Hardship applications

Summary

Cost of living and interest rate pressures have had a strong impact on household budgets. Applications for hardship assistance increased in 2023, driven by reductions in borrower income, notably amongst owner-occupied and high LVR mortgage borrowers. This is consistent with the trend of ADIs' arrears, suggesting that the high LVR owner-occupied borrowers are most vulnerable in the current environment.

Key findings

- *The number of mortgage hardship applications increased by over 50 per cent in the second half of 2023*, while hardship applications for credit cards and personal loans increased by around 20 per cent (Chart 1).

- *The main cause of hardship was due to a loss or reduction in borrower income, such as from unemployment*.[1] Overcommitment was the second key driver. High household indebtedness, increased interest rates and higher cost of living have all added to the pressure on households' budgets (Chart 3).

- *The increases in hardship are highest in owner-occupied and high LVR home loan borrowers* (Charts 4 & 5). This cohort generally has lower income and lower cash buffers, thus are more vulnerable cohort. Owner-occupied mortgages, with LVR≥80% are 12 per cent of total mortgages outstanding.

- Hardship applications were proportionally higher in NT and WA. This is largely aligned with home loan arrears data (Chart 7 & 8).

- Section 38 [redacted]

Background

ASIC commenced a temporary hardship data collection with 30 large lenders (14 ADIs and 16 non-ADIs) in October 2023[2], as there were increasing evidence suggesting that some cohorts of consumers are experiencing financial distress and hardship, due to increased cost of living pressures.

The collection will enable ASIC to monitor the environment, understand practices across the industry, and respond to any consumer harm identification. ASIC intended to share data with APRA, the RBA and Treasury to support their respective mandates.

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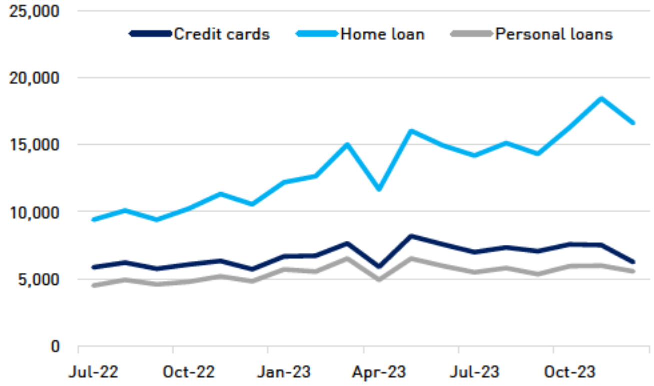
[1] Banks reported hardship by 12 categories. Reduced/lost income includes *unemployment*, *reduced income* and *business downturn or failure*. Personal circumstances includes *abuse, bereavement, medical, natural disaster, parental leave* and *separation.*

[2] Monthly for Section 38 [redacted] and quarterly for all other lenders. The data series are backdated to July 2022

Chart 1 – Number of hardship applications by product

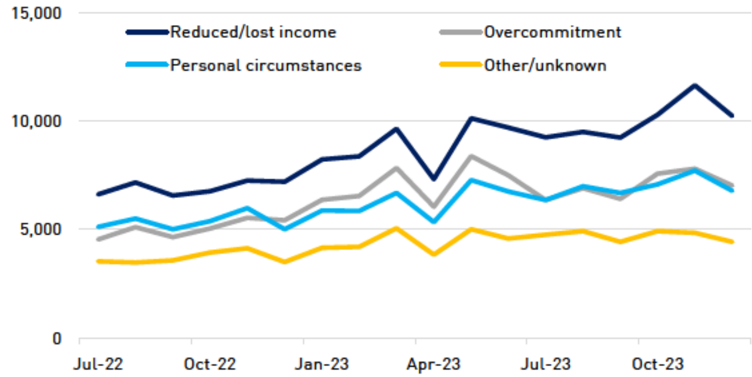
The increase is most evident in home loans



Source:ASIC

Chart 2 – Number of hardship applications by reason

Reduced income and overcommitment are the cause of half of all hardship applications



Source: ASIC

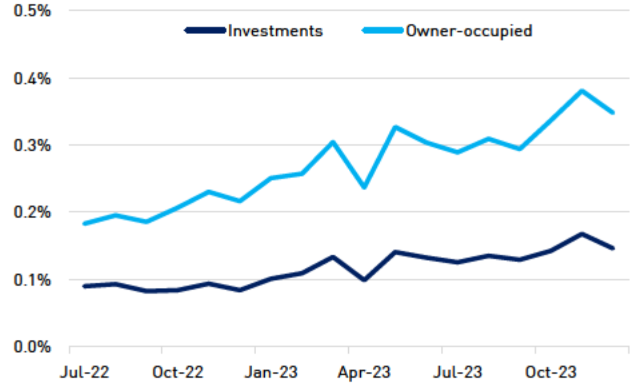
Chart 3 – Household Debt-to-Income

Gross debt-to-income is at the near record high level

Source: ABS, RBA, APRA

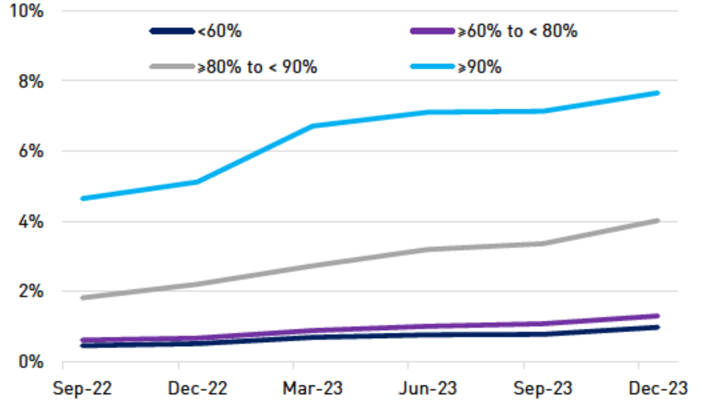
Chart 4 – Number of HL hardship applications by purpose share of number of home loans outanding

The increase is more prominent in owner-occupied HL borrowers



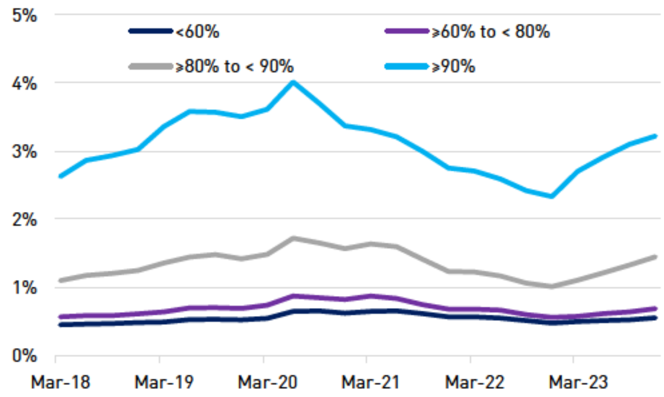
Source:ASIC, APRA

Chart 5 – HL hardship applications by LVRs
Share of home loans outstanding
High LVR borrowers have much higher chance going to hardships



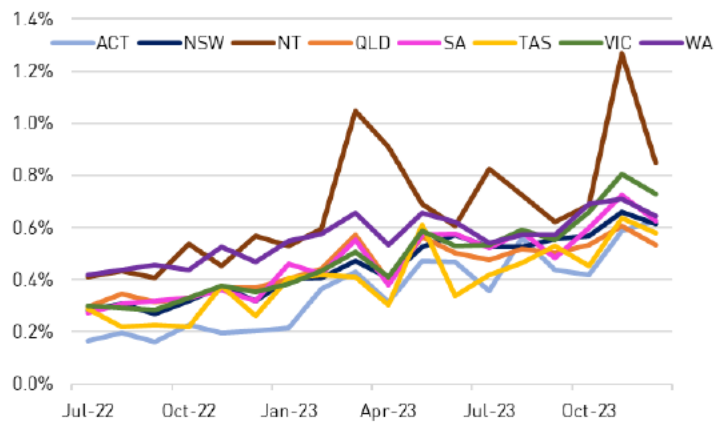
Source:ASIC & APRA

Chart 6 – Non-performing HL ratio by LVRs
The NPL ratios for high LVR buckets are higher and rising, comparing to lower LVR buckets



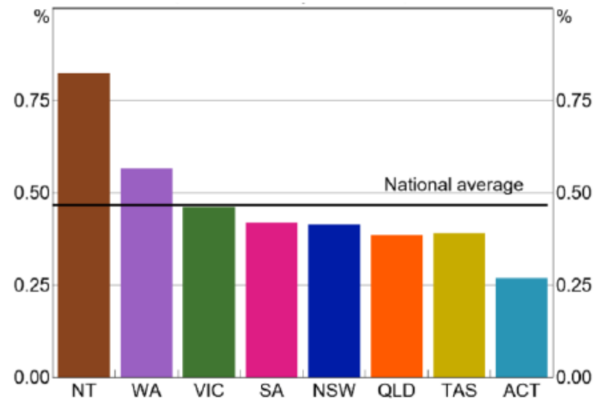
Source:APRA

Chart 7 – HL hardship applications by Sta/Ter
Share of home loans outstanding



Source:ASIC, APRA

Chart 8 – Arrears rate by State or Territory
All loans, ≥90 days past due, Jun 23



Sources: RBA; Securitisation System.