Mortgage Nation

The Great Australian Debt

Inaugural Report

February 2020

Contents

Introduction

Simon Bligh, CEO illion

Welcome to our inaugural *illion Mortgage Nation Report.*

This groundbreaking analysis reveals for the first time, how Australia's 10.3 million properties, collectively worth a staggering $6.6 trillion, are funded.

We critically review Australia's 6 million home loans, worth a collective $2.1 trillion, uncovering an average debt of $456,000 on new loans less than two years old.

We discover that almost half of all Australian properties are funded through home loans, with the balance either bought up front with cash, or their mortgages having been paid off over time, leaving them debt free.

We explore questions like who the most indebted age group is, and how changing demographics are impacting on traditional home ownership structures. We look at which states are carrying more debt per capita than others.

We ask what all of this means for lenders and borrowers alike. The findings may surprise you.

As Australia's leading credit bureau, illion maintains banking and mortgage records on about 80 per cent of the home loan market, making it one of the most astute and reliable experts in this complex area. Trusted insights, responsible decisions.

I hope you enjoy reading our new report as much as our team has enjoyed compiling it. We want our inaugural *Mortgage Nation Report* to help public policy makers, lenders and borrowers alike make more informed decisions, leading to a fairer and more efficient home loan system for everyone.

Simon Bligh
CEO illion

Executive Summary

Australia's property market is worth a staggering $6.6 trillion, easily outstripping the value of the $2.9 trillion compulsory superannuation system[1] and the $2.2 trillion share market[2].

This makes it crucial to the economic prosperity of Australians.

Our homes are amongst the most expensive in the world, however, with Sydney and Melbourne ranking in the top five cities globally for housing unaffordability[3]. It means we are particularly vulnerable to global and domestic economic shocks.

illion's inagural *Mortgage Nation Report* analyses for the first time the $2.1 trillion of mortgage debt, and explains some of the drivers and characteristics that make Australia unique, and what vulnerabilities it has to interest rate increases.

Despite the cost of debt falling to 40-year lows, $20.4 billion of home loans are in arrears, suggesting that many Australians have already borrowed to their maximum limit and are struggling to repay their obligations.

This report has confirmed a high level of correlation between the fall in property values across Australia and the stress suffered by people attempting to meet their mortgage commitments.

The challenge will be when interest rates inevitably increase, and the impact that will have on hundreds of thousands of Australians locked in a cycle of low wage increases with no ability to increase their monthly debt repayments on their homes.

As one of Australia's largest credit bureaus, illion maintains banking and mortgage records on about 80% per cent of Australians. These detailed records of 4.8 million home loans have been used to compile this report, making it one of the most credible and comprehensive in the country.

Australia's population of 25 million people live in 10.3 million homes, worth a collective $6.6 trillion. Due to our growing population, about 180,000 new homes are built each year, or 15,000 a month[4].

Broadly speaking, Australians live in three property types[5]:

37% Home owners **with a mortgage**

30% Home owners **with no mortgage**

32% **Renters**

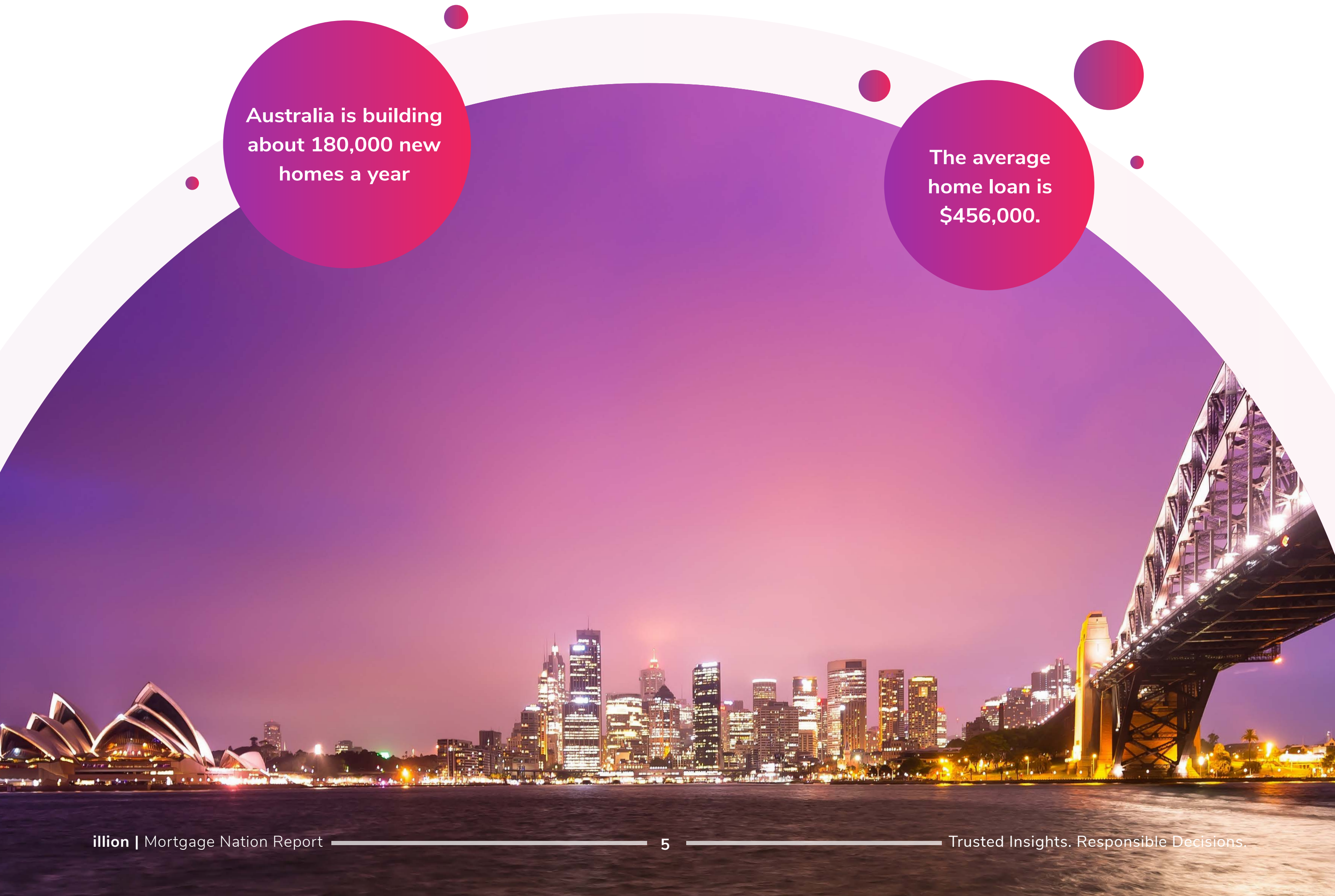
Of these properties, 6 million have mortgages against them, worth a collective $2.1 trillion. The average for home loans opened in the last two years is $456,000 (based on the amortised loan amount, not the balance).

Despite the widespread belief that first-home buyers with small deposits are the most indebted group in the country, it is actually Generation X aged between 30-50, which is enduring 'peak debt burden'. This is the age when owners typically 'trade up' from units to homes to accommodate growing families, and is also likely to be the time when household spending with dependents peaks.

For this reason, those in their late 40s have the highest rate of late payments in the country, rather than Millennial first-home buyers.

Key findings

- Relationships, or friendships, remain the most popular pathway to home ownership in Australia. Three in every five home loans is owned jointly by a male and female. Almost 40% of mortgages have been taken out by a single borrower, with men more likely to do so than women.
- Twenty-one per cent are single males and 16% are single females. Only 3% of all mortgages are with two or more borrowers of the same gender.
- Sydney is the female financial liberation capital, with five of its suburbs having the highest rates of single female home ownership of anywhere in the country.
- By comparison, the top five Australian suburbs where men go solo are shared between Perth , Sydney and Melbourne.
- For both men and women, ‘going solo’ is the most popular option in our inner-cities and affluent sub-urbs, rather than choosing the more affordable suburbs on city fringes.
- Older men continue to pursue the great Australian dream of home ownership well past the traditional retirement age of 65. In fact, a staggering 27% of all mortgages over the age of 70 are for single males.
- The greatest concentration of single gender mortgages is at either end of our lifetimes - with typical first-home buyers under the age of 30, and with older Australians over the age of 70.



Key findings

Age trends

Baby boomers are spending $1 billion or more every year of their Millennial children's inheritance, by cashing out equity in their homes through reverse mortgages.

Despite their title as the nation's most indebted age group, Australians in their 30s have been racing to re-enter the recovering property market, representing one in three new home loans in the last two years.

Of more importance perhaps is the fact that almost 20% of all new homes in the last two years have been taken out by those under the age of 30, suggesting many first home buyers have come surging back into the market following the recent downturn in property prices.

Mortgage stress

Even though the nation's property market has improved in the last 12 months, wages growth continues to be weak. This may explain why 1% of mortgages, worth $20.4 billion, are 30 or more days behind in their payments, with 0.7% ($13.3 billion) more than 60 days behind.

There is a high level of correlation between the Australian House Price Index (HPI) and data on the illion bureau which shows a fall in property values across Australia and the stress suffered by people attempting to meet their mortgage commitments.

Indebtedness and mortgage repayment stress together play a role in the inability of consumers to maintain their mortgage repayments.

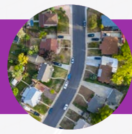
State by state

Western Australia is the country's mortgage state, with 39% of residents having a home loan, followed closely by Tasmania with 34%, and Victoria and South Australia on 32%.

Northern Territorians either own their own homes outright, or prefer to rent, as they have the lowest proportion of mortgages, at only 29%.

The Australian Capital Territory, Wollongong, Newcastle and Geelong have the best average credit quality in the nation, suggesting they live within their means and are responsible spenders and savers.

Overall demand



In the last 12 months Australia's property market has stagnated, with the number of new mortgages per month at the lowest level since 2016.

In 2019, 59,012 new home loans on average were approved each month, compared with 67,762 in 2018, 63,372 in 2017 and 57,542 in 2016.

Around 180,000 new homes are currently built every year in Australia, or 15,000 a month.

Size of the market

Due to Australia's growing population, we are building about 180,000 new homes each year, or 15,000 new homes a month.[6]

Australia's population of 25 million people live in 10.3 million homes, worth a collective $6.6 trillion.[7]

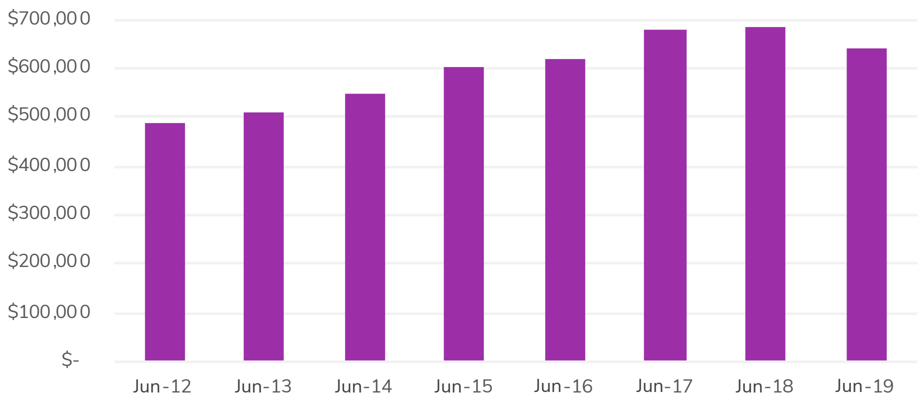
Of these properties, 6 million have mortgages against them, worth a collective $2.1 trillion. The average cost of a home is $638,900, with an average new loan taken out over the past two years of $456,000,

Analysis from international investment bank Morgan Stanley has found that Sydney ranks as the world's second least-affordable property market. Hong Kong is number one on the list, and Melbourne ranks fifth. Adelaide is 16th, Brisbane 18th and Perth 21st.[8]

Number of residential dwellings in Australia[9]

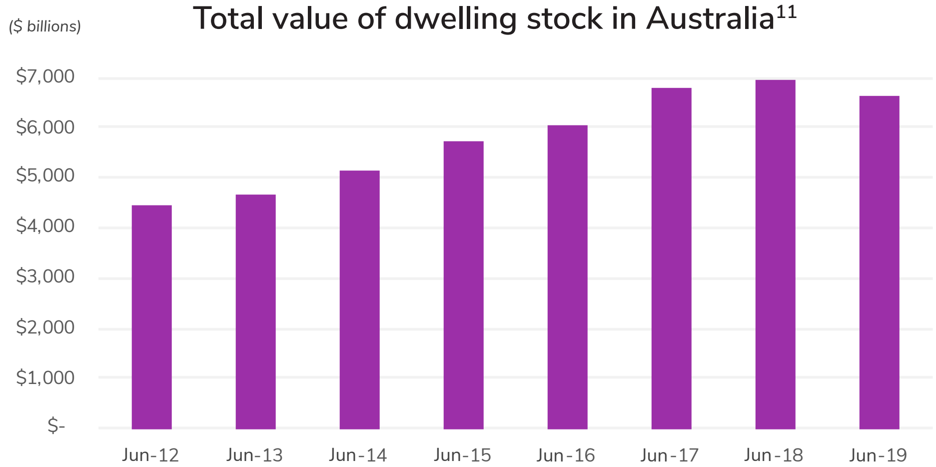
Month	Number of residential dwellings in Australia	Increase per year
Jun-12	9,097,600	-
Jun-13	9,226,900	129,300
Jun-14	9,366,800	139,900
Jun-15	9,562,100	195,300
Jun-16	9,774,500	212,400
Jun-17	9,974,800	200,300
Jun-18	10,161,400	186,600
Jun-19	10,347,200	185,800

Average home price[10]



Month	Mean price of Australian residential dwellings	Annual change (%)
Jun-12	$ 489,900	-
Jun-13	$ 508,100	3.7%
Jun-14	$ 547,500	7.8%
Jun-15	$ 600,100	9.6%
Jun-16	$ 619,500	3.2%
Jun-17	$ 678,800	9.6%
Jun-18	$ 681,100	0.3%
Jun-19	$ 638,900	-6.2%

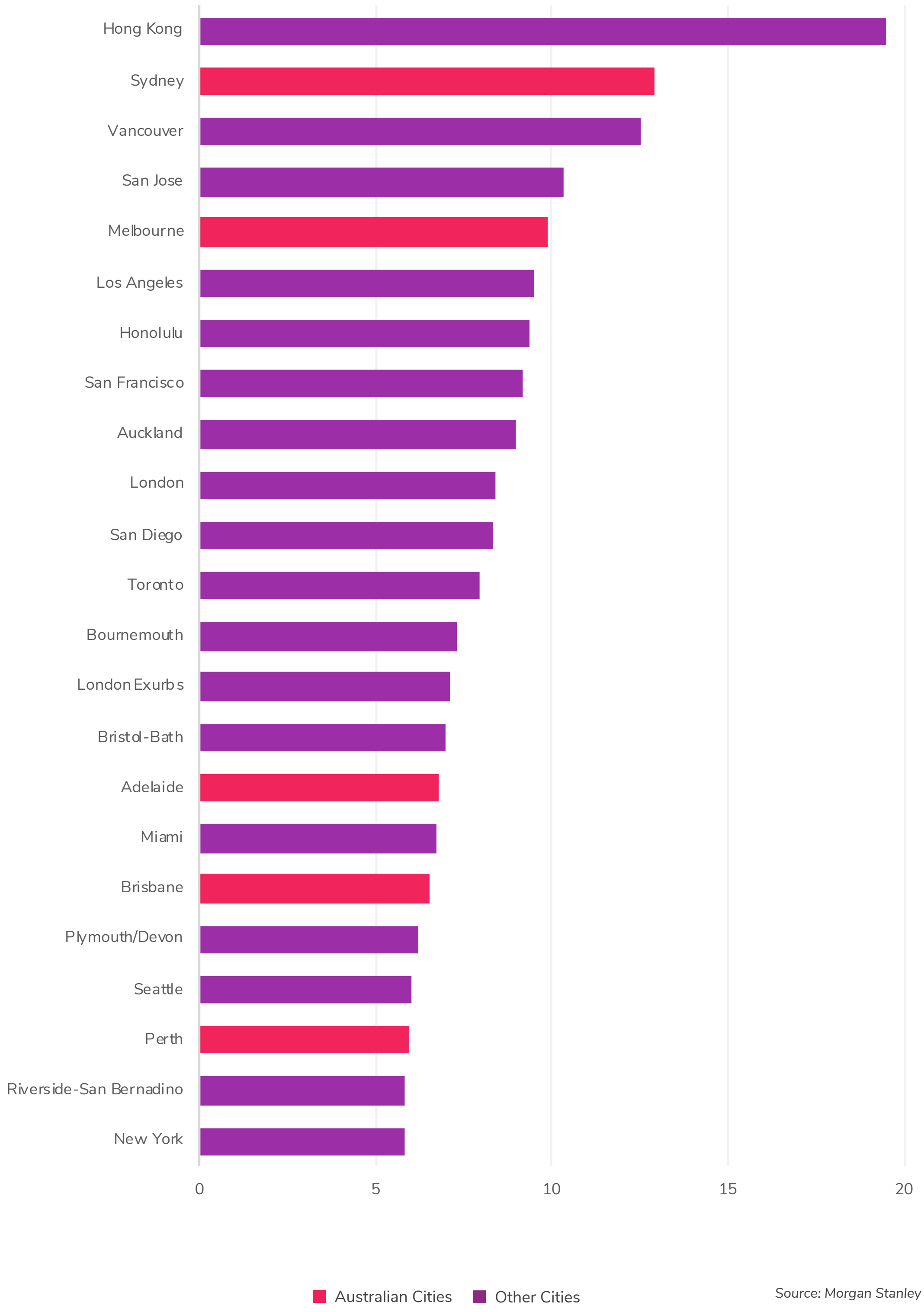
Total value of dwelling stock in Australia[11]



Month	Value of dwelling stock; Owned by all sectors in Australia *($ billions)*
Jun-12	$ 4,457
Jun-13	$ 4,688
Jun-14	$ 5,128
Jun-15	$ 5,738
Jun-16	$ 6,055
Jun-17	$ 6,771
Jun-18	$ 6,921
Jun-19	$ 6,611

Morgan Stanley analysis of global property prices based on a comparison of property price to income:

Median dwelling price to household income ratio[12]



Source: Morgan Stanley

illion data correlates closely with ABS Housing Price Index

Every month, the Australian Bureau of Statistics compiles Australian House Price Index (HPI) statistics. This index measures the price change in all established detached houses which are built on their own block of land.

The housing market plays an important role in the Australian economy, and these residential property prices are of significant interest to policy makers, financial institutions, market analysts and researchers for a range of economic and social reasons.

illion's inaugural *Mortgage Nation Report* has confirmed a high level of correlation between the fall in property values across Australia and the stress suffered by people attempting to meet their mortgage commitments.

To illustrate this, we have given particular attention to three broad geographic regions in Australia – Perth, Darwin and Regional WA. As seen in the graph below, the delinquency rate (at 30+DPD) in Perth and Darwin is substantially higher than the overall capital city average in Australia.

Perth's rate is 50% higher than the capital city average and Darwin's is 70% higher. This correlates significantly with the notable fall in property values in these two capital cities, with Perth prices having fallen by 22% and 31% respectively over the last few years.

Outside the capital cities, Western Australia has suffered a 37% fall in property prices as well as a 60% higher rate of mortgage delinquency (at 30+DPD) than the regional Australian average.

It is evident therefore, that indebtedness and mortgage repayment stress are playing a role in the inability of consumers to maintain their mortgage repayments. This does not bode well for the economy in these regions as any additional mortgage delinquencies may lead to further shocks to economic growth.

City / Region	30+ days delinquency rate
Darwin Metro	1.7%
Perth Metro	1.5%
Australian Capital City Average	**1.0%**
WA Regional	1.9%
Regional Australia Average	**1.2%**

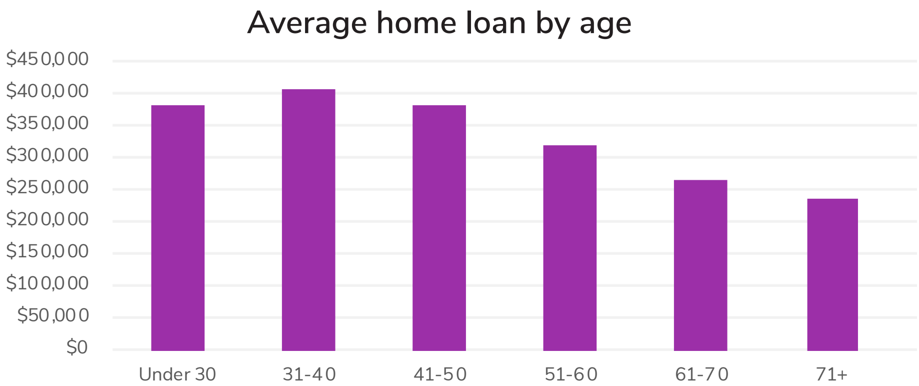
Age comparision

Home ownership is an enormous financial commitment, with repayments often lasting 25-30 years.

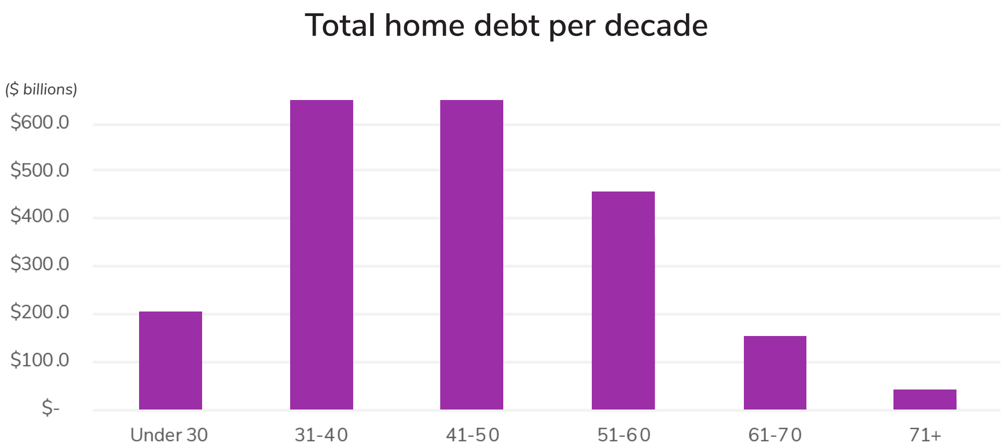
Despite the widespread belief that first-home buyers with small deposits are the most indebted group in the country, it is actually Generation X aged between 30-50 which is currently enduring 'peak debt burden'.

This is the age when owners typically 'trade up' from units to homes to accommodate growing families. The evidence is clear. Australians in their 30s hold $648 billion in mortgages, or $405,000 on average each, followed by those in their 40s who owe $647 billion, or $380,000 on average each.

Not surprisingly, mortgage levels tend to tail off as home-owners age into their 50s and 60s, and they pay down their debt levels. By comparison, those under the age of 30 (typically first-home buyers), owe $205 billion – or $378,000 each.



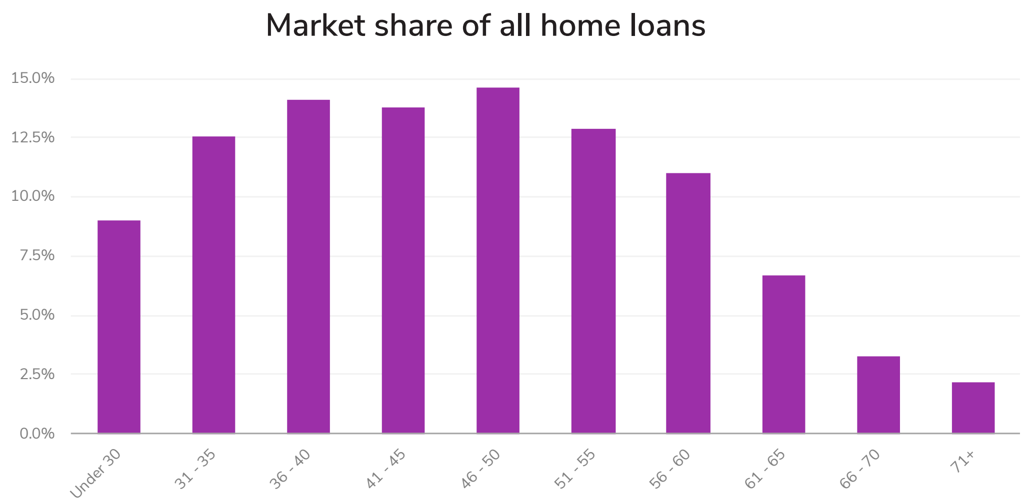
	<30	31-40	41-50	51-60	61-70	71+	Total Avg.
Average home loan	$377,705	$404,975	$379,703	$317,663	$264,827	$233,612	$356,899



	<30	31-40	41-50	51-60	61-70	71+	Total
Total home debt per decade *($billions)*	$204.8	$647.7	$647.2	$454.6	$158.0	$30.1	$2,142.4

For the past few decades, home ownership rates in Australia have been falling. While the decline has been evident across all age cohorts, the steepest declines have been in the younger to middle-age groups.

In a recent Reserve Bank of Australia submission to the House of Representative Inquiry into Home Ownership, a combination of demographic, economic and institutional factors were cited as the primary reasons. Nevertheless, the Australian home loan market is dominated by Gen X and Baby boomers (31 to 60), who own more than 80% of the market.



New Loans

While Australians aged over 71 years have $30.1 billion in home loan debt, $2.6 billion of this has occurred in new loans over the last two years alone.

For a typical 25-30 year loan this means these new 70-year-old plus mortgage holders will need to work until 100 years of age before paying off their mortgage entirely.

However, what is more likely to be occurring is that asset-rich and cash-poor Baby boomers are converting equity from their homes into cash for a better lifestyle in retirement.

Known as 'reverse mortgages', the debt is taken out of their estate when they die. What this essentially means is that at the current rate of new borrowings, Baby boomers are spending $1 billion or more every year on their children's inheritance.

Despite their title as the nation's most indebted age group, Australians in their 30s have also been racing to re-enter the recovering property market, representing a staggering 36% of new home loans in the last two years.

Of more importance perhaps is the fact that almost 20% of all new homes in the last two years have been taken out by those under the age of 30, suggesting first home buyers have come surging back into the market following the recent downturn in property prices.

Loans	<30	31-40	41-50	51-60	61-70	71+	Total
All Loans	9.0%	26.6%	28.4%	23.9%	10.0%	2.2%	100.0%
Loans <2 years old	19.2%	35.8%	25.7%	15.1%	3.7%	0.6%	100.0%
Interest-only loans	5.6%	25.1%	29.8%	25.9%	11.3%	2.3%	100.0%

Interestingly, the under-30 buyers appear to overwhelmingly avoid interest-only mortgages, or mortgages are simply not available to this group. Instead, the bulk of interest-only loans are held by buyers in their 40s.

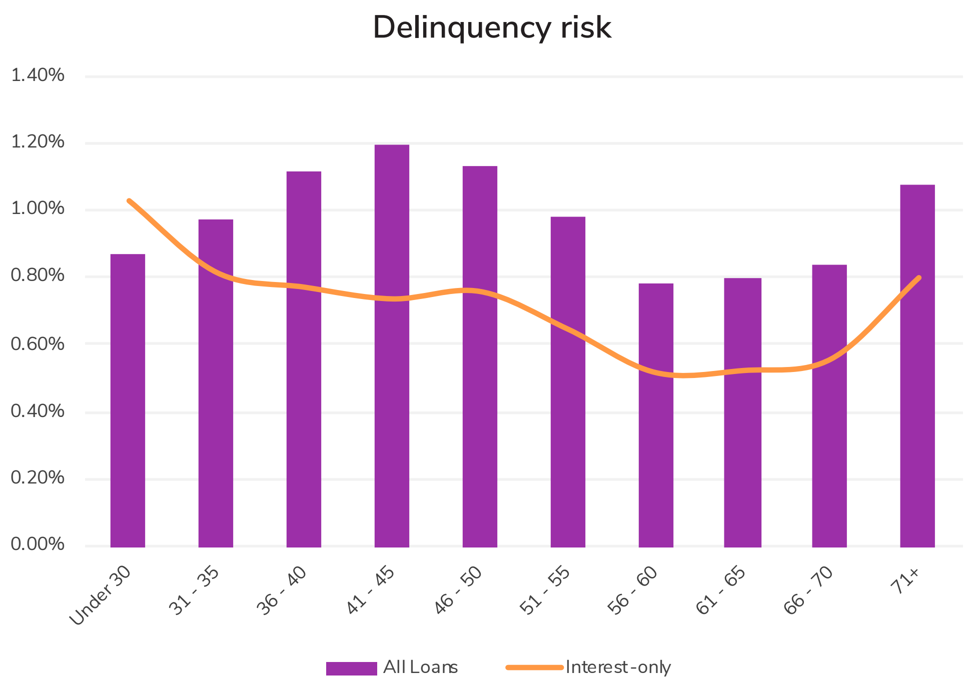
Delinquency risk

A further stand out feature of the illion data is the relatively low and constant level of loan arrears, defined to be over 30 days in late payment times, across all age cohorts.

Only 0.9 per cent of those under 30 are over 30 days behind in their repayments, which is below the overall average of 1.0 per cent.

This suggests that younger Australians who are typically first-home buyers are reliable repayers of debt. By comparison, those most likely to default on their mortgage payments are Generation X, aged between 30 and 50.

While delinquencies drop significantly for those aged 50-70, it spikes again for older Australians aged over 70.



Bank of Mum and Dad

In stark contrast to the popularly held perception that Australia's Baby boomers are flush with financial well-being, our report has found that many older people are forced to remain active in the mortgage market.

illion's inaugural *Mortgage Nation Report* has identified that five per cent of those over 61 years of age have taken out a new mortgage in the last two years.

The primary reason is most likely to be linked to financial necessity – reverse mortgages for asset rich / income poor retirees who bought a 'cheap' house many decades ago, but in retirement have inadequate superannuation savings. They now need to draw on the equity in their prime asset (their house) to live a comfortable retirement.

What is also likely is that some Baby boomers are putting their names on mortgage documents to act as guarantor to their children – giving rise to the 'Bank of Mum and Dad' – and in some cases, even the 'Bank of Grandma and Grandpa'.

Gender comparision

Relationships, or friendships, remain the most popular pathway to home ownership in Australia.

Three in every five home loans are owned jointly by a male and female. A further 21% are single males and 16% are single females. Only 3% of all mortgages are with two or more borrowers of the same gender.

The greatest concentration of single gender mortgages is at either end of our lifetimes - with typical first-home buyers under the age of 30, and with their grandparents' generation over the age of 70. However, single men have a higher proportion of home loans than single women in every adult age group. This may be because men are paid 14 per cent or $241.50 a week more than women[14], giving them greater access to finance.

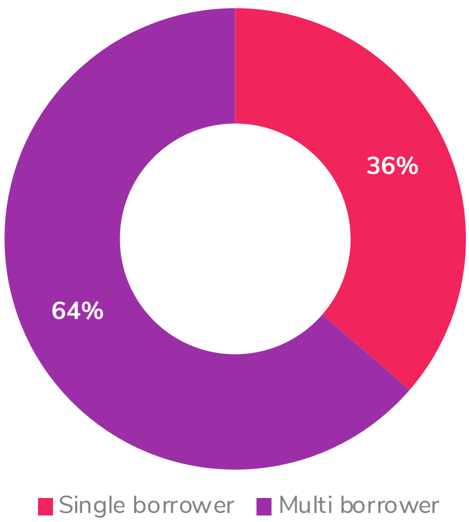
A staggering 27% of all mortgages over the age of 70 are for single males, a time more typically associated with retirement than still repaying monthly mortgages obligations.

Despite 10% of the population being in a same sex relationship, only 3% of mortgages are owned by same sex couples, raising questions about whether this section of the community prefers renting over home ownership. Compared with almost every other age group – and especially the older generations – Millennials have high levels of single sex groups holding mortgages. This could be a sign of shifting cultural attitudes.

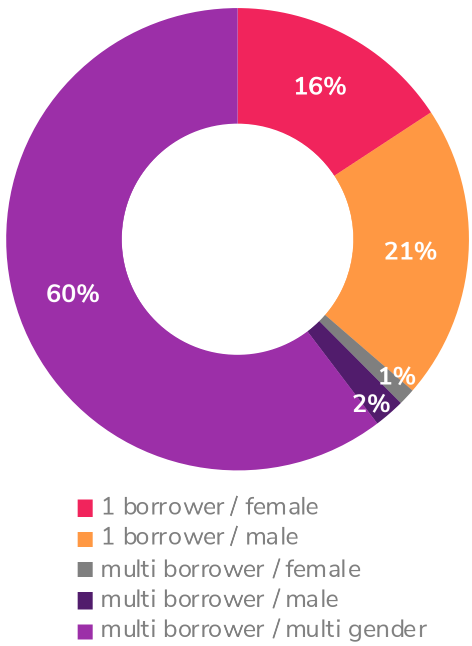
Younger generations are increasingly accepting of alternatives to the traditional nuclear family, including same sex relationships, forging a life with a friend, or pursuing home ownership with a sibling.

Differences for younger Australians also may also reflect Australia's rising immigration rates as the children of migrants enter the market, bringing with them different cultural values such as families pooling their resources to buy a home as a single unit.

Mix of multi and single borrowers



Detailed breakdown

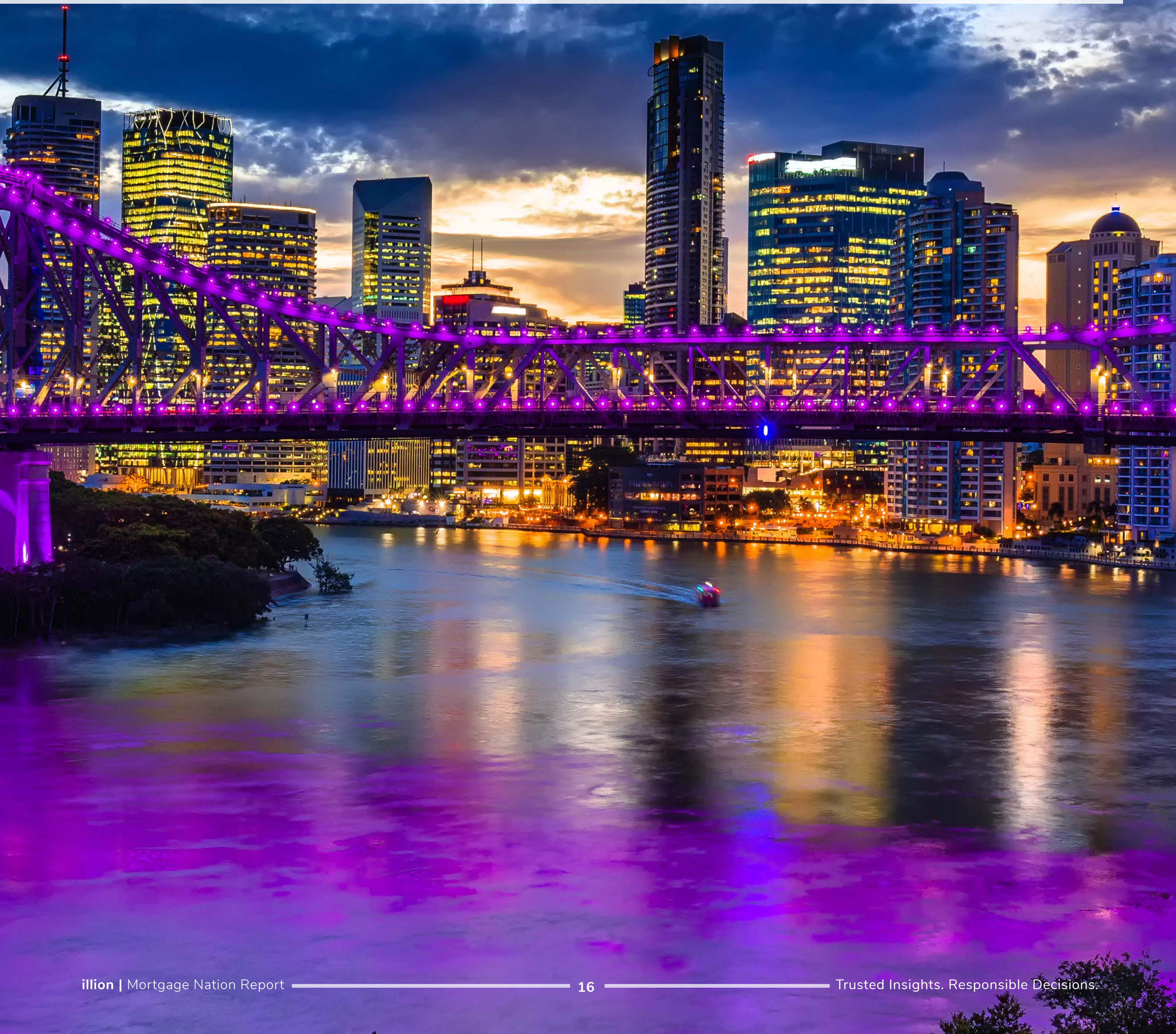


Single women mortgaged to the hilt

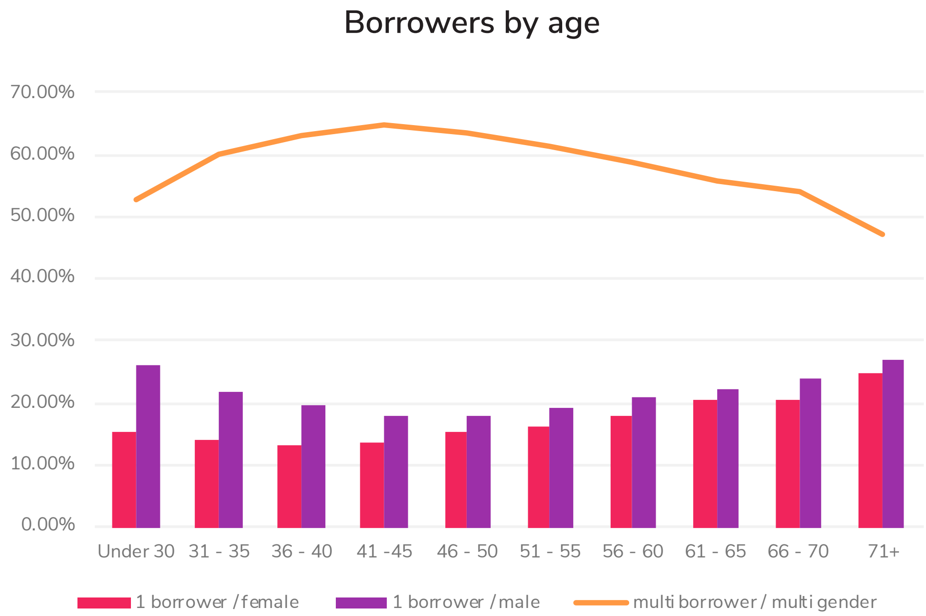
The rise in mortgage exposure for single females as they get older is likely to reflect broader social issues in the community.

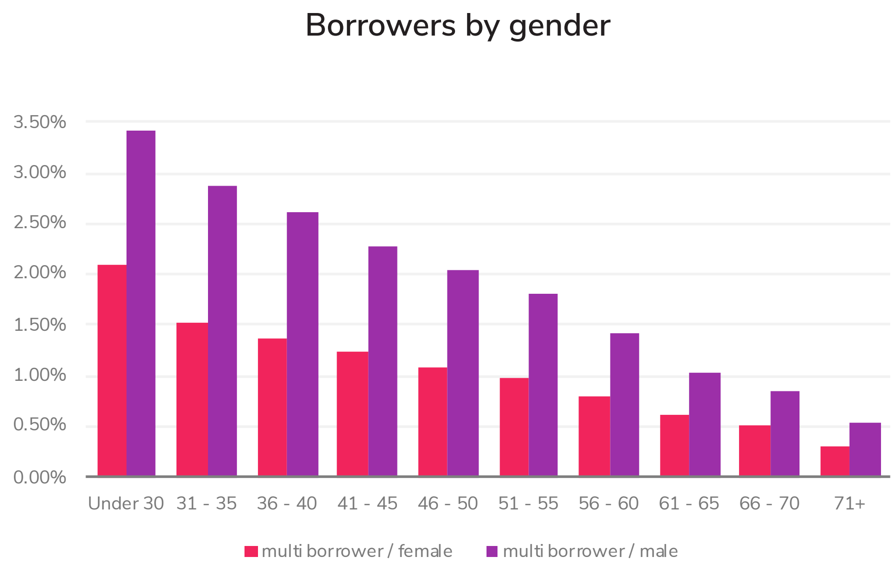
Data from the ABS showing rising divorce rates, women overwhelmingly providing unpaid care and a wide gap in gender pay all feed into the trend for mortgage exposure in higher female age cohorts.

With women living longer than men, a rising trend in reverse mortgages after the death of the male partner may also explain this phenomenon.



Predictably, as we see in the chart below, in age ranges where the number of single mortgage owners goes down, the number of multi-borrowers goes up.





Older men

Older men continue to pursue home ownership well past the traditional retirement age of 65, with 27% of mortgages for those above 70 going to single men. This age group is more typically associated with retirement than working to repay mortgage obligations, reflecting the fact that Australians are now working later, living longer and pursuing the Aussie dream well into their golden years.

State by state comparision

Australia does not have a single ‘housing market’.

Rather, it has multiple housing markets with new construction and price changes vastly different from city to city, town to town and even postcode to postcode.

Factors such as population growth, housing scarcity, access to transport, and whether there is a concentrated reliance on single industries for job security all influence whether a house sells for $100,000 or $1,000,000.

Western Australia is the nation’s ‘home loan state’, boasting the highest proportion of mortgages of anywhere in the country (39%), followed closely by Tasmania with 34%, and Victoria and South Australia on 32%.

Northern Territorians either own their own homes outright, or prefer to rent, as they have the lowest proportion of mortgages, at only 29%.

The Australian Capital Territory, Wollongong, Newcastle and Geelong have the best average credit quality in the nation, suggesting they live within their means and are responsible spenders and savers.

Perth experiencing the most mortgage stress

Four of the five most mortgaged stressed suburbs in Australia are in Perth, at Two Rocks, Alkimos, Jindalee and Oakford.

This suggests the end of the resources boom is having a lingering effect, as people battle job insecurity and falling property prices, while enduring the burden of mortgage debt levels that have barely moved. By comparison, the five least mortgaged stressed suburbs in the nation are Dandenong (VIC), Glenorchy (TAS), Claremont (TAS), Fannie Bay (NT) and Lyneham (ACT).

Renters and home owners

Most interestingly, despite having the highest median house price in Australia, **Sydney is in fact one of the least mortgaged cities in the nation**, with its mortgage penetration rate occupying the bottom 50% of the rankings.

Furthermore, Sydney suburbs Ultimo and Blairmount, are two of the five least mortgaged suburbs in the country, with the former dotted with high-rise apartments and attractive to transient rental residents, while the latter is located near Campbelltown and has a high concentration of residents who own their properties mortgage-free.

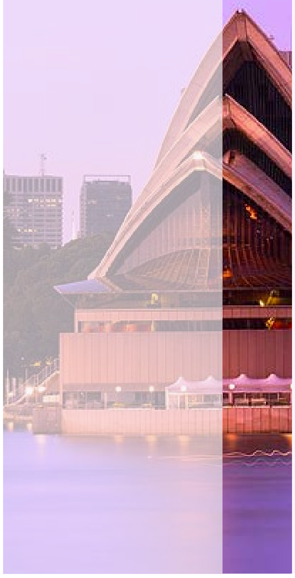
Other suburbs where residents are most likely to have paid off their mortgage, or paid cash for their homes, are Holtze in the Northern Territory and Elizabeth Downs in South Australia.

Freedom means going solo

As previously noted, 40% of all home loans are now taken out by individuals, rather than couples. These loans are unevenly dispersed across the country, with hot-spots emerging in our inner-cities.

Sydney is the city for female financial liberation, holding all top five suburbs in Australia where women are the sole mortgage holder over a property. By comparison, the top five suburbs in Australia where men go solo are shared between Perth, Sydney and Melbourne.

Sydney



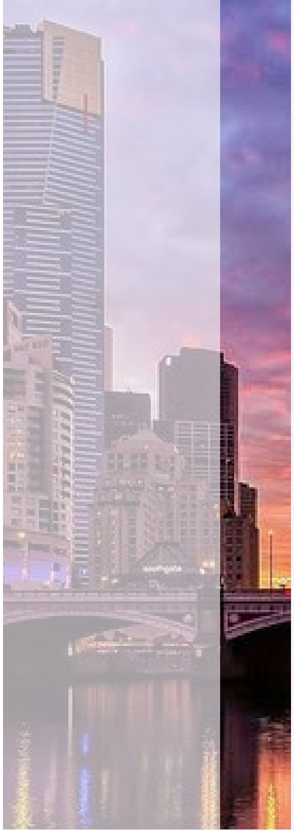
Top Sydney suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	Newington (inner-west)	9.3%
2	Rhodes (inner-west)	7.0%
3	Cammeray (north shore)	6.8%
4	Rozelle (inner-west)	6.5%
5	Killara (north shore)	6.4%

Top Sydney suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Newington (inner-west)	8.7%
2	Orchard Hills (western suburbs)	7.8%
3	Hunters Hill (inner-west)	7.5%
4	Lindfield (north shore)	7.5%
5	Northbridge (north shore)	7.4%

Melbourne



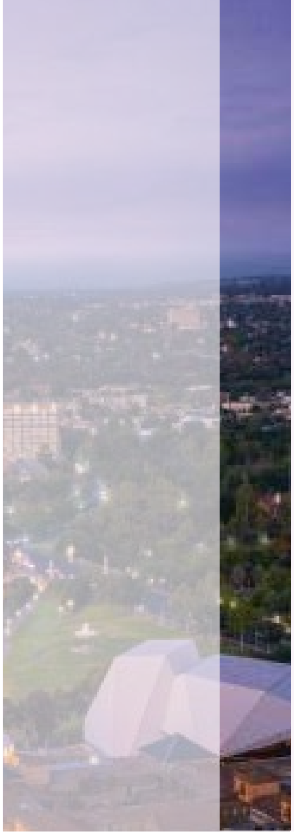
Top Melbourne suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	Port Melbourne	6.3%
2	Elwood	5.8%
3	Kew	5.6%
4	East Melbourne	5.5%
5	Armadale	5.5%

Top Melbourne suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Sunbury	7.9%
2	Rockbank	7.6%
3	Albert Park	7.4%
4	Laverton North	7.1%
5	Kalorama	7.0%

Adelaide



Top Adelaide suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	Bridgewater	4.9%
2	Dulwich	4.9%
3	Hindmarsh	4.8%
4	St Peters	4.8%
5	Fullarton	4.7%

Table 7: Top Adelaide suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	MacDonald Park	6.8%
2	Unley	6.4%
3	Burnside	5.9%
4	St Peters	5.9%
5	North Adelaide	5.9%

Brisbane

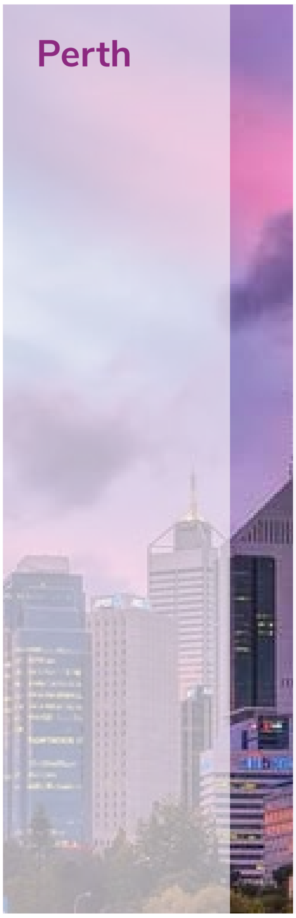
Top Brisbane suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	New Farm	5.1%
2	Calamvale	4.9%
3	Ascot	4.8%
4	Milton	4.6%
5	Balmoral	4.6%

Top Brisbane suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Chandler	7.7%
2	Balmoral	6.6%
3	Burbank	6.5%
4	Milton	6.1%
5	Ascot	6.1%

Perth



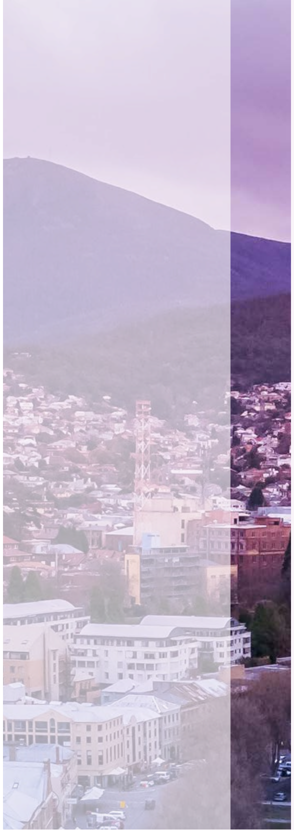
Top Perth suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	North Perth	6.2%
2	Tuart Hill	6.0%
3	Leederville	6.0%
4	North Fremantle	5.9%
5	Palmyra	5.7%

Top Perth suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Leederville	8.0%
2	North Fremantle	7.9%
3	Cottesloe	7.9%
4	Scarborough	7.6%
5	Two Rocks	7.5%

Hobart



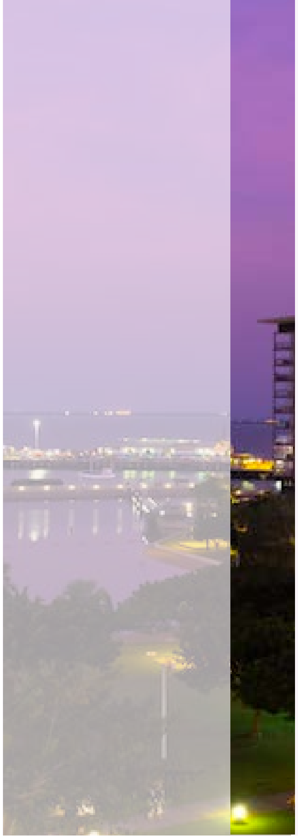
Top Hobart suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	South Hobart	5.0%
2	Lindisfarne	4.7%
3	Hobart	4.6%
4	New Town	4.5%
5	Lauderdale	4.4%

Top Hobart suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Clifton Beach	7.1%
2	Blackmans Bay	5.0%
3	South Hobart	4.9%
4	Risdon	4.7%
5	Taroona	4.7%

Darwin



Top Darwin suburbs for sole **female** mortgages

Ranking	Suburb	% of property with sole female mortgage holder
1	Fannie Bay	4.9%
2	Casuarina	4.3%
3	Anula	4.1%
4	Darwin	3.6%
5	Virginia	3.6%

Top Darwin suburbs for sole **male** mortgages

Ranking	Suburb	% of property with sole male mortgage holder
1	Virginia	7.0%
2	Fannie Bay	5.9%
3	Berrimah	5.6%
4	Darwin	5.5%
5	Anula	5.4%

A significant transformation

Steven Brown, Director Bureau Engagement

Australian consumers are at the starting line of one of the most significant transformations to the nation's financial system since the great reforms of the 1980s.

In September 2019, a new set of rules was quietly introduced that will have a huge impact on who qualifies for a mortgage, credit card, mobile phone and even an electricity account.

Overwhelmingly, many Australians will be better off, and for a small group of consumers who previously couldn't afford to repay the products sold to them, they will be protected from irresponsible lending.

It is called Comprehensive Credit Reporting.

From 17 September 2019, the positive repayment history of every Australian has been provided by the major banks to independent credit bureaus like illion, giving a true picture of customers' credit worthiness for the first time.

Until that moment, only negative events in someone's credit history showed up on their credit score, like the missing of a mortgage instalment or the late payment of an electricity bill.

This means all lenders now have a much more accurate picture of an applicant's risk, irrespective of where their mortgage, savings or credit cards reside.

It is truly transformational and brings the Australian financial system one step closer to the rest of the developed world, including the US, UK, and New Zealand.

The beneficiaries include:

- Up to 12 million Australians whose credit scores may improve, helping them qualify for cheaper housing loans and other products and services
- Immigrants and young people who typically don't have a credit history in Australia from which to borrow against
- Vulnerable Australians who previously may have borrowed beyond their reasonable ability to repay their debts
- Smaller banks and start-up 'neo-banks' who have struggled to get a true picture of an applicant's credit history if their savings accounts, mortgages and credit card records were scattered across the big four banks.

CCR has been a long time coming. March 2019 marked the five-year anniversary since CCR became possible in Australia, but it has only been fully embraced by the Big Four Banks now. National Australia Bank led the way in February 2018[13], with the other big three following in September.

Many customers who would have been denied credit under the old system may now have access to it. At the same time, many who were granted it then might not get it now. In future, consumer credit deals will begin to look more like insurance policies, where 'premiums' or interest rates and fees could be priced according to a customer's risk.

However, further improvements can still be made. In most of the developed world, lenders share the amount of outstanding debt on a card, personal loan and mortgage. In Australia, only a borrower's maximum credit limit can be reported, which often results in an unclear picture of their true debt levels and overall spending habits.

Similarly, all lenders like utility, telecoms and energy companies should be able to report on their customers' positive payment histories. Not doing so unfairly disadvantages 'the unbanked' and 'the underbanked', often migrants and the young.

Many of these people have been diligently paying their telecommunications and energy bills for years but have not been users of other forms of consumer credit such as credit cards. Providing an open and comprehensive view of every Australian's credit history should see more new entrants enter the market, including new non-bank lenders, online-only banks, peer-to-peer lenders and new offerings such as BNPL (Buy Now Pay Later).

CCR will help lenders with the many shades of grey between someone who might be a solidly reliable borrower and someone who might be a severe credit risk.

This is an extraordinary, and little-known development in the economic history of Australia that has the potential to profoundly benefit every Australian.

It is a story worth telling.

"It is truly transformational and brings the Australian financial system one step closer to the rest of the developed world."

Economic outlook

Stephen Koukoulas, illion Senior Economist

The risk that comes from the high levels of household debt in Australia is one of the major macro-economic concerns of the Reserve Bank of Australia, the Australian Prudential Regulatory Authority and other regulators.

Australia's household debt to income ratio is one of the highest in the world, and given the link to strong house prices is seen as a vulnerability in the economy through financial stability risks.

There are at least two elements of the illion findings on the mortgage market which go to show a low and – importantly – improving level of risk in the mortgage market. The findings that just one per cent of borrowers are over 30 days overdue with their repayments is comforting enough. This is near historical lows when compared with published bank data.

The illion data also shows that there is no age or gender cohort where there is obvious financial stress.

This is especially relevant for young borrowers who are often seen as having a higher risk or vulnerability to economic shocks given their tendency to have higher leverage as they enter the housing market for the first time. It is also clear that younger age cohorts are active in the mortgage market, busting the myth that they are continually priced out of the housing market.

It is also encouraging that of the loans written in the last two years, arrears are just 0.2 per cent, suggesting that the credit risks for new lending have been enhanced by the tightening of credit conditions imposed in recent years by both the regulators and the banks.

These finding should be comforting for the regulators in the context of the rebound currently unfolding in the housing market. This improvement in financial stability has been a factor that has seen the RBA move to cut official interest rates since the middle of 2019, where previously, it held monetary policy constant for fear of fuelling the growth in household debt and house prices.

Overall macroeconomic conditions are vital for financial health. While there is a common perception that growing household debt and possible falls in house prices can precipitate an economic slump, the illion data on the State and Territory debt and loan arrears are vulnerable to macroeconomic trends. In other words, a combination of weak economic conditions, rising unemployment, or where interest rates were to rise, loan arrears would rise.

This is why is remains important for policy makers to have settings that support growth and keep the unemployment rate low.

It is also noteworthy that the fall in home ownership rates over the past few decades has occurred against the express intent and actions of a range of Federal and State governments.

Policies aimed to lift home ownerships rates have been largely bipartisan. Policies aimed at specifically increasing home ownership rates for first home buyers include cash grants, stamp duty concessions and priority access to new land release. In addition, there have been policy changes that impact on land zoning rules and investment in urban public transport which aim to add to the stock of dwellings with good social infrastructure at a time when strong population growth is adding to demand.

Looking forward, the illion findings add to the recent build-up of news since the middle of 2019, showing a recovery in new housing finance for both owner occupiers and investors which is feeding into rising house prices across all capital cities.

With the interest rate likely to remain low, or perhaps even falling further in the months ahead, the signs are positive that house prices will be generally strong into 2020 and potentially 2021.

The broad trends also show that the banking sector is in sound shape, having weathered the fall-out from the decline in house prices from mid 2017 to mid 2019, the tightening in macro-prudential lending standards and the sluggish domestic economy.

There is no doubt that the housing market is a vital aspect of the Australian economy. The correlation between the housing cycle, especially for prices, and growth in household spending and bottom line GDP growth, has been strong over many decades.

With illion's *Mortgage Nation Report* findings confirming a healthy mortgage market, the RBA forecasts for a 'gentle upturn' in the economy appear to be on track. In line with other illion data, including our latest Business Expectations results and the near record low levels of late payments, there are growing reasons to expect the overall economy to be performing more strongly in 2020.

> **"The illion data shows that there is no age or gender cohort where there is obvious financial stress."**

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illion's analytics team

Barrett Hasseldine (left) is illion's head of modelling and holds a BSc in Pure Mathematics as well as an MBA. He was named as one of Australia's Top-25 Analytics Leaders in the Institute of Analytics Professionals awards last year. He describes his role as a 'heady mix of pure research and helping clients make sense out of lots and lots of numbers'.

Michael Landgraf (right) is Manager of Bureau Analytics. He holds a BA (Hons) in Mathematical Statistics and has worked in the credit risk industry for longer than he cares to remember – definitely almost as long as Barrett has been on this earth. He is in charge of data-driven market and customer insights and analytical product innovation.

Tung Le (centre) holds a BSc in Applied Mathematics and is the team's modeller. He spends most of his day typically doing what Barrett tells him to do. This includes analysing lots of data and creating scorecards to showcase to clients. He's also responsible for monitoring and reviewing the performance of the software and tools the team uses to crunch the numbers.

illion is the leading independent provider of trusted data and analytics products and services in Australasia, with the company's consumer and commercial registries representing a core element of Australia and New Zealand's financial infrastructure. We leverage consumer and commercial credit registries, which comprise data on over 24 million individuals and over 2 million commercial entities, to provide end-to-end customer management solutions to clients in the financial services, telecommunications, utilities and government sectors.

Trusted Insights. Responsible Decisions.