

Regional Australia Home Loan Arrears Outpace Cities In 2Q 2016; Western Australia Stays Top Of The Arrears Charts

Primary Credit Analyst:

Erin Kitson, Melbourne (61) 3-9631-2166; erin.kitson@spglobal.com

Secondary Contact:

Narelle Coneybeare, Sydney (61) 2-9255-9838; narelle.coneybeare@spglobal.com

MELBOURNE (S&P Global Ratings) Sept. 9, 2016--The number of home loans in arrears in regional Australia outpaced those in cities, while Western Australia remained at the top of the arrears charts in the second quarter (Q2) of 2016, according to a recent report by S&P Global Ratings. Overall, the number of home loans in arrears in Australia increased in Q2, but fell from the prior month. The weighted-average Standard & Poor's Performance Index (SPIN), which measures all prime Australian residential mortgage-backed securities (RMBS) transactions we rate that are more than 30 days in arrears, increased in Q2 to 1.19% from 1.13% in Q1. While arrears increased over the quarter, they fell month on month, ending seven consecutive months of increasing arrears.

The upward trend in arrears has been most evident in nonmetropolitan (regional) areas where arrears have increased to 1.77% from 1.24% over the last eight months reflecting the greater vulnerability of regional areas to downturns in key industries or employers. With loans in nonmetropolitan areas comprising more than 33% of total loan balances underlying Australian RMBS transactions, regional economic performance is clearly influencing the overall performance of the SPIN.

While prime arrears are up year on year, they are still below their peak of 1.69% and decade-long average of 1.25%. Furthermore, arrears generally start to drift lower in the second half of the year so we expect that arrears are

likely to remain at these low levels in most parts of the country over the next quarter. The rate cut by the Reserve Bank of Australia in August will also help. Lower wage growth and higher household indebtedness are no doubt creating a degree of mortgage stress for some borrowers but we expect that relatively stable employment conditions and historically low interest rates will enable the majority of borrowers underlying RMBS transactions to stay on top of their mortgage repayments.

Arrears increased in all states and territories during the quarter except New South Wales, where arrears remained largely unchanged. Western Australia recorded the highest arrears (again) at 1.95%. Tasmania and South Australia had the second- and third-highest arrears at 1.62% and 1.56%, respectively. The higher arrears in these states reflects, in part, the tougher economic conditions in these areas as evidenced by higher unemployment (South Australia and Tasmania) and in the case of Western Australia, the ongoing impact of the slowdown in mining investment. Five of Australia's 10 worst-performing postcodes were in Queensland in Q2, up from three in Q1.

The SPIN measures the weighted-average arrears more than 30 days past due on residential mortgage loans in both publicly and privately rated Australian RMBS transactions. The SPIN is calculated for prime and subprime residential mortgage loans. The indices identify the proportion of loans in arrears in each of the 31-60 days, 61-90 days, and 90-plus days' arrears categories. SPIN is calculated on a monthly basis using information provided to S&P Global Ratings by the issuers of RMBS transactions.

"RMBS Performance Watch: Australia" provides a comprehensive analysis of arrears statistics on loans underlying Australian RMBS. The report can be found on RatingsDirect, at <http://www.globalcreditportal.com>, under the Global Research Publications window. Select Structured Finance Research from the drop-down menu in this window. It can also be accessed at <http://www.sfsurveillance.com.au>. Members of the media can contact Richard Noonan for a copy on (61) 3 9631 2152 or richard.noonan@standardandpoors.com

Only a rating committee may determine a rating action and this report does not constitute a rating action.

AUSTRALIA

Standard & Poor's (Australia) Pty. Ltd. holds Australian financial services licence number 337565 under the Corporations Act 2001. Standard & Poor's credit ratings and related research are not intended for and must not be distributed to any person in Australia other than a wholesale client (as defined in Chapter 7 of the Corporations Act).

Copyright © 2016 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.