

Three charts on mortgage stress: it isn't as bad as you might think

Written by The Conversation

This piece is part of our new Three Charts series, in which we aim to highlight interesting trends in three simple charts.

The current debate about housing muddles two separate issues: the affordability of housing, and the risk in the banking system of any significant fall in house prices. Clearly, they are both important issues and the link between them is the potential for a lot of home owners to overreach in their finances, to not be able to repay their loans, and so to bring down their banks.

But when you look at the data on mortgage stress the systemic risk of this overreach looks small. Data from the [Australian Prudential Regulation Authority](#) (APRA) reveals the average balance on housing loans has barely trended upwards over the last five years (see our first chart below).

This was during a period when [house prices have risen](#) quite strongly. In effect, this means that, on average, people have more equity in their houses to stand behind their borrowings.

This is not just true for the average but also if you look at investor loans or for low documentation (loc-doc) loans (these are aimed at those who cannot provide the usual required paperwork, for example self-employed people). The same trends emerge. It's not clear from this that people are taking on excessive risk – and certainly not recently.

Even for new loans you get the same basic picture. The chart below shows the loan to valuation ratios for new loans. What is clear is that for most new loans people are borrowing between 60% and 80% of the value of their houses.

The proportion of people who have very high exposure to a fall in house prices – those with loan to valuation ratios above 90% – has been declining over time. Once again, the basic picture is one of prudent households, rather than a community of people gambling on house price rises.

A lot of the confusion about housing arises because people make inappropriate comparisons.

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One common mistake is to compare the amount of housing debt with national income. This is highly misleading.

A more correct comparison is between your income and the amount of your income needed to service your loan. At a national level, this means we should look at the size of national income and the amount of income needed to service the debt (not the amount of debt).

An alternative that the Reserve Bank uses is to compare the amount of debt people have with the amount of assets they hold. As we can see in the chart below, the value of household liabilities has been increasing but the total value of assets held by households appears to have been rising faster. Again, there is no clear case that the household sector has borrowed excessively.

None of this is to deny that house prices can fall, or that some people are finding it very hard to buy somewhere to live in Sydney. Houses are much cheaper in other parts of Australia and property prices have even been falling recently in some regions.

Rodney Maddock works for the Australian Centre for Financial Studies, a public-interest research centre within Monash University, which receives funding from a wide range of industry and governmental groups. He has no direct bank shareholdings and no political affiliations.

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