Department of the Parliamentary Library

Information and Research Services

RESEARCH NOTE

Number 22, 2000–01
ISSN 1328-8016

Trends in Mortgages

Introduction

Recent volatility in nominal interest rates has focused attention on the cost of home buying including the size of mortgages.

This Research Note updates an earlier IRS publication in which it was estimated that, at the end of 1995, the typical mortgage was between $75 000 and $80 000. This was well below the figure of $100 000 frequently used in public debate at that time.[1]

The significant variation between States and Territories in mortgage size and associated repayments is also discussed in this Research Note along with recent interest rate developments.

Mortgages in the nineties

In 1999 there were 2.3 million home owners with a mortgage and these accounted for 31 per cent of all Australian households. This is higher than in 1994 when 1.9 million purchasers comprised 28 per cent of households.[2]

Table 1 shows the size of average new mortgage for each year over the last decade and reveals that, in both nominal and real terms, the average new mortgage increased substantially over the latter part of the nineties. This corresponds with the surge in house prices in Sydney and Melbourne over the same period.

It is important to note that the average new mortgage is not the same as the average mortgage. The former refers to the latest period, i.e. month or year, for which data is available whereas the average mortgage covers all home loans in existence regardless of when they were commenced.

In estimating the size of the average mortgage it is assumed in this Research Note that the vast majority of mortgages have commenced in the last decade. This is based on the fact that in 1999, 70 per cent of home buyers had lived in their current dwelling for eight years or less.[3] This situation appears little different from 1994 when 80 per cent of homebuyers had lived in their home for ten years or less.[4] While some current mortgages may date back as much as 25 years, their number and size will be of little significance compared with housing finance activity of the last decade.

Given this, the analysis presented in Table 2 provides a useful basis for estimating the size of the average mortgage. It shows that 54 per cent of mortgages taken out during the last decade were commenced in the last five years and these accounted for 62 per cent of the housing finance. It therefore seems reasonable to suggest that the average mortgage is currently in the range of $110 000 to $115 000. This is considerably less than the figure of $140 000 used by some commentators.[5]

Variation between States

As reported in 1995, there is considerable difference in mortgage size between States. Table 3 shows the average mortgage size by State for 1999–2000 and 1994–95. This comparison shows that:

- Mortgages are considerably larger in NSW than in other States. In 1999–2000 new mortgages in NSW averaged $165 393 compared with the average for all other States of $121 493.
- It also appears that the NSW mortgages have become more expensive relative to those for other States during the second half of the nineties. Table 3 also shows the ratio of mortgages in each State to the national average for both 1994–95 and 2000–01. For NSW the ratio of mortgages to the national average has increased from 1.17 to 1.21 while for all other States except the Northern Territory, the ratio has fallen over the period.

With the variation in mortgage size between States there is also substantial variation in the level of repayments required of borrowers. Table 3 shows monthly repayments on average new mortgages in 1999–2000 at current interest rates (8.05 per cent) by State. These vary from $1282 in NSW to $624 in Tasmania. Average repayments for new

Table 1: Average New Mortgage 1990–91 to 1999–2000

	No. of housing loans (000)	Average new mortgage (current $)	Average new mortgage (real $)[1]	Change in real average mortgage (%)
1990–91	293.7	70739	83814	
1991–92	379.3	75239	87487	4.4
1992–93	453.1	81170	93406	6.8
1993–94	544.5	87846	99261	6.3
1994–95	451.3	93743	102675	3.4
1995–96	451.5	96740	101617	-1.0
1996–97	481.4	103818	107583	5.9
1997–98	482.2	113362	117473	9.2
1998–99	488.2	125969	128934	9.8
1999–2000	549.0	136490	136490	5.9

[1] Expressed in 1999–2000 dollars.

Source: *Housing Finance for Owner Occupation* ABS Cat. No. 5609.0, various issues borrowers in Queensland, South Australia, Western Australia, Tasmania and the Northern Territory are less than $1000 per month.

When State variations in average weekly earnings are taken into account, NSW still stands out from national trends; in 1999–2000, the ratio of average weekly payments on new mortgages (AWPNM) in NSW to average weekly earnings (AWE) in that State was 0.40—higher than in any of the other States, and even though NSW residents have the highest AWE of all the States (other than the ACT). The corresponding proportions for the other jurisdictions in that year were 0.34 (Vic.), 0.33 (Qld), 0.30 (WA), 0.28 (ACT), 0.27 (SA), 0.27 (NT) and 0.22 (Tas.).

Interest rate increases

During 1999–2000 the Reserve Bank of Australia increased official interest rates several times. As a result, housing interest rates also increased after declining since mid-1996. After reaching a thirty year low[6] of 6.5 per cent in December 1998, standard bank interest rates for variable home loans first increased in July 1999 and progressively increased to 8.05 per cent in August 2000. For a borrower with a $110 000 mortgage this would have resulted in an increase in monthly repayments from $743 to $853.

It is likely, however, that the interest rate increases in 1999–2000 have *not* resulted in increased repayments for the vast majority of mortgage holders. There are two reasons for this conclusion. First, in 1999, 70 per cent of home buyers had purchased their home prior to 1997[7] when interest rates were higher than at present.[8] And, due to the widespread practice of repayments not being decreased when interest rates fall,[9] this group of home buyers would have established a buffer protecting them from the recent interest rate rises.

Secondly, many borrowers who commenced their loans in the low interest rate environment of 1998 and 1999 have chosen to repay more than the minimum requirement. This has cushioned the impact of recent rate rises for them.[10]

Table 2: Summary of Housing Finance 1990–91 to 1999–2000

	Amount lent ($m nominal terms)	Number of loans ('000)	Average new mortgage ($)
5 years 1990–91 to 1994–95	176230	2121.9	83053
5 years 1995–96 to 1999–2000	284750	2452.3	116115
1990–91 to 1999–2000	460980	4574.2	100778

Source: *Housing Finance for Owner Occupation* ABS Cat. No. 5609.0, various issues

Table 3: Mortgage size by State, 1994–95 and 1999–2000 and current repayments for recent borrowers

	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
New mortgage 1994–95 ($)	110 324	94 117	90 090	88 749	85 393	79 051	64 585	97 644
Ratio to Australian average ($93 734)	1.17	1.00	0.96	0.95	0.91	0.84	0.69	1.04
New mortgage 1999–2000 ($)	165 393	132 791	122 486	98 756	119 554	80 465	109 028	129 090
Ratio to Australian average ($136 490)	1.21	0.97	0.90	0.72	0.88	0.59	0.80	0.95
Current repayments for 1999–2000 new mortgages (shown above) at current interest rates (8.05%) ($/month)	1282	1029	950	766	927	624	845	1001

Source: Housing Finance for Owner Occupation ABS Cat. No. 5609.0, various issues

1. 'Home Mortgage Trends', *Parliamentary Research Service Research Note* no. 36, 28 November 1995.
2. Australian Housing Survey *Housing Characteristics and Conditions 1999*, ABS Catalogue No. 4182.0.
3. ibid.
4. Australian Housing Survey, Selected Findings 1994, ABS Cat. No. 4181.0.
5. 'Fourth rise in 6 months will deepen housing downturn—HIA'*;* Housing Industry Association, *Media Release*, 3 May 2000.
6. Interest rates before and after the deregulation of housing finance in April 1986 are not directly comparable. Prior to deregulation housing finance usually comprised a 'cocktail' arrangement consisting of a standard mortgage together with a personal loan typically at a higher interest rate and for a shorter duration. Thus the true mortgage interest rate was higher than the standard bank interest rate.
7. ABS 1999, op. cit.
8. Matt Wade, 'Mortgage Rate Rises eat rate borrowers' payment buffer', *Sydney Morning Herald*, 20 August 2000, p. 39.
9. Interest rates fell from 8.25 per cent to 7.55 per cent in February 1997.
10. Wade, op. cit.

Peter Hicks, Economics, Commerce and Industrial Relations Group
Information and Research Services
6 February 2001