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'Mortgage stress' already a danger for one-in-five mortgage holders as 'loan holidays' set to end

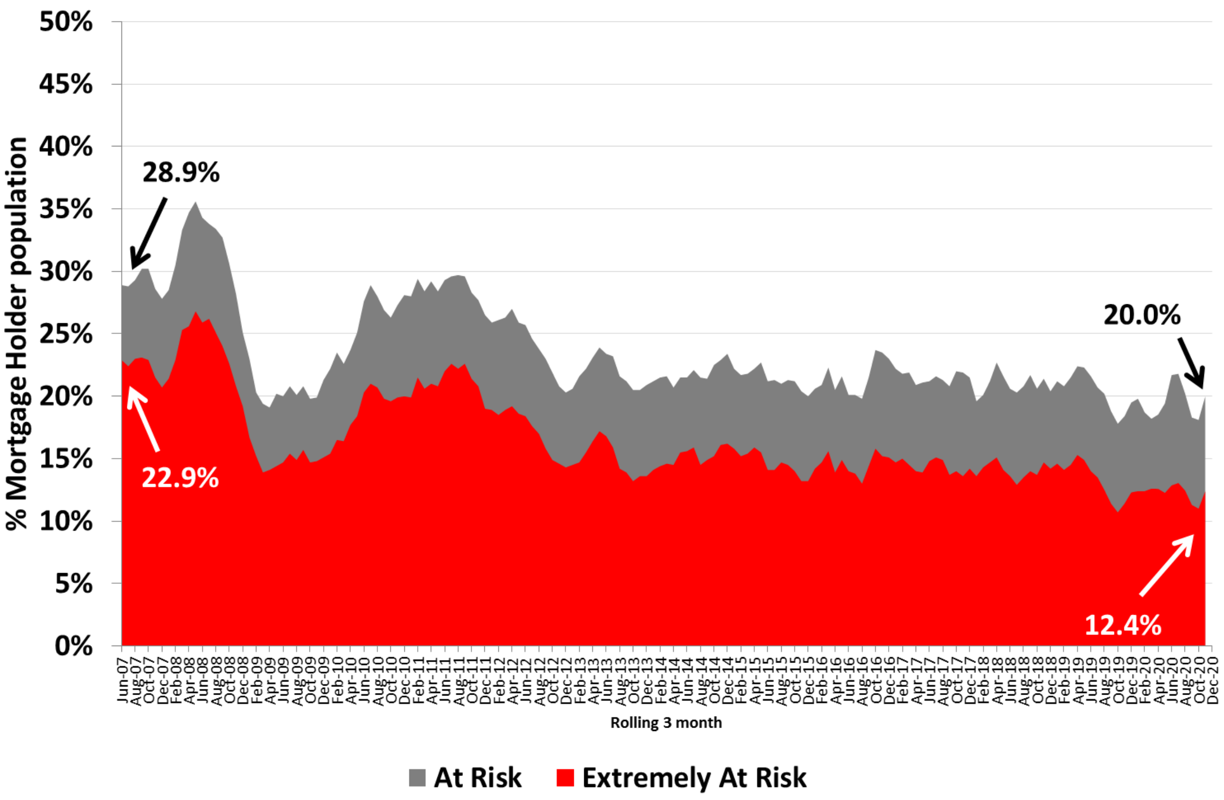
New research from Roy Morgan shows an estimated 783,000 mortgage holders (20.0%) were at risk of 'mortgage stress' in the three months to November 2020. This period encompassed the end of Victoria's long second lockdown but the last few months have taught us that border closures and short sharp lockdowns appear to be with us for some time to come.

This is unchanged on a year earlier in late 2019 although up from the record lows in the middle of last year when only 668,000 mortgage holders were considered 'At Risk' between July – September 2020. The low rate of 'At Risk' mortgages during 2020 came during the period of maximum support provided to the economy by the Federal Government as well as measures taken by banks and financial institutions to support borrowers by giving borrowers in financial distress mortgage 'holidays'.

As we head into 2021 the financial support provided by Governments, banks and financial institutions is being progressively withdrawn with mortgage holidays ending and wage subsidy programs such as JobKeeper set to finish by the end of next month.

The withdrawal of this support gives increased importance to tracking the level of mortgage stress during 2021 as it can provide an early indicator of potential financial problems approaching in the near future.

Mortgage Stress – Owner-Occupied Mortgage-Holders



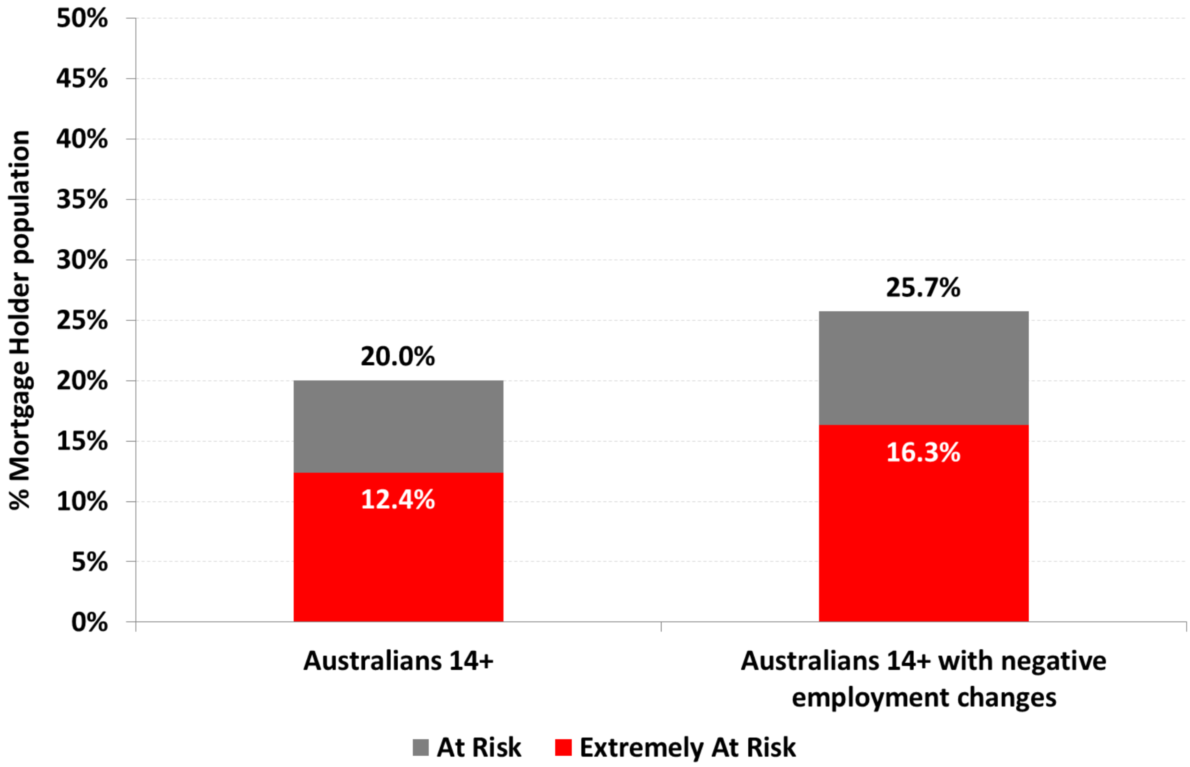
Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – November 2020, n=2,673.
Base: Australians 14+ with owner occupied home loan.

Importantly, Roy Morgan has tracked the impact of COVID-19 on the employment situations of Australians. In May 2020, 11.2 million working Australians (72%) reported a change to their employment circumstances because of COVID-19, and in November 2020 there were still 10.2 million reporting their employment situation had changed – see more detail here.

Many of these employment changes are negative and include having *'work hours reduced', 'not having any work offered', 'have been stood down for a period of time', 'business has slowed or stopped completely', 'had pay reduced for the same number of work hours'* or being *'made redundant'.*

For Australians with negative employment changes due to COVID-19 mortgage stress is significantly higher with over a quarter, 25.7%, now in 'mortgage stress' – over 5% points higher than for all mortgage holders. In addition, nearly one-in-six, 16.8%, are 'extremely at risk'.

Mortgage Risk for those with negative employment changes due to COVID-19



Source: Roy Morgan Single Source (Australia), Sep.-Nov. 2020, n=1,934. **Base**: Australians 14+ with owner occupied home loan.

How are mortgage holders considered 'At Risk' or 'Extremely At Risk' determined?

Roy Morgan considers the risk of 'mortgage stress' among Mortgage holders in two ways:

Mortgage holders are considered 'At Risk'[1] if their mortgage repayments are greater than a certain percentage of household income – depending on income and spending.

Mortgage holders are considered 'Extremely at Risk'[2] if even the 'interest only' is over a certain proportion of household income.

1-in-5 mortgage holders were 'At Risk' in November, just up from the record lows of mid-2020

In the three months to November 2020, 20.0% of mortgage holders were 'At Risk' (783,000) which is unchanged on a year earlier but up from the 668,000 reported in the three months to September 2020.

[1] "At Risk" is based on those paying more than a certain proportion of their after-tax household income (25% to 45% depending on income and spending) into their home loan, based on the appropriate Standard Variable Rate reported by the RBA and the amount they initially borrowed.
[2] "Extremely at Risk" is also based on those paying more than a certain proportion of their after-tax household income into their home loan, based on the Standard Variable Rate set by the RBA and the amount now outstanding on their home loan.

FOR IMMEDIATE RELEASE

Of those 'At Risk' more than half, 454,000 or 12.4% of all mortgage holders, were considered 'Extremely at Risk'. Although still low compared to levels of the last few years this is up from the record low of 384,000 reported in the three months to October 2020.

These are the latest findings from Roy Morgan's Single Source Survey, based on in-depth interviews conducted with 50,000 Australians each year including over 10,000 owner-occupied mortgage-holders.

Michele Levine, Chief Executive Roy Morgan, says levels of mortgage stress in Australia plunged during 2020 but the winding back of support from the Federal Government and banking and financial institutions this year is a test for the property sector:

> *"The latest Roy Morgan data into the Australian housing market shows mortgage stress continued to track near record lows in the three months to November 2020. There were 783,000 mortgage holders considered 'At Risk', unchanged on a year earlier and 454,000 considered 'Extremely At Risk' – down on late 2019, and well below the level at the start of the COVID-19 pandemic (559,000).*
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> *"However, as we head into 2021, the significant support provided by the Federal Government as well as banking and financial institutions, is gradually being wound back. Both the JobKeeper wage subsidy and JobSeeker COVID-19 supplement are due to expire at the end of March and 'loan holidays' provided to mortgage holders in financial stress are also being progressively ended.*
>
> *"According to the Australian Prudential Regulation Authority (APRA), banks have deferred payments on housing loans valued at $43 billion at the end of December 2020. This is down significantly from the value of deferred loans in August 2020 of $160 billion and represents 2.4% of all housing loans.*
>
> *"APRA figures show that those holding loans with a loan-to-value ratio above 90% were significantly more likely to take up a repayment deferral. These loans make up 6% of all housing loans, but 10% of deferred loans.*
>
> *"Because of the extensive Government support and deferred payments on housing loans provided by banks and other financial institutions the impact of COVID-19 is yet to be fully felt, but the trend emerging in Roy Morgan data from September to November warns us there will be significant pressures emerging when the support ends.*
>
> *"A special survey by Roy Morgan into the employment impact of COVID-19 showed 11.2 million working Australians (72%) in May 2020 had experienced a change to their employment due to the pandemic, and in November 2020 there were still 10.2 million working Australians reporting a change. Most of these were negative changes such as having 'work hours reduced', 'being stood down for a period of time', 'not having any work offered' or being 'made redundant' – or a combination of the above.*
>
> *"Many years of research into mortgage stress has shown that the biggest driver of increased mortgage stress is the reduction in income caused by the loss of a job which causes an immediate jump into a 'risk' category. Over two-in-three mortgages rely on more than one income and our analysis shows losing even the lower of these two incomes causes an immediate four-fold increase in the likelihood of those mortgage holders becoming 'At Risk' or 'Extremely at Risk'.*
>
> *"The ending of the JobKeeper wage subsidy later next month will put added pressure on up to 1.5 million jobs that were relying on the payment in the December quarter 2020 according to the Australian Treasury. That is a huge pool of employees who potentially face a substantial drop in income over the next few months that is set to lead to an increase in mortgage holders falling into an at risk category."*

To understand more about mortgages in the full context of household finances and the uncertainties caused by the COVID-19 coronavirus, ask Roy Morgan.

To learn more about Roy Morgan's mortgage data, call (+61) (3) 9224 5309 or email askroymorgan@roymorgan.com.

Please click on this link to the Roy Morgan Online Store.

About Roy Morgan

Roy Morgan is Australia's largest independent Australian research company, with offices in each state, as well as in the U.S. and U.K. A full-service research organisation, Roy Morgan has over 75 years' experience collecting objective, independent information on consumers.

Margin of Error

The margin of error to be allowed for in any estimate depends mainly on the number of interviews on which it is based. Margin of error gives indications of the likely range within which estimates would be 95% likely to fall, expressed as the number of percentage points above or below the actual estimate. Allowance for design effects (such as stratification and weighting) should be made as appropriate.

Sample Size	**Percentage Estimate**			
	40%-60%	25% or 75%	10% or 90%	5% or 95%
5,000	±1.4	±1.2	±0.8	±0.6
20,000	±0.7	±0.6	±0.4	±0.3
50,000	±0.4	±0.4	±0.3	±0.2