Box C

A Closer Look at Housing Loan Arrears

Data on securitised housing loans and liaison with lenders indicate that housing loan arrears rates have recently risen in all the mainland states, especially in Queensland (Graph C1). Some of the deterioration in Queensland reflects the temporary effect of recent natural disasters. But the arrears rate there had already begun to rise before the floods occurred, consistent with Queensland's softer property market and above-average unemployment rate.

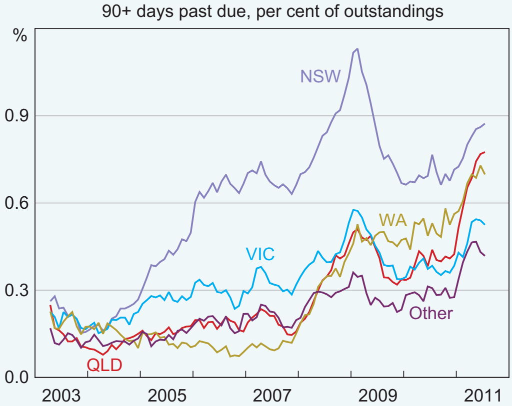
Data on the performance of loans by age cohort and state show that arrears rates are highest amongst loans originated towards the end of periods of strong housing price growth and weaker lending standards. For New South Wales, the worst-performing loans are those originated in 2004 and 2005, while for Queensland and Western Australia, loans originated between 2006 and 2008 have tended to perform worst (Graph C2). Many of these loans, particularly those in Queensland and Western Australia, were originated towards the end of periods of rapid housing price growth, which were followed by falls in prices. With prices no longer rising, borrowers from these periods cannot sell their property as easily if they get into payment difficulty, particularly if they are already in negative equity. This may help explain the recent increase in the longer-duration (180+ days) securitised mortgage arrears rate.

Strong housing price growth in earlier periods may have contributed to a weakening in lending standards, if perceived risk was reduced by expectations of further price growth. These periods tend to be associated with an increase in market share for non-traditional lenders or smaller lenders, and an expansion of riskier products such as low-doc housing loans. In western Sydney between 2004 and 2006, the expansion of mortgage broking allowed newer lenders to compete for market share (see p 47 of the September 2008 *Financial Stability Review* for a discussion of this episode). Many of the loans from this period are still performing relatively

Graph C1

Securitised Housing Loan Arrears by State*

90+ days past due, per cent of outstandings



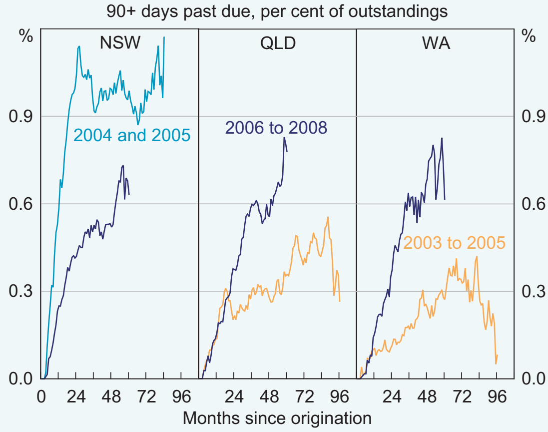
* Prime loans securitised by all lenders; excludes self-securitisations

Sources: Perpetual; RBA

Graph C2

Securitised Housing Loan Arrears by Cohort*

90+ days past due, per cent of outstandings

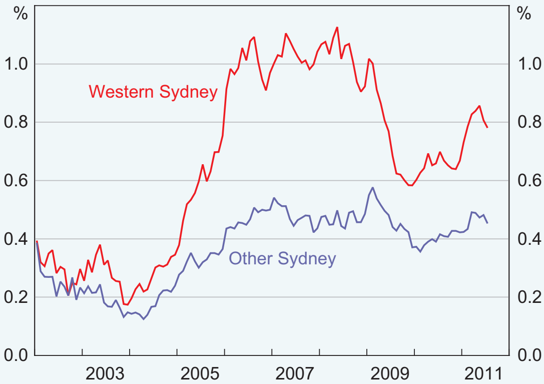


* Prime loans securitised by all lenders; includes self-securitisations

Sources: Perpetual; RBA

poorly, despite now having largely aged beyond the normal peak arrears time of three to five years (Graph C3).

Graph C3
Securitised Housing Loan Arrears by Region*
90+ days past due, per cent of outstandings

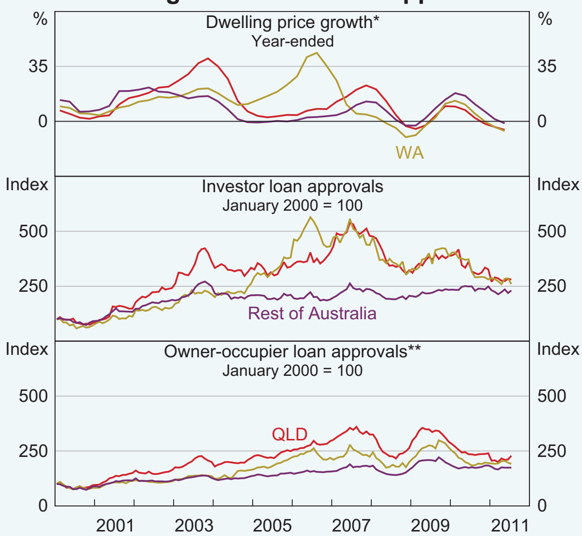


* Prime loans securitised by all lenders; includes self-securitisations
Sources: Perpetual; RBA

During the periods of strong housing price growth in Queensland and Western Australia, investor activity increased significantly more than owner-occupier activity (Graph C4). Between 2000 and 2007, the value of investor loan approvals grew around fivefold in these two states, whereas owner-occupier approvals increased around threefold. Recent softness in housing prices has been associated with sharper falls in investor approvals relative to owner-occupier approvals. This procyclicality in lending may have amplified cyclical movements in prices, raising arrears rates in aggregate.

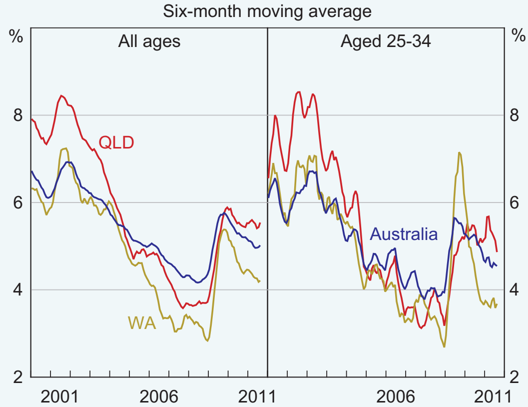
Labour market conditions have also contributed to the recent increase in arrears rates in Queensland and Western Australia. Unemployment increased more sharply in Western Australia in 2009 than in the rest of Australia, particularly for younger households, which are less likely to have accumulated as much savings or equity in their homes relative to other households (Graph C5). Although unemployment there has since fallen, some households may have been unable to make up any missed mortgage payments, even if they are now able to make their current monthly payments, and they therefore may remain in arrears. Unemployment in Queensland has been more persistent than in the rest of Australia, suggesting that some households in this state have faced more

Graph C4
Dwelling Prices and Loan Approvals



* Capital cities only; 'Rest of Australia' excludes units in Darwin, Canberra and Hobart, and houses in Hobart prior to 2003
** Excludes refinancing
Sources: ABS; APM; RBA

Graph C5
Unemployment Rates
Six-month moving average



Source: ABS

prolonged income pressures than national average data imply.

Despite the increase over the first half of 2011, the overall mortgage arrears rate in Australia is still low by international standards, and the bulk of housing loans in arrears are well collateralised. Moreover, as discussed in the 'Household and Business Balance Sheets' chapter, there are a number of reasons why mortgage arrears are unlikely to rise as much as they have in some other countries. Not least is the more favourable macroeconomic environment in Australia.