

Market Overview | Q1 2025

RMBS Performance Watch: Australia

S&P Global
Ratings

This report does not constitute a rating action

Australian Macroeconomic Environment

What To Look Out For



Cautious Households

Consumers often exhibit more cautious behavior in times of uncertainty. In this environment, borrowers may be more likely to pay down mortgages than spend, despite lower interest rates and falling inflation.



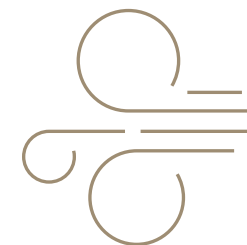
More Low-Doc

Increasing competition from banks for prime borrowers, along with more nonbank lenders entering the market, will increase competition for low-documentation loans and other specialist lending products.



Refinancing Reignites

Rate cuts could re-energize refinancing. Lenders may seek to capitalize on improving consumer sentiment by offering competitive mortgage rates, thereby stimulating refinancing and accelerating prepayment rates.



Rising Natural Disasters

The increasing frequency of natural disasters continues to highlight the risk of underinsurance. Property insurance is a prerequisite for loan approvals, but risks remain over insurance currency and amount of insurance coverage.

Australia | S&P Global Ratings Economic Outlook

	2025f	2026f	Outlook	Effect on credit quality
Real GDP forecast (% year over year)	1.7	1.8	We forecast heightened uncertainty over tariff policies and flow-on effects on trade to have downstream impacts on economic growth. Australia is not immune to this risk, given its high export reliance on China.	Neutral. Households continue to prioritize debt commitments over discretionary spending, putting a drag on economic growth. Heightened uncertainty is likely to make households behave more cautiously.
Unemployment rate (year average; %)	4.2	4.3	We forecast unemployment to rise modestly and remain below prepandemic levels.	Neutral. Strong labor market conditions have kept defaults low. But rising unemployment will put pressure on debt serviceability for some borrowers.
CPI (%)	2.7	2.8	Inflation is decreasing and is now within the target range because higher interest rates have slowed demand in some sectors of the economy. We expect inflation to remain within the target range.	Positive. Lower inflation and lower interest rates will help improve real income for households and help alleviate cost-of-living pressures.
Policy rate, end of year (%)	3.60	3.35	We expect the cash rate to be lowered to 3.60% by year end.	Positive. Reductions in interest rates will ease debt serviceability pressures, given Australia's mostly variable-rate mortgage market.

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

Australian RMBS: State Of Play

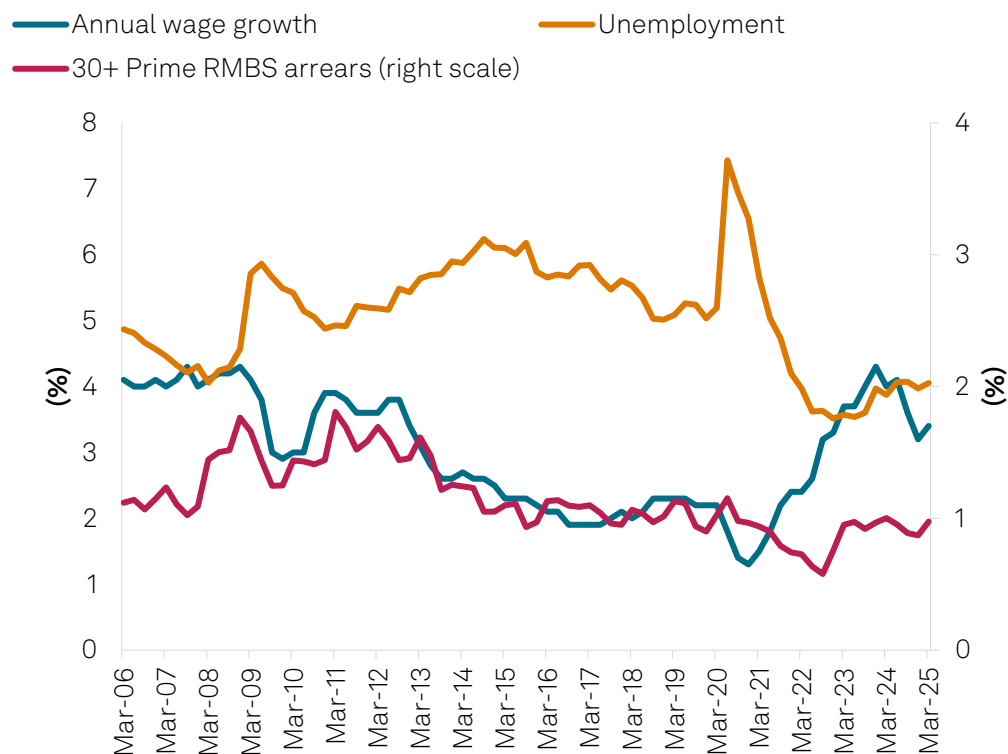
- Arrears are likely to remain low with interest rate cuts in play and inflation coming down.
- Heightened global uncertainty and its effect on global trade and supply chains, will have downstream impacts on business and consumer confidence, affecting investment and consumer spending decisions.
- Households are likely to behave more cautiously, electing to save or paydown mortgages over spending. This will help to keep arrears low.
- While we expect unemployment to rise, we forecast it to remain below prepandemic levels, minimizing the likelihood of a spike in arrears performance.
- Interest rate cuts will ease debt serviceability pressures. But we believe they won't make a material difference to overall arrear levels because they're likely to be gradual.
- These factors will enable most households to remain current on their mortgages.
- New issuance patterns are likely to be more sporadic in this environment as issuers navigate increasing market volatility, adjusting quickly to changing conditions and pricing.

Hot Topics

Households remain cautious

Household Sector Well Placed For Uncertain Times Ahead

Wage growth, unemployment and 30+ days RMBS arrears

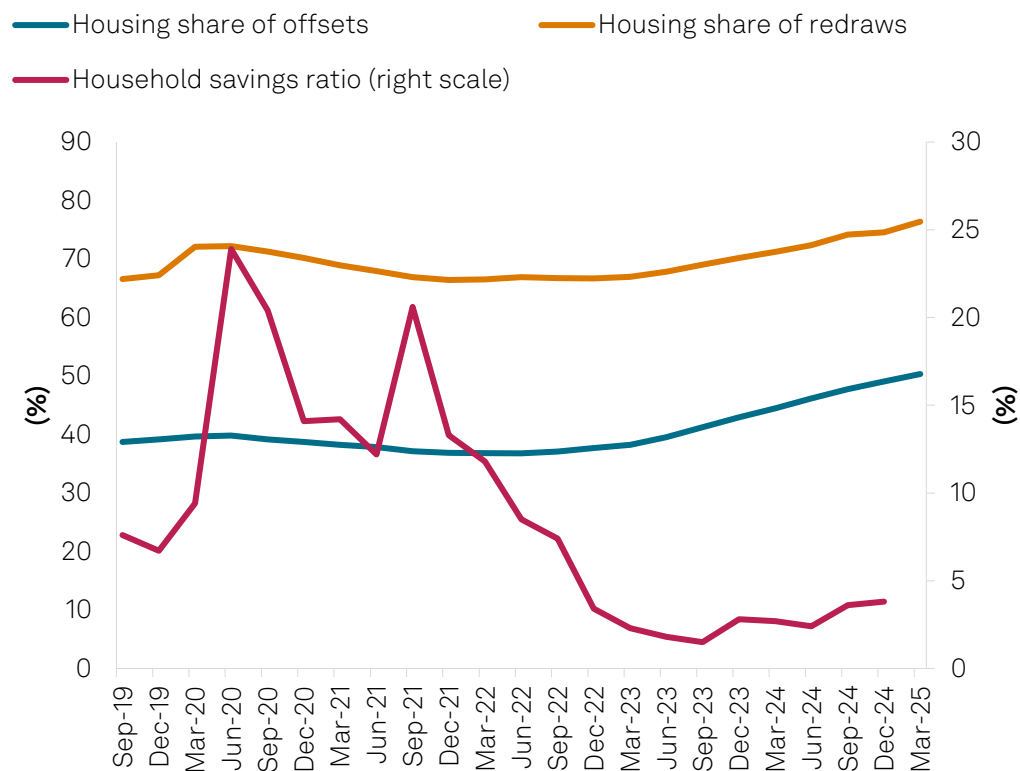


Source: Reserve Bank of Australia, Australian Bureau of Statistics. S&P Global Ratings.

- Increasing geopolitical uncertainty and market volatility can affect business and consumer confidence.
- Uncertainty can delay purchasing and investment decisions, with downstream effects on labor and property markets.
- Despite these risks, the household sector is entering this period from a solid position, underpinned by robust labor markets, rising wage growth, and falling interest rates.
- Low mortgage arrears reflect these solid macroeconomic fundamentals.
- Provided unemployment remains relatively low, we expect most households to remain current on their mortgages despite the heightened uncertainty.

Cautious Households Save More

Households share of redraws, offsets, household savings ratio

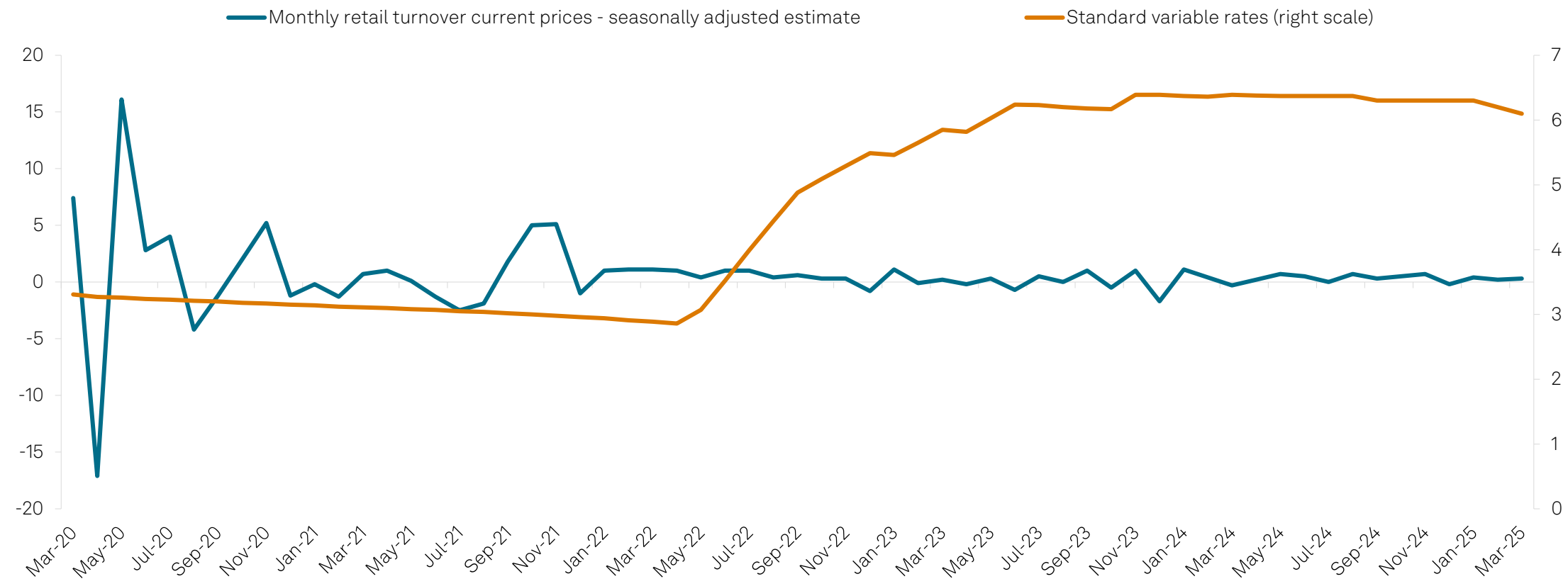


Source: Reserve Bank of Australia, Australian Bureau of Statistics, S&P Global Ratings.

- The share of housing loan accounts with redraws and offsets is increasing, alongside the household savings ratio.
- Anecdotal evidence from lenders shows most households are electing to not reduce mortgage repayments to pay off home loans faster, even though interest rates are falling.
- The trend reflects a more cautious household sector.
- Cautionary household behavior is common in periods of heightened uncertainty.
- Borrowers will prioritize mortgage repayments above most other expenditures, given the significant repercussions of defaulting on a home loan.
- This mindset has had a large bearing on Australia's mortgage arrears performance.

Retail Turnover Still Sluggish As Households Spend Less

Monthly retail turnover versus interest rates (%)



Sources: Reserve Bank of Australia. Australian Bureau of Statistics. S&P Global Ratings.

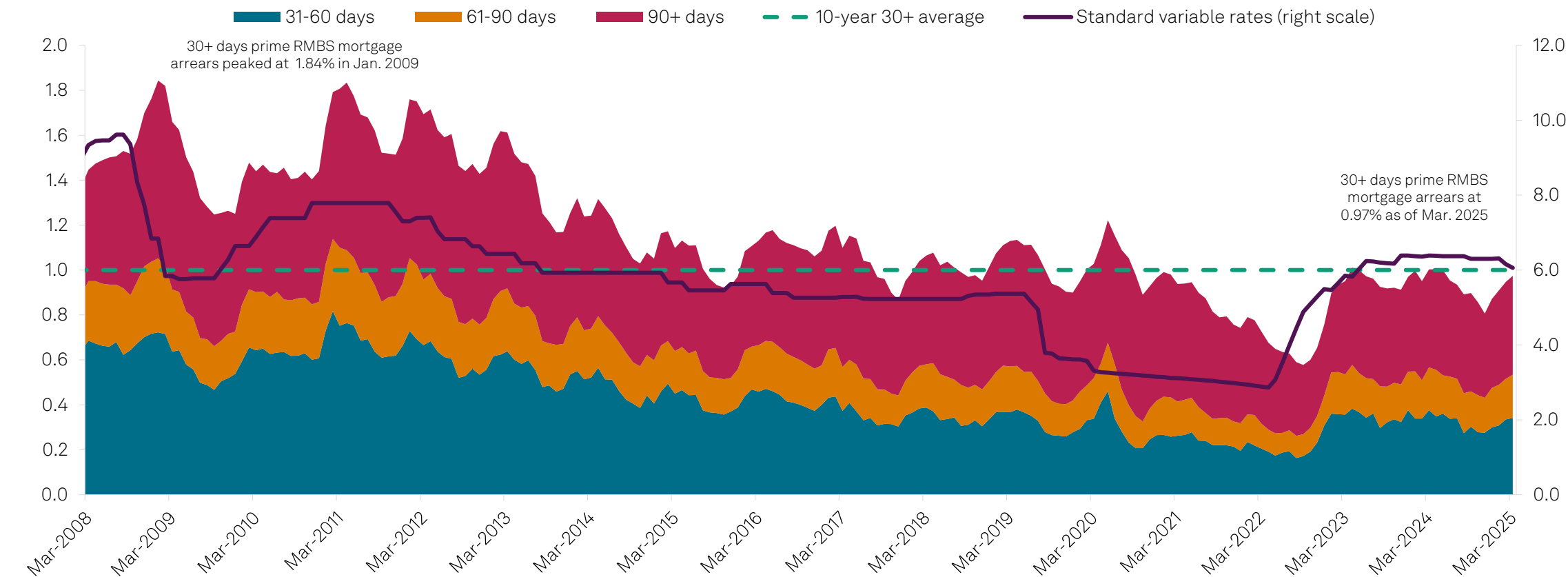
Australian RMBS Performance

Performance Observations: What To Expect

- **Prime arrears:** Prime RMBS arrears were 0.97% in Q1 2025, up from 0.87% in Q4 2024. Arrears increases over the first quarter are cyclical, reflecting higher spending patterns over the Christmas and summer holiday period.
- **Nonconforming arrears:** Nonconforming arrears were 4.39% in Q1, up from 4.18% in Q4. Nonconforming arrears are holding steady, but performance varies by transaction.
- **Investor versus owner-occupier prime arrears:** Prime investor arrears were at 0.75% in Q1 compared with 1.16% for owner-occupiers. Investors are benefiting from the ability to offset higher mortgage repayments against higher rentals, but higher land taxes are adding to cashflow burdens, particularly in Victoria.
- **Prepayment rates:** Prepayment rates fell in Q1 for prime and nonconforming transactions. Future prepayment activity will be influenced by how much refinancing activity is ignited by lower interest rates.
- **Losses:** Exposure to loans with a loan-to-value (LTV) ratio greater than 80% is about 4% for the prime and 9% for the nonconforming RMBS sectors. 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.

Rate Cuts Will Help To Bring Down Rising Arrears

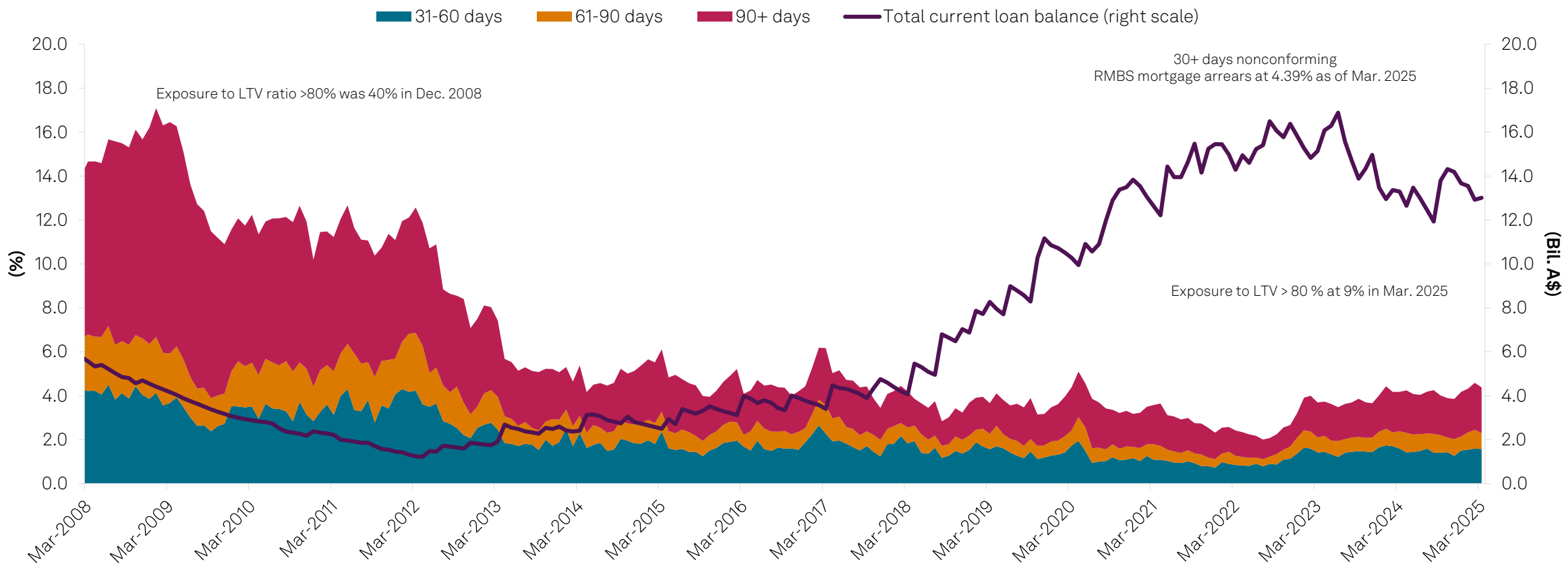
Prime RMBS loans more than 30 days in arrears (%)



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.

Nonconforming Arrears Steady While Property Prices Hold Up

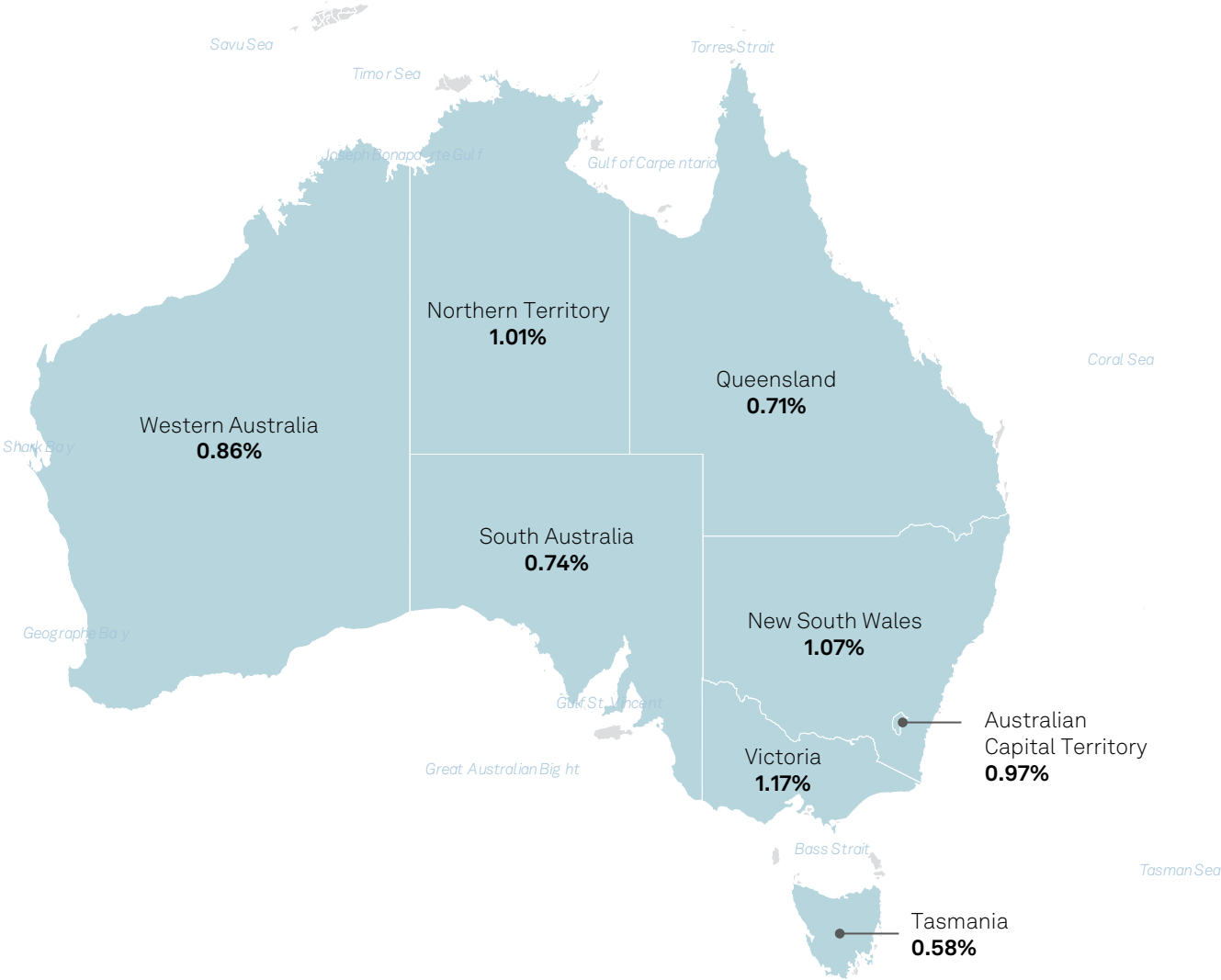
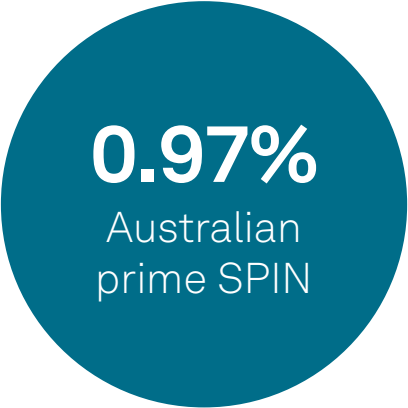
Nonconforming RMBS loans more than 30 days in arrears



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

State Arrears Trend

March 2025

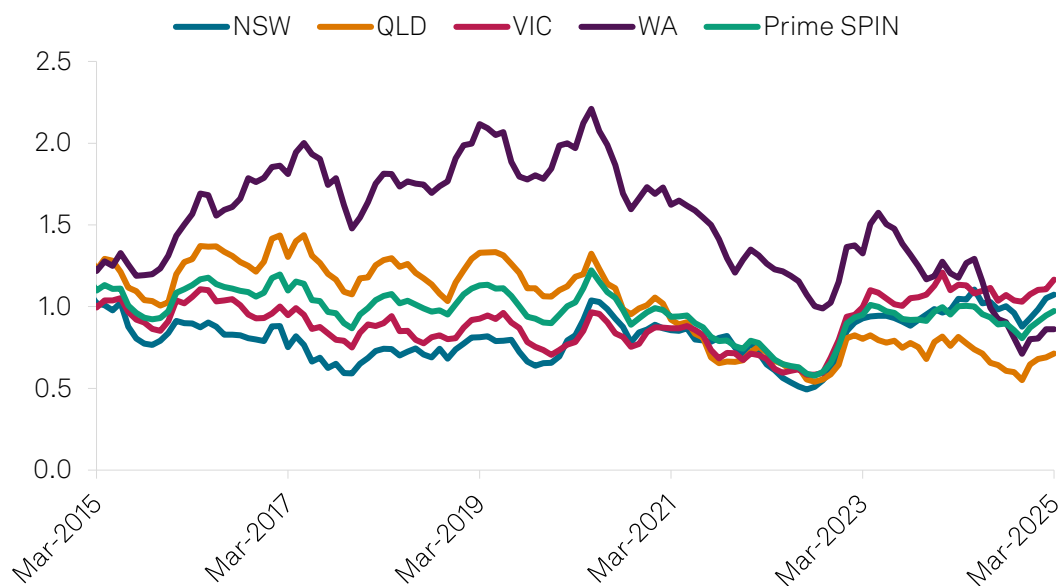


Data as of Mar. 2025 based on prime RMBS loans (excluding non-capital market issuance). Source: S&P Global Ratings.

State Arrears Trends

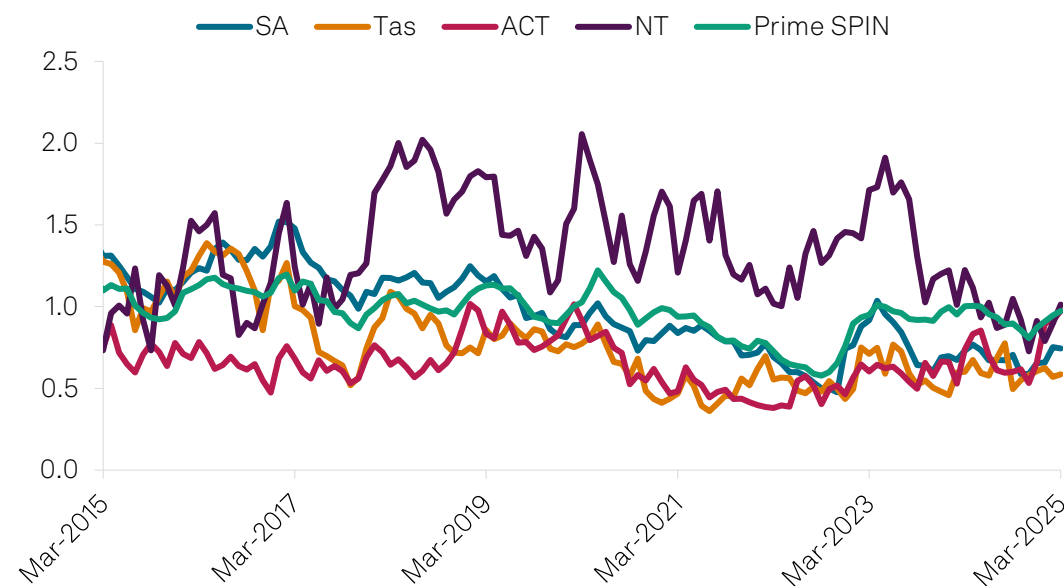
- The state of Victoria has retained the top spot for the nation's highest arrears, reaching 1.17% in March 2025.
- Year-on-year arrears increases were highest in Australian Capital Territory, New South Wales, and Victoria.
- These trends reflect weaker property and/or employment markets in these states, relative to the resource rich states of Western Australia and Queensland.

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.

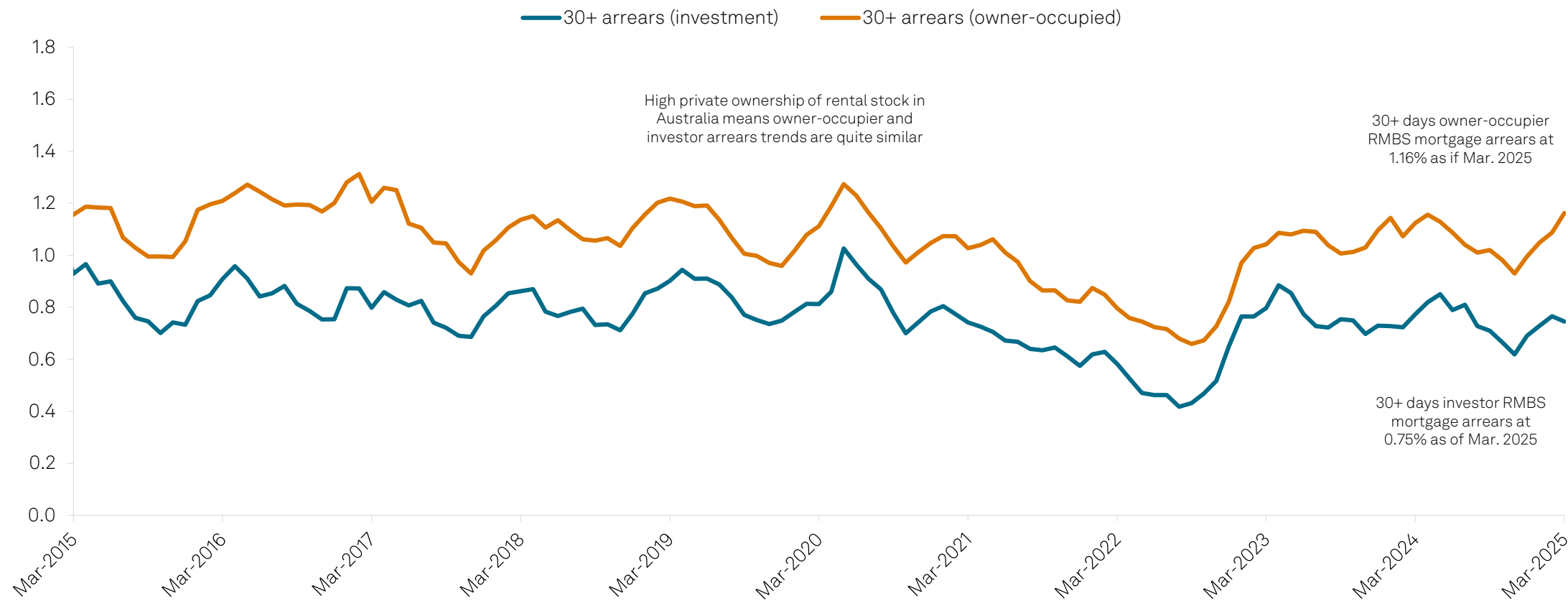
State 30-plus days RMBS arrears (%)



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.

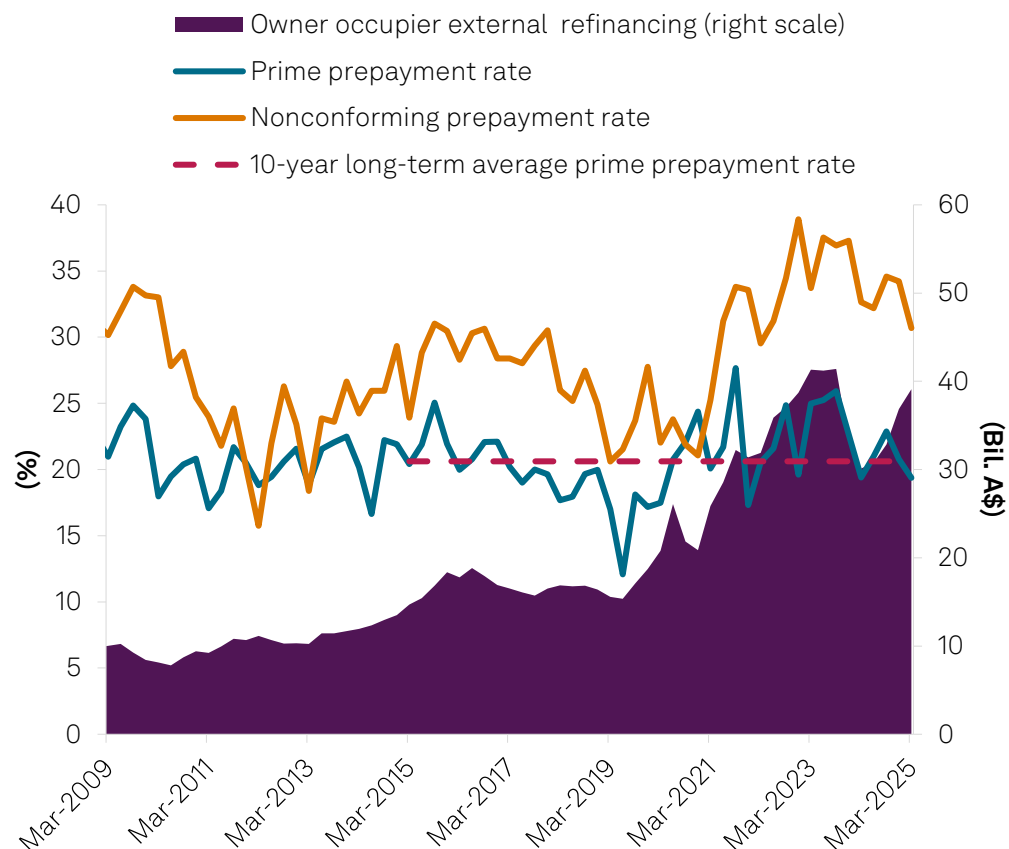
Investor Arrears Showing Less Stress Than Owner-Occupiers

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 Fell In Q1



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

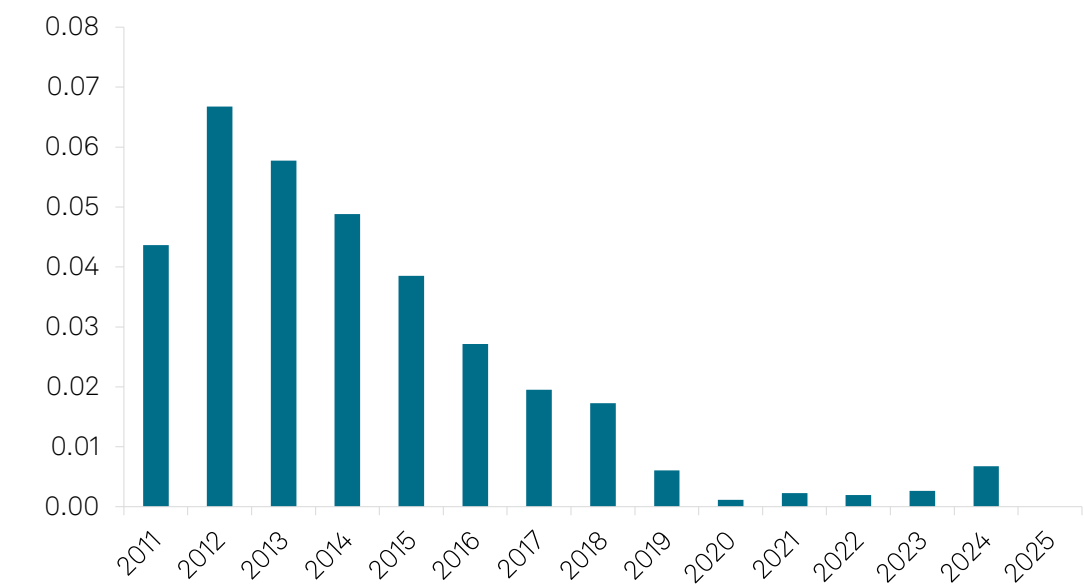
- Prime prepayment rates edged down to 19.37% in Q1 from 20.77% in Q4 2024.
- Nonconforming prepayment rates fell to 30.68% in Q1 from 34.26% in Q4.
- Falling prepayment rates may reflect the difficulties of more financially stretched households making additional mortgage repayments.
- We expect prepayment rates to rise, with more interest rate reductions on the cards in 2025, energizing refinancing.
- Nonconforming prepayment rates are likely to remain elevated, given increasing competition among nonbank lenders for niche loan products.
- This could see better credit quality borrowers in nonconforming transactions, refinancing to prime lenders to take advantage of more competitive interest rates.

RMBS Sector's Modest LTV Ratios Keeping Losses Low

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

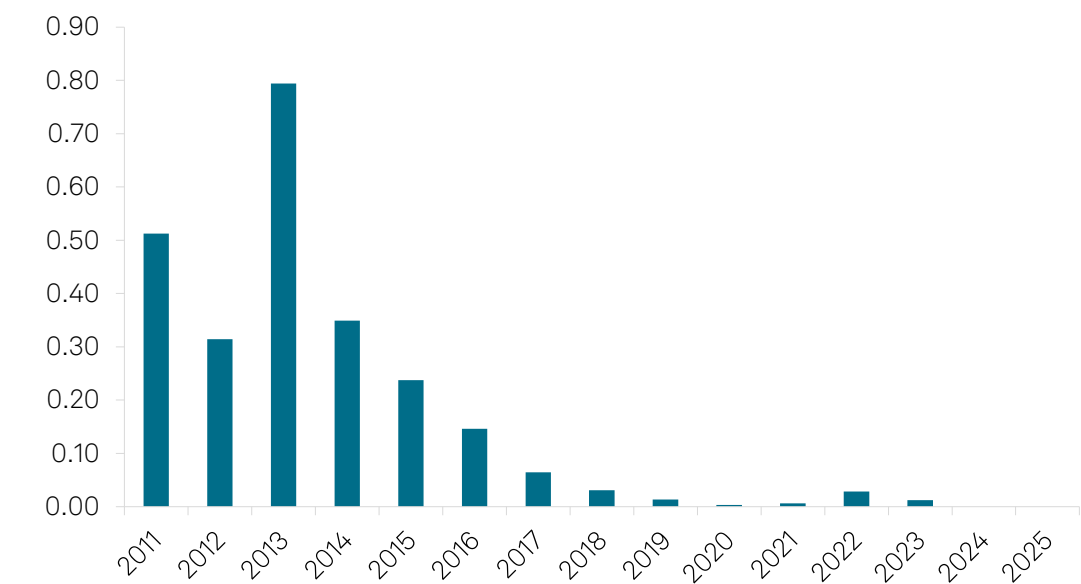
Prime RMBS (%)



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	Cragieburn	3064	3.10
VIC	Caroline Springs	3023	2.81
NSW	Bateau Bay	2261	2.78
VIC	Narre Warren	3805	2.59
NSW	Liverpool	2170	2.44
QLD	Carrarra	4211	2.20
VIC	Pakenham	3810	2.11
VIC	Melton South	3338	2.07
NSW	Blacktown	2148	2.02
NSW	Campbelltown	2560	1.94

Data as of Mar. 2025. 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 Mar. 2025	Exposure across RMBS
101	Capital Region	NSW	1.60%	1.23%
102	Central Coast	NSW	1.68%	1.59%
103	Central West	NSW	1.31%	0.51%
104	Coffs Harbour - Grafton	NSW	1.21%	0.37%
105	Far West and Orana	NSW	1.36%	0.17%
106	Hunter Valley exc Newcastle	NSW	1.55%	1.34%
107	Illawarra	NSW	1.29%	1.92%
108	Mid North Coast	NSW	1.22%	0.48%
109	Murray	NSW	0.81%	0.64%
110	New England and North West	NSW	0.99%	0.22%
111	Newcastle and Lake Macquarie	NSW	0.76%	1.45%
112	Richmond - Tweed	NSW	1.89%	1.05%
113	Riverina	NSW	2.77%	0.10%
114	Southern Highlands and Shoalhaven	NSW	1.57%	0.30%
115	Sydney - Baulkham Hills and Hawkesbury	NSW	1.42%	2.20%
116	Sydney - Blacktown	NSW	1.56%	2.48%
117	Sydney - City and Inner South	NSW	0.94%	2.86%
118	Sydney - Eastern Suburbs	NSW	0.43%	0.79%
119	Sydney - Inner South West	NSW	2.00%	3.26%
120	Sydney - Inner West	NSW	1.42%	1.15%
121	Sydney - North Sydney and Hornsby	NSW	0.61%	2.03%
122	Sydney - Northern Beaches	NSW	1.00%	1.31%

Geographic area map code	Regional name	State	30+ days arrears level Mar. 2025	Exposure across RMBS
123	Sydney - Outer South West	NSW	1.72%	1.22%
124	Sydney - Outer West and Blue Mountains	NSW	1.49%	0.94%
125	Sydney - Parramatta	NSW	1.73%	2.07%
126	Sydney - Ryde	NSW	0.70%	0.50%
127	Sydney - South West	NSW	2.05%	1.01%
128	Sydney - Sutherland	NSW	0.98%	0.86%
201	Ballarat	Vic	1.94%	0.73%
202	Bendigo	Vic	1.00%	0.32%
203	Geelong	Vic	1.54%	1.30%
204	Hume	Vic	1.69%	0.29%
205	Latrobe - Gippsland	Vic	2.01%	0.64%
206	Melbourne - Inner	Vic	1.06%	4.41%
207	Melbourne - Inner East	Vic	0.96%	1.68%
208	Melbourne - Inner South	Vic	1.24%	2.20%
209	Melbourne - North East	Vic	2.03%	2.78%
210	Melbourne - North West	Vic	2.88%	1.34%
211	Melbourne - Outer East	Vic	1.77%	2.27%
212	Melbourne - South East	Vic	2.04%	2.77%
213	Melbourne - West	Vic	1.86%	3.28%
214	Mornington Peninsula	Vic	1.63%	1.32%
215	North West	Vic	0.93%	0.12%
216	Shepparton	Vic	2.63%	0.11%

Data as of Mar. 2025. 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 Mar. 2025	Exposure across RMBS
217	Warrnambool and South West	Vic	1.51%	0.16%
301	Brisbane - East	Qld	0.94%	1.50%
302	Brisbane - North	Qld	0.71%	2.06%
303	Brisbane - South	Qld	0.77%	2.85%
304	Brisbane - West	Qld	0.80%	1.22%
305	Brisbane Inner City	Qld	0.33%	0.91%
306	Cairns	Qld	1.13%	0.66%
307	Darling Downs - Maranoa	Qld	0.84%	0.92%
308	Fitzroy	Qld	1.15%	0.69%
309	Gold Coast	Qld	1.11%	3.72%
310	Ipswich	Qld	0.88%	1.44%
311	Logan - Beaudesert	Qld	1.54%	0.75%
312	Mackay	Qld	1.31%	0.53%
313	Moreton Bay - North	Qld	1.10%	1.50%
314	Moreton Bay - South	Qld	0.85%	0.71%
315	Queensland - Outback	Qld	2.16%	0.09%
316	Sunshine Coast	Qld	1.24%	1.80%
317	Toowoomba	Qld	0.00%	0.01%
318	Townsville	Qld	1.05%	0.72%
319	Wide Bay	Qld	1.04%	0.55%
401	Adelaide - Central and Hills	SA	1.11%	1.54%
402	Adelaide - North	SA	1.35%	1.37%

Geographic area map code	Regional name	State	30+ days arrears level Mar. 2025	Exposure across RMBS
403	Adelaide - South	SA	0.90%	1.37%
404	Adelaide - West	SA	0.98%	0.78%
405	Barossa - Yorke - Mid North	SA	1.42%	0.15%
406	South Australia - Outback	SA	0.95%	0.12%
407	South Australia - South East	SA	1.27%	0.37%
501	Bunbury	WA	0.83%	0.42%
502	Mandurah	WA	1.23%	0.34%
503	Perth - Inner	WA	0.97%	0.80%
504	Perth - North East	WA	1.26%	1.15%
505	Perth - North West	WA	1.14%	1.68%
506	Perth - South East	WA	0.99%	1.73%
507	Perth - South West	WA	1.13%	1.40%
508	Western Australia - Outback	WA	0.00%	0.01%
509	Western Australia - Wheat Belt	WA	1.26%	0.12%
601	Hobart	Tas	1.26%	0.98%
602	Launceston and North East	Tas	0.54%	0.38%
603	South East	Tas	0.84%	0.03%
604	West and North West	Tas	1.13%	0.25%
701	Darwin	NT	1.04%	0.48%
702	Northern Territory - Outback	NT	2.08%	0.08%
801	Australian Capital Territory	ACT	1.29%	1.77%

Data as of Mar.2025. Loan level data is based on loans underlying prime and nonconforming RMBS transactions rated by S&P Global Ratings. Source: S&P Global Ratings.

New Zealand

New Zealand | S&P Global Ratings Economic Outlook

	2025f	2026f	Outlook	Effect on credit quality
Real GDP forecast (% year over year)	1.3	2.1	Consumer demand remains sluggish. We expect growth to pick up in 2025, with gradually lower inflation and interest rates.	Neutral. New Zealand's earlier commencement of its tightening cycle has slowed the economy, with flow-on effects on household demand and property markets.
Unemployment rate (year average; %)	5.3	5.0	The labor market has weakened, with a contraction in employment. More accommodative monetary policy should help to boost growth.	Neutral. We expect the unemployment rate to improve as the impact of lower interest rates takes effect.
CPI (%)	2.0	1.9	Inflation is within its target range.	Positive. Lower inflation will enable monetary policy to remain accommodative and lower cost-of-living pressures.
Policy rate, end of year (%)	3.00	3.00	The Reserve Bank of New Zealand lowered the cash rate to 3.50% in April.	Positive. The lowering in the cash rate is flowing through to lower mortgage rates, which will ease debt serviceability pressures.

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

Lower Rates Will Help To Stimulate Demand

- The New Zealand economy has slowed as the downstream effects of higher interest rates drag on domestic demand. We expect unemployment to rise modestly this year, alongside slowing wage growth, and falling net migration, partly in response to subdued labor market conditions.
- The Reserve Bank of New Zealand lowered the official cash rate again in April, to 3.5%. This will help ease debt serviceability pressures for many borrowers, given New Zealand was an early adopter of higher interest rates in this tightening cycle.
- We expect house prices to grow in the mid-single digits over the next two years. Ongoing supply shortages, easing interest rates, and a slight loosening of macroprudential lending restrictions should continue to support the recovery.
- We expect the restoration of interest deductibility for investors in April 2025 to bolster investor participation, adding to housing demand. These factors will help property price growth in 2025.
- The significant buildup in equity across the New Zealand RMBS sector, given the seasoning of portfolios, means that higher arrears are unlikely to translate into losses.
- An improving economy in the wake of lower interest rates will help consumer demand for mortgages and other forms of consumer lending. This may help drive ABS issuance, but RMBS issuance will remain hindered by the dominance of major banks and their cheaper funding costs, and the recent exit of some nonbank lenders in the mortgage space.

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 47.37%.
 - An average loan size of NZ\$229,893.
 - A weighted-average seasoning of 68 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

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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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