House repossessions soar amid record debt levels in Australia

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The economic position of millions of people in Australia has become increasingly insecure, with debt levels reaching record proportions. The Reserve Bank of Australia (RBA) reported last month that household debt rose 12.7 percent in the year to June, to $795 billion. Over the past ten years, the ratio of household debt to income has jumped from 60 percent to 171 percent.

Most of this change was propelled by increased housing costs. Some $785 billion is owed on housing, up tenfold from $75 billion in 1990, according to the RBA.

The impact of mortage debt on households is the product of two factors: the amount borrowed and the prevailing interest rates. Currently Reserve Bank interest rates stand at 5.75 percent, much lower than 1989, when they reached 17 percent under the Labor government of Paul Keating. But the pressure of mortgages has increased because property prices have soared.

According to the Real Estate Institute of Australia, median house prices have jumped from $202,000 to $516,000 in Sydney and from $144,000 to $359,000 in Melbourne during the past decade. The average mortgage on a new home is now $230,000, compared with $68,000 in January 1990, so a relatively small rise in interest rates can produce crippling levels of debt. For millions of working people, especially the young, even the thought of buying a home has become virtually inconceivable.

There is another factor also at work. Mortgages are part of a debt structure upon which millions of people rely simply in order to live. The number of people withdrawing equity from their homes has grown by 30 percent since 2003. According to the RBA, about $6 billion a year of this borrowing is funding consumer spending. Paul Gordon of financial advisers IPAC commented: "A lot of people put their credit card debt into the mortgage—and it just soaks it up. In reality you are creating an unbelievably large, long-term debt."

Yet credit card debt is also continuing to rise, and this is starting to impact on borrowers' ability to repay their mortgages. In January, consumers held a record 12.6 million credit cards, up almost a million from a year earlier, with an average debt of $2,656 a card.

Some 46 percent of 18-25 year olds now have a credit card and, in 2003, Financial Counsellors of NSW reported that more than half the 18-24 year-olds it interviewed had debts of more than $14,000, while a quarter had more than $20,000. Some of this has been incurred under federal government's Higher Education Contribution Scheme (HECS) and the Higher Education Loans Program (HELP). Under these schemes, students and graduates owe the government more than $13 billion, and the figure is set to reach $18.8 billion by 2008-2009. The average HECS\HELP debt is approximately $10,500.

In one form or another, huge debts have become an inescapable fact of life for wide layers of the population. Deutsche Bank Australia's chief economist Tony Meer warned: "Debt levels keep on rising and the risk level in the whole system just keeps going up. It's got to be a worry."

Many people are stretched to their financial limits and beyond. In the June quarter, for example, households paid out an all-time high of 21 percent of after-tax income on regular financial bills such as mortgage payments, insurance premiums, council rates and rent. IPAC's Paul Gordon commented: "Three quarters of the population are spending more than they earn ... they are going from week to week, month to month and surviving."

Factors such as loss of employment, higher interest rates or increased living costs can have dire social consequences and thousands of households have already faced economic ruin. According to recent figures provided by the New South Wales Supreme Court, in the 12 months to March 2006 repossessions by financial institutions climbed to 4,837, more than double the level three years ago. In Victoria, this figure increased by 52 percent in the six months to June, compared with the same period last year.

Rising interest rates and falling house prices are opening up new dangers for over-extended borrowers. Rates have risen seven times since 2002, and twice this year already. On a loan of $300,000, homebuyers now pay around $150 a month more than a year and a half ago. A recent survey found that 36 percent of 2,065 respondents would see their capacity to pay back their mortgage significantly impeded if interest rates rose another percentage point.

Any fall in property prices means that, if people come under financial pressure, they cannot sell their homes without suffering huge losses or going bankrupt. The global property boom was particularly strong in Australia. According to a report by the OECD, at one stage Australia had the highest prices relative to rental levels, the third-highest prices relative to incomes, and the fourth-highest levels of household debt relative to incomes.

Since the peak of the boom in 2003-04, prices have fallen by an average 10 percent, with some working class areas affected far more severely, particularly in western Sydney. For example, a one-bedroom unit in Cabramatta, purchased for $262,500 in 2003, recently sold for $95,000—about a third—at a repossession auction. In August, a house at St. Clair sold for $260,000, a loss of 42 percent on the 2003 purchase price of $450,000.

Financial Counsellors Association of NSW vice president David Bell warned: “There’s a fundamental difference now—house values have dropped and people simply can’t sell their home.”

The various federal and state political leaders have responded with crude attempts at political point-scoring. NSW Premier Morris Iemma remarked: “These are the terrible consequences of [Prime Minister] John Howard’s interest rate policies.” NSW opposition leader Peter Debnam blamed the “high-cost, high tax, high regulation regime” in NSW, without offering any alternative policies that would make life more affordable.

Federal opposition leader Kim Beazley said interest rates had risen due to Howard’s “broken promises,” which had led to “bottlenecks in the economy”. Beazley nominated “a lamentable collapse in training in relation to trade skills ... and lack of national leadership on infrastructure issues.” For his part, Howard simply declared as “false” any connection between interest rates and the soaring debt burden, implying that debt had risen only because of higher house prices.

Taken collectively, these empty phrases only serve to underscore the fact that neither Labor nor Liberal, at state or federal level, can formulate any genuine response to the potentially explosive financial and social problem of massive household debt and home repossessions.

The financial stress now being experienced is particularly politically significant. A key plank of Howard’s 2004 election win was a scare campaign about higher interest rates under Labor. Until recently, higher house prices continued to create an illusion of wealth for homeowners. Now, with ever-rising interest rates, the financial threat to mortgagees, coupled with growing levels of household debt more widely, threaten to puncture the Howard government’s officially-cultivated image as a steward of prosperity.