STATISTICS

Quarterly authorised deposit-taking institution property exposure statistics - highlights

December 2022 (released 14 March 2023)

Contents

Residential mortgages

Credit outstanding

- ADIs' housing loan portfolios continue to grow. Total residential mortgage credit outstanding grew by 6.0 per cent in the year to December 2022. This included a 7.0 per cent increase in owner-occupied and a 5.3 per cent increase in investor credit outstanding.

- The average vintage of ADIs' loan portfolios fell, reflecting increased refinancing activity. As at December 2022, the share of loans that were funded in the last three years was 63.0 per cent, up from 62.2 per cent as at September 2022 and 58.3 per cent as at December 2021 (Chart 1).

- The share of loans outstanding with loan-to-valuation ratios (LVRs) greater than or equal to 80 per cent remained broadly stable over the quarter (Chart 2). The share of loans that are interest-only was unchanged over the December quarter at 11.1 per cent (Chart 3).

Chart 1: Term loans credit outstanding by vintage

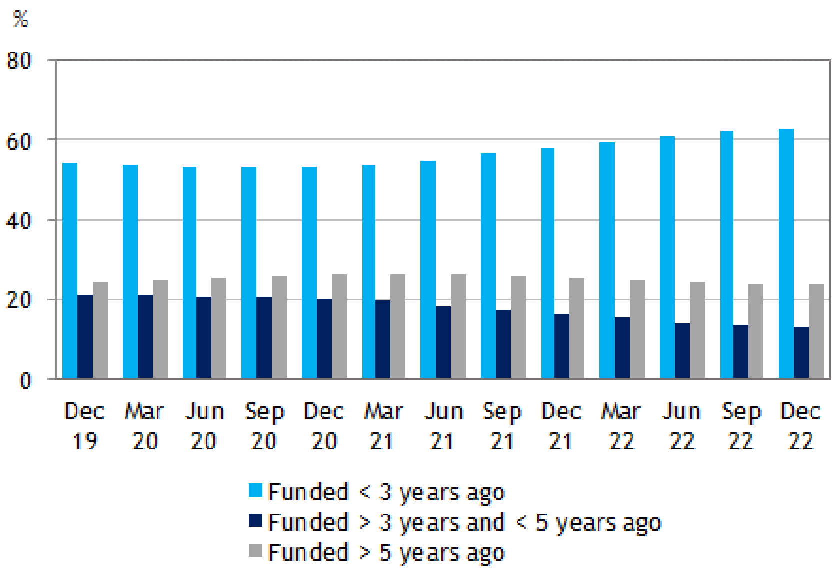


Chart 2: Term loans credit outstanding with high LVRs

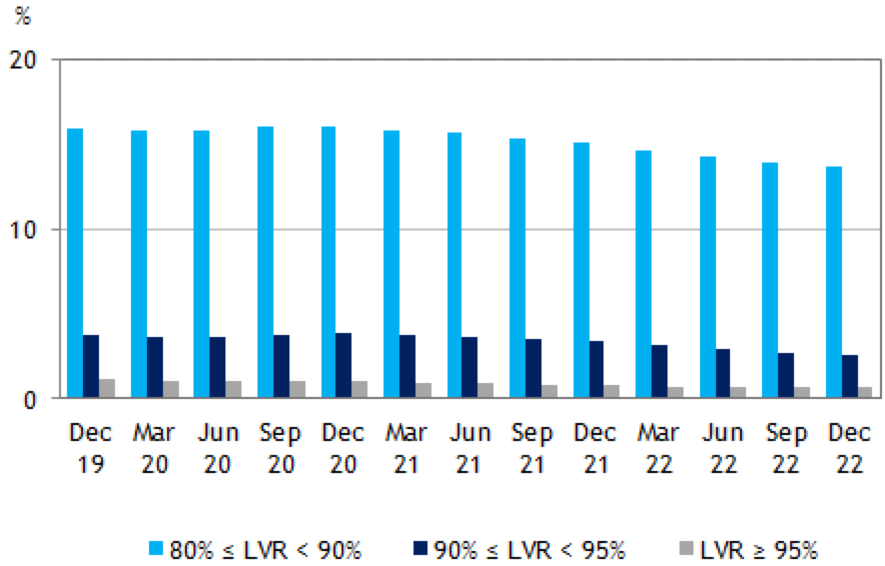
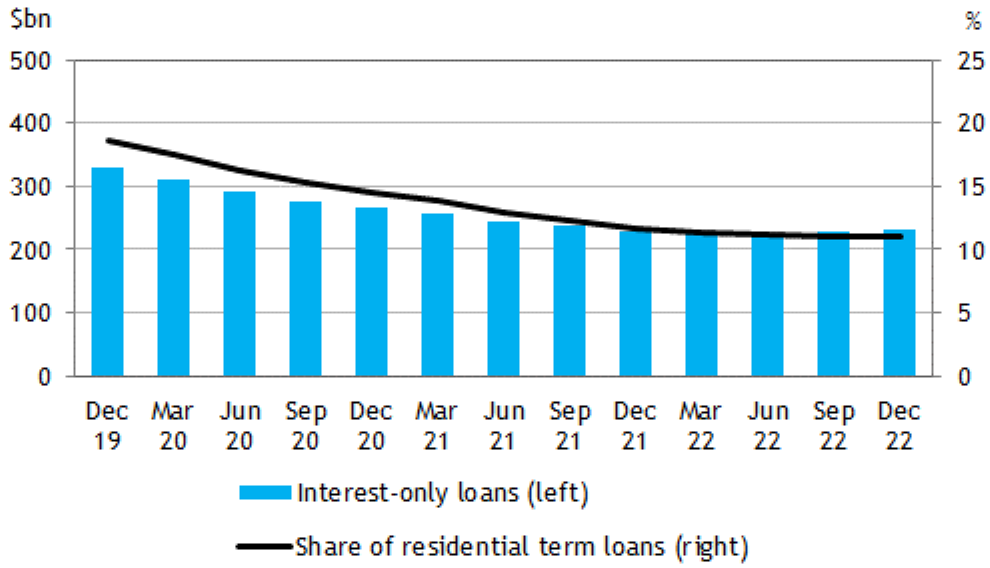


Chart 3: Interest-only residential mortgage term loans



New lending

- New housing lending activity continued to decline over the December 2022 quarter, down from the peaks observed during the pandemic. These declines were influenced by continued increases in lending rates; however, new lending remains considerably above pre-pandemic levels. The value of new residential mortgages funded in the December 2022 quarter was $150.2 billion, down 12.2 per cent from December 2021 quarter, but up 17.2 per cent from the December 2020 quarter. Both owner-occupied and investment lending declined at roughly the same pace (Chart 4).

- Refinancing activity reached a new high during the quarter as borrowers continued to seek better lending rates, and as fixed-rate lending begins to roll off from elevated levels. External refinancing, being refinancing with a different ADI than the original lender, represented 44.6 per cent of new loans funded in the December 2022 quarter, up from 36.6 per cent in December 2021 quarter (Chart 5).

- The security coverage of new loans continued to improve over the December quarter and remains stronger than before the pandemic. New lending at LVRs greater than or equal 80 percent fell to 30.4 per cent of new lending in the December 2022 quarter, down from a peak of 42.0 per cent in the December 2020 quarter. Within this cohort, new lending at LVRs greater than or equal to 90 per cent fell from a peak of 11.3 per cent to 5.9 per cent (Chart 6).

Chart 4: New residential mortgage loans funded

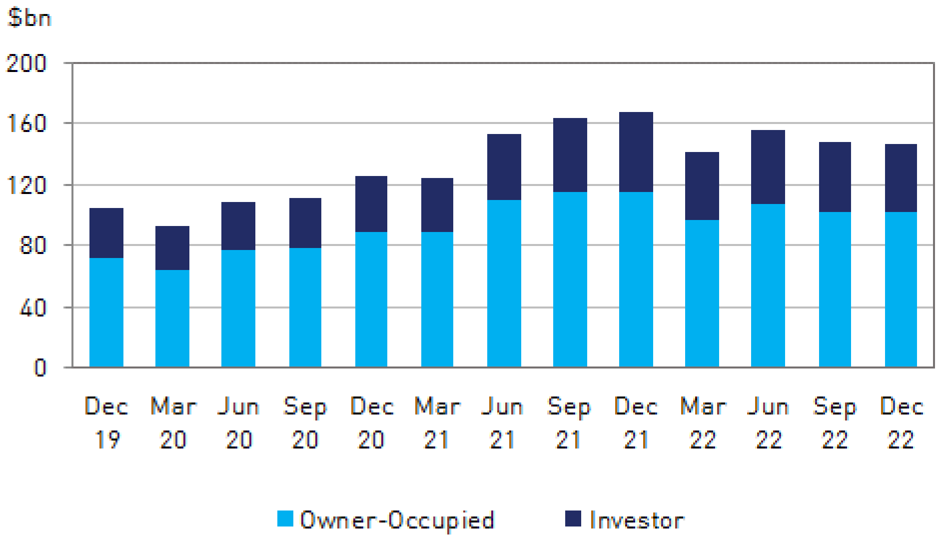


Chart 5: Refinancing activity as a share of new loans funded

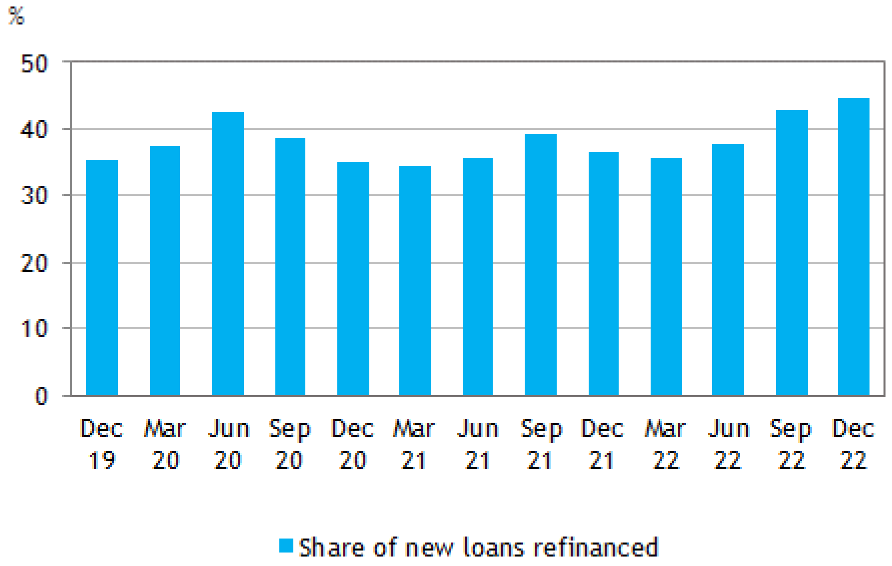
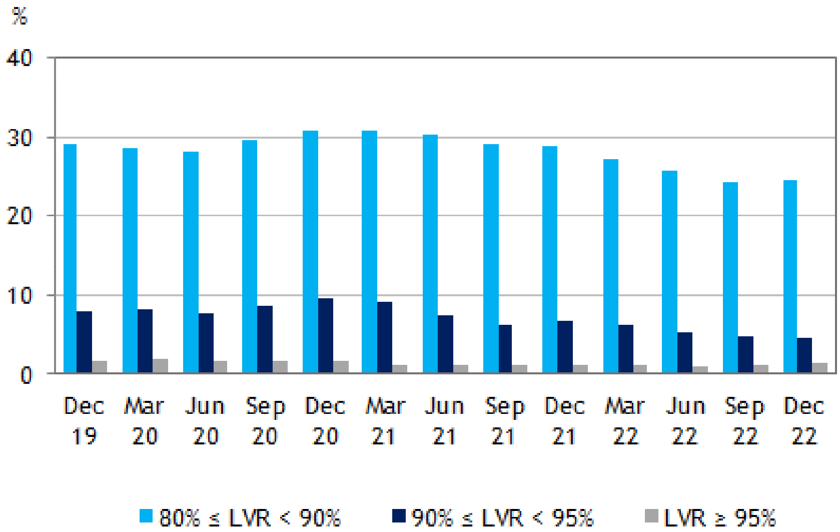


Chart 6: New residential mortgage term loans funded with high LVRs



- New lending at high debt-to-income (DTI) ratios continued to decline, as interest rate increases and lending policy changes within banks reduced borrowing capacity. The share of new lending with a DTI ratio greater than or equal to 6 times was 11.0 per cent in the December 2022 quarter compared to 17.1 per cent in the September 2022 quarter and the series peak of 24.3 per cent in the December 2021 quarter (Chart 7).

- New mortgages with exceptions to serviceability policy, which includes products such as bridging loans, were broadly stable at 3.1 per cent in the December quarter. New mortgages with exceptions relating to the verification of serviceability increased marginally from 2.4 per cent in the September quarter to 2.6 per cent in the December 2022 quarter (Chart 8).

Chart 7: Debt to income, share of new residential mortgage term loans funded

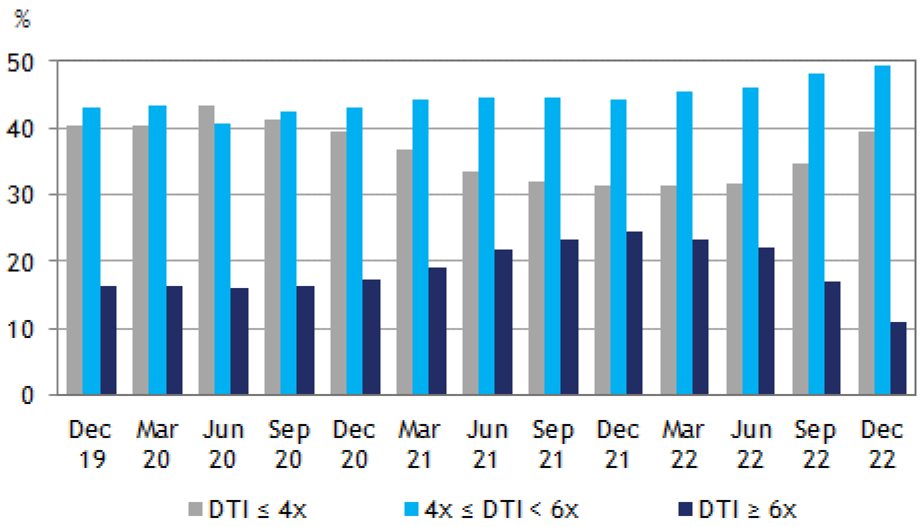
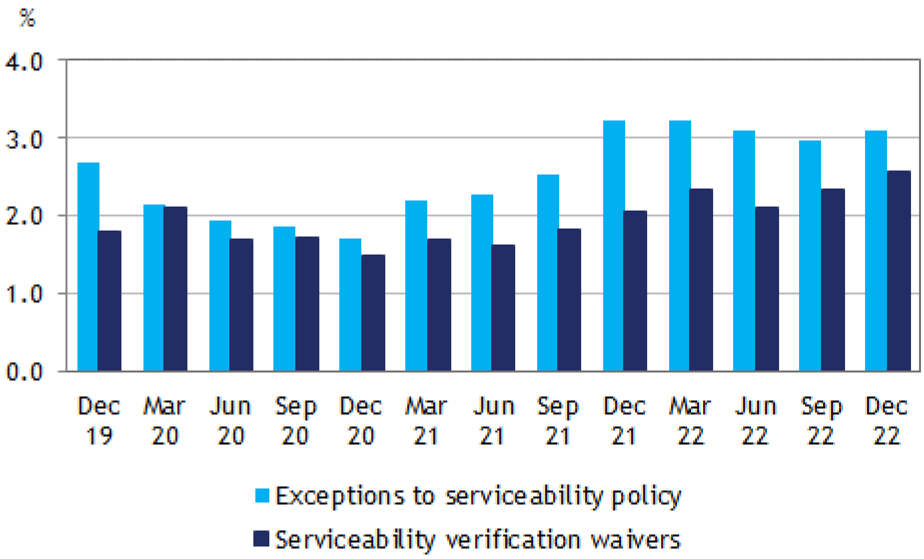


Chart 8: Exceptions and waivers, share of new residential mortgage loans funded



Asset quality

- The overall asset quality of ADIs' residential mortgage lending portfolio continued to improve. Non-performing loans[1] as a share of total credit outstanding declined from 0.71 per cent as at September 2022 to 0.68 per cent as at December 2022. This improvement was seen across both owner-occupied and investment loans (Chart 9).

- The proportion of loans entering non-performing status remains low. New non-performing loans as a share of total credit outstanding increased slightly to 0.13 per cent in the December quarter, from 0.11 per cent in the September quarter. The proportion remains substantially lower than the peak of 0.37 per cent in the June 2020 quarter during the pandemic (Chart 10).

- Loans between 30 and 89 days-past-due, which can be viewed as a leading indicator of non-performing loans, remain low. The share of such loans rose marginally from 0.34 per cent as at September 2022 to 0.42 per cent as at December 2022. This remains well below the peak observed during the pandemic of 0.81 per cent as at March 2020 (Chart 11).

- Reported data is yet to reflect any notable effects of lending rate increases on non-performing loans. Although there have been consecutive cash rate rises since May 2022, there is typically a lag in transmission to mortgage rates. Further, under APRA's prudential standard, a loan is categorised as non-performing when a borrower is 90 days past due on loan repayments.[2]

[1] The definition of 'non-performing' was updated on 1 January 2022, to reflect the new prudential standard *APS 220 Credit Risk Management*. For more details, please refer to the explanatory note, glossary and APRA's website: [Proposed revisions to the credit risk management framework for authorised deposit-taking institutions.]

[2] Prudential Standard APS 220 Credit Risk Management

Chart 9: Non-performing residential mortgage loans

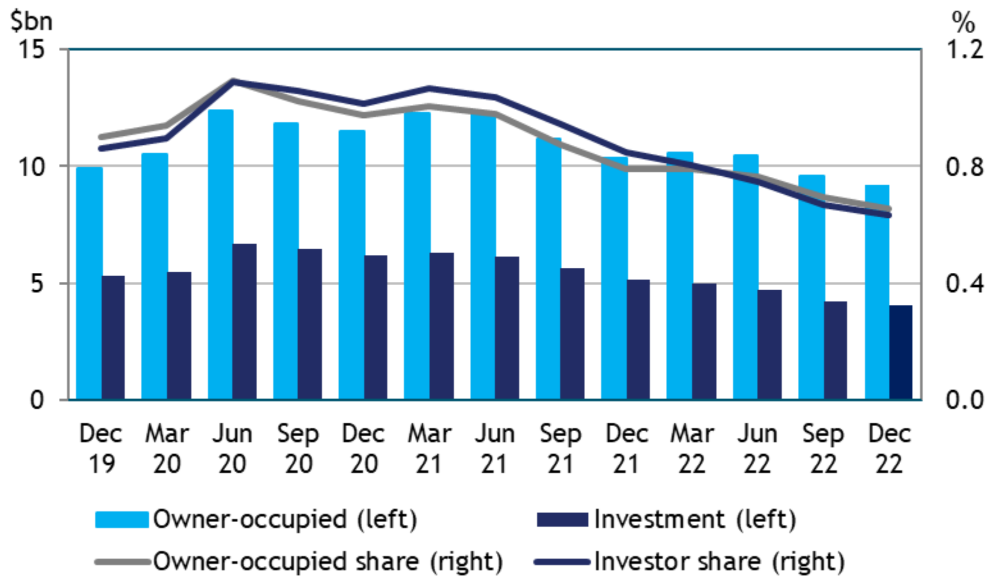


Chart 10: New non-performing loans during the quarter

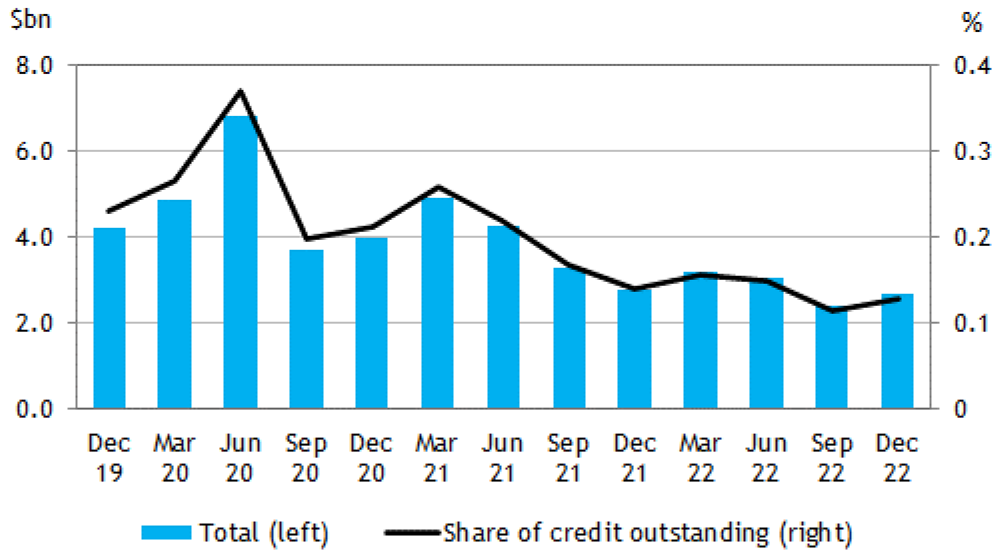
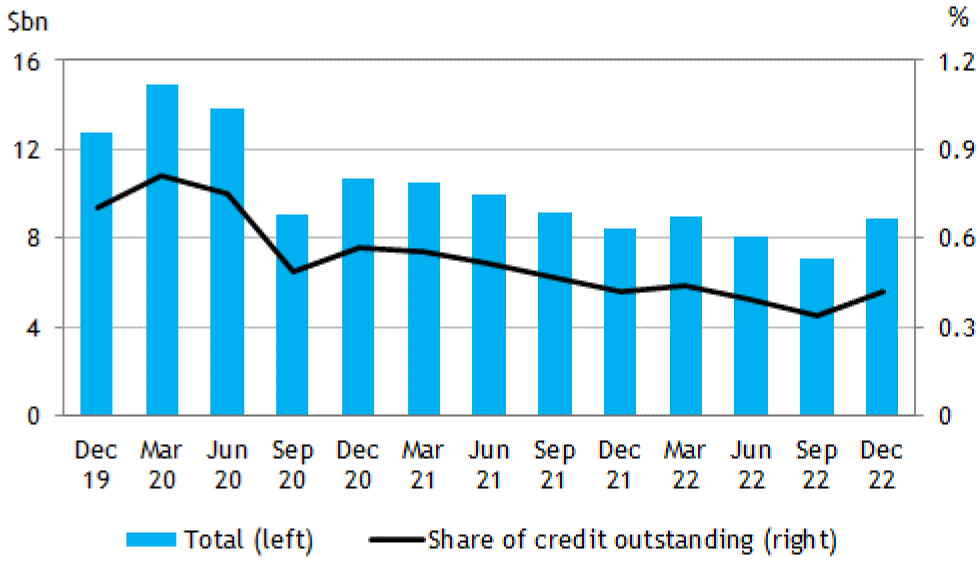


Chart 11: Residential mortgage loans 30-89 days past due



Other residential mortgage indicators

- The value of funds in offset accounts increased to $244.0 billion in the December 2022 quarter, growing 9.5 per cent compared to the December 2021 quarter. This constitutes the highest value recorded since the series began (Chart 12).

- The weighted average variable interest rate for new housing loans increased to 5.09 per cent in the December quarter. This is a 0.65 percentage point increase from the September quarter. The weighted average interest rate applied by ADIs to serviceability assessments increased to 7.93 per cent in the December quarter, from 7.13 per cent in the September quarter (Chart 13).

- APRA expects ADIs to apply an interest rate buffer of at least 3.0 percentage points above the loan product rate when assessing a borrower's serviceability for a home loan. However, the difference between the reported interest rate used for serviceability assessments and the reported variable interest rate may not always reflect this. For certain loan products, such as fixed-rate loans and interest-only loans, it may be prudent for ADIs to apply the buffer to the "revert" rate, being the rate at the expiry of the fixed-rate or interest-only term. Differences could also be a result of timing between loan approval and loan drawdown. These issues, in combination, can result in an implied buffer of less than 3.0 per cent for the purposes of the quarterly statistics.

Chart 12: Balances in offset accounts

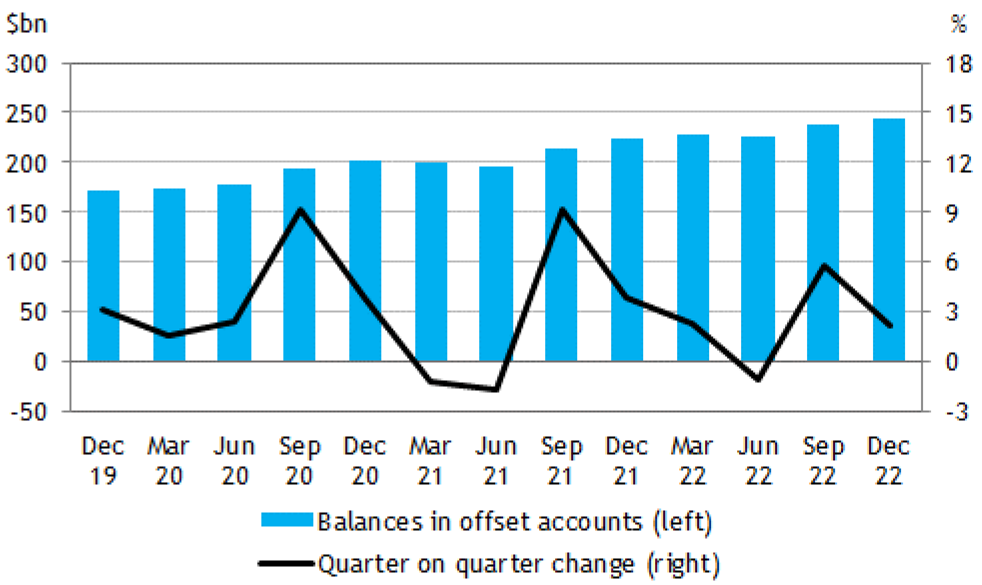
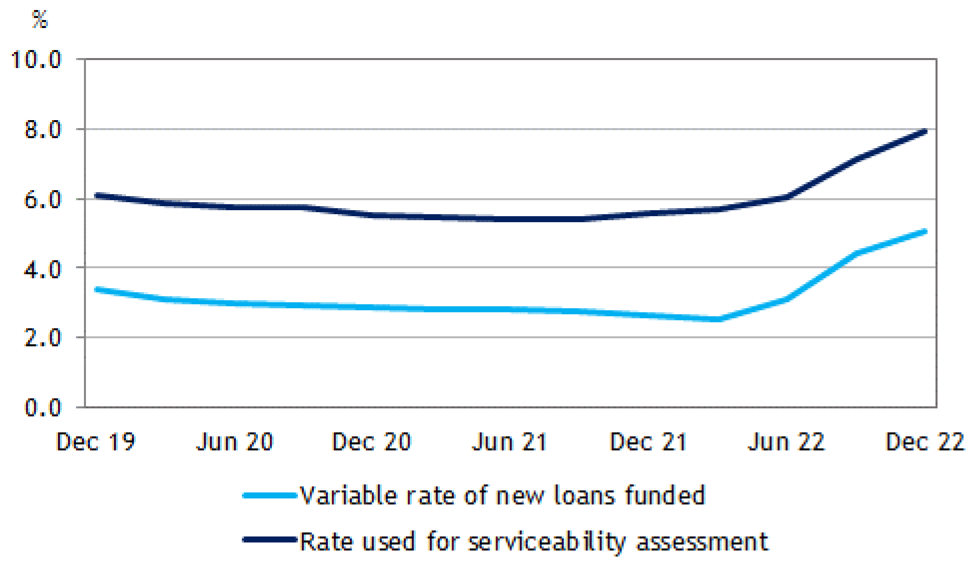


Chart 13: Weighted average interest rates for new loans



Commercial Real Estate

- ADIs' commercial property lending portfolios continued to grow. Exposure limits were $426.2 billion as at the end of December 2022, an increase of 8.7 per cent compared to as at December 2021. Actual exposures grew to $371.5 billion as at December 2022, an increase of 10.4 per cent compared to December 2021 (Chart 14).
- The increase in commercial property exposures was across all categories. Notably, land developments and subdivisions grew by 19.7 per cent over the year to December 2022, and industrial grew by 18.7 per cent.
- The asset quality of commercial property exposures was stable. Non-performing commercial property loans as a share of total commercial property exposures was 0.5 per cent as at December 2022, unchanged from September 2022.

Chart 14: Commercial property exposures and limits