



**HD** **Moody's Structured Thinking covers Australian 'interest-only' mortgages, Japanese condominium sales**

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**LP**

The latest Structured Thinking: Asia Pacific newsletter by Moody's Investors Service's reports that the number of 'interest-only' home loans in Australia is growing rapidly, raising concerns about the impact of rising house prices.

The newsletter also covers the Australian 'low-doc' mortgage market and examines the sharp decline in condominium sales in Japan.

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In Australia, interest-only loans accounted for 43% of all new mortgages in June 2014, up from 39% a year earlier. This is a negative development for the **residential** mortgage backed securities (RMBS) market because interest-only loans have a higher risk of default, particularly if interest rates rise from record low levels.

At a time when Australian house prices and therefore mortgages are rising rapidly, the concern is that home buyers are turning to interest-only loans because they can no longer afford repayments on principal and interest loans.

Also in Australia, the newsletter concludes that tighter lending standards for 'low-doc' mortgages are a positive for the RMBS market. Lending standards for low-doc mortgages - loans to borrowers who cannot readily verify their income through standard documentation, such as payslips - have improved as a result of responsible lending laws.

On the Japanese market, the newsletter reports that a decline in condominium sales is a negative for the real **estate** sector generally.

However, over the longer term, it will be positive for larger real **estate** developers because it will drive weaker competitors out of the market. Condominium sales in the Tokyo area declined by 44% in September compared with the previous year.

The newsletter also reports on recent meetings with investors and other market participants throughout Asia, where we discussed the future of **China's** securitization market and demand for Australian RMBS and covered bonds.

In **China**, strong ABS issuance has attracted growing interest from investors. Looking ahead, market participants expect issuance to grow further in 2015 thanks to government initiatives to develop the market and the emergence of new originators.

In the Australian market, spreads have tightened on senior Aaa-rated RMBS notes, making them less attractive for Asian investors. Nevertheless, demand for the paper remains stable because of good performance.

The October edition of Moody's monthly publication contains the following articles:

- Growth in Owner-Occupier Interest-Only Loans is Credit Negative for Future Australian RMBS
- Stronger Low-Doc Lending Standards Are Credit Positive for Australian RMBS
- Decline in Condo Sales to Cement Dominance of Major **Property** Developers in Japan

- Heard From the Market: Australian Securitization Forum
- Heard From the Market: **Chinese** Securitization
- Japanese RMBS: DTI and LTV continue to be key elements in our analysis
- Credit Card Asset-Backed Securities: A Guide

Subscribers can access the report at:

[http://www.moodys.com/viewresearchdoc.aspx?docid=PBS\\_SF384459](http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF384459)

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