Mortgage stress: 230,000 Aussie households ‘risk losing their homes’

A leading economist has described the government’s new schemes to help first home buyers as “crazy”, warning it could result in future problems.

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More than 230,000 households across Australia are in “mortgage crisis” and people risk losing their homes, according to data released by Choice.

The top 10 suburbs nationally for mortgage stress cover urban and regional parts of New South Wales, Victoria, Queensland and Western Australia, based on analysis provided by Digital Finance Analytics.

In New South Wales and Victoria alone over 130,000 households are on the brink, said Choice.

Across the country, the biggest postcode in mortgage crisis is 2560 with 10,578 households, which covers suburbs such as Airds, Ambarvale, Bradbury and Campbelltown.

Choice CEO Alan Kirkland said there are households where people are living fortnight to fortnight and are spending more than they are earning.

“That means that they have to make difficult choices, like whether to put food on the table or keep up with repayments. If they can’t maintain the juggling act, they risk losing their homes,” he said.

There are more than 10,000 Aussies facing mortgage problems in the NSW postcode of 2170, which encompasses Casula, Chipping Norton, Hammondville and Liverpool, among other suburbs.

In WA, the postcode of 6065 which includes suburbs like Jandabup, Landsdale, Lexia, Madeley, Mariginiup and Melaleuca, has almost 10,000 in distress.

Also in the top 10 are QLD’s postcode of 4350, while Victoria takes out five spots with suburbs like Fountain Gate, Berwick, Harkaway, Hoppers Crossing, Ballarat, Hillside and Sydenham, with more than 40,000 households impacted.

WA rounds out the top 10 nationally with more than 6800 households in Clarkson, Merriwa, Mindarie, Quinns Rocks, Ridgewood, Tamala Park feeling the pinch.

More than 130,000 households in NSW and Victoria are in mortgage crisis, according to Choice. Picture: Supplied*Source:Supplied*

Low interest rates helping for now

But leading independent economist Saul Eslake said he would be surprised if there was a significant increase in households experiencing mortgage stress as interest rates have remained unchanged since November last year.

"Interest rates have been coming down since 2011 fairly steadily and while people have been taking out bigger mortgages as rates have come down, it's hard to see how there can have been much of a significant increase in mortgage stress other than as a result of people's incomes falling," he told news.com.au.

He said while there was a period last year where there were job losses and reductions in hours during covid, that was pretty much covered by a combination of JobKeeper, JobSeeker and various mortgage deferrals.

Some people may be having to service bigger mortgages with the end of deferral schemes and may be working reduced hours, he noted.

"It could contribute to an increase in mortgage stress but I'd be surprised if it was significant and could lead to any significant pressure on selling prices," he added.

However, he did warn that interest rates may rise earlier than the Reserve Bank has foreshadowed.

"When that does happen, because many people have taken on bigger mortgages during this period of record low interest rates, if they are surprised by the fact that interest rates start going up before 2024, that could result in a degree of increased mortgage stress," he said.

Safe lending laws

The federal government is looking at winding back safe lending laws, which has concerned consumer groups, but the government has said there are other adequate protections in place.

Consumer Action Law Centre chief executive Gerard Brody said the bill would abolish a borrower's right to legally challenge a lending decision and remove the role of the Australian Securities and Investments Commission in overseeing most bank lending.

"This directly contradicts the banking royal commission, which said that the existing law should not only remain but be better enforced," Mr Brody said

More than 33,000 Australians and 125 community groups had signed an open letter against the National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020.

Mr Eslake is worried about the new incentives to help first home buyers. Picture: Gaye Gerard/NCA NewsWire*Source:News Corp Australia*

Mr Eslake said he did not see a need for the relaxation of safe lending laws, which were introduced after the global financial crisis and in the aftermath of the royal commission into banking.

"There is no evidence at all to suggest people are having difficulty getting mortgage loans for reasons of the unwillingness of banks to lend. There may be difficulties getting a deposit, but that's not the banks fault," he said.

"Indeed I worry the government is going too far in encouraging people to take out mortgages with very little genuine equity stake, that is to say taking out their super with the limit increased from $30,000 to $50,000 in the budget, letting another 10,000 people take out mortgages tied to a 5 per cent deposit and worst of all encouraging single parents to take out mortgages with 2 per cent deposits.

“I think these are crazy and fly in the face of what I should have learned from the US experience in the years before the financial crisis.”

Mr Kirkland added that safe lending laws were put in place to avoid the huge damage to families and communities caused by mortgage stress – by making banks take care to avoid giving people loans they won’t be able to afford to repay.