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Thursday, 28 September 2017

## It's official: Mortgage stress up despite decline in rates

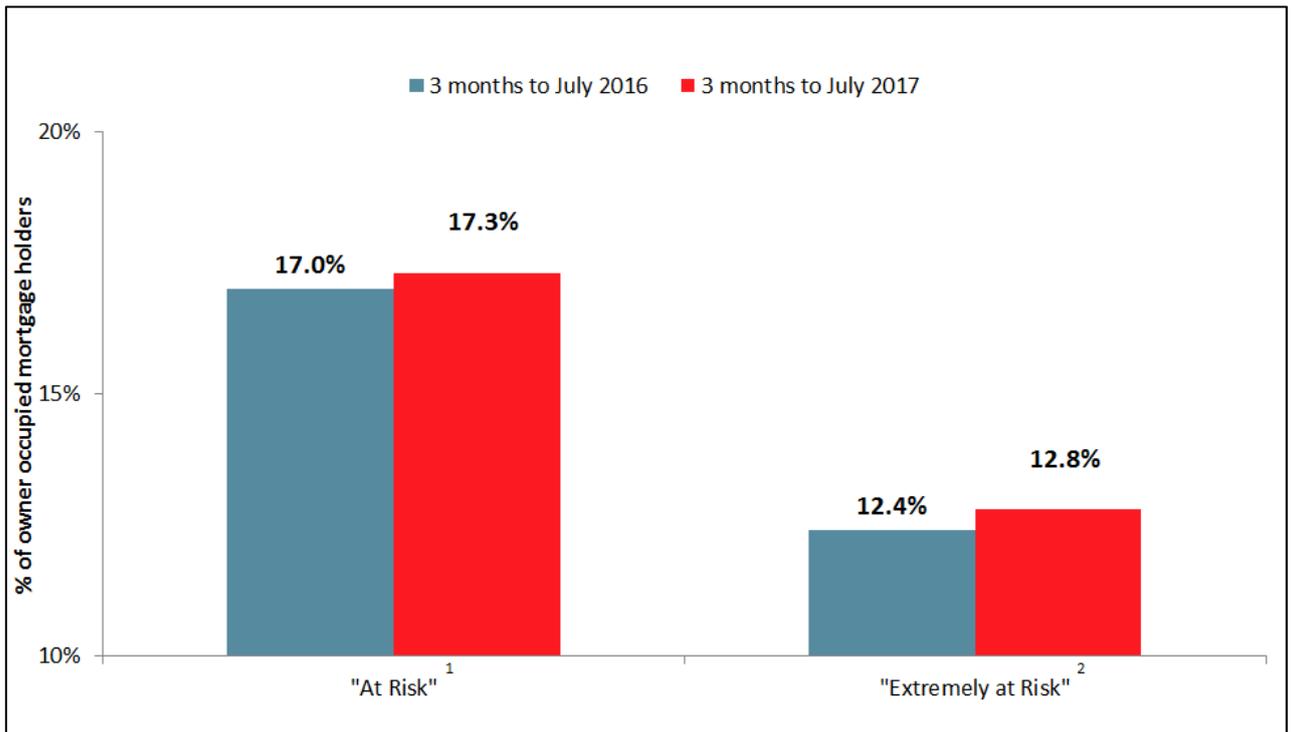
New research from Roy Morgan shows that mortgage stress has increased to 17.3% of borrowers in July, an increase of 0.3% points over the last 12 months, despite a decline in loan rates. Home loan rates were based on the standard variable rate from the RBA which in the three months ended July 2017 averaged 5.25%, down from 5.40% for the same period in 2016.

These are the latest findings from Roy Morgan's Single Source Survey (Australia) of over 50,000 consumers per annum, which includes interviews with over 10,000 owner occupied mortgage holders.

### Increase in 'At Risk' and 'Extremely at Risk' mortgage holders

Over the last 12 months there has been an increase in mortgage stress for both those considered to be 'At Risk' (which is based on the amount originally borrowed) and those 'Extremely at Risk' (based on the amount currently outstanding). In the three months to July 2016, 17.0% of mortgage holders were 'At Risk', this has increased to 17.3% in July 2017. Over the same period the proportion that were 'Extremely at Risk' also increased from 12.4% to 12.8%.

### Mortgage Stress - Owner Occupied Mortgage Holders



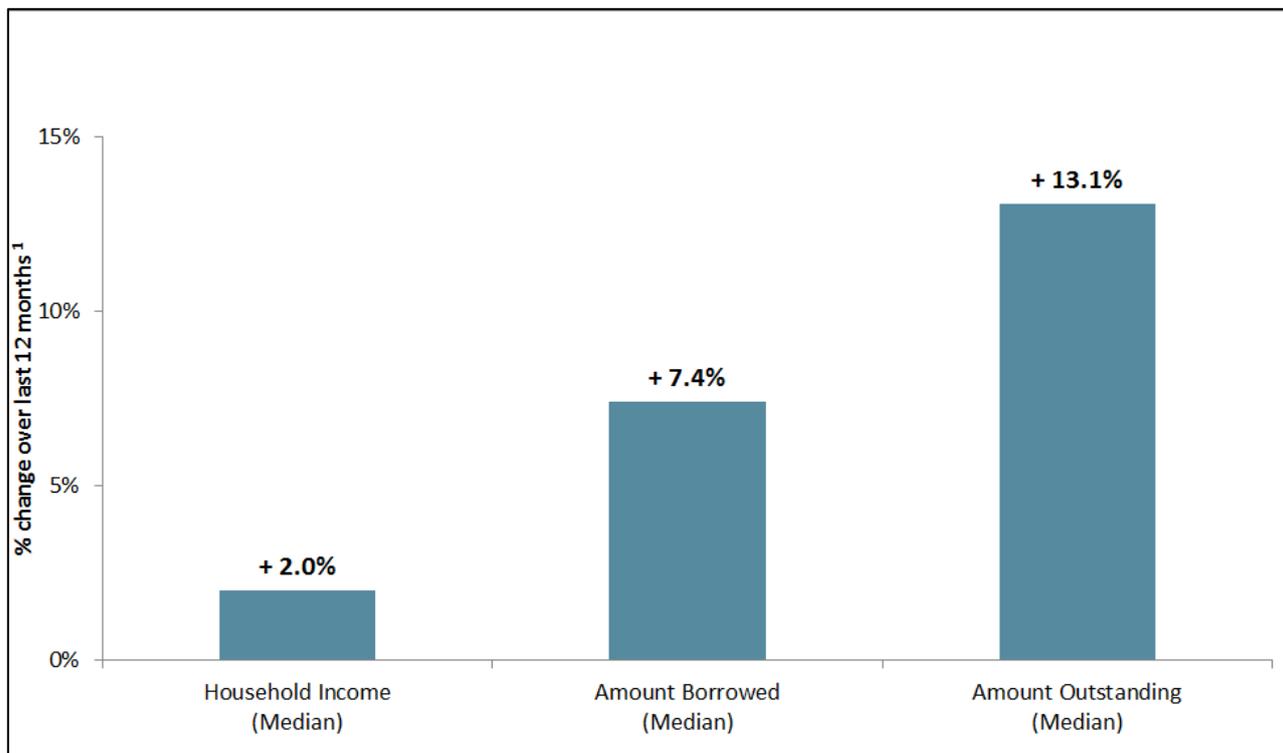
Mortgage stress is based on the ability of home borrowers to meet the repayment guidelines currently provided by the major banks. 1. "At Risk" is based on those paying more than a certain proportion of their household income (15% to 50% depending on income) into their loans based on the appropriate Standard Variable Rate reported by the RBA and the amount the respondent initially borrowed. 2. "Extremely at Risk" is based on those paying more than a certain proportion of their household income (30% to 45% depending on income) into their home loans based on the Standard Variable Rate set by the RBA on the amount respondents currently owe on their home loan. **Source:** Roy Morgan Single Source (Australia) 3 months ended July 2016, n = 2,673, 3 months ended July 2017, n = 2,734.

**Base:** Australians 14+ with owner occupied home loan

## Household incomes of mortgage holder's not keeping pace with borrowings

The main cause of the increase in mortgage stress was the fact that over the last year, the median household income of mortgage holders only increased by 2.0%, well behind the increase in the median amount borrowed (up 7.4%) and the median amount outstanding (up 13.1%).

### Major Factors Impacting Increase in Mortgage Stress - Last 12 Months



1. Percentage change is based on 3 months to July 2017, compared to 3 months to July 2016. **Source:** Roy Morgan Single Source (Australia) 3 months ended July 2016, n = 2,673, 3 months ended July 2017, n = 2,734. **Base:** Australians 14+ with owner occupied home loan

The increase in mortgage stress was despite the fact that home loan rates (based on the RBA standard variable rate) over this period actually declined from 5.40% to 5.25%.

### Norman Morris, Industry Communications Director, Roy Morgan Research says:

*“It appears from this research that fewer people are taking out home loans and those that do have increased their borrowings, most likely as a result of low interest rates and rising house prices. With median household incomes among borrowers showing low growth over the last year, they are not paying off their loans as quickly and as a result outstandings are growing faster than household incomes. The result has been an increase in mortgage stress to the point where nearly one in six borrowers face a potential problem.*”

*“When rates eventually rise, this is likely lead to an even lower number of borrowers but existing mortgage holders who have borrowed in a low interest rate environment are likely to face increased levels of mortgage stress. The final impact however will also be determined by what happens to household incomes, which are currently showing very modest growth”.*

For comments or more information about Roy Morgan Research's banking and finance data, please contact:

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### About Roy Morgan Research

Roy Morgan Research is the largest independent Australian research company, with offices in each state of Australia, as well as in Indonesia, the United States and the United Kingdom. A full service research organisation specialising in omnibus and syndicated data, Roy Morgan Research has over 70 years' experience in 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      |
| 7,500       | ±1.1                | ±1.0       | ±0.7       | ±0.5      |
| 10,000      | ±1.0                | ±0.9       | ±0.6       | ±0.4      |
| 20,000      | ±0.7                | ±0.6       | ±0.4       | ±0.3      |
| 50,000      | ±0.4                | ±0.4       | ±0.3       | ±0.2      |