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One in five stressed borrowers losing their homes

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UP to one in five households under mortgage stress will lose their homes, research shows.

The findings in a new report - the Anatomy of Australian Mortgage Stress - to be released on Thursday show that about 20 per cent of people who go "into the slippery slide" of borrowing never get out.

And "once you're in severe stress there's only about a 50-50 chance of getting out," Martin North from Fujitsu Consulting, the firm that compiled the report, told Fairfax newspapers.

Researchers analysed data collected from 26,000 households since 2006 and found Victoria had the second-highest rate of severe mortgage stress - defined as homeowners falling into arrears, considering selling or facing default proceedings - behind New South Wales.

Defaults and voluntary sales are highest in NSW, then Victoria and Western Australia has the highest proportion of households refinancing.

The research indicates 750,000 Australian households will be under mortgage stress by mid-2008 - with about 300,000 under severe stress.

Fairfax reported that 72 per cent of households blamed interest rates hikes for mortgage stress this year, up from 14 per cent in 2005.

Mortgage stress has hit young families the hardest with 35 per cent experiencing the pressure.

Housing costs have risen sharply in the past few years, courtesy of a raft of interest rate rises. The Reserve Bank has pushed through 12 interest rates hikes since 2002, with the official cash rate now sitting at a 12-year high of 7.25 per cent.

One of the major reasons the central bank has ratcheted up rates is to try to keep inflation under control.

The RBA tries to keep inflation - or the rate of price increases - within a growth band of 2-3 per cent. Much higher than 3 per cent indicates the economy is growing too quickly, while lower than 2

per cent means its getting too sluggish.

In order to avoid economic booms and busts the RBA tries to keep the growth rate slow but steady.

The next lot of inflation data is due out tomorrow, and economists are tipping a growth rate of at least 4 per cent.

What to do if you're struggling

- As soon as you miss a repayment get legal advice and contact your lender about trying to work out a repayment schedule. The Consumer Credit Legal Centre of NSW says it's easier to work out a repayment schedule with banks than non-bank lenders, because banks are governed by a code that requires them to work with loan customers who are in financial difficulties, and there is also an ombudsman to deal with disputes.
- Under the Consumer Credit Code, if you've fallen on hard times due to illness, injury or job loss you might qualify for a hardship variation to your repayments.
- If rejigging repayments is not an option, try to sell the house yourself rather than let it go at a mortgagee sale. You need to do this before your lender starts court action. Although banks are bound to try to get the best price possible for a house, the RBA says voluntary sales seem to fetch between 15 to 20 per cent more than mortgagee-in-possession sales.
- In some circumstances borrowers can dip into their superannuation to get their home loan back on track. The Australian Prudential Regulation Authority needs to approve the early release of superannuation. In 2006, APRA approved 13,781 applications for the early release of super due to financial stress resulting from either mortgage payments or medical expenses. This worked out at \$135 million, compared to the \$77 million released early the previous year.

Be careful. Only do this if you think your financial difficulties are short- term. If they are ongoing, you might still lose your house and have little superannuation to fall back on.

- Depending on your policy, some insurance companies will cover home loan repayments. This will only be possible with policies like income protection or mortgage protection insurance.

Lender's mortgage insurance - which you generally have to take out if your deposit is less than 20 per cent - protects the lender, not the borrower.

- Several state governments, including Victoria, NSW and Queensland offer short term, interest free mortgage relief loans to cover temporary shortfalls. You must live in the property and the loans will only be granted if the value of the house and size of the mortgage are under certain thresholds.