STATISTICS

Quarterly authorised deposit-taking institution property exposure statistics - highlights

September 2022 (released 6 December 2022)

Contents

Residential mortgages

New lending

- New residential mortgages funded in the September 2022 quarter were $151.0 billion, declining by 10.0 per cent compared to the September 2021 quarter (Chart 1). This decrease is from the series highs seen during the pandemic, influenced by the recent succession of cash rate target increases. However, this is still considerably above pre-pandemic levels, being 58.4 per cent above the September 2019 quarter.

- The fall for owner-occupied lending outpaced that for investor lending, declining by 11.1 per cent and 7.9 per cent respectively in the September 2022 quarter when compared to the September 2021 quarter.

- The security coverage of new loans continues to improve. New lending with elevated loan to valuation ratios (LVRs) continued its trend of declining in the September 2022 quarter. The share of new loans with an LVR greater than or equal to 90 per cent was 6.2 per cent in the September 2022 quarter, down from 6.4 per cent in the June 2022 quarter. The share of new loans with an LVR greater than or equal to 80 per cent declined to 30.5 per cent in the September 2022 quarter, down from 32.1 per cent in the June 2022 quarter (Chart 2).

Chart 1: New residential mortgage loans funded

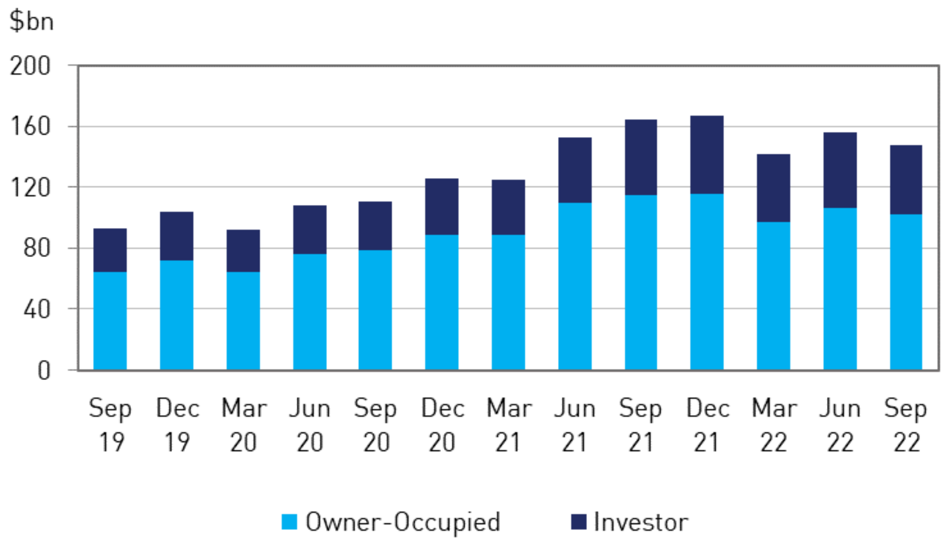
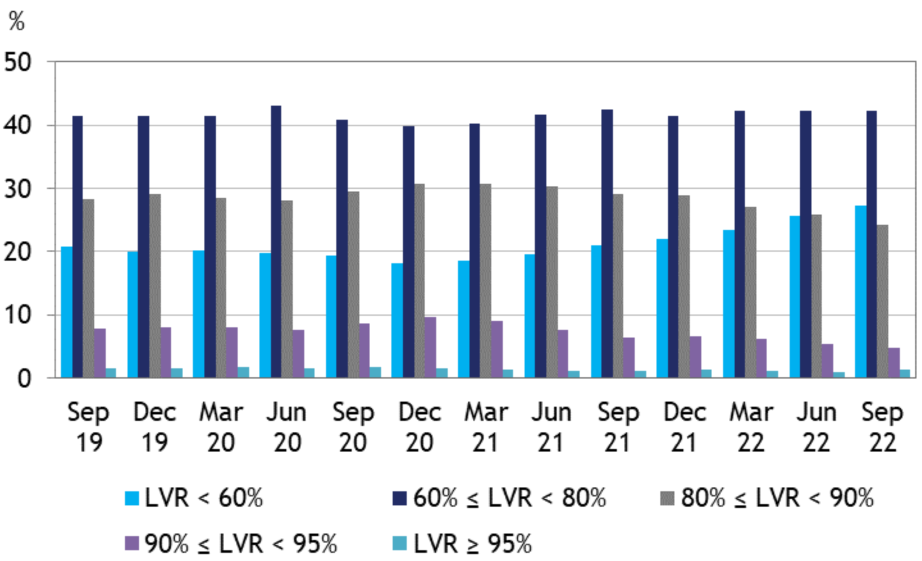


Chart 2: New residential mortgage term loans funded by LVR



- The volume of lending at high debt-to-income (DTI) ratios has declined substantially. New lending with a DTI greater than or equal to 6 times was 17.1 per cent of total new lending in the September 2022 quarter. This constitutes a 7.2 percentage point decline from the series peak in the December 2021 quarter and a 6.2 percentage point decline from the September 2021 quarter (Chart 3).

- The fall in new residential mortgage lending with high DTI lending has been primarily driven by interest rate increases impacting maximum loan size and loan repayments. It has also been driven by APRA's increase to the serviceability assessment buffer in October 2021, and a tightening of banks' lending standards for this type of lending.

- The share of new residential mortgages funded with exceptions to serviceability policy declined to 3.0 per cent in the September 2022 quarter, down from 3.1 per cent in the June 2022 quarter. The share of new residential mortgages funded with serviceability verifications waivers was 2.4 per cent in the September 2022 quarter, an increase from the June 2022 quarters' 2.1 per cent (Chart 4).

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

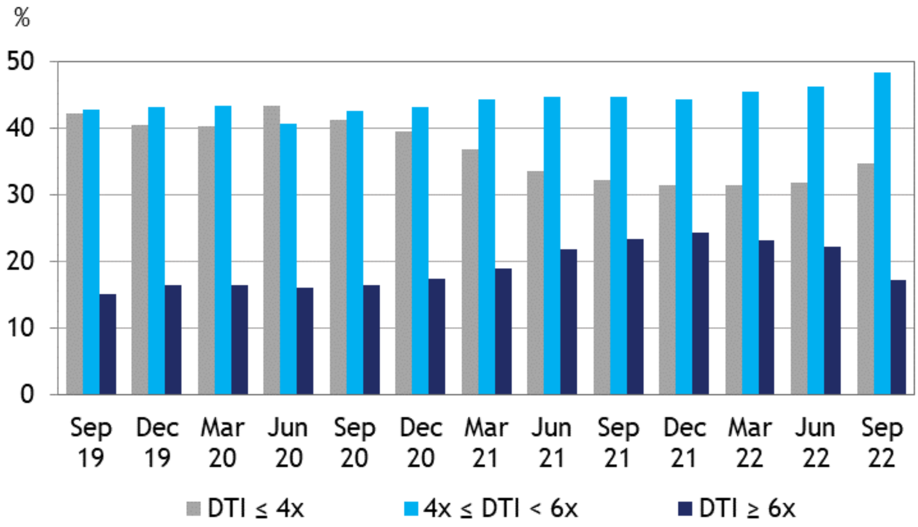
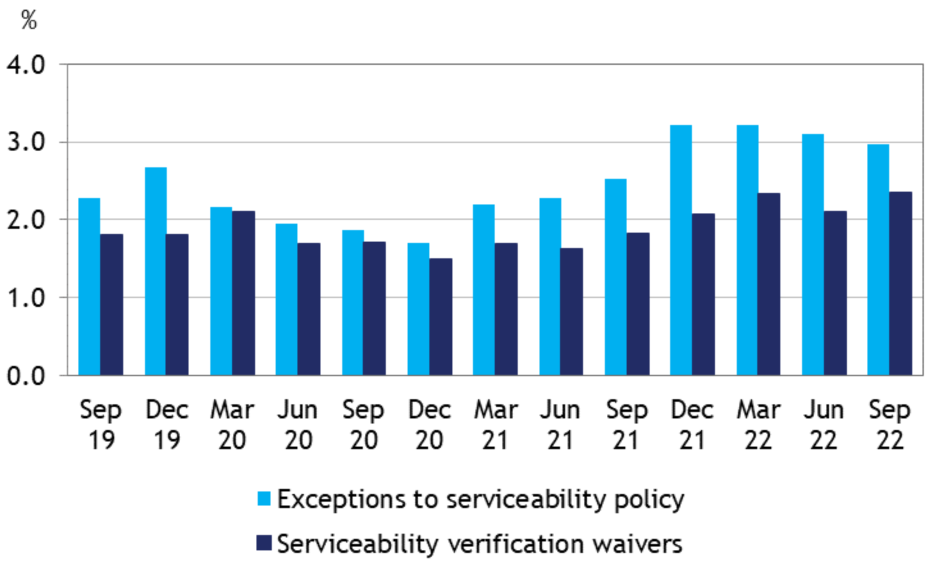


Chart 4: Exceptions and waivers, share of new residential mortgage loans funded



Credit outstanding

- ADIs' housing loan portfolios continue to grow. Total residential mortgage credit outstanding grew by 6.6 per cent in the year to September 2022. This included a 7.5 per cent increase in owner-occupied mortgage credit outstanding and a 6.4 per cent increase in investor mortgage credit outstanding.

- The security coverage of ADIs' housing loans continues to improve. The share of residential mortgages outstanding with LVRs greater than or equal to 90 per cent was 3.4 per cent in the September 2022 quarter, down from 3.6 per cent in the June 2022 quarter. The share of residential mortgages outstanding with LVRs greater than or equal to 80 per fell to 17.3 per cent in the September 2022 quarter from 17.8 per cent in the June 2022 quarter (Chart 5).

- Interest-only lending remained relatively stable. Interest-only residential mortgage term loans increased by 0.6 per cent in the September 2022 quarter compared to the previous June quarter. Interest-only loans as a share of residential mortgages outstanding was 11.1 per cent in the September 2022 quarter, unchanged from the June 2022 quarter (Chart 6).

Chart 5: Term loans credit outstanding – LVR breakdown

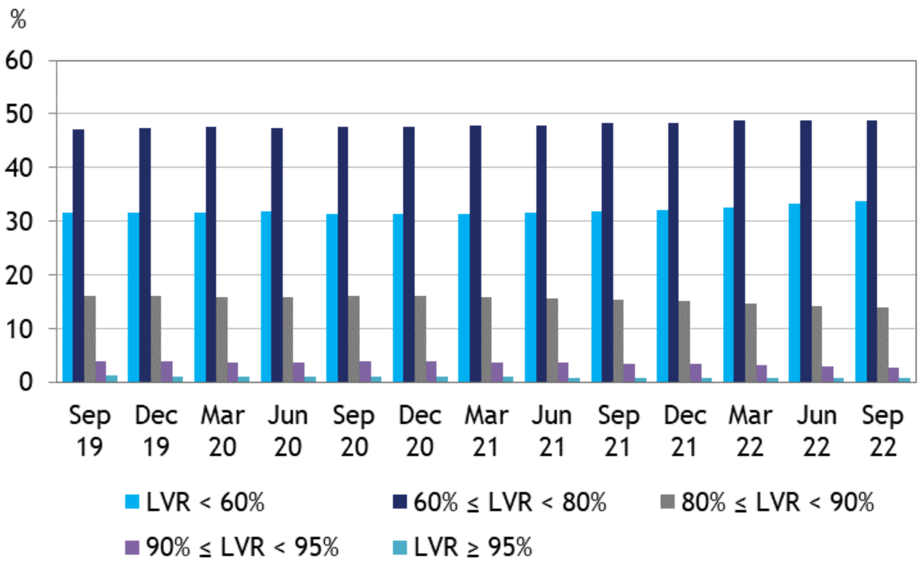
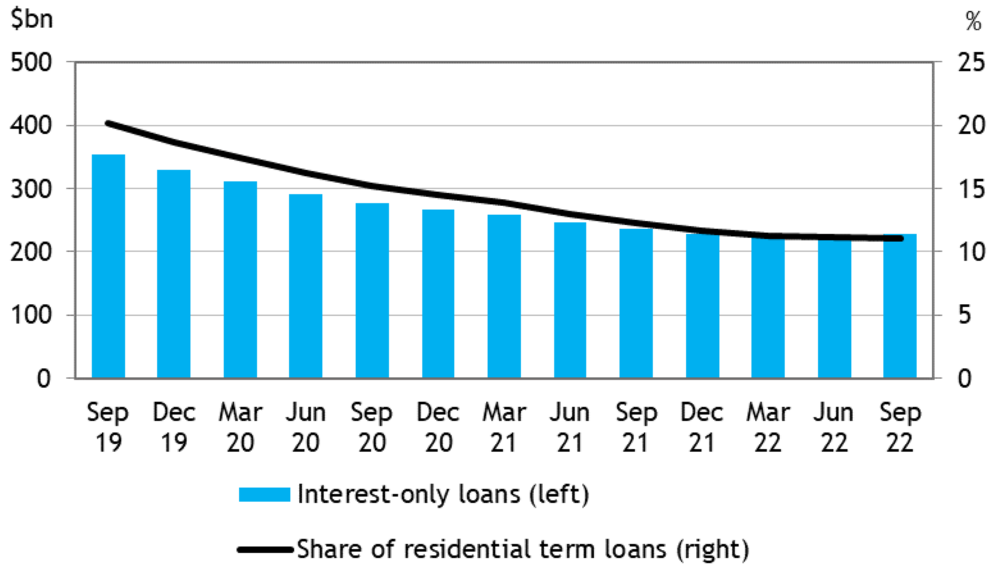


Chart 6: Interest-only residential mortgage term loans



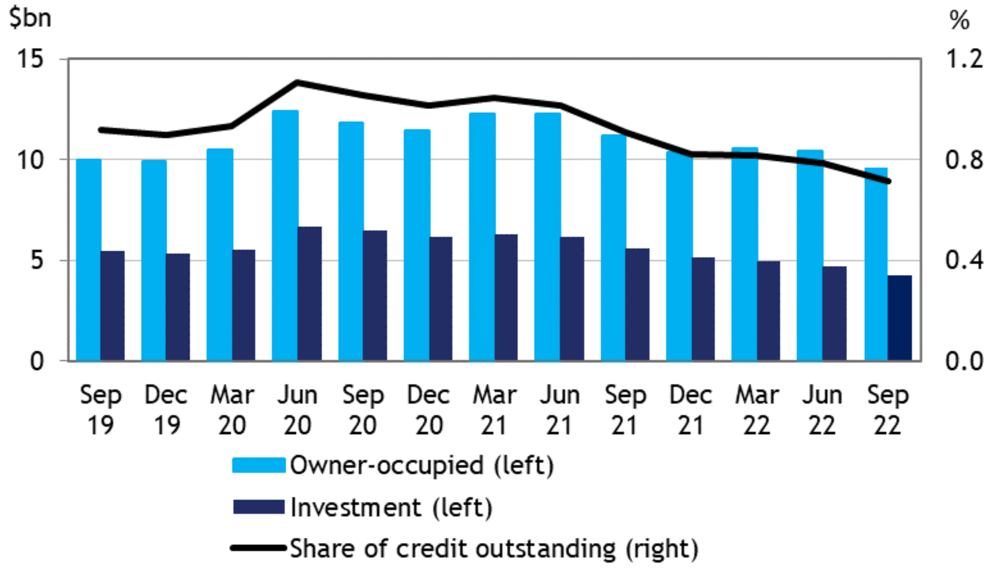
Asset quality

- The asset quality of ADIs' residential mortgage lending portfolio has continued to improve. Non-performing loans[1] as a share of total credit outstanding declined to 0.71 per cent in the September 2022 quarter, down from 0.78 per cent in the June 2022 quarter (Chart 7).

- The above fall was driven by non-performing owner-occupied loans as a share of total owner-occupied credit outstanding declining to 0.70 per cent in the September 2022 quarter, down from 0.77 per cent in the June 2022 quarter. Over the same period, non-performing investment loans as a share of investment credit outstanding declined to 0.67 per cent from 0.75 per cent (Chart 8).

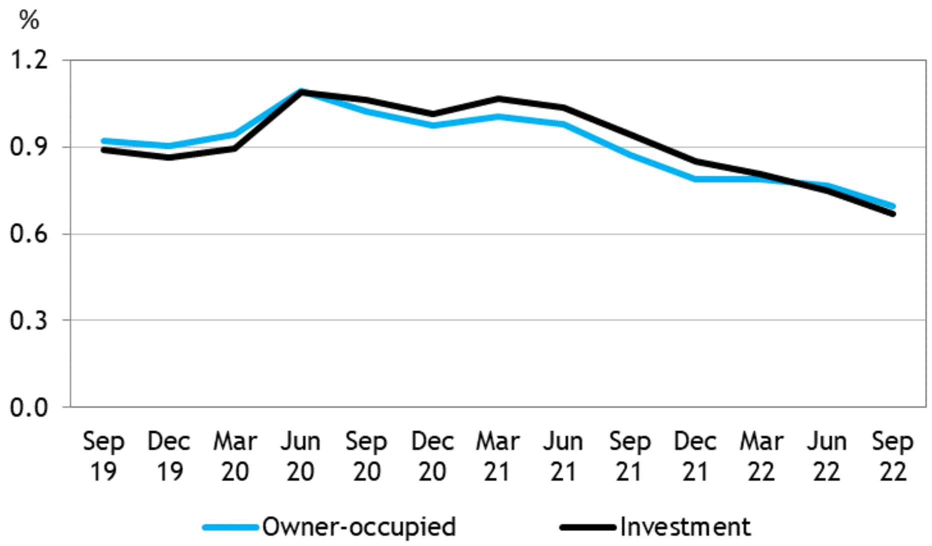
[1] The definition of 'non-performing' has changed since 1 January 2022, as a result of the implementation of the new prudential standard *APS 220 Credit Risk Management*. The previous definition of 'non-performing' (the sum of 'impaired' and '≥90 days past due') ceased in December 2021, while the current definition of 'non-performing' (any exposure that is in default) commenced in January 2022. For more details, please refer to the explanatory note, glossary and the APRA website: *Proposed revisions to the credit risk management framework for authorised deposit-taking institutions.*

Chart 7: Non-performing residential mortgage loans



Note: the definition of 'non-performing' changed in the March 2022 quarter as a result of the implementation of *Prudential Standard APS 220 Credit Risk Management*.

Chart 8: Non-performing loan ratios by borrower type

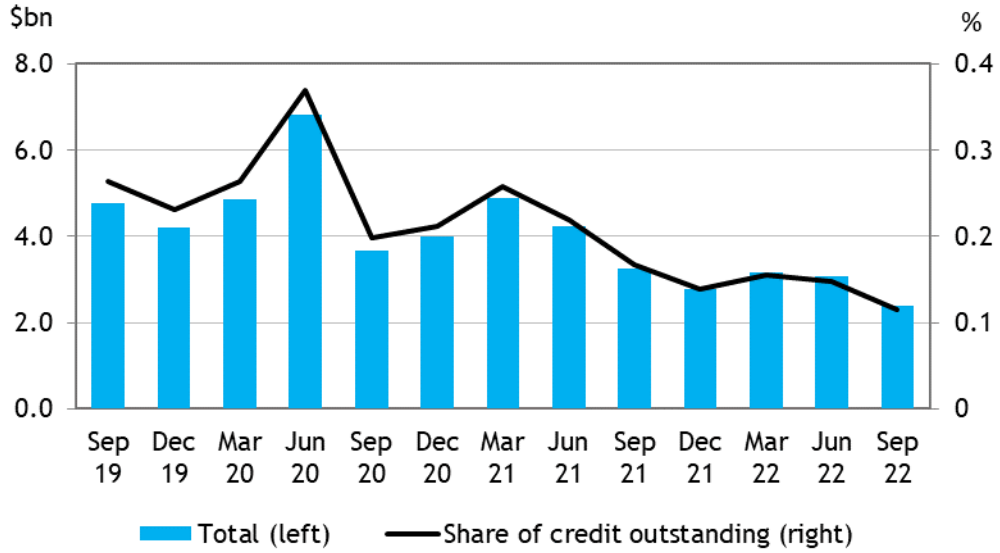


Note: the definition of 'non-performing' changed in the March 2022 quarter as a result of the implementation of *Prudential Standard APS 220 Credit Risk Management*.

- New non-performing loans as a share of total credit outstanding declined to 0.11 per cent in the September 2022 quarter, from 0.15 per cent in the June 2022 quarter (Chart 9).

- These improvements in the asset quality data have occurred despite increases in the cash rate target of a cumulative 225 basis points between May and the end of September. The effect of this increase has most likely not yet been fully reflected in variable rates due to a lag in the transmission of cash rate increases to mortgage rates. It is expected however that this effect will eventually be fully reflected in rates leading to a subsequent deterioration in asset quality.

Chart 9: New non-performing loans during the quarter

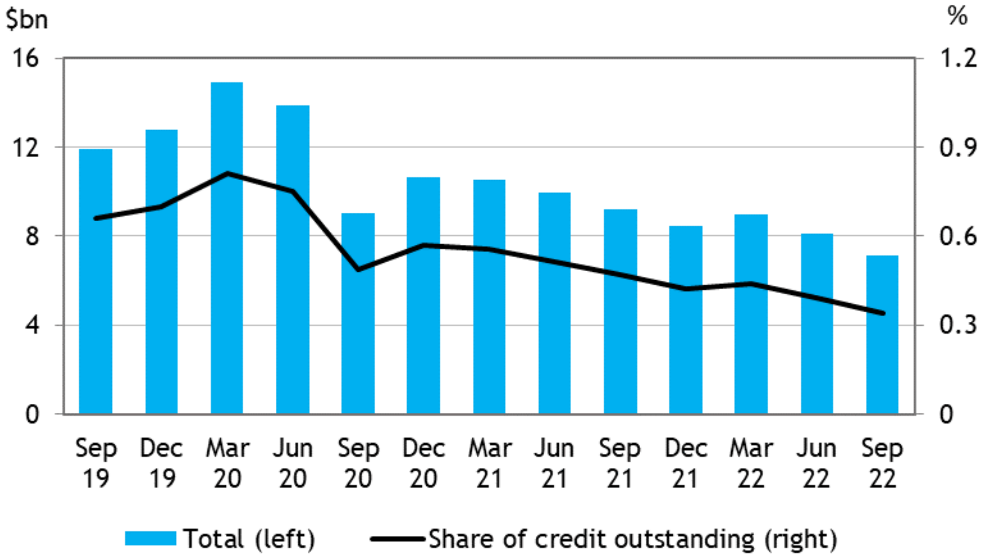


Note: the definition of 'non-performing' changed in the March 2022 quarter as a result of the implementation of *Prudential Standard APS 220 Credit Risk Management*.

- Prudential Standard APS 220 Credit Risk Management states a loan must be categorised as non-performing when a borrower is 90 days past due on payments. As such residential mortgages between 30 and 89 days-past-due can be viewed as a leading indicator of non-performing loans.

- For the September 2022 quarter residential mortgages between 30 and 89 days-past-due as a share of total credit outstanding declined to 0.3 per cent down from 0.4 per cent in the June quarter. This suggests that non-performing loans can be expected to decline further in the future (Chart 10).

Chart 10: Residential mortgage loans 30-89 days past due



Other residential mortgage indicators

- The value of funds in offset accounts increased to $238.8 billion in the September 2022 quarter, growing by 5.8 per cent compared to the September 2021 quarter. This constitutes the highest value recorded since the series begun (Chart 11).

- The weighted average variable interest rate of new housing loans grew to 4.4 per cent in the September 2022 quarter, a 1.3 percentage point increase from the June 2022 quarters' 3.1 per cent (Chart 12). The increase follows the succession of increases in the cash rate target.

- The weighted average interest rate applied by ADIs to serviceability assessments increased to 7.1 per cent in the September 2022 quarter, from 6.0 per cent in the June 2022 quarter (Chart 12).

Chart 11: Balances in offset accounts

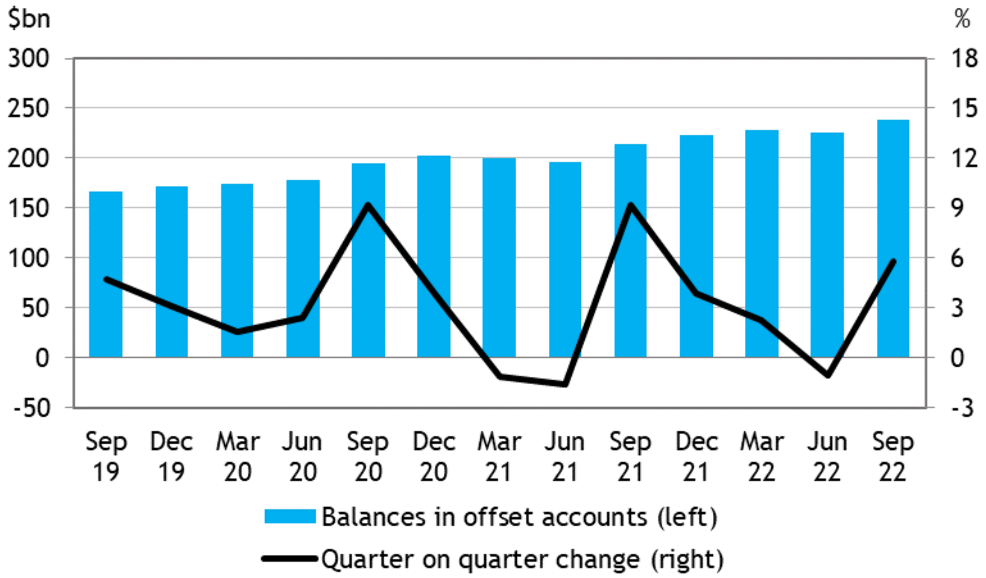
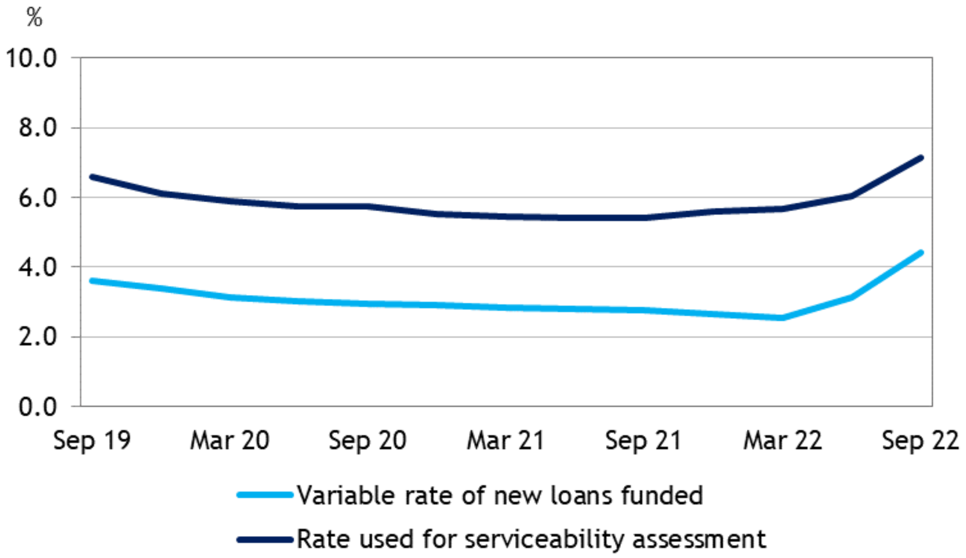


Chart 12: New residential mortgage loans – weighted average interest rates



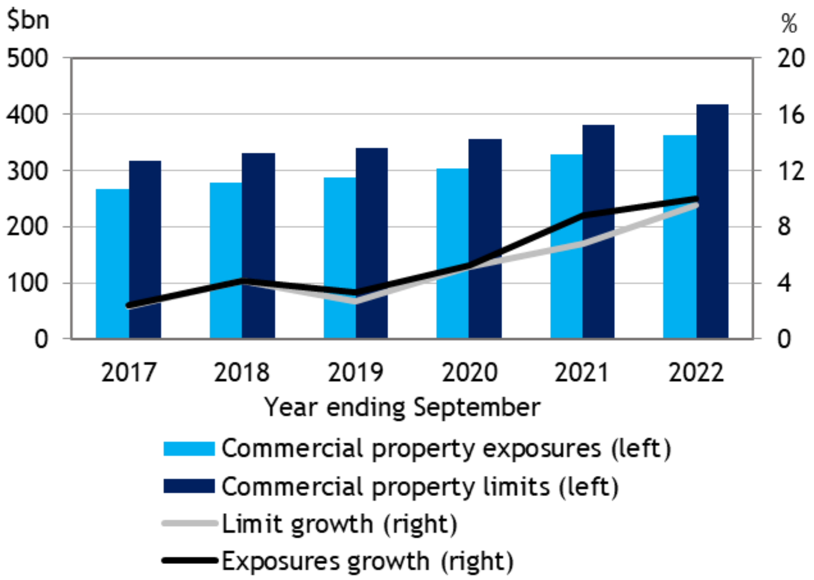
Commercial Real Estate

- ADIs' commercial property lending continued its increase in the September 2022 quarter. Exposure limits were $417.1 billion in the September 2022 quarter, an increase of 9.5 per cent compared to the September 2021 quarter. In the same period actual exposures were $362.0 billion, an increase of 10.0 per cent compared to the September 2021 quarter.

- Actual exposures for land developments and subdivisions grew relatively fastest amongst the commercial property segments for the year to September 2022, increasing 28.4 per cent compared to the September 2021 quarter. This was followed by industrial which grew 18.9 per cent over the same period.

- Non-performing commercial property loans as a share of total commercial property actual exposures were unchanged from the previous quarter at 0.5 in the September 2022 quarter. Specific provisions as a share of non-performing commercial property exposures declined to 11.9 per cent in the September 2022 quarter, down from 13.1 per cent in the June 2022 quarter.

Chart 13: Commercial property exposures and limits



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