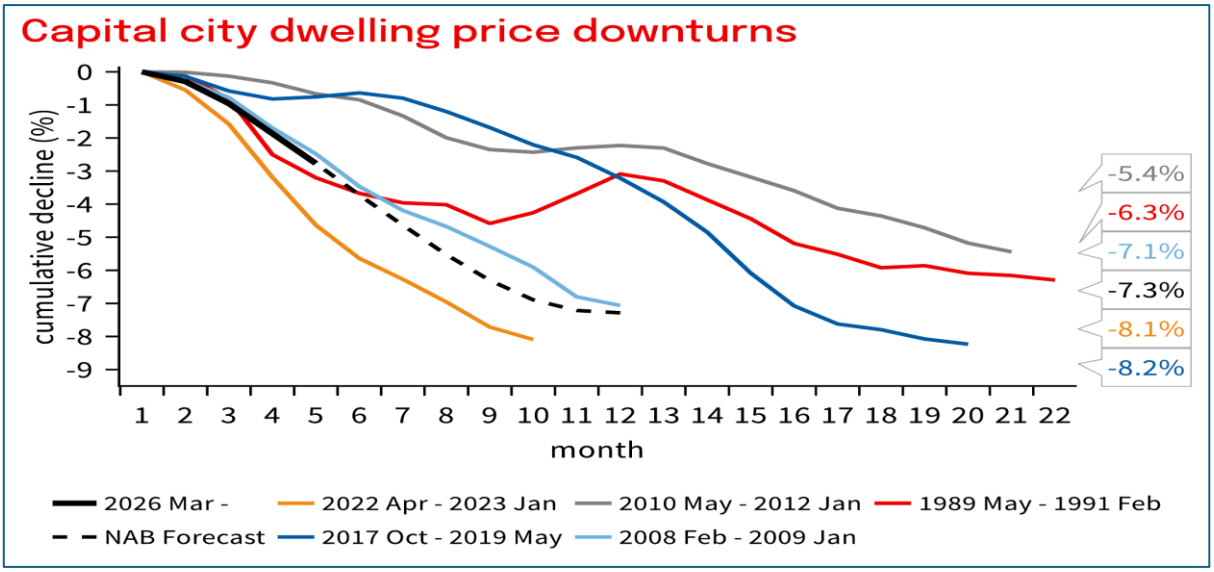
Australian mortgages and RMBS

Recent data on Australian house prices shows a market that has been broadly resilient through recent downturns. The largest national declines historically have generally been contained to around 8%, while the recent pullback in Sydney and Melbourne has been more modest, in the order of 3–4% in this current cycle. Looking back across prior cycles — the early 1990s, the mid-1990s, and the 2004, 2009 and 2010 corrections — Australian housing has tended to experience shallow, short-lived declines rather than the deep, sustained falls seen in some offshore markets.

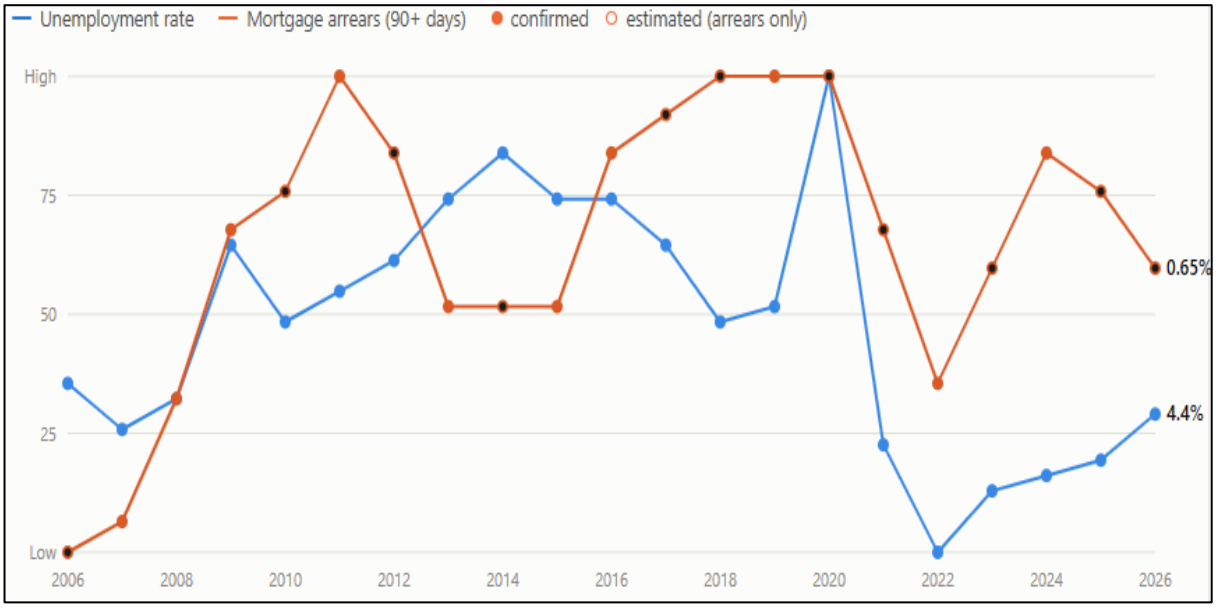
New Zealand offers a useful comparative case study. Despite house prices there falling around 18% — a considerably larger correction than anything experienced in Australia to date — mortgage impairments have remained muted. This supports the broader observation that unemployment, not the price of housing itself, is the variable that correlates most closely with mortgage arrears. Historical data comparing unemployment rates with 90+ day mortgage arrears across cycles reinforces this: arrears rise and fall with the labour market, not with capital values.



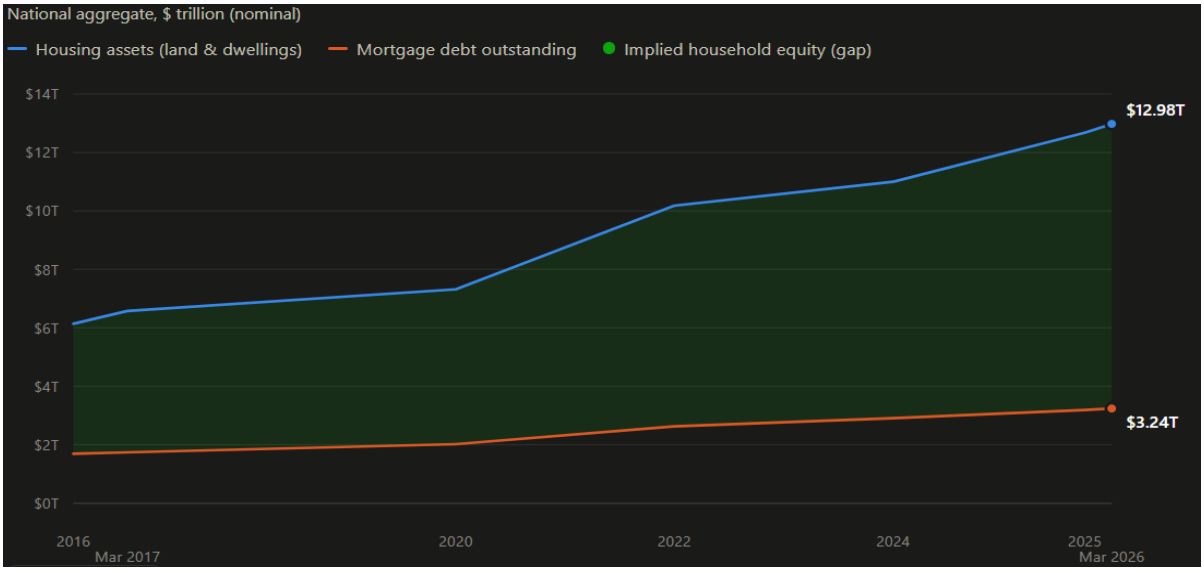
One key structural support for the Australian market is the equity buffer accumulated by Australian homeowners. Following two decades of substantial price appreciation, the Reserve Bank of Australia now estimates that homeowners collectively hold approximately $10 trillion in excess equity value above outstanding mortgage debt. This gap between total housing assets and mortgage debt has widened materially over the past decade, meaning the average borrower carries a large equity cushion before any prospect of negative equity, even in a meaningful price correction.

Risk framing from a fixed income / RMBS perspective

For a fund manager holding exposure to residential mortgage-backed securities, these dynamics support a constructive risk view even in a declining house price environment. Comprehensive stress testing by Daintree indicates that broadly



speaking RMBS portfolios could withstand a decline in national house prices of approximately 30-40% without materially impairing asset performance provide employment levels remains reasonable. This confidence is underpinned by two factors evident in the data above. First, the primary driver of mortgage default and arrears is employment, not home values — Australian unemployment has remained low and labour markets tight, which is the more relevant risk indicator to monitor than headline price movements. Second, the substantial equity buffer built up by borrowers over the past decade-plus of price growth means that even a significant nominal price decline is unlikely to push a large proportion of borrowers into negative equity, limiting loss severity even where defaults do occur.



In short, falling house prices do not mechanically translate into weaker RMBS or mortgage asset performance. Loan performance is driven far more by borrowers' capacity to service debt (a function of employment and income) than by collateral value movements alone. The historical pattern of shallow Australian corrections, the scale of accumulated home equity, and the NZ precedent of muted arrears despite a much larger price fall all support the view that the real risk to monitor in this asset class is a material deterioration in the labour market — not house price declines in isolation.