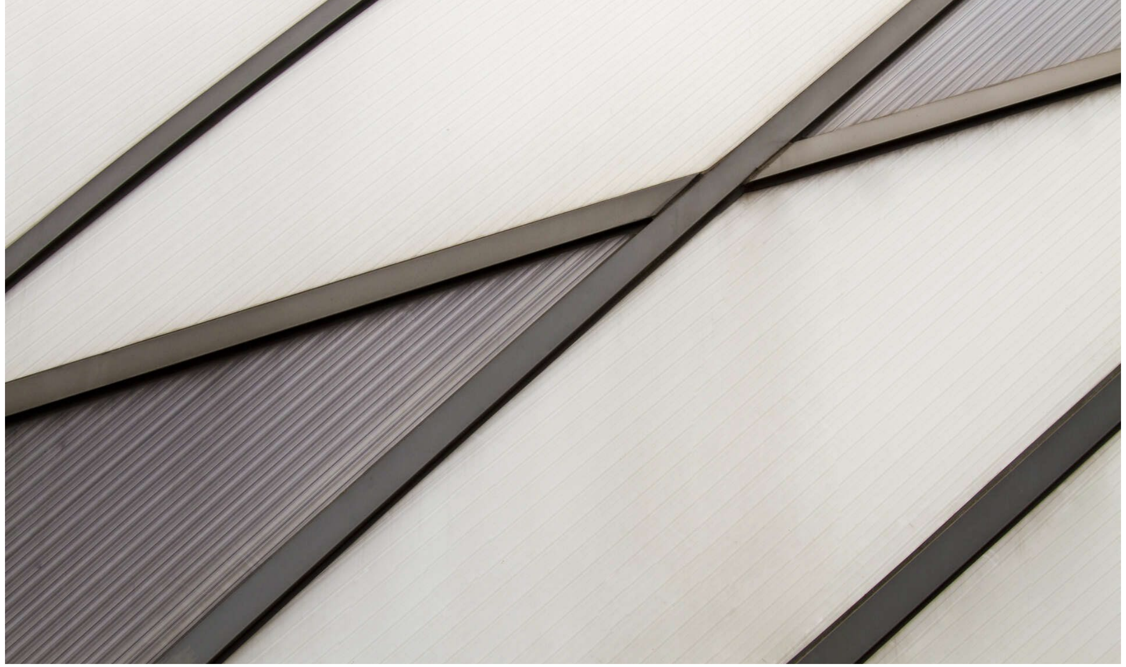
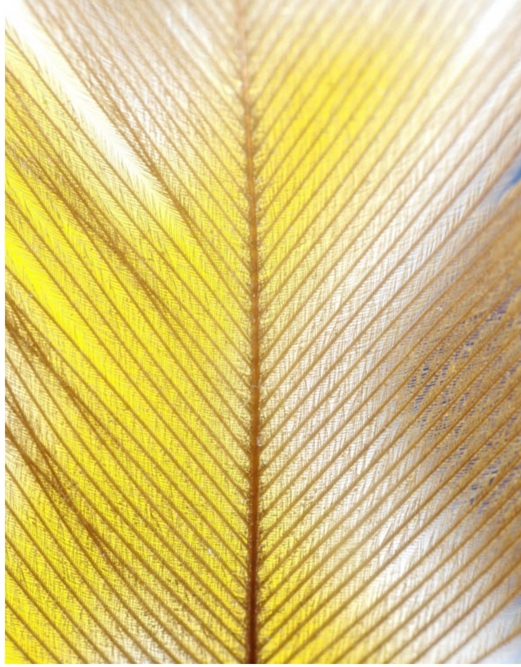




Market Overview | Q3 2024

RMBS Performance Watch: Australia

S&P Global Ratings

This report does not constitute a rating action

Australian Macroeconomic Environment

Trending Themes

Interest rate uncertainty

The idea of "higher for longer" is becoming more entrenched as a strong labor market and persistent inflation delay the commencement of rate cuts until next year.

New issuance abounds

2025 is poised to be another year of strong RMBS issuance as competitive funding costs and strong demand for RMBS boost new issuance momentum.

Productivity growth lags

Lackluster productivity growth is making it harder to return inflation to target.

Sustainable higher wage growth is predicated on improvement on the productivity front.

Offsets to the rescue

Offset balances continue to grow as borrowers channel excess savings into offsets to ease debt serviceability burdens.

S&P Global Ratings Economic Outlook | Australia

	2024f	2025f	Outlook	Effect on credit quality
Real GDP forecast (% year over year)	1.1	2.1	Despite higher interest rates and lower spending, the general resilience of the Australian economy underpins positive, albeit weaker, GDP growth.	**Neutral to Positive.** Most households and businesses appear to be absorbing the higher costs. Sentiment is improving with the expectation of forthcoming rate cuts.
Unemployment rate (year average; %)	4.1	4.4	We forecast unemployment will continue to rise, but levels should remain low by historical standards and below prepandemic levels.	**Negative.** Strong labor market conditions have kept defaults low, but rising unemployment will put pressure on debt serviceability for some borrowers.
CPI (%)	3.2	3.1	While easing, inflation is likely to take some time to fall back within the 2%-3% target range in 2026.	**Neutral.** Inflationary pressures erode real income. This affects lower-income households disproportionately. Inflation's stickiness will dampen household budgets.
Policy rate, end of year (%)	4.35	3.85	We expect the cash rate to remain at 4.35% in 2024 with moderate cuts next year, as inflationary pressures persist.	**Neutral to Positive.** Higher unemployment in the context of interest rates remaining higher for longer will put pressure on arrears but lower rates will ease debt serviceability burdens.

f--Forecast. CPI--Consumer price index. Source: S&P Global Ratings.

Australian RMBS State Of Play

- Low arrears remain underpinned by low unemployment, refinancing opportunities, savings buffers, and property price dynamics. Also, borrowers have been prudent in curtailing expenditures to service their debts.
- Mortgage arrears are one of the last places where financial pressure manifests. Homeowners, especially owner-occupiers, will prioritize most other expenditures to ensure mortgage repayments are paid on time. This cautionary behavior is helping to keep arrears low overall, and the pause in interest rate rises is providing a reprieve.
- Arrears as measured by the SPIN have been relatively steady, however this is somewhat diluted by the high levels of new issuance volumes this year.
- As outlined by the Reserve Bank, borrowers have continued to add to offset and redraw accounts at a similar rate to before the pandemic, despite significant increases in mortgage repayments.
- While we expect unemployment to rise, it will likely remain below prepandemic levels. Property price growth also affords existing homeowners greater agency in self-managing their way out of financial stress.
- Property price dynamics are diverging across the states due to differences in local economic and demographic factors.

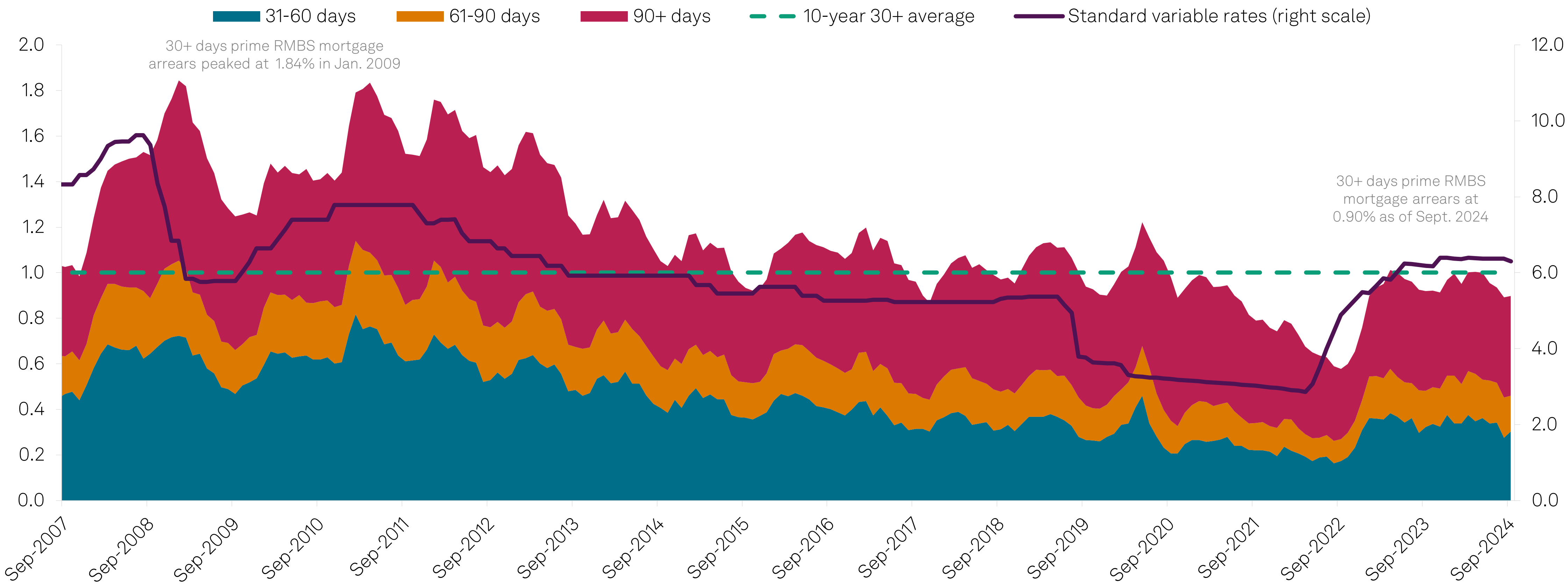
Australian RMBS Performance

Performance Observations: What To Expect

- **Prime arrears:** Prime RMBS arrears were 0.90% in Q3, down from 0.95% in Q2 . Arrears have stabilized in recent months, given the reprieve from interest rate rises.
- **Nonconforming arrears:** Nonconforming arrears were 4.01% in Q3, down from 4.04% in Q2. Nonconforming arrears are holding steady, but performance varies by transaction. Property price growth is giving financially stretched borrowers a way out of mortgage stress.
- **Investor versus owner-occupier prime arrears:** Investor arrears were at 0.71% in Q3 compared with 1.02% for owner-occupiers. Investors are benefiting from the ability to offset higher mortgage repayments against higher rentals, to some extent.
- **Prepayment rates:** Prepayment rates rose in Q3 for prime and nonconforming transactions. We expect prepayment rates to rise when interest rates are lowered in 2025, potentially re-energizing refinancing activity.
- **Losses:** Exposure to loans with an LTV ratio greater than 80% is about 6% for the prime RMBS sector and 9% for the nonconforming RMBS sector. This modest exposure will minimize losses in the event of borrower default, particularly amid rising property prices.
- **Ratings outlook:** Broadly stable. Senior tranches are benefitting from the buildup of credit support, enhanced by strong prepayment rates. Structural features are also enhancing ratings stability in many transactions.

Arrears Are Stabilizing With Interest Rates On Hold

Prime RMBS loans more than 30 days in arrears (%)

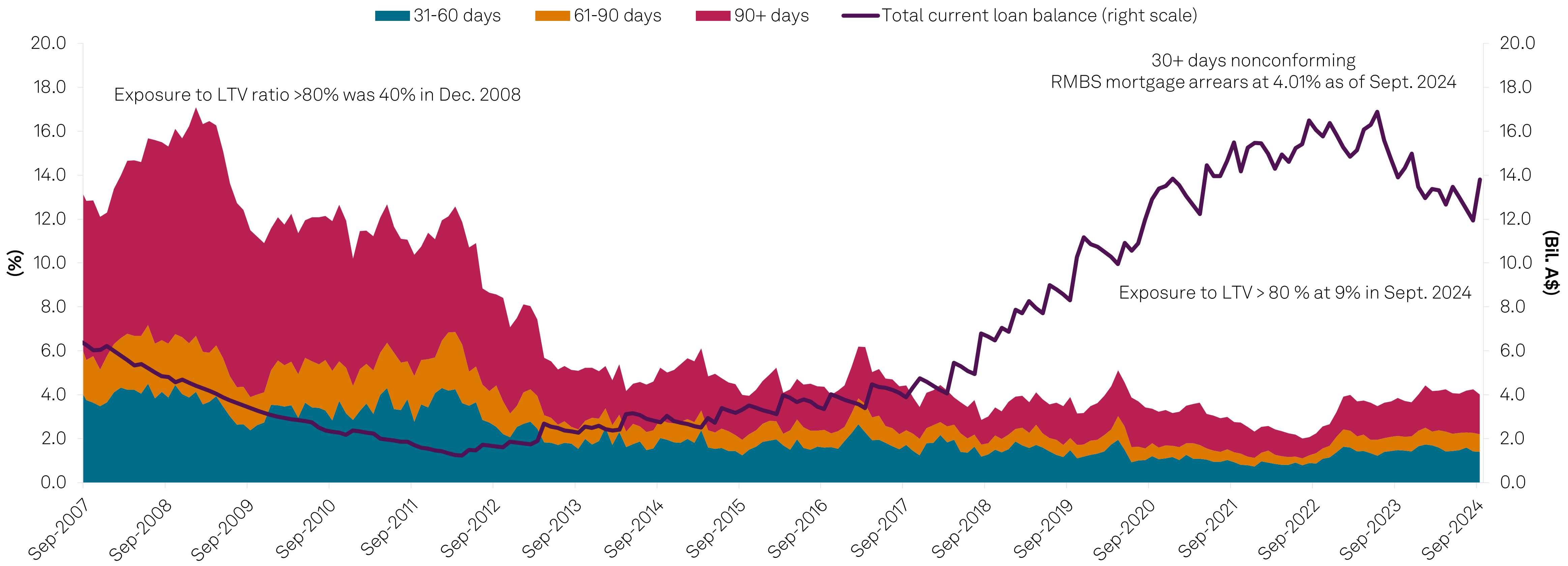


Prime data SPIN shown excludes noncapital market issuance transactions. Prime RMBS arrears exclude noncapital market issuance transactions. Standard variable rates are based on outstanding mortgages.
Sources: Reserve Bank of Australia. S&P Global Ratings.

S&P Global Ratings

Nonconforming Arrears Are Benefiting From Higher Property Prices

Nonconforming RMBS loans more than 30 days in arrears



LTV--Loan to value ratio. Bil.--Billion. A$--Australian dollar. Source: S&P Global Ratings.

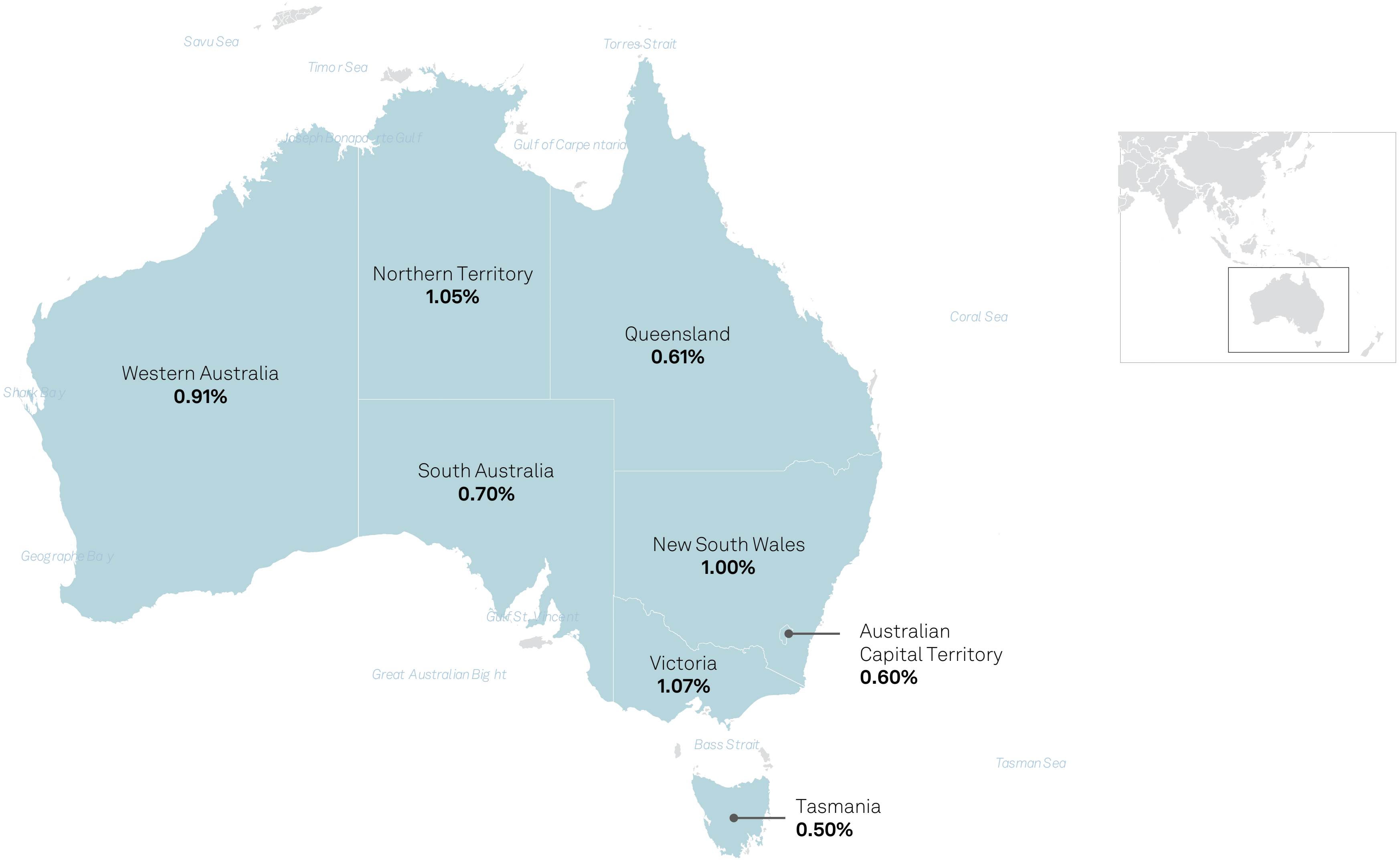
S&P Global Ratings

State Arrears Trend

Sept. 2024

0.90%

Australian prime SPIN



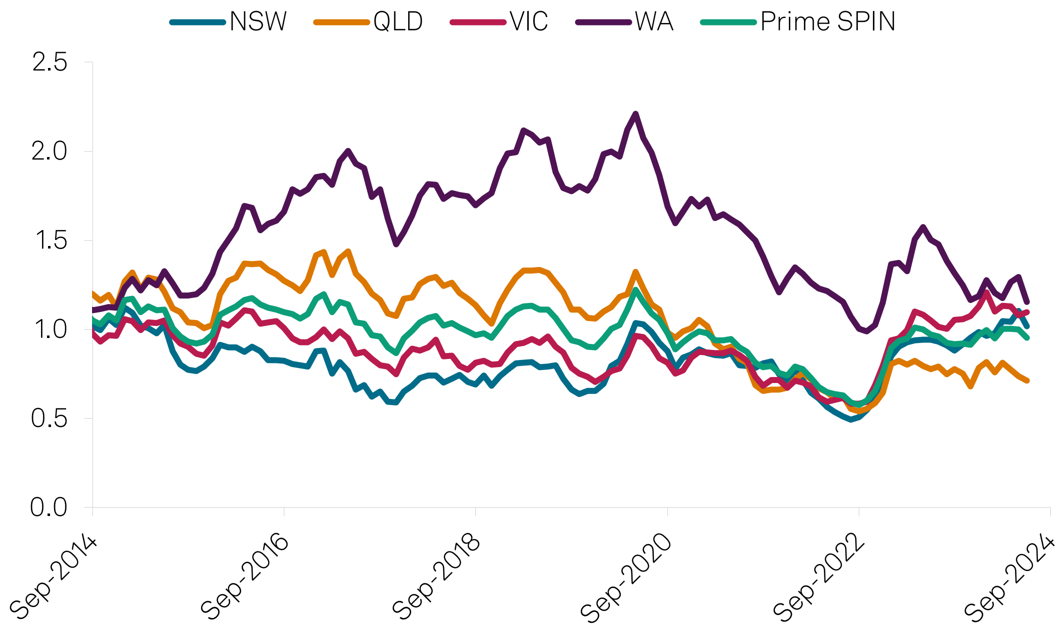
Data as of Mar. 2024 based on prime RMBS loans (excluding non-capital market issuance). Source: S&P Global Ratings.

S&P Global Ratings

State Arrears Trends

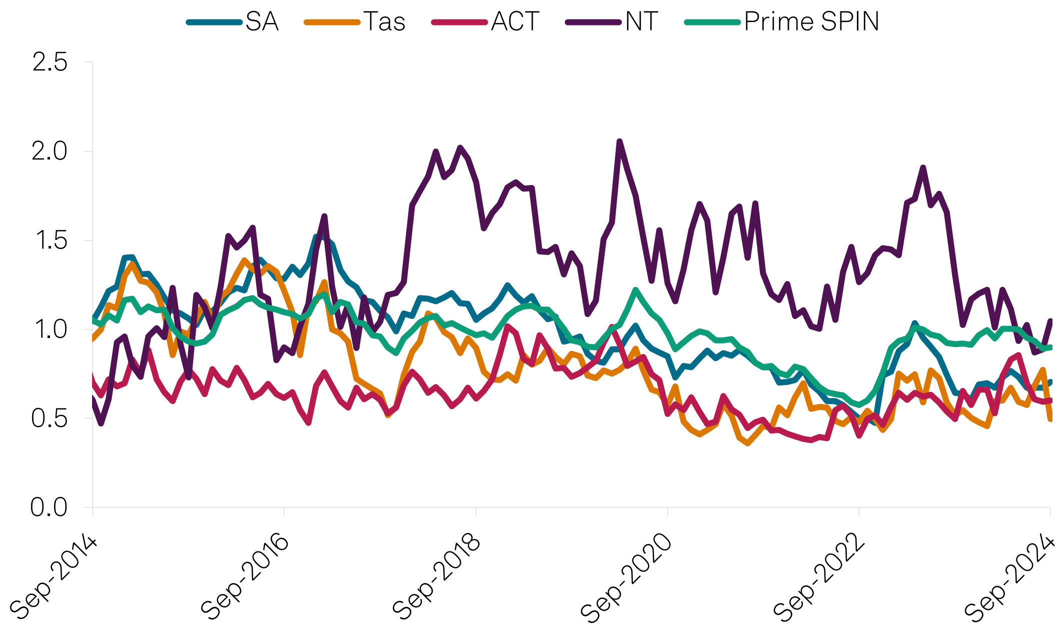
- Victoria has the highest arrears across the states, taking over from Western Australia who long- held the top spot.
- Arrears have declined year on year in Queensland, Western Australia, and Northern Territory.
- Improvements in arrears in Western Australia and Queensland reflect more vibrant local economies, lower unemployment, and higher property prices.

State 30-plus days RMBS arrears (%)



Arrears based on loan balances in outstanding prime RMBS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

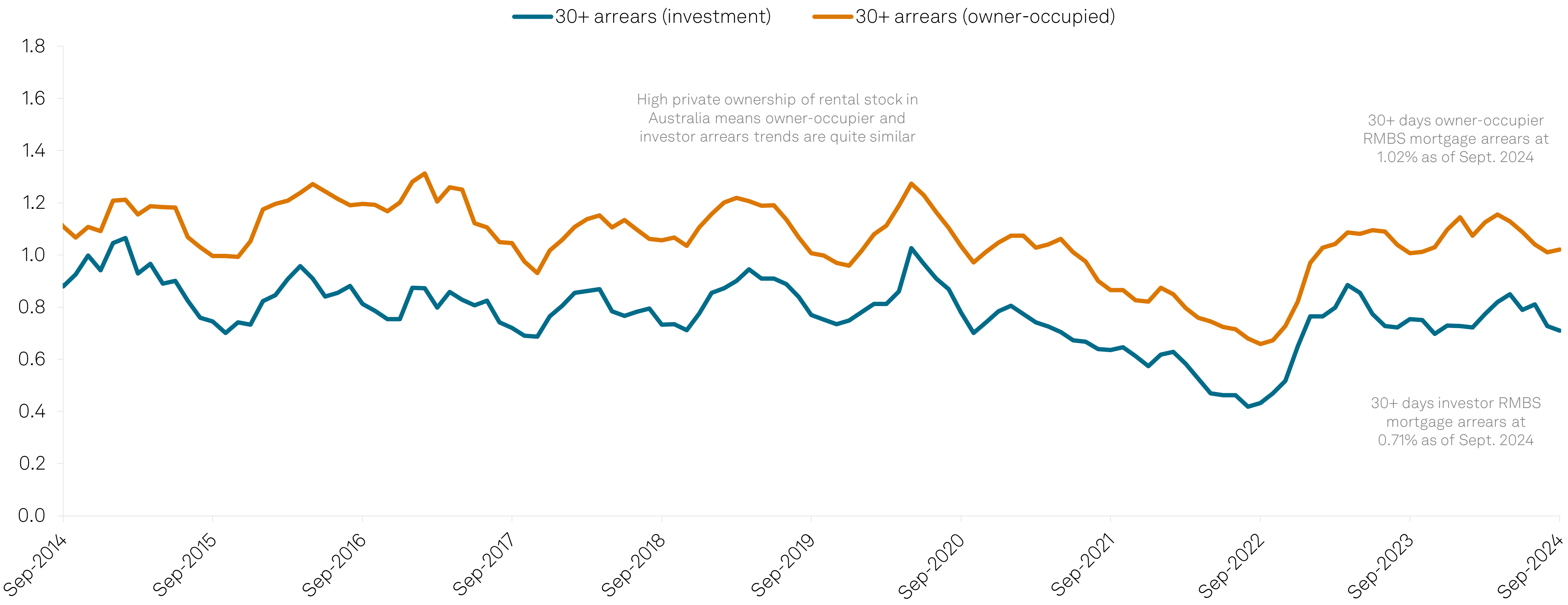
State 30-plus days RMBS arrears (%)



Arrears in NT and ACT are subject to greater volatility given the small size of loans outstandings . Arrears based on loan balances in outstanding prime RMBS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

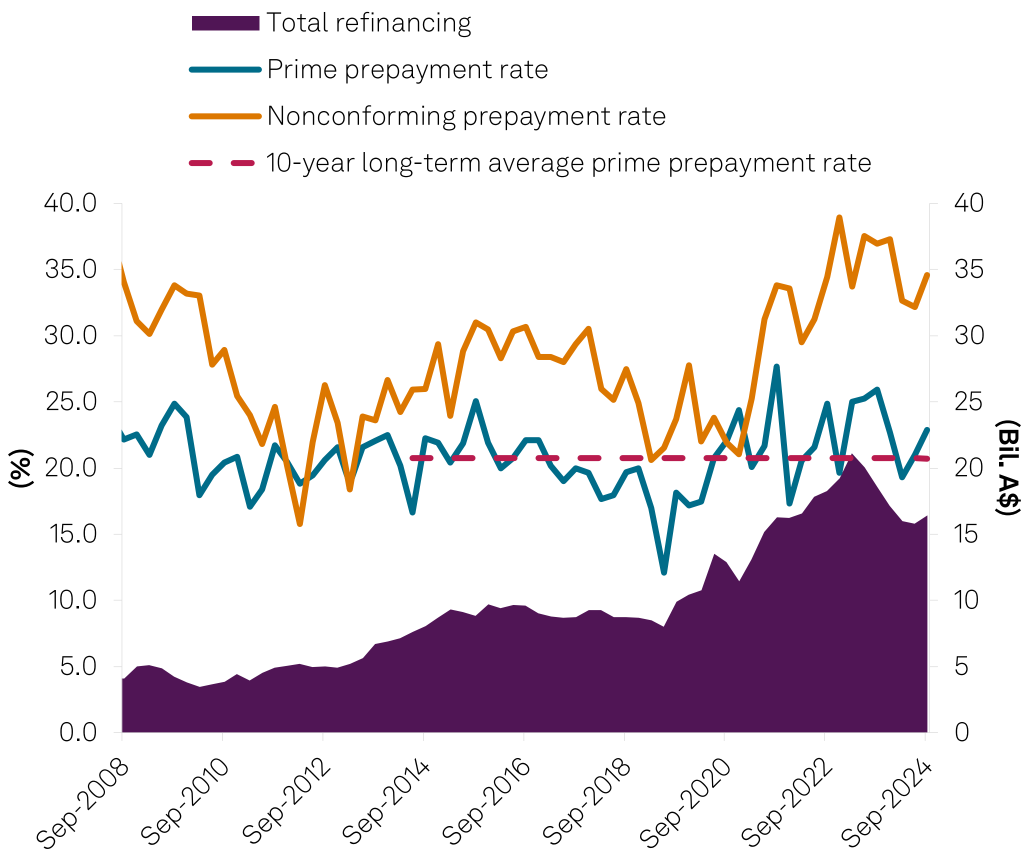
Investor Arrears Are Showing Fewer Signs Of Stress

Investor and owner-occupier loans more than 30 days in arrears (%)



Source: S&P Global Ratings. Investor and Owner-Occupier arrears are included in prime RMBS transactions rated by S&P Global Ratings excluding non-capital market issuance transactions.

Prime Prepayment Rates Return To Long-Term Averages



Source: S&P Global Ratings. Australian Bureau of Statistics.

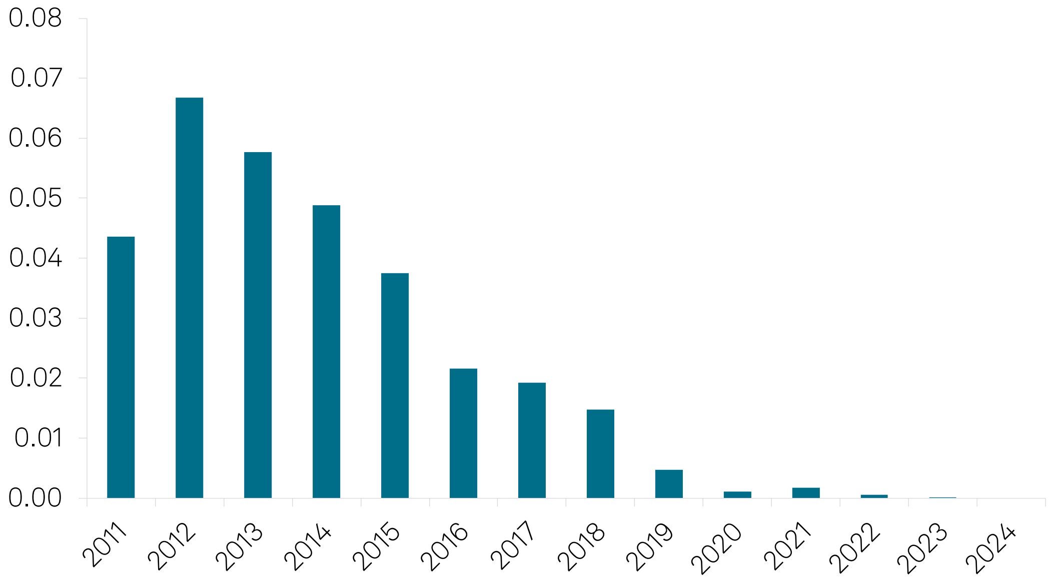
- Prime prepayment rates increased to 22.87% in Q3 from 20.99% in Q2.
- Nonconforming prepayment rates increased to 34.58% in Q3 from 32.18% in Q2.
- Prepayment rates typically rise in Q3 so there is a cyclical element to this trend.
- The stabilization in interest rates, is reducing the amount of refinancing activity from nonbank borrowers to banks.
- We expect prepayment rates to rise when interest rates are lowered in 2025, potentially re-energizing refinancing activity.
- Nonconforming prepayment rates remain elevated relative to longer-term averages.
- This partly reflects the broader credit profile of borrowers in post-financial crisis transactions, enhancing refinancing prospects.

Losses Less Likely With Rising Property Prices

RMBS sector's modest LTV ratio profile, low exposure to high LTV ratio loans, and continued property price growth will limit losses

Cumulative gross loss by vintage of origination

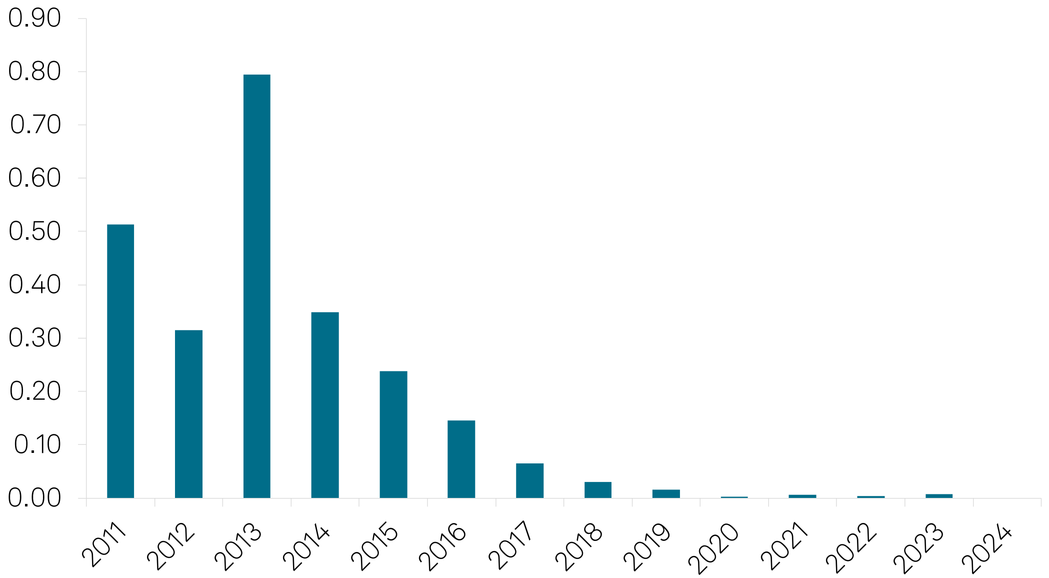
Prime RMBS (%)



LTV--Loan to value ratio. Source: S&P Global Ratings.

Cumulative gross loss by vintage of origination

Nonconforming RMBS (%)



LTV--Loan to value ratio. Source: S&P Global Ratings.

The 10 Worst-Performing Postcodes

State	Suburb	Postcode	Loans in arrears (%)
VIC	Craigieburn	3064	2.96%
NSW	Bateau Bay	2261	2.63%
NSW	Liverpool	2170	2.49%
VIC	Burnside	3023	2.19%
VIC	Pakenham	3810	2.16%
NSW	Airds	2560	2.08%
QLD	Carrara	4211	2.05%
VIC	Point Cook	3030	1.98%
VIC	Hoppers Crossing	3029	1.98%
NSW	Bucketty	2250	1.78%

Data as of Sept. 2024. For a full list of suburbs/localities attached to these postcodes, please refer to the Australia Post website. Postcode data is subject to greater volatility given the small sample size of loans in a postcode area.
Source: S&P Global Ratings.

SA4 Listing Arrears And Exposure

Geographic area map code	Regional name	State	30+ days arrears level Sept. 2024	Exposure across RMBS
101	Capital Region	NSW	1.60%	1.34%
102	Central Coast	NSW	1.67%	1.55%
103	Central West	NSW	0.97%	0.51%
104	Coffs Harbour - Grafton	NSW	1.34%	0.39%
105	Far West and Orana	NSW	1.31%	0.18%
106	Hunter Valley exc Newcastle	NSW	1.05%	1.49%
107	Illawarra	NSW	1.66%	1.97%
108	Mid North Coast	NSW	0.95%	0.49%
109	Murray	NSW	0.73%	0.72%
110	New England and North West	NSW	1.42%	0.26%
111	Newcastle and Lake Macquarie	NSW	0.62%	1.58%
112	Richmond - Tweed	NSW	1.69%	1.06%
113	Riverina	NSW	1.47%	0.09%
114	Southern Highlands and Shoalhaven	NSW	1.61%	0.26%
115	Sydney - Baulkham Hills and Hawkesbury	NSW	1.09%	2.01%
116	Sydney - Blacktown	NSW	1.45%	2.42%
117	Sydney - City and Inner South	NSW	1.17%	2.94%
118	Sydney - Eastern Suburbs	NSW	0.26%	0.78%
119	Sydney - Inner South West	NSW	1.92%	3.19%
120	Sydney - Inner West	NSW	1.69%	1.17%
121	Sydney - North Sydney and Hornsby	NSW	0.62%	2.10%
122	Sydney - Northern Beaches	NSW	0.49%	1.33%

Geographic area map code	Regional name	State	30+ days arrears level Sept. 2024	Exposure across RMBS
123	Sydney - Outer South West	NSW	1.93%	1.16%
124	Sydney - Outer West and Blue Mountains	NSW	1.67%	0.91%
125	Sydney - Parramatta	NSW	1.35%	2.14%
126	Sydney - Ryde	NSW	0.70%	0.50%
127	Sydney - South West	NSW	1.97%	0.93%
128	Sydney - Sutherland	NSW	0.83%	0.85%
201	Ballarat	Vic	1.95%	0.76%
202	Bendigo	Vic	1.18%	0.35%
203	Geelong	Vic	1.09%	1.28%
204	Hume	Vic	1.60%	0.30%
205	Latrobe - Gippsland	Vic	1.34%	0.69%
206	Melbourne - Inner	Vic	0.95%	4.43%
207	Melbourne - Inner East	Vic	0.96%	1.70%
208	Melbourne - Inner South	Vic	1.11%	2.08%
209	Melbourne - North East	Vic	2.20%	2.65%
210	Melbourne - North West	Vic	2.93%	1.24%
211	Melbourne - Outer East	Vic	1.34%	2.39%
212	Melbourne - South East	Vic	1.90%	2.57%
213	Melbourne - West	Vic	1.87%	2.92%
214	Mornington Peninsula	Vic	1.69%	1.28%
215	North West	Vic	1.22%	0.12%
216	Shepparton	Vic	3.19%	0.11%

Data as of Sept. 2024. Loan level data is based on loans underlying prime and nonconforming RMBS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

SA4 Listing Arrears And Exposure

Geographic area map code	Regional name	State	30+ days arrears level Sept. 2024	Exposure across RMBS
217	Warrnambool and South West	Vic	1.32%	0.18%
301	Brisbane - East	Qld	0.89%	1.51%
302	Brisbane - North	Qld	0.58%	2.13%
303	Brisbane - South	Qld	0.60%	2.88%
304	Brisbane - West	Qld	0.81%	1.28%
305	Brisbane Inner City	Qld	0.43%	0.94%
306	Cairns	Qld	1.22%	0.73%
307	Darling Downs - Maranoa	Qld	0.90%	0.92%
308	Fitzroy	Qld	1.19%	0.71%
309	Gold Coast	Qld	1.04%	3.52%
310	Ipswich	Qld	1.16%	1.36%
311	Logan - Beaudesert	Qld	1.28%	0.72%
312	Mackay	Qld	1.08%	0.56%
313	Moreton Bay - North	Qld	0.92%	1.42%
314	Moreton Bay - South	Qld	0.82%	0.71%
315	Queensland - Outback	Qld	2.42%	0.11%
316	Sunshine Coast	Qld	0.95%	1.76%
317	Toowoomba	Qld	0.00%	0.01%
318	Townsville	Qld	1.16%	0.79%
319	Wide Bay	Qld	1.28%	0.57%
401	Adelaide - Central and Hills	SA	1.08%	1.57%
402	Adelaide - North	SA	0.91%	1.29%

Geographic area map code	Regional name	State	30+ days arrears level Sept. 2024	Exposure across RMBS
403	Adelaide - South	SA	0.81%	1.42%
404	Adelaide - West	SA	0.85%	0.83%
405	Barossa - Yorke - Mid North	SA	1.55%	0.15%
406	South Australia - Outback	SA	0.52%	0.13%
407	South Australia - South East	SA	1.38%	0.34%
501	Bunbury	WA	1.02%	0.43%
502	Mandurah	WA	1.32%	0.31%
503	Perth - Inner	WA	0.69%	0.87%
504	Perth - North East	WA	1.05%	1.12%
505	Perth - North West	WA	1.37%	1.70%
506	Perth - South East	WA	1.04%	1.75%
507	Perth - South West	WA	0.93%	1.44%
508	Western Australia - Outback	WA	0.00%	0.29%
509	Western Australia - Wheat Belt	WA	2.03%	0.12%
601	Hobart	Tas	1.26%	1.01%
602	Launceston and North East	Tas	0.43%	0.38%
603	South East	Tas	2.57%	0.03%
604	West and North West	Tas	0.40%	0.25%
701	Darwin	NT	1.14%	0.54%
702	Northern Territory - Outback	NT	1.74%	0.08%
801	Australian Capital Territory	ACT	0.94%	1.92%

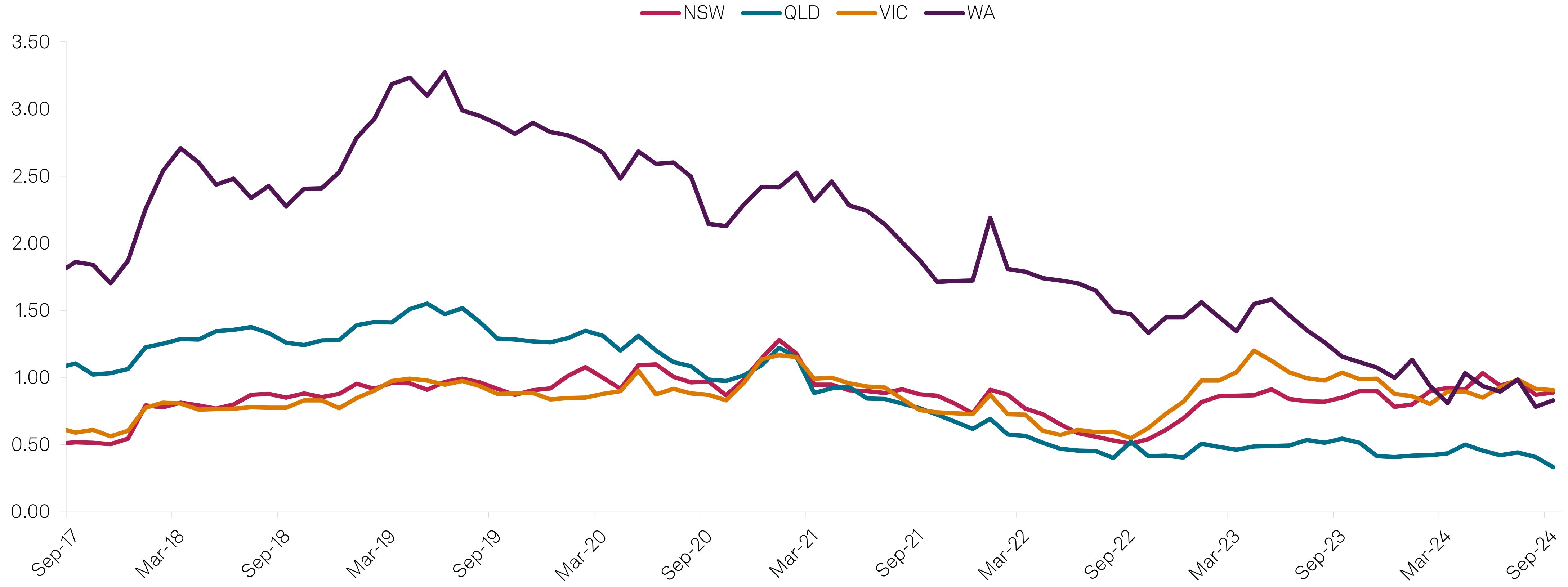
Data as of Sept. 2024. Loan level data is based on loans underlying prime and nonconforming RMBS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

Hot Topics

Victoria in the spotlight

Investor Arrears Are Higher In Victoria

Investor RMBS loans more than 30 days in arrears

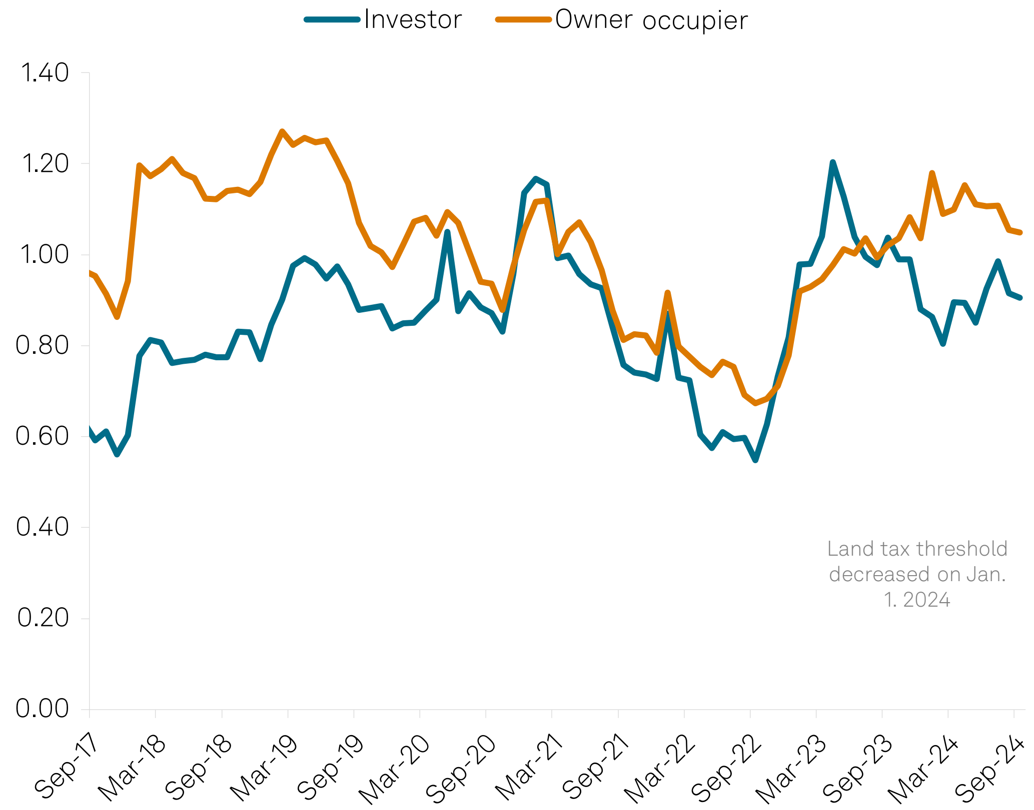


Source: S&P Global Ratings. Data is based on prime loans rated by S&P Global Ratings.

S&P Global Ratings

Arrears Pathways Diverge

Victorian owner-occupier and investor loans more than 30 days in arrears (%)

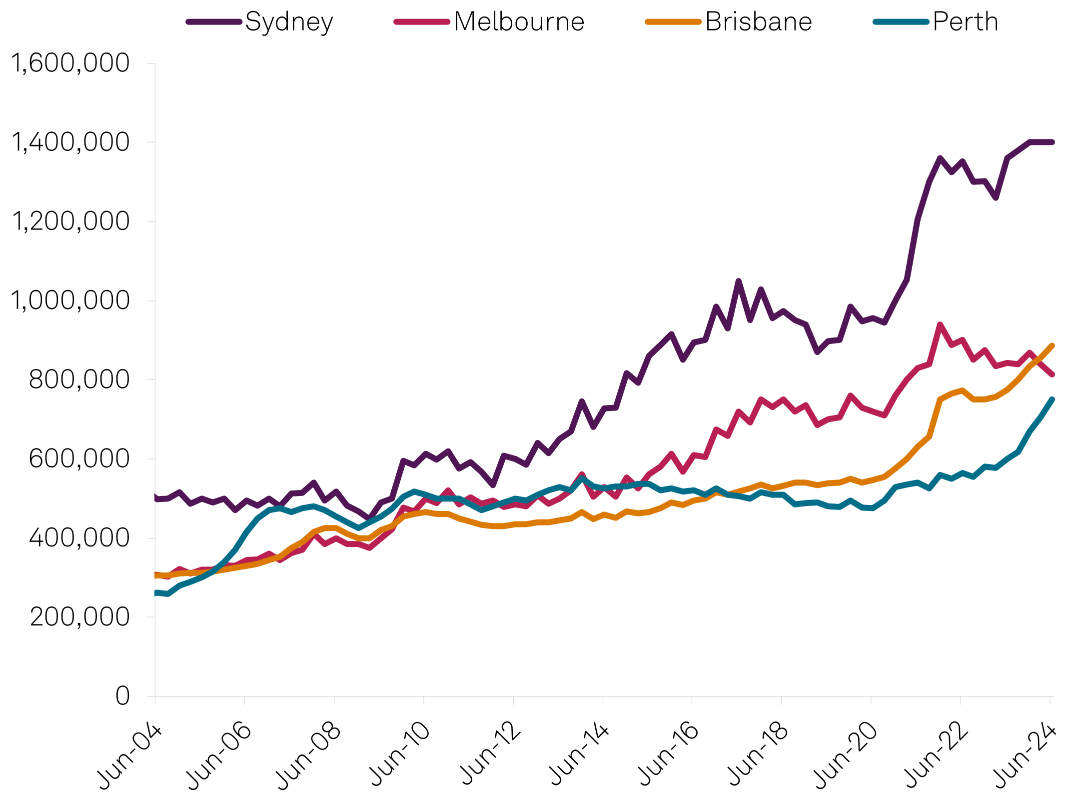


Source: S&P Global Ratings. Data is based on loans underlying RMBS transactions rated by S&P Global.

- Across the states, Victoria has the highest arrears. Western Australia formerly long-held the top spot.
- Longer lockdowns in Victoria and their effects on income, business, and rental cash flows meant many Victorians went into this tightening cycle from a weaker position.
- Investor arrears increased more quickly than owner-occupier arrears in Victoria after the commencement of interest rate rises.
- Owner-occupier arrears have stabilized in recent months, however, and investor arrears have risen.
- Higher property taxes are adding to debt serviceability pressures for investors in Victoria.
- Investors are more likely to sell investor properties to relieve cash flow pressures, given it is not their primary place of residence.

Melbourne's Property Travails Will Help First Homeowners

Median prices of established house transfers



Source: Australian Bureau of Statistics.

S&P Global Ratings

- Melbourne's median property prices fell below Brisbane's in early 2024, reflecting higher property demand in the sunshine state from greater interstate migration.
- While Sydney's property prices have plateaued given affordability constraints, its international real estate profile keeps them elevated relative to the rest of the country.
- While interstate migration to Victoria is muted, net overseas migration is strong. This bodes well for longer-term property demand.
- Property prices in Perth have experienced a resurgence from their mining downturn doldrums, thanks to a vibrant resources sector.
- Supply-and-demand imbalances can be more pronounced in smaller cities like Brisbane and Perth. This can make property prices more volatile.
- Arrears typically trend lower in rising property price environments, all else being equal.
- Falling property prices are helpful for first-home owners, helping them to get on the coveted property ladder.

New Zealand

S&P Global Ratings Economic Outlook | New Zealand

	2024f	2025f	Outlook	Effect on credit quality
Real GDP forecast (% year over year)	0.8	2.2	Higher interest rates are dragging on consumer demand. Consumer spending is down, and businesses have put investment plans on hold.	**Neutral.** New Zealand's earlier commencement of its tightening cycle has slowed the economy. We expect GDP growth to improve in 2025 as the impact of lower rates helps boost demand.
Unemployment rate (year average; %)	4.6	5.3	We forecast unemployment to rise as the economy weakens and public sector job losses materialize.	**Negative.** Rising unemployment will lead to higher arrears, albeit off a low base in New Zealand.
CPI (%)	2.9	1.9	Inflation is returning to within its target range. We do not forecast inflation to return to its target range until 2025.	**Positive.** Inflation is reducing as the impact of higher rates deflates demand.
Policy rate, end of year (%)	4.5	3.25	The Reserve Bank of New Zealand lowered the cash rate to 4.75% in October.	**Positive.** Lower interest rates are positive for debt serviceability to the extent it is passed on to borrowers, but higher unemployment will increase defaults.

f--Forecast. CPI--Consumer price index. Source: S&P Global Ratings.

Property prices are stabilizing but demand is still weak

- The housing market recovery has lost momentum. Higher interest rates have constrained affordability, and sentiment is low, with rising unemployment and sluggish economic growth.
- New Zealand's slowdown in population growth due to falling net migration, is dampening demand for housing.
- Growth in rents has slowed, but house prices remain unaffordable for many, with interest rates still elevated.
- Investors comprise a lower share of new mortgage lending, given lower rental yields. But recent tax policies, which increase tax deductibility on interest repayments, may change this.
- We forecast house prices to increase about 3%-4% in the next year. Factors supporting property price growth in New Zealand include ongoing interest rate cuts, continuing shortages in supply of new housing, and a slight loosening of macroprudential lending restrictions.
- RMBS issuance has been constrained by subdued housing lending growth. Banks remain the dominant lenders in the residential mortgage space. Nonbanks occupy a small share and typically target more niche borrower segments.
- Subdued consumer spending due to higher interest rates may also slow ABS issuance. But the short tenors of ABS mean a more frequent cadence of issuance is possible

RMBS Sector Performance Remains Stable

- The credit quality of the New Zealand RMBS sector is strong, as indicated by:
  - A weighted-average LTV ratio of 52.39%.
  - An average loan size of NZ$336,589.
  - A weighted-average seasoning of 58 months.
  - Low levels of arrears in most portfolios.
- All losses to date have been fully covered by excess spread or lenders' mortgage insurance.
- Given the small overall pool of loans across the New Zealand RMBS sector, arrears movements are subject to greater volatility

RMBS Analytical Contacts

Erin Kitson

Primary Analyst | Sector Specialist Research

erin.kitson@spglobal.com

Kate Thomson

Analytical Manager

kate.thomson@spglobal.com

Narelle Coneybeare

Sector Lead

narelle.coneybeare@spglobal.com

Elizabeth Steenson

Lead Analyst

elizabeth.steenson@spglobal.com

Alisha Treacy

Lead Analyst

alisha.treacy@spglobal.com

Timothy Bartl

Lead Analyst

timothy.bartl@spglobal.com

Paul Prajogo

Lead Analyst

paul.prajogo@spglobal.com

How To Access RMBS Performance Watch

RMBS Performance Watch including arrears, prepayment, and pool statistics data can be accessed using the link below:

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