



HD **Moody's: Australian residential mortgage delinquencies fall for a fourth year**

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Moody's Investors Service says that delinquencies in excess of 30 days in Australian prime residential mortgage loans have fallen for a fourth consecutive year, as a 10.2% growth in national house prices for the 12 months to July 2014, and a record low official cash rate of 2.5% since August 2013 helped keep delinquencies low.

Steady economic growth -- namely an increase in gross domestic product of 3.1% year-on-year to June 2014 -- also supported the mortgage market, despite an increase in unemployment over the same period.

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"The proportion of residential mortgages across Australia that were more than 30 days in arrears fell to 1.4% in May 2014 from 1.6% in April 2013, and 1.9% in 2011," says Alena Chen, a Moody's Assistant Vice President and Analyst.

"Of the eight states and territories, New South Wales and Queensland experienced the largest falls of 0.3 percentage points. The Australian Capital Territory and Northern Territory were the best performers, while South Australia and Tasmania were the worst performing," adds Chen.

Moody's analysis is contained in its just-released report titled "Australian Residential Mortgage Delinquency Map - May 2014: Delinquencies Fall Amid Record Low Interest Rate and Strong Housing Market," and is authored by Chen.

Moody's report says that nationally, capital cities exhibited lower delinquency rates than non-metropolitan regions in all states except Tasmania, with the majority of the 10 worst performing regions in Australia located outside major metropolitan areas.

In contrast, all the 10 best performing regions in Australia were located in capital cities.

On Sydney's housing market, Moody's report points out that house prices in Sydney have buoyed the economy in New South Wales, and helped keep delinquencies low. Sydney house prices rose 14.8% year-on-year as of July 2014; the largest increase among Australia's capital cities.

In Queensland, the lower delinquencies in May 2014 versus April 2013 reflected a solid annual house price growth of 6.9% in the state's capital city of Brisbane. There was also an improvement in some areas of the state, where severe flooding triggered an increase in arrears in 2013.

Moody's report says that while South Australia and Tasmania were the worst performing among the eight states and territories for mortgage delinquencies, arrears in both states fell in May 2014 compared to April 2013.

In addition, while South Australia and Tasmania exhibited the highest unemployment rates among the eight states and territories of 7.2% and 7.6%, South Australia's unemployment rate rose 2.8% year-on-year versus the national average unemployment growth rate of 12.4%. Tasmania's unemployment rate fell 6.6% over the same period.

The Australian Capital Territory and Northern Territory were the best performers, with the lowest levels of delinquencies in Australia; continuing the trend seen in previous years.

Moody's report says that because a high proportion of borrowers in both territories are employed in government jobs -- which are more stable and secure when compared to jobs in the private sector -- borrowers in the two territories are associated with low mortgage delinquency rates.

Mortgage delinquency rates for Western Australia -- the state most dependent on the mining industry and which would be the most exposed to a fall in commodity prices -- were stable between May 2014 and April 2013.

Delinquency rates in Victoria were also stable. **Property** prices in its capital city, Melbourne increased by 11.0% in the year to July 2014, compared to the national average of 10.2%.

Moody's outlook for the performance of mortgages in prime **residential** mortgage backed securities for the remainder of 2014 is stable. This view is underpinned by our economic forecasts for modest GDP growth of 2.5%-3.5%, a continuation of the low cash rate of around 2.5%, and a broadly stable unemployment rate of 5.5%-6.5%.

Subscribers can access the report at https://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF380422 and the supplementary excel data report at http://www.moodys.com/viewresearchdoc.aspx?docid=PBS_SF380444.

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Alena Chen

Asst Vice President - Analyst

Structured Finance **Group**

Moody's Investors Service Pty. Ltd.

Level 10

1 O'Connell Street

Sydney NSW 2000

Australia

JOURNALISTS: (612) 9270-8102

SUBSCRIBERS: (852) 3551-3077

Marie Lam

Associate Managing Director

Structured Finance **Group**

JOURNALISTS: (852) 3758 -1350

SUBSCRIBERS: (852) 3551-3077

Releasing Office:

Moody's Investors Service Pty. Ltd.

Level 10

1 O'Connell Street

Sydney NSW 2000

Australia

JOURNALISTS: (612) 9270-8102

SUBSCRIBERS: (852) 3551-3077

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