

'Mortgage Stress'

Based on data from the 2001 Census, more than one in ten Australian homebuyers are experiencing 'mortgage stress', defined in this *Research Note* as a situation in which homebuyers are paying 35 per cent or more of their income on home loan repayments.¹

The basis for the above definition of mortgage stress is the general rule that financial institutions will not allow a household to take out a housing loan if the monthly home loan repayment, calculated over a 25 year term, exceeds one-third of monthly household income. While it is acknowledged that not all households paying 35 per cent or more of their income in loan repayments are necessarily experiencing stress (indeed, some homebuyers, especially those on higher incomes, may be voluntarily paying more than 35 per cent), mortgage stress in this paper refers particularly to the high risk that a stressful situation might arise.²

Loan Repayments as a Proportion of Income

The table below shows that the majority (58 per cent) of homebuyers are paying less than 20 per cent of their monthly income on home loan repayments and that almost three-quarters are paying less than 25 per cent of their income. However, a significant number (180 000 or 11.5 per cent) of

Table 1. Percentage of Income Spent on Home Loan Repayments, 2001

% of household income spent on home loan repayments	Number of home buyer households ('000)	% of total home buyer households
Under 20%	907.7	58.0
20% to 25%	233.5	14.9
25% to 30%	154.1	9.8
30% to 35%	90.3	5.8
35% to 40%	53.1	3.4
40% to 45%	38.7	2.5
45% or more	87.8	5.6
Total	1565.1	100.0

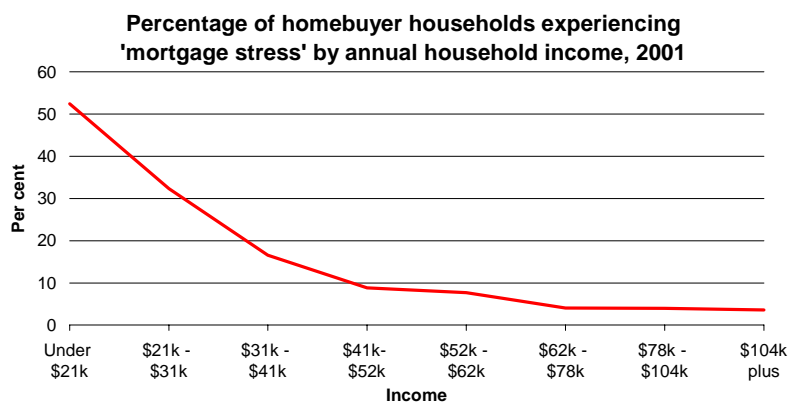
homebuyers have loan repayments equal to 35 per cent or more of their income, ie are under stress as defined.³ Of concern is the fact that there are 88 000 homebuyers paying at least 45 per cent of their income on loan repayments, the majority (two-thirds) of whom are low income households earning less than \$36 000 p.a.⁴

Stress by Income Level

Low income households are far more likely to be experiencing mortgage stress than is the case for high income households. Of those homebuyer households with an income less than \$21 000 p.a., more than half (52.5 per cent) are experiencing stress. This compares with less than 10 per cent of homebuyer households with an annual income in excess of \$41 000 and 3.6 per cent of households with an income in excess of \$104 000. (See chart.)

Stress by Electorate

The proportion of homebuyer households that are experiencing mortgage stress ranges from 6.4 per cent in the electorate of Grey (SA) to 25.3 per cent in Wentworth (NSW). Not surprisingly, electorates in Tasmania (where house prices are relatively low) and the ACT (where incomes are relatively high) have the smallest proportion of homebuyers in stress, while those



electorates with the most amount of stress are mainly to be found in NSW. (Table 2.)

1. An alternative definition, adopted by the National Housing Strategy, is based on the proportion of income paid for housing by income units in the lowest 40 per cent of the income distribution range. If more than 30 per cent of income is spent on housing by these units, they are considered to be in housing stress.
2. See related Research Notes *Interest Rates, Home Loans and Repayments* by Stephen Barber and *Tightening the Mortgage Belt* by Peter Hicks
3. Levels of mortgage stress are likely to be even greater now than they were at the time of the 2001 Census, due mainly to the very large increase in the average loan size that has occurred since the Census.
4. The median income of all homebuyer households at the 2001 Census was \$60 600.

Tony Kryger Statistics Group Information and Research Services

Views expressed in this Research Note are those of the author and do not necessarily reflect those of the Information and Research Services and are not to be attributed to the Department of the Parliamentary Library. Research Notes provide concise analytical briefings on issues of interest to Senators and Members. As such they may not canvass all of the key issues. Advice on legislation or legal policy issues contained in this paper is provided for use in parliamentary debate and for related parliamentary purposes. This paper is not professional legal opinion.

Table 2. Proportion of home buying households paying 35 per cent or more of their household income in home loan repayments, Census 2001

Rank	Electoral Division	Party	Per Cent	Rank	Electoral Division	Party	Per Cent
1	Grey (SA)	LIB	6.4	76	Forrest (WA)	LIB	11.0
2	Braddon (TAS)	ALP	6.5	77	O'Connor (WA)	LIB	11.1
3	Bass (TAS)	ALP	6.5	78	Wide Bay (Qld)	NP	11.1
4	Denison (TAS)	ALP	6.6	79	Longman (Qld)	LIB	11.2
5	Franklin (TAS)	ALP	6.8	80	Fremantle (WA)	ALP	11.2
6	Canberra (ACT)	ALP	6.8	81	Kennedy (Qld)	IND	11.2
7	Makin (SA)	LIB	6.9	82	Bruce (Vic)	ALP	11.2
8	Kingston (SA)	ALP	7.0	83	Stirling (WA)	ALP	11.3
9	Fraser (ACT)	ALP	7.1	84	Pearce (WA)	LIB	11.3
10	Wannon (Vic)	LIB	7.2	85	Eden-Monaro (NSW)	LIB	11.4
11	Oxley (Qld)	ALP	7.5	86	Fadden (Qld)	LIB	11.5
12	Capricornia (Qld)	ALP	7.8	87	Flinders (Vic)	LIB	11.7
13	Corio (Vic)	ALP	7.9	88	Swan (WA)	ALP	11.8
14	Bonython (SA)	ALP	7.9	89	Holt (Vic)	ALP	11.8
15	Boothby (SA)	LIB	7.9	90	Throsby (NSW)	ALP	11.8
16	Groom (Qld)	LIB	8.1	91	Lindsay (NSW)	LIB	11.9
17	Bendigo (Vic)	ALP	8.2	92	Shortland (NSW)	ALP	12.0
18	Wakefield (SA)	LIB	8.2	93	Forde (Qld)	LIB	12.2
19	Mayo (SA)	LIB	8.2	94	McEwen (Vic)	LIB	12.4
20	Herbert (Qld)	LIB	8.3	95	Hume (NSW)	LIB	12.7
21	Barker (SA)	LIB	8.3	96	Hotham (Vic)	ALP	12.8
22	Hinkler (Qld)	NP	8.4	97	Melbourne (Vic)	ALP	12.8
23	Dickson (Qld)	LIB	8.4	98	Cunningham (NSW)	GRN	13.0
24	Hunter (NSW)	ALP	8.5	99	Macarthur (NSW)	LIB	13.0
25	Petrie (Qld)	LIB	8.5	100	Gellibrand (Vic)	ALP	13.0
26	Lyons (TAS)	ALP	8.5	101	Gilmore (NSW)	LIB	13.1
27	Corangamite (Vic)	LIB	8.6	102	Scullin (Vic)	ALP	13.1
28	Kalgoorlie (WA)	LIB	8.6	103	Goldstein (Vic)	LIB	13.2
29	Mallee (Vic)	NP	8.6	104	Paterson (NSW)	LIB	13.2
30	Riverina (NSW)	NP	8.6	105	Macquarie (NSW)	LIB	13.3
31	Ballarat (Vic)	ALP	8.7	106	Menzies (Vic)	LIB	13.3
32	McMillan (Vic)	ALP	8.7	107	Kooyong (Vic)	LIB	13.5
33	Maranoa (Qld)	NP	8.8	108	Batman (Vic)	ALP	13.5
34	Indi (Vic)	LIB	8.8	109	Leichhardt (Qld)	LIB	13.6
35	Bowman (Qld)	ALP	8.9	110	Greenway (NSW)	ALP	13.6
36	Adelaide (SA)	LIB	8.9	111	Curtin (WA)	LIB	13.6
37	Parkes (NSW)	NP	9.0	112	Wills (Vic)	ALP	13.6
38	Griffith (Qld)	ALP	9.0	113	Lyne (NSW)	NP	13.7
39	Calare (NSW)	IND	9.0	114	Page (NSW)	NP	13.9
40	Moore (WA)	LIB	9.0	115	Fisher (Qld)	LIB	13.9
41	Farrer (NSW)	LIB	9.0	116	Dobell (NSW)	LIB	14.0
42	Hindmarsh (SA)	LIB	9.1	117	Berowra (NSW)	LIB	14.1
43	Sturt (SA)	LIB	9.2	118	Hughes (NSW)	LIB	14.1
44	Blair (Qld)	LIB	9.2	119	Robertson (NSW)	LIB	14.1
45	Lilley (Qld)	ALP	9.2	120	Chifley (NSW)	ALP	14.2
46	Rankin (Qld)	ALP	9.2	121	Higgins (Vic)	LIB	14.4
47	Ryan (Qld)	LIB	9.2	122	Calwell (Vic)	ALP	14.5
48	New England (NSW)	IND	9.5	123	Maribyrnong (Vic)	ALP	14.6
49	Aston (Vic)	LIB	9.5	124	Mitchell (NSW)	LIB	14.9
50	Murray (Vic)	LIB	9.5	125	Grayndler (NSW)	ALP	14.9
51	Tangney (WA)	LIB	9.6	126	Fairfax (Qld)	LIB	15.1
52	Port Adelaide (SA)	ALP	9.6	127	Cowper (NSW)	NP	15.4
53	Deakin (Vic)	LIB	9.6	128	Parramatta (NSW)	LIB	15.5
54	Casey (Vic)	LIB	9.6	129	Bennelong (NSW)	LIB	15.6
55	Moreton (Qld)	LIB	9.8	130	Moncrieff (Qld)	LIB	15.9
56	Canning (WA)	LIB	9.8	131	Melbourne Ports (Vic)	ALP	15.9
57	Jagajaga (Vic)	ALP	9.8	132	McPherson (Qld)	LIB	16.0
58	Hasluck (WA)	ALP	9.9	133	Prospect (NSW)	ALP	16.5
59	Burke (Vic)	ALP	9.9	134	Banks (NSW)	ALP	17.1
60	Solomon (NT)	CLP	10.0	135	Werriwa (NSW)	ALP	17.2
61	Dunkley (Vic)	LIB	10.1	136	Cook (NSW)	LIB	17.5
62	Gippsland (Vic)	NP	10.1	137	Richmond (NSW)	NP	18.2
63	Brand (WA)	ALP	10.1	138	Lowe (NSW)	ALP	19.0
64	Cowan (WA)	ALP	10.2	139	Mackellar (NSW)	LIB	19.5
65	Newcastle (NSW)	ALP	10.2	140	Bradfield (NSW)	LIB	19.7
66	La Trobe (Vic)	LIB	10.3	141	Sydney (NSW)	ALP	20.2
67	Charlton (NSW)	ALP	10.4	142	Kingsford Smith (NSW)	ALP	20.5
68	Brisbane (Qld)	ALP	10.5	143	Fowler (NSW)	ALP	20.5
69	Isaacs (Vic)	ALP	10.6	144	Barton (NSW)	ALP	20.7
70	Gwydir (NSW)	NP	10.6	145	North Sydney (NSW)	LIB	20.9
71	Perth (WA)	ALP	10.6	146	Warringah (NSW)	LIB	22.0
72	Dawson (Qld)	NP	10.7	147	Watson (NSW)	ALP	23.5
73	Lingiari (NT)	ALP	10.7	148	Blaxland (NSW)	ALP	23.8
74	Lalor (Vic)	ALP	10.8	149	Reid (NSW)	ALP	23.9
75	Chisholm (Vic)	ALP	10.9	150	Wentworth (NSW)	LIB	25.3