Article No. 8544
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ROY MORGAN

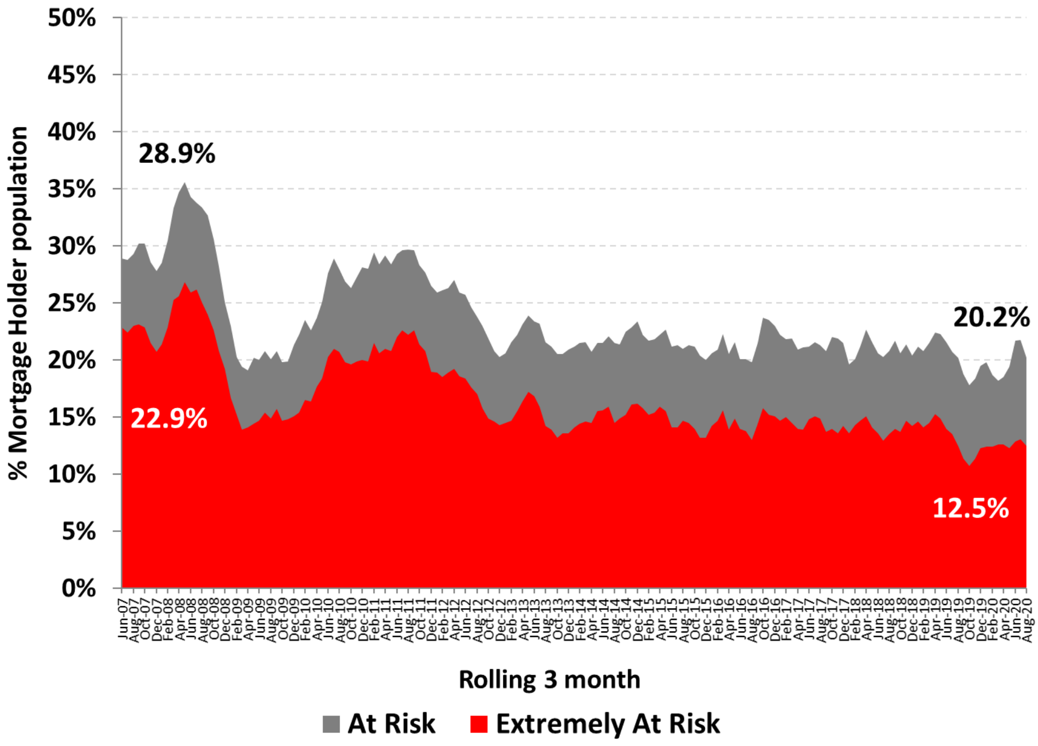
Monday, 19 October 2020

‘Mortgage stress’ is near record lows during the COVID-19 pandemic as payments are put on hold

New research from Roy Morgan shows an estimated 751,000 mortgage holders (20.2%) were at risk of ‘mortgage stress’ in the three months to August 2020 as Australia navigated its way through the COVID - 19 pandemic. was living in a ‘COVID-normal’ situation although Victoria entered a Stage 4 lockdown.

This is near the record lows of a year ago when only 723,000 mortgage holders were considered ‘At Risk’ in the three months to October 2019. However, the significant support provided to the economy by the Federal Government as well as measures taken by banks and financial institutions to support borrowers over the last six months is not going to last forever.

Mortgage Stress – Owner-Occupied Mortgage-Holders



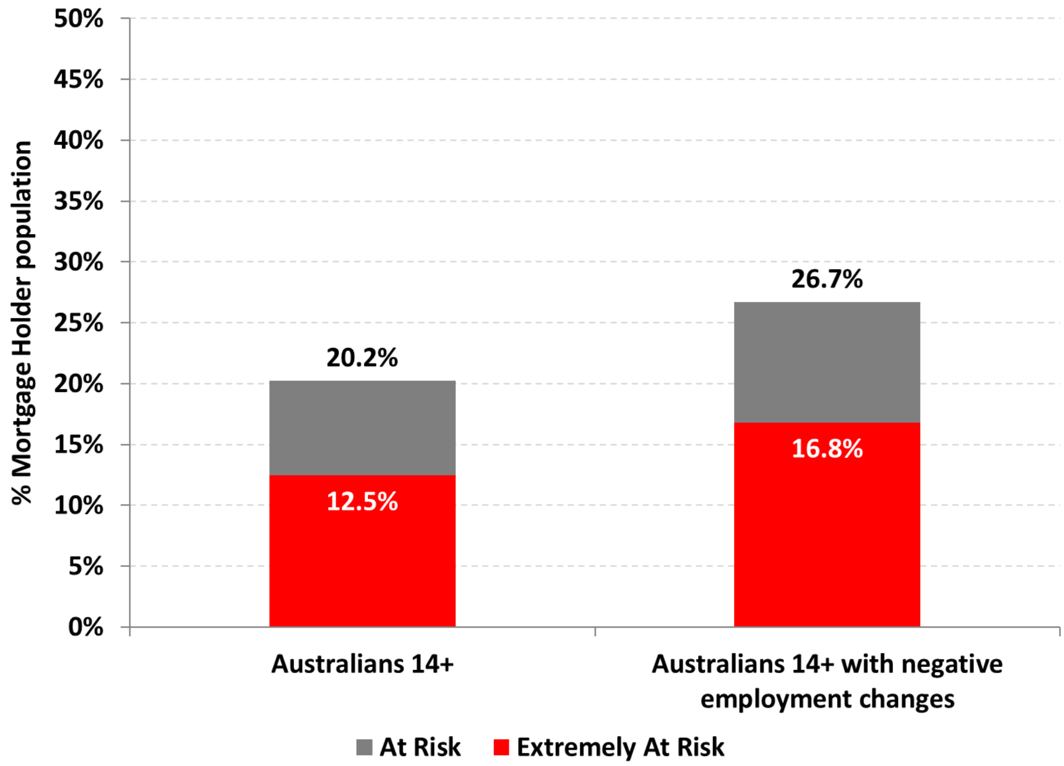
Source: Roy Morgan Single Source (Australia), average interviews per 3 month period April 2007 – August 2020, n=2,687.
Base: Australians 14+ with owner occupied home loan.

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 July 2020 there were still 10.4 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, 26.7%, now in 'mortgage stress' – over 6% points higher than for all mortgage holders. In addition, over 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), June – August 2020, n=1,929. **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.

Over 1-in-5 mortgage holders were 'At Risk' in August, near the record lows of late 2019

In the three months to August 2020, 20.2% of mortgage holders were 'At Risk' (751,000) which is near the record low of 723,000 reported a year ago in the three months to October 2019.

Of those 'At Risk' more than half, 433,000 or 12.5% of all mortgage holders, were considered 'Extremely at Risk' - also near the record low of 425,000 reported a year ago in the three months to October 2019.

The low level of mortgage holders 'At Risk' and 'Extremely At Risk' of mortgage stress during this period is due to the substantial support provided to the Australian economy by the Federal Government as well as the significant financial support provided by banks and financial institutions.

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.

[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

Michele Levine, Chief Executive Roy Morgan, says COVID-19 has provided an unprecedented shock to the Australian economy during 2020, however the support provided by the Federal Government and banking and financial institutions has prevented, or at least put off, a potential real estate crisis:

> *"The latest Roy Morgan data into the Australian housing market shows mortgage stress was near record lows in the three months to August 2020 as most of Australia, apart from Victoria, was emerging from nation-wide lockdowns implemented through March-May 2020.*
>
> *"There were 751,000 mortgage holders considered 'At Risk' in August 2020, one of the lowest figures on record and only 433,000 considered 'Extremely At Risk' – also near a record low.*
>
> *"However, these figures are somewhat deceptive as they rely on an unprecedented level of support provided to the economy. The Federal Government has subsidised workers with the $1,500 a fortnight JobKeeper wage subsidy, the almost doubled JobSeeker payment of over $1,100, and allowed businesses to trade while insolvent this year to keep people employed.*
>
> *"In addition, according to the Australian Prudential Regulation Authority (APRA), banks have deferred payments on housing loans valued at around $160 billion – an average of 9.6% of Australia's mortgage market through the end of July 2020. 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 5% of all housing loans, but 9% of deferred loans, and are for borrowers more likely to fall into an 'At Risk' category if they were to become unemployed or fall upon hard times.*
>
> *"Because of these measures the impact of COVID-19 is yet to be fully felt, but we already know 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 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.*
>
> *"Over the many years of our research into mortgage stress, the data shows clearly The loss of a job is the biggest driver of increased mortgage stress as the reduction in income 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 quadrupling of those mortgage holders considered 'At Risk' or 'Extremely at Risk'.*
>
> *"JobKeeper has already been reduced in early October 2020 and is set to end entirely by April 21 while the mortgage deferrals offered by banks to customers in financial distress are set to run out at the same time. One of the biggest tasks for banks during the present period is to determine which customers will be able to return to paying their mortgage in the period ahead and which customers will not have that capacity when the deferrals end early next year."*

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