

Tuesday, 25 October 2022

‘Mortgage stress’ continues to grow as the RBA raises interest rates to their highest since August 2013

New research from Roy Morgan shows an estimated 948,000 mortgage holders (21.1%) were ‘At Risk’ of ‘mortgage stress’ in the three months to September 2022. This period encompassed three straight interest rate increases of 0.5% from the RBA taking official interest rates to a seven year high of 2.35% in early September.

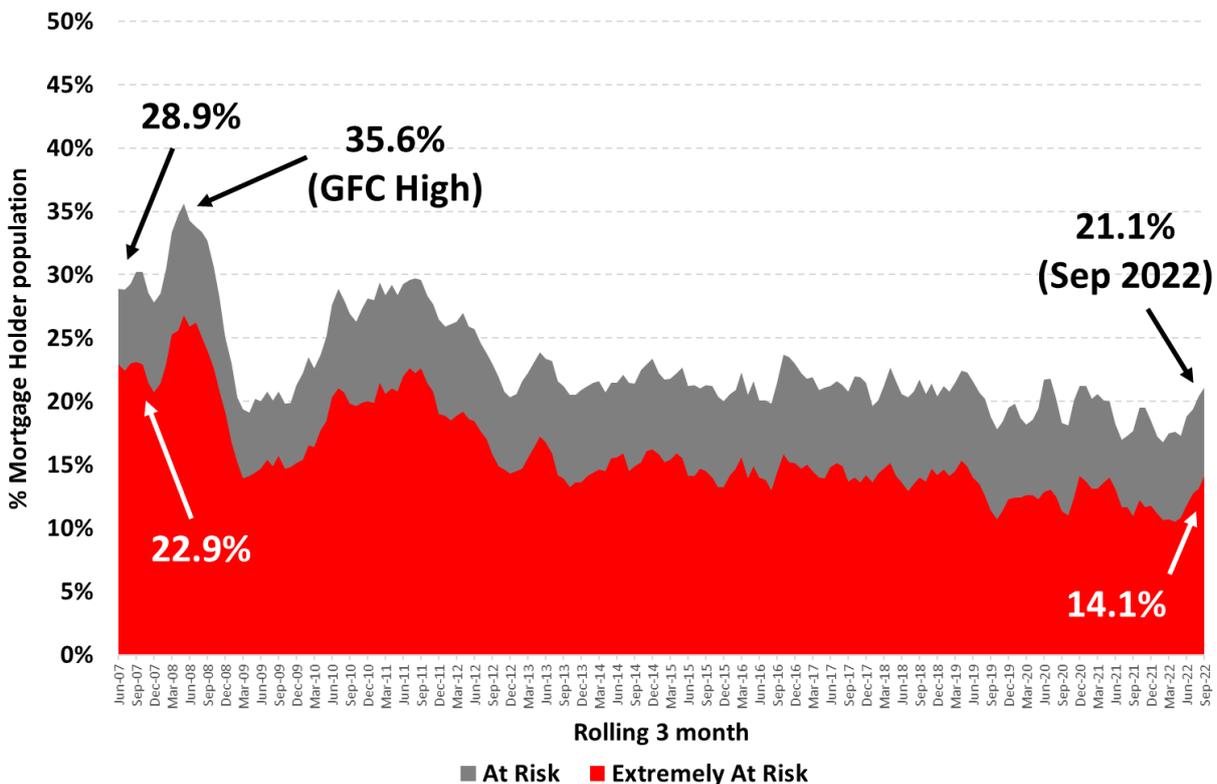
Since then there has been another interest rate increase of +0.25% in October which has taken official interest rates to 2.6% - the highest official interest rates for over nine years since August 2013.

Despite these interest rate increases the proportion of mortgage holders considered ‘At Risk’ of mortgage stress in the three months to September 2022 (21.1%) is well below the high reached during the Global Financial Crisis in early 2009 of 35.6% (1,455,000 mortgage holders). The number of mortgage holders now considered ‘At Risk’ is also below the long-term average over the last 15 years of 22.7% of mortgage holders (980,000) considered ‘At Risk’.

‘[Mortgage stress](#)’ dropped to record lows during 2021 as record low interest rates, tens of billions of dollars of Government stimulus, and the measures taken by banks and financial institutions to support borrowers in financial distress combined to reduce the number of mortgage holders considered ‘At Risk’.

The number of mortgage holders considered ‘Extremely At Risk’, has now increased to 611,000 (14.1%) in the three months to September 2022 which remains clearly below the long-term average over the last 15 years of 655,000 (15.7%) since October 2007.

Mortgage Stress – Owner-Occupied Mortgage-Holders



Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – September 2022, n=2,703.
 Base: Australians 14+ with owner occupied home loan.

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Mortgage Risk set to increase to over 1-in-4 mortgage holders (26.2%) by December

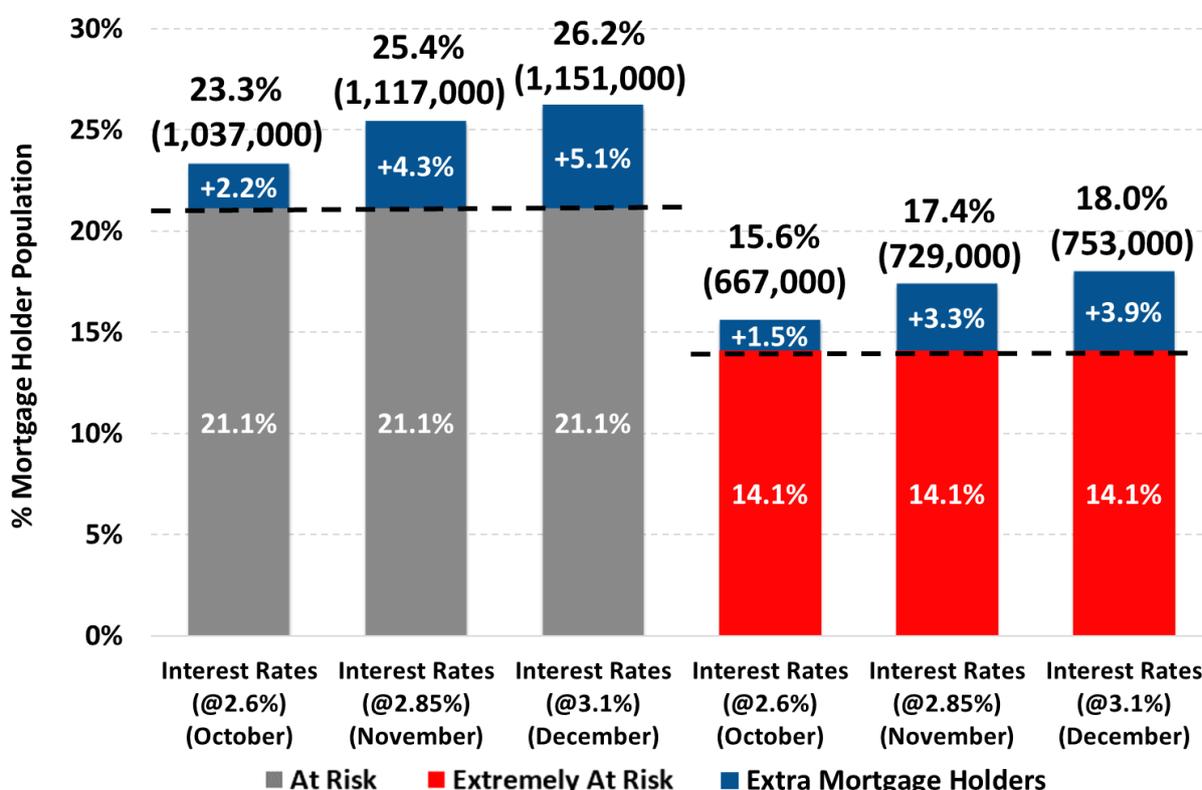
The RBA decision to increase interest rates by 0.25% in October means official interest rates are now at 2.6% - and set to move higher still over the next few months, although at a slower pace than earlier this year.

Roy Morgan has modelled the impact of the interest rate increase in October (+0.25%) on mortgage holders as well as potential interest rate increases of 0.25% during each of the next two months.

The RBA's October interest rate increase means a projected 23.3% of mortgage holders, 1,037,000, would now be classified as 'At Risk' – an increase of 89,000 on the original figure of 948,000 (21.1%). The projected figure for October would be the first time in over four years, since September 2018, that over 1 million mortgage holders would be classified as 'At Risk'.

If the RBA increases interest rates by 0.25% in each of the next two months that would increase official interest rates to 3.1% by the end of the year. These increases would mean 26.2% of mortgage holders, 1,151,000, would then be classified as 'At Risk' – an increase of 203,000 on September 2022. This would be the most mortgage holders classified as 'At Risk' for over a decade since April 2012.

Mortgage Risk at different level of interest rate increases



Source: Roy Morgan Single Source (Australia), July-Sept. 2022, n=3,541. 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 "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.

Michele Levine, CEO Roy Morgan, says mortgage stress continues to rise in Australia although the level of mortgage holders considered 'At Risk' in September 2022 was still below the long-term average over the last 15 years:

"The latest Roy Morgan data into the Australian housing market shows mortgage stress has continued to increase this year with 948,000 mortgage holders (21.1%) now defined as 'At Risk' in September 2022, up 272,000 on a year ago, during a period of extensive lockdowns in NSW and Victoria.

"The figures for September take into account the first five interest rate increases by the RBA from May to September totaling 2.25%. If the most recent interest rate increase in October of +0.25% is considered the estimated number of mortgage holders considered 'At Risk' increases by a further 89,000 to 1,037,000 (23.3%) – the highest for over nine years since July 2013.

"Even so, with just over one-in-five mortgage holders considered 'At Risk' in September 2022 (21.1%), the level of mortgage stress is still below the long-term average over the last 15 years of 22.7% of mortgage holders considered 'At Risk' since October 2007.

"Looking forward, and despite a smaller than expected increase to interest rates in October, RBA Governor Philip Lowe has indicated there will be further interest rate increases to come. Modelling by Roy Morgan shows that with two additional interest rate increases of +0.25% in both November and December the number of mortgage holders considered 'At Risk' would rise by 203,000 to 1.15 million (26.2%) – the highest since for over a decade since April 2012.

"Of more concern is the rise in those mortgage holders considered 'Extremely At Risk', now estimated at 611,000 (14.1%) in September 2022 – the highest since May 2019, before anyone had even heard of the 'Coronavirus' or 'COVID-19'.

"It's important to consider that interest rates are but one variable that determines whether a mortgage holder is considered 'At Risk'. The variable that has the largest impact on whether a borrower falls into the 'At Risk' category is related to household income – which is directly related to employment.

"These figures show that as long as employment levels remain strong the number of mortgage holders considered 'At Risk' will not increase to anywhere near the levels experienced during the Global Financial Crisis in 2007-08-09 when well over 30% of mortgage holders were considered 'At Risk' – including a peak of 35.6% in May 2008.

"The latest [Roy Morgan employment estimates show a record 13.7 million Australians were employed in September 2022](#), up by more than 800,000 since February 2020 when there were 12.9 million employed pre-pandemic. The strong growth in the jobs market has attracted more Australians into the labour force and there are now 1.2 million unemployed Australians (8.1% of the workforce) compared to 1.17 million pre-pandemic."

These are the latest findings from Roy Morgan's Single Source Survey, based on in-depth interviews conducted with over 60,000 Australians each year including over 10,000 owner-occupied mortgage-holders.

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 80 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

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