was our thinking too, Andrea will take some material on to the 850 tomorrow on the geographic distribution of mortgage stress.

From: ROSEWALL, Tom
Sent: Wednesday, 21 June 2023 11:29 AM
To:
Cc: EA - DAT - Management

Subject: RE: Senate Estimates - questions on notice [SEC=OFFICIAL]

Bringing in DAT, who I understand might be involved in contributing to this.

I thought HBC could contribute with observations on the geographic spread of mortgage issues, DAT to say something about spending.

Tom

From:
Sent: Wednesday, 21 June 2023 11:06 AM
To: ROSEWALL, Tom
Cc:
Subject: RE: Senate Estimates - questions on notice [SEC=OFFICIAL]

Hi Tom

HBC have received the following question on notice from the Senate estimates committee. I just wanted to check if you were aware of anything we have received from CBA that can help us answer the highlighted section?

Senator DEAN SMITH: Is the bank able to do an exercise, in the public interest, about the geographic disbursement of the mortgage pain that has been referenced in the Statement of monetary policy—a geographic exercise in terms of the retail experiences of lower income families et cetera? I know you said it was a national experience, but, in terms of where the mortgage pain is most pronounced, are you able to do an exercise at a high level to identify those geographic areas?

From: BRISCHETTO, Andrea
Sent: Tuesday, 20 June 2023 2:43 PM
To:
Cc: LOPEZ, Claude JONES, Bradley CASSIDY, Natasha
FS - HBC Management
Subject: FW: Senate Estimates - questions on notice [SEC=OFFICIAL]

The Questions on Notice have now come through as per below. SD has asked for our responses by 30 June.

- Can HBC please handle: D23/168952 - Senator Dean Smith – NI, FS

Tash will review before they go on to SD. (Brad and I will both be away next week, but please copy us in when you send on to SD.)

Thanks,
Andrea

From: NORMAN, David
Sent: Tuesday, 20 June 2023 1:53 PM
To:

Subject: Senate Estimates - questions on notice [SEC=OFFICIAL]

We have now received questions on notice from Senators, following the Governor's appearance last month.
has done an initial sort of these and there are documents below ready for departments to enter information.

Please can you provide responses by **COB Friday 30 June**? Please tell me if that is unreasonable – we do have more time, but I will have to pass on some of the finalisation work to others if it is later

The documents for each senator's questions are below (edit links). I have specified which departments need to engage with which documents.

D23/168952 - Senator Dean Smith – NI, FS

David Norman | (Acting) Deputy Secretary
RESERVE BANK OF AUSTRALIA | 65 Martin Place, Sydney NSW 2000
w: www.rba.gov.au

From:
Sent: Tuesday, 4 July 2023 4:21 PM
To: BRISCHETTO, Andrea; CASSIDY, Natasha; LOPEZ, Claude
Cc: FS - Households Businesses and Credit
Subject: HBC Risk Monitor (26 June - 4 July) [SEC=OFFICIAL]

Good afternoon,

Households

- The AFR reported on Roy Morgan data that suggested around 30 per cent of mortgage holders were 'at risk' of mortgage stress and does not change materially with +50bps to the cash rate
  - Roy Morgan defines a borrower 'at risk' of mortgage stress if 25 < LSR <45 per cent after-tax income. . In contrast, we use an LSR > 30 per cent of gross income as a guide and have work in the pipeline investigating its usefulness.
  - We don't have comparable numbers to hand but the closest analysis we have done from the April FSR estimated close to half of lower-income borrowers (bottom quartile mortgagor incomes) had an LSR > 30 per cent of gross income in January 2023.

From:
Sent: Friday, 7 July 2023 2:21 PM
To:
Cc:
Subject: RE: Note EA: Housing Markets Review - June 2023 [SEC=OFFICIAL]

From
Sent: Wednesday, 5 July 2023 2:17 PM
To:
Cc:
Subject: RE: Note EA: Housing Markets Review - June 2023 [SEC=OFFICIAL]

You raise a good point about the Pain and Gain report, but we don't appear to be seeing a picking up in distressed listings using REA data. My assumption is that distressed listings probably cover more extreme cases of mortgage stress, such as when a person is under administration, liquidation, receivership or bankrupt (those are the key words that are captured by the 'distressed listings' measure).

This data is web scrapped from house listings on and is a count of listings with those key words. We get this data directly from REA Group and don't think they can extend it further into the past. Let us know if you have any other questions!

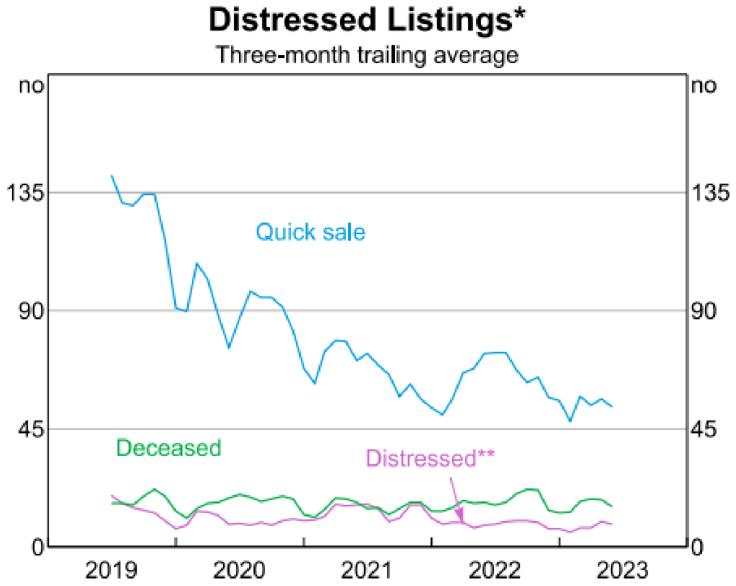
Cheers,

From:
Sent: Tuesdav. 4 Julv 2023 10:31 AM
To:
Cc:
Subject: RE: Note EA: Housing Markets Review - June 2023 [SEC=OFFICIAL]

I'm particularly interested in the references to distressed sales and the chart below. Recently there was some commentary in the press based on loss-making sales data in CoreLogic's "Pain and Gain" report. Coverage had suggested that the increase in loss-making sales in MQ23 (from low levels) suggests that more borrowers are experiencing mortgage stress than suggested by arrears and NPL data.

Just wondering if you had more information about distressed listings, and whether the chart below could be extended further into the past?

G 14: The number of distressed properties for sale has remained broadly unchanged over 2023.



* Number of listings on Realestate.com.au with these keywords; three-month trailing average. Listings can include multiple keywords.

** Includes similar keywords like receiver, under administration, liquidation and distressed.

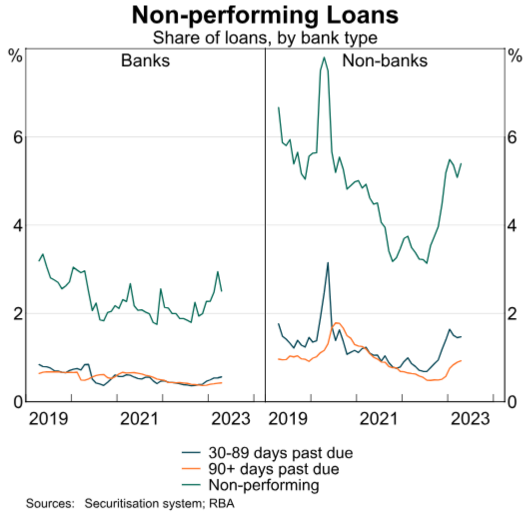
Sources: RBA; REA Group.

From:
Sent: Monday, 10 July 2023 4:58 PM
To: FS Analysts
Cc: JONES, Bradley
Subject: HBC Risk Monitor (5 July – 10 July 2023) [SEC=OFFICIAL]

Households

The Australian published two articles with analysis from Moody's which identified "early warning signs" of mortgage stress from RMBS arrears and warned that arrears will continue to rise, especially as fixed-rate borrowers roll off their low-rate mortgages.

- The article noted that according to RMBS numbers, the share of sub-prime/non-conforming/low-doc loans (these terms are used interchangeably in the articles and it is unclear exactly how they are related) that were in 30 days or more arrears had increased by more than prime mortgages.
  - There are some variables in the Sec data that AFS could use to have a look at this question in more detail, reach out if you would like more info. We would need more time to assess what the different definitions mean and whether they are useful (e.g. different institutions may apply them differently)
  - For an off-the-shelf answer we can look at non-banks NPLs (consistent with non-banks having a higher exposure to lower-quality loans). NPLs for non-banks have increased significantly relative to banks (see chart below). Non-bank lenders account for around 5 per cent of total financial system assets.
- It was also noted that Moody's expect Australian mortgage delinquency rates to continue to rise. The article flagged that fixed-rate expiries over the next 12 months would "compound risks".
  - The fixed-rate bulletin showed that fixed-rate borrowers have a similar distribution of savings buffers to other owner-occupier borrowers, and that many are well placed to handle higher interest rates.
  - Consistent with our *April 2023 FSR* assessment, Moody's is reported to expect the rise in delinquencies to be modest as lenders had cut back on risky lending and strong labour market supports borrower's incomes.


Non-performing Loans
Share of loans, by bank type
Banks
Non-banks
%
%
0
2
4
6
2019
2021
2023
30-89 days past due
90+ days past due
Non-performing
Sources: Securitisation system; RBA

Financial Stress

Banks expect consumption to slow further over 2023 as fixed-rate mortgages roll off and price pressures persist (particularly in energy and rental markets). CBA estimates that about 60 per cent of the increases in the cash rate has been passed through to mortgage rates, which will increase to 85 per cent by the end of 2023.[2] Younger customers (25-34) are cutting back on retail and travel spending. CBA noted that younger customers are more likely to rent and have been particularly exposed to recent large rent increases; renters are generally facing more stress than mortgagors.

Banks have seen **some signs of mortgage stress increasing, but from very low levels**.

- Credit risk indicators are at near record lows.
- CBA noted that, on average, stress indicators are tracking more benignly than expected a year ago.
- ANZ and Westpac noted they had seen a small increase in hardship calls in recent months. But many customers just want to understand their options, rather than seek forbearance now (Westpac has only seen an increase of around 700 customers on hardship arrangements).
- NAB noted that 90 per cent of customers who seek out early assistance resume home loan payments within 90 days.

2 In line with estimates in (2023).

- CBA's estimate of the share of borrowers with negative spare cash flow by the end of 2023 is much lower than the 15 per cent estimated by FS (see FSR modelling). CBA suggested this could reflect expenditure assumptions or the Securitisation sample (e.g. more non-bank lending in RMBS).[3]

Banks generally told the committee that **customers rolling off fixed-rates had been resilient**.

- Most ANZ fixed-rate customers have already converted to variable loans (as ANZ offered low fixed rates earlier than other majors). These customers typically passed serviceability assessments at rates of 5.25 to 5.5 per cent.
- Several banks noted that they engage customers well ahead of rolling off.
- Many fixed-rate customers also have a split loan, and therefore already have some exposure to higher variable rates.

Variable-rate borrowers are showing limited signs of financial stress to date, which banks attributed to a range of factors:

- Many customers built up sizeable buffers during Covid and are well ahead in their payments (older cohorts tend to be further ahead). Westpac said some borrowers are beginning to run down savings buffers.
- The unemployment rate remains very low (this is the single biggest risk factor for financial stress). Banks generally expect the labour market to remain resilient; labour demand remains strong despite some recent softening. Some borrowers have taken on more hours of work.
- Borrowers have cut back on discretionary spending.
- Most customers do not borrow to their maximum capacity.
- Some customers did not see a reduction in their scheduled payments during Covid when interest rates declined (e.g. ANZ held payments constant; customers had to contact the bank for a reduction).

Domestic Markets and Financial Stability Departments
17 July 2023

3 FS is aware of CBA's estimates which confirmed our assessment that our estimates made deliberately conservative assumptions and are likely an upper bound of borrowers in negative spare cash flows.