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## Mortgage arrears tracking below pre-COVID levels: Perpetual Corporate Trust

Residential Mortgage-Backed Securities (RMBS) arrears performance against the current cycle of interest rate hikes is still tracking below pre-pandemic levels, data released by Perpetual Corporate Trust has found.

The findings, released as part of a new report, ['Emerging Opportunities: An in-depth assessment of Whole Loan Sales in Australia'](#), highlight that while bank and non-bank 90+ Days Past Due (DPD) arrears has lifted by 0.17 basis points to 0.57% of current balances in 2023 (as at 31 August), it remains well below the 0.69% average for the period 2016 - 2021.

Perpetual Intelligence's Data Warehouse is derived from over \$420 billion in authorised RMBS, which constitutes more than 20% of the Australian mortgage market.

Perpetual Corporate Trust Chief Executive, Richard McCarthy said: "With the recent surge in the RBA cash rate, which has seen the Reserve Bank raise interest rates 13 times since May 2022, there has been considerable public attention given to borrowers' ability to adjust to higher mortgage repayments and the impending 'mortgage cliff' as borrowers roll off low fixed rate mortgages.

"Despite the negative sentiment, analysis of the RMBS market from our data warehouse shows that arrears performance across the RMBS sector has been better than perhaps many had expected. The recent rise in 90+ DPD arrears needs to be taken in the context of coming from an extremely low base, where arrears had dropped more than 30% between December 2021 and December 2022, reflecting the ultra-low interest rate environment."

A comparison of banks versus non-banks shows that non-bank 90+ DPD arrears has increased from 0.31% to 0.76%, while for banks it has increased from 0.43% to 0.57%. For non-banks, the increase in 90+ DPD arrears has been more pronounced in non-prime loans, but again, the recent rise in arrears for these loans puts them back to pre-COVID levels and well below GFC levels. Further to this, non-prime loans constitute less than 0.5% of the total mortgage market.

"Resilience in the non-bank sector was evident given that only 4% of non-bank loans are fixed rate, meaning that the majority of their customers had already adjusted to the RBA rates rises," Mr McCarthy said.

Additional RMBS data points that highlight the performance of the market are loan-to-value ratios (LVR). Current loans with an LVR above 80% represent only 18% of total loans, a significant reduction to the 29% of loans it represented in 2013, and while median offset and redraw amounts are no longer growing, they remain more than 50% above pre-COVID levels.

**Emerging Opportunities: An in-depth assessment of Whole Loan Sales in Australia Report**

The report follows qualitative and quantitative research which included a series of conversations with 17 bank and non-bank participants, as well as global and domestic investors to gauge their perception of the potential market for Whole Loan Sales in Australia.

“Whole Loan Sales have been a feature in the European and US market as an alternative funding model but is not a common funding structure here in Australia.

“However, given the relative strength and resilience of Australia’s housing market, which is supported by the RMBS data released as part of the report, the low incidence of whole loan sales in the Australian market suggests there is currently no overwhelming need for this type of funding,” said Mr McCarthy.

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**About Perpetual Corporate Trust**

Perpetual Corporate Trust has been a leading provider of Asset-Backed Securities (ABS) information since the launch of our reporting service in 1997. ABSPerpetual is the Australian Data Warehouse, which covers over 40 issuers and more than 300 trusts and provides a unique point of reference for domestic and global investors and intermediaries who seek timely, accurate and comprehensive transaction and collateral information.

**About Perpetual Digital**

Perpetual Digital, PCT’s innovation company, leverages 25 plus years of expertise and experience in securitisation, data solutions and analytics to help clients, and the broader ecosystem, to be more effective, efficient, scalable and economical, while managing ever-increasing cyber security risks and maintaining compliance.