STATISTICS

Quarterly authorised deposit-taking institution property exposure statistics - highlights

June 2021 (released 7 September 2021)

Contents

Residential mortgages

New lending

New residential mortgage lending increased by 22.8 per cent in the June 2021 quarter, partly reflective of seasonally lower levels of lending in the March quarter (Chart 1). New residential mortgage lending increased by 40.5 per cent compared with the June quarter 2020. Lending to owner-occupiers continues to grow more rapidly than lending to investors, increasing by 23.9 per cent and 19.3 per cent respectively over the June quarter. This result is consistent with favourable borrowing conditions including a historically low interest rate environment and government measures supporting first home buyers, along with strong performance in the housing market.

New lending at higher loan-to-valuation ratios (LVRs) declined slightly, with the share of new lending at LVRs greater than or equal to 90 per cent decreasing to 8.6 per cent in the June quarter from 10.4 per cent in the previous quarter (Chart 2). The majority of new lending continues to be well covered by collateral, with 61.2 per cent of all new loans funded at LVRs less than 80 per cent in the June quarter. The share of new lending at higher LVRs continues to remain below levels seen over the past decade.

Chart 1: New residential mortgage loans funded

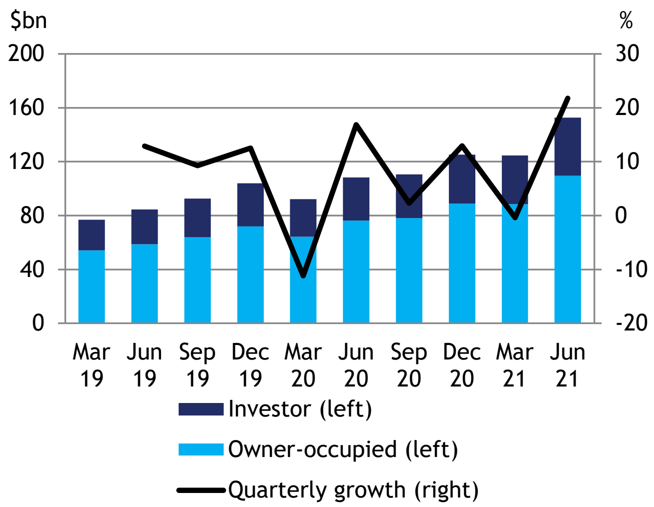
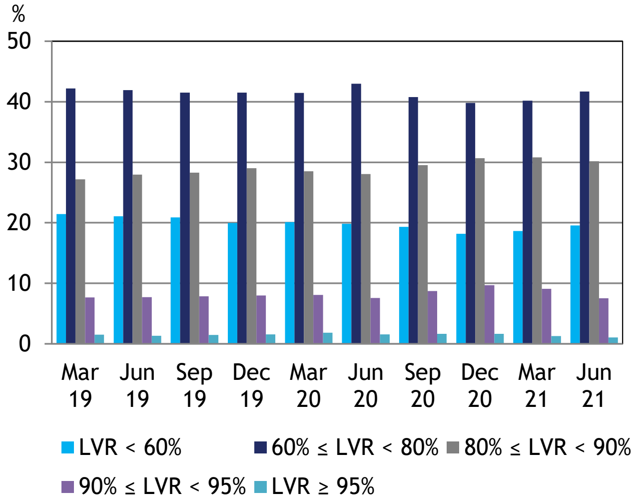


Chart 2: New residential mortgage term loans funded by LVR



The proportion of new residential mortgage loans with high debt-to-income (DTI) ratios again rose over the June 2021 quarter, reflecting increased house prices and continued low interest rates. The share of new loans with DTI ⩾ 6x grew by 2.8 percentage points to 21.9 per cent of new lending in the June quarter, the largest increase since the collection of this data (Chart 3).

The share of new residential mortgage loans approved as exceptions to serviceability policy decreased slightly in the June quarter to 1.6 per cent, while the share of loans approved with serviceability verification waivers decreased marginally by 0.1 percentage points to 1.3 per cent (Chart 4).

Chart 3: Debt to income, share of new residential mortgage term loans funded

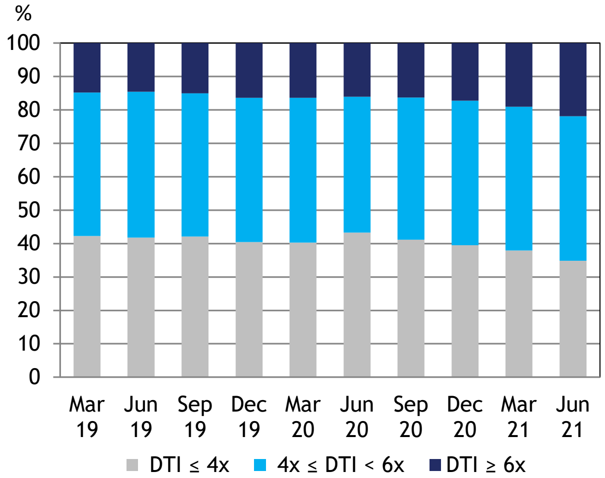
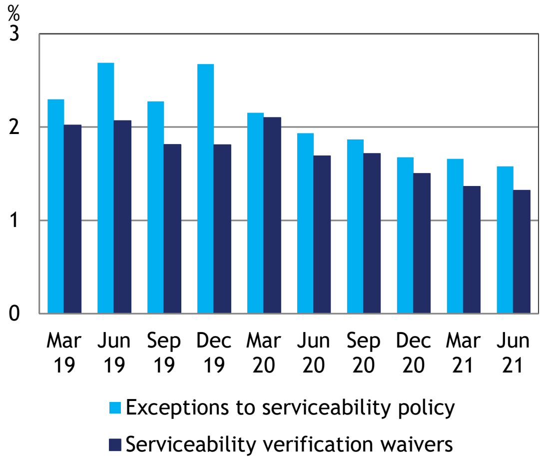


Chart 4: Exceptions and waivers, share of new residential mortgage loans funded



Credit outstanding

Total residential mortgage credit outstanding increased by 1.8 per cent over the quarter and by 4.7 per cent over the year to June 2021 (Chart 5). The increase continues to be driven by strong growth in owner-occupied credit, which expanded by 8.7 per cent over the year. Investment credit increased by 0.1 per cent over the year, though is expected to rise over coming quarters due to the pick-up in new investor lending.

The overall LVR profile of ADIs' housing lending remains strong. The share of residential mortgages outstanding with LVRs greater than or equal to 90 per cent continues to decrease incrementally, from 4.7 per cent in March 2021 to 4.6 per cent in June 2021. The share of loans with LVRs less than 80 per cent increased slightly from 79.2 per cent to 79.5 per cent of mortgages outstanding.

The interest-only share of outstanding residential mortgage term loans continues to decline, falling from 13.9 per cent in March 2021 to 12.8 per cent in June 2021 (Chart 6).

Chart 5: Term loans credit outstanding – LVR breakdown

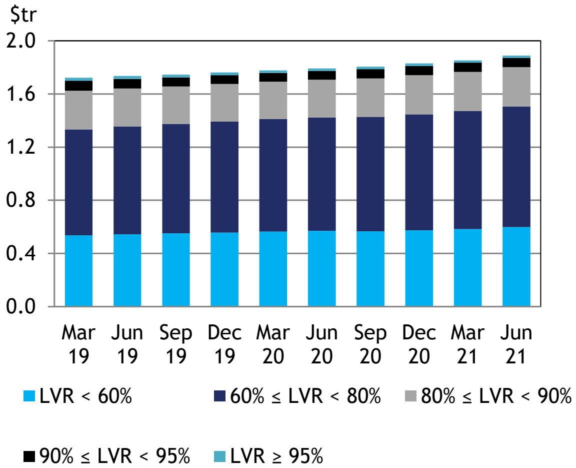
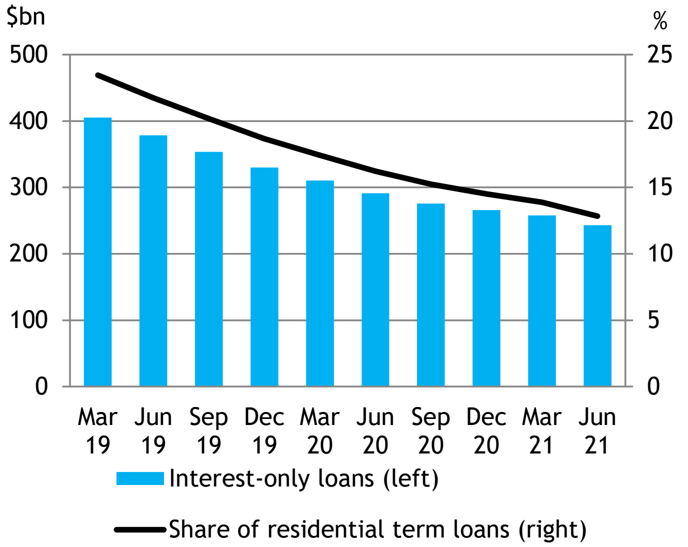


Chart 6: Interest-only residential mortgage term loans



Non-performing loans

Asset quality in residential mortgage lending remains stable, with non-performing loan ratios consistent with pre-pandemic levels. Although this data is unlikely to reflect the impact of recent COVID-19 restrictions, the residential mortgage non-performing term loan (NPL) ratio decreased slightly from 1.06 per cent as at March 2021 to 1.04 per cent as at June 2021 (Chart 7). Investment loans have slightly higher NPL ratios, decreasing from 1.10 per cent in March 2021 to 1.07 in June 2021, while the owner-occupied NPL ratio fell from 1.04 per cent to 1.02 per cent over the same period. (Chart 8)

The outlook for NPLs remains uncertain given the recent lockdowns, and the expected impact on borrowers' ability to service their mortgages. APRA recently announced a further program of concessional capital treatment on eligible repayment deferrals offered by ADIs.[1] This, in combination with the low interest rate environment, may offset some of the challenges faced by borrowers in their ability to repay their loans. Loans eligible for this capital treatment would not be reported as non-performing for the period of the repayment deferral.

[1] https://www.apra.gov.au/regulatory-support-for-loans-impacted-by-covid-19

Chart 7: Non-performing residential mortgage loans

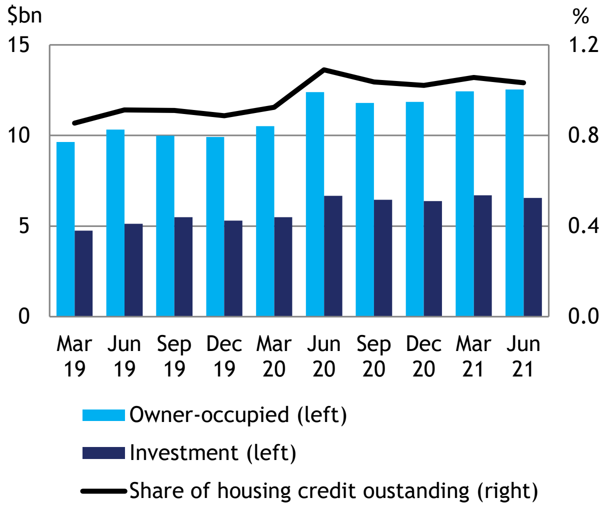
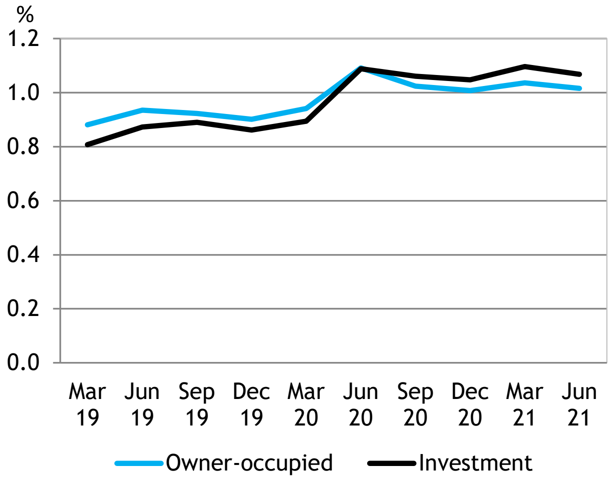


Chart 8: Non-performing loan ratios by borrower type



Newly non-performing housing loans decreased from $5.1 billion in the March quarter to $4.4 billion in the June quarter. New NPLs remain at a very low level in comparison to credit outstanding, decreasing from 0.27 per cent in the March quarter to 0.23 per cent in the June quarter (Chart 9).

Loans which are between 30 and 89 days-past-due but not impaired, which can be viewed as a leading indicator of loans that may become non-performing, totalled $9.9 billion as at June 2021 (Chart 10). This represented a 6.4 per cent decrease over the quarter and 28.2 per cent decrease over the year. Overall, these loans remain low on a relative basis (0.5 per cent of total residential mortgage loans outstanding) and below pre-COVID-19 levels. There has been no industry-wide deterioration in asset quality following the expiry of the initial repayment deferral programs introduced in 2020.

Chart 9: New non-performing loans during the quarter

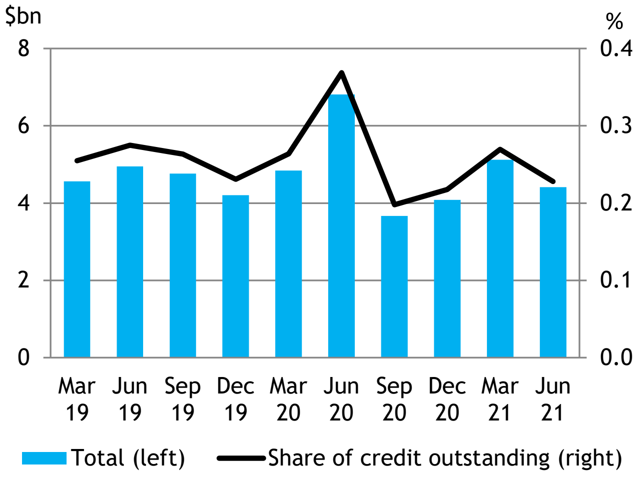
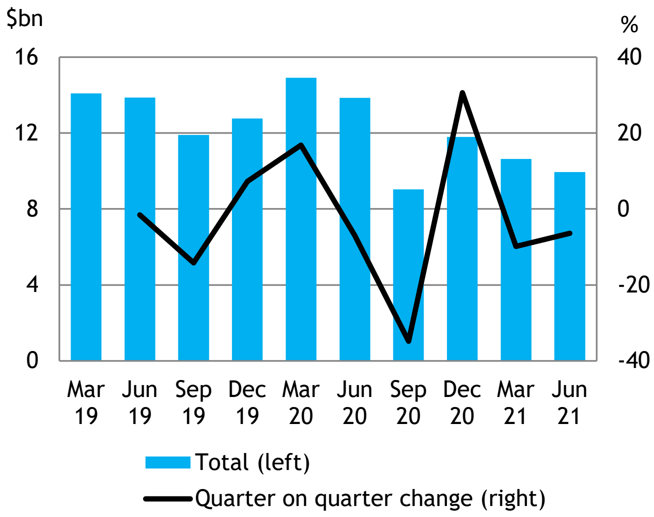


Chart 10: Residential mortgage loans 30-89 days past due but not impaired



Other residential mortgage indicators

While remaining near historically high levels, the value of funds in offset accounts decreased for the first time since June 2019, representing 9.2 per cent of credit limits as at June 2021 (Chart 11). This may be reflective of consumer spending habits returning to pre-COVID-19 levels and the reduction of available government support schemes. The impact of recent lockdowns may see a reduction in consumer spending and therefore see these balances rise again over the coming quarter.

The declining cash rate over recent years has been associated with a steady downward trend in the average variable interest rate of new housing loans. The weighted average interest rate applied by ADIs in serviceability assessments has remained steady at 5.4 per cent over the quarter to June 2021 (Chart 12).

Chart 11: Balances in offset accounts

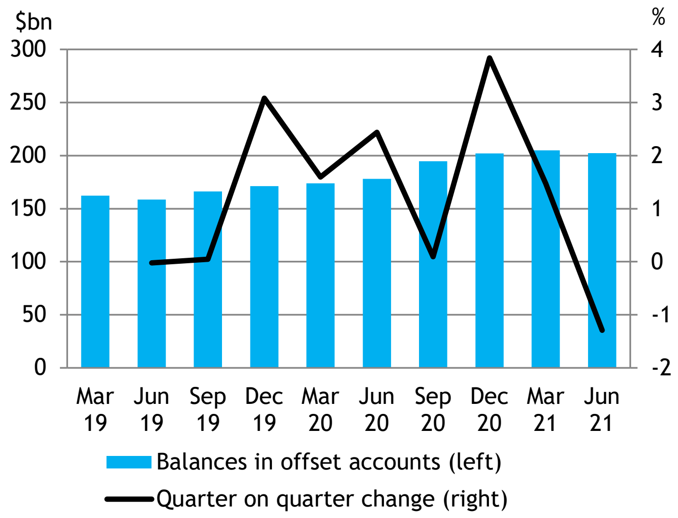
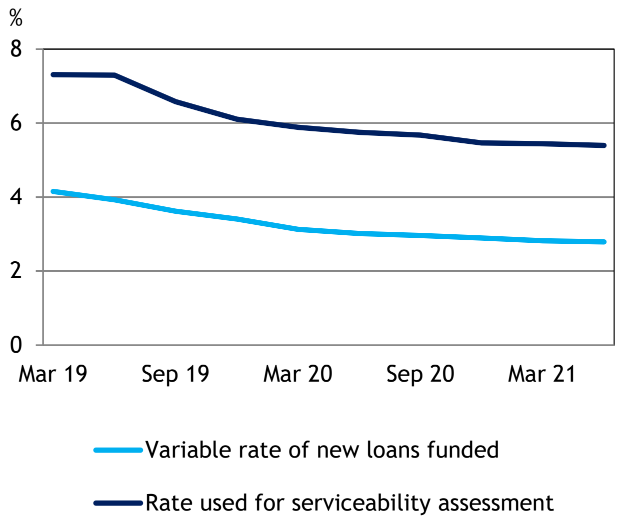


Chart 12: New residential mortgage loans funded – average interest rates



Commercial real estate

The impact of COVID-19 on ADIs' commercial real estate lending continues to be limited, with growth in commercial property limits accelerating from 0.9 per cent in the March 2021 quarter to 1.9 per cent over the June 2021 quarter. The commercial property impairment rate (impaired assets to exposures) remained stable over the quarter at 0.2 per cent. Although the outlook for valuations and impairment rates moving forward remains uncertain, a year has passed since the onset of the COVID-19 pandemic and there has been no increase in impairment rates. Structural challenges remain, particularly for retail - and to a lesser extent office properties - with the outlook for the tourism and leisure sector being heavily tied to the outlook for state-based lockdowns.

Chart 13: Commercial property exposures and limits

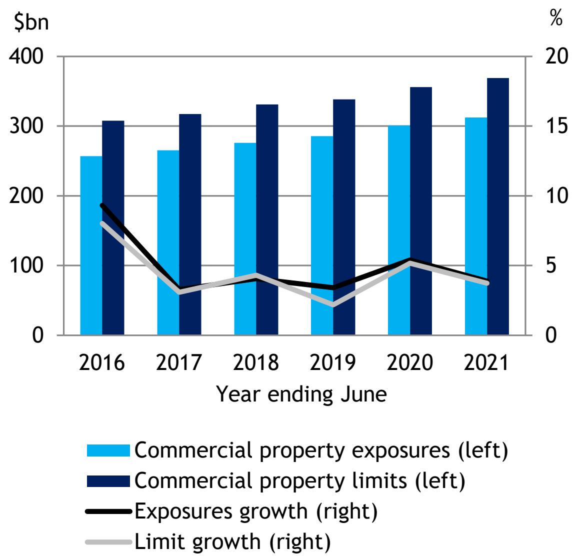
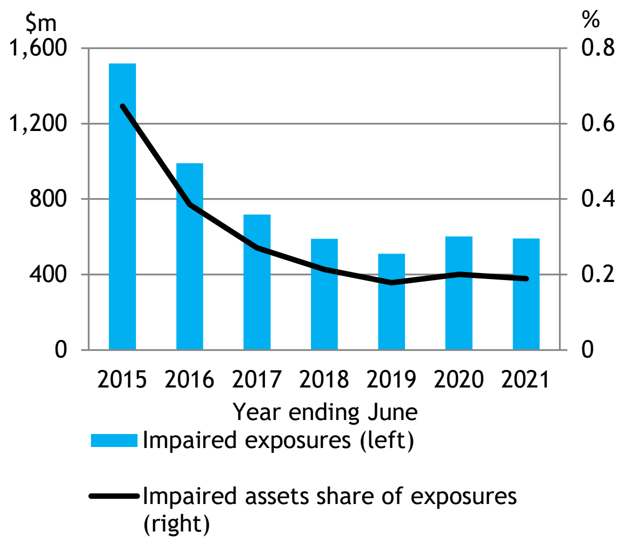


Chart 14: Commercial property impaired exposures



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