Growing mortgage stress in Australia amid cost of living crisis

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With 12 interest rates increases since May 2022, homeowners are confronting steep rises in repayments pushing more and more into mortgage stress.

There were more than 1.4 million borrowers, or 28.7 percent, who were at risk of mortgage stress in June 2023, according to recent research by Roy Morgan. These are the highest levels since the 2008 global financial crisis.

Around 539,000 more households are now at risk then before the interest rate hikes, with research showing that these figures are the “equal biggest number” since May 2008, when there were 1.46 million borrowers at risk of mortgage stress.

With the Reserve Bank of Australia already having hiked the cash rate from a record-low of 0.1 percent in April 2022, to 4.10 percent, any further increases will push the number of borrowers at risk of mortgage stress to around 1.5 million, or 30 percent of borrowers.

Roy Morgan defines mortgage stress as based on the percentage of income a household receives, in proportion to the amount they need to repay, which varies according to the borrower's income levels. A household that spends 30 percent or more of its gross income on mortgage repayments, is classified as being in mortgage stress.

The number of households deemed to be “extremely at risk” of mortgage stress is also increasing. This means that even the interest portion of their repayments exceeds what is deemed an affordable proportion of their income. There has been an increase of over 400,000 borrowers classified as “extremely at risk,” from a year ago, with around 943,000 or 19.6 percent of borrowers in June 2023 in this category.

According to financial comparison group Canstar, those who took out new loans in April 2022 will be facing mortgage stress. For example, borrowers in the highly expensive housing market of Sydney, who took out a loan in April 2022 of around $1.4 million, could face spending up to 50 percent, if not more, of their income on mortgage repayments by August 2023. This statistic is provided for couples on a combined income of $187,542.

The statistics are similar in other capital cities. Two income households in Melbourne could be paying around 47 percent of their income on mortgage repayments, while those in Perth, Adelaide and Darwin confront the prospect of paying just over 40 percent.

Although official figures indicate that arrears and defaults remain low, they are edging higher from a low base during the pandemic.

The areas with the highest arrears are in the outer suburbs of the major cities. Houses in these areas were marketed as being more “affordable.” But these are also the areas where there is a higher concentration of younger and more recent first home buyers, as well as those on lower incomes.

The highest percentage of arrears in New South Wales are found in the suburb of Katoomba, where 5.5 percent of loans in arrears, followed by Bonnyrigg at 4.9 percent. Following this are the suburbs Forrestfield in Western Australia (4.9 percent), Avoca Dell in South Australia (4.1 percent) and West Melbourne (4.2 percent).

It is these households at risk of default, and with high debt levels, that are also confronting a fall in property prices in these very suburbs. In that scenario, some borrowers may end up with a situation in which their mortgage debts exceed the value of their property.

Recent data from the Australian Bureau of Statistics (ABS) confirms that these areas have borrowers with below average incomes. Only around 5 percent of borrowers in these outer areas of the capital cities have a total weekly income exceeding $3,000.

Arrears are expected to rise further as more and more borrowers are coming off the cheap fixed-rate home loan they initially took out and are rolled over to the higher variable rates. This will tip millions over a mortgage cliff, forcing them to find hundreds of dollars more each month to make repayments.

Canstar estimates that for some now coming off fixed-rates, monthly repayments could increase by up to 63 percent overnight. A borrower repaying $1,200 per month will now need to pay $3,101 per month.

It is estimated that at least 880,000 fixed rate mortgages will expire at the end of 2023, and another 450,000 in 2024. Confronting a financial shock, where interest rates would increase to 6 percent and more, many people will have to make difficult decisions on whether they can afford to keep their homes, and even risk their homes being repossessed.

An article in Nine News stated that there has been a notable increase in the number of homes being repossessed in Sydney. The article stated that, as of the latest figures from the NSW Supreme Court, 346 writs were issued for the repossession of homes, from January 2023 to June 2023, about 13 per week. This figure is set to double.

The sharp increases in mortgage repayments will force more and more to dip into their savings and cut back on discretionary spending and even non-discretionary items such as grocery shopping.

There has been a record number of Australians working multiple jobs just to keep up with mortgage repayments and the surge in the cost of living. Around 950,000 Australians, according to the ABS, work more than one job.

That is an expression of the broader cost of living crisis. The ABS recently reported that living costs surged in the June quarter, with employee households seeing an increase of 9.6 percent over the previous year.

This is not simply the outcome of automatic economic policies. The governments and state institutions, such as the RBA, are pursuing a class policy. The successive interest rate rises have nothing to do with fighting inflation. In fact, they are driving up costs in housing.

Instead, the aim is to slow the economy, even if it induces a recession, to preempt any wages' push by the working class. The federal Labor government fully backs the RBA's program, and is working in tandem with it, by slashing social spending and insisting that workers must "sacrifice" during the deepest cost of living crisis in decades.

Meanwhile. the ruling elite is raking it in. The Commonwealth Bank of Australia reported a cash profit of $10.16 billion for the 2022?2023 financial year, acknowledging that this 'boost' is attribute to the increase in interest rates.

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