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Shock rise in default cases

Alex Tilbury

IF YOU have missed three monthly mortgage payments, expect a default notice in the mail any day now.

More people than ever are defaulting on their home loan repayments, according to credit ratings agency Fitch and the situation is expected to get even worse.

The agency has found borrowers who were behind late last year have been unable to catch up and are now reaching the critical three-month trigger point for defaults.

In its report – The Dinkum Index – Fitch found mortgage payments that were more than 90 days late increased a surprise 12.5 per cent in the past three months of 2010, compared with the previous quarter.

"Arrears unexpectedly increased, mainly as a result of more delinquent borrowers migrating into the 90-plus days arrears bucket," says James Zanesi, associate director in Fitch's structured finance team.

"Mortgage performance is also expected to have worsened in the first quarter of 2011, mainly because of the usual impact that the Christmas holiday spending has on first-quarter mortgage performance.

"The 25-basis-point interest rate rise in November and the Queensland floods and Cyclone Yasi might also have had an effect on the index.

"Nevertheless, arrears are still relatively low and while increasing mortgage rates normally translate into an increase in arrears, Australian borrowers have shown a strong capability to cope with higher mortgage payments in 2010."

Resi Home Loans chief executive Lisa Montgomery says if the writing is on the wall for stressed-out borrowers, they should immediately speak with their lender and not wait until it's too late.

"There is usually a really easy fix to mortgage stress," Montgomery says.

"You can look at going interest-only for a while to reduce the repayment, or consolidate other loans.

"But these strategies should only be used in the short term to prevent financial hardship."

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Australian millionaires expect the All Ordinaries share index to increase by 8 per cent during the next 12 months, according to a Centric Wealth survey

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Montgomery says there is no sign of increasing mortgage arrears at Resi.

If anything, people are saving more than ever.

Personal finance expert and MyBudget founder Tammy May says many people bury their head in the sand and fail to acknowledge if they are in financial stress.

"We are definitely seeing a lot of arrears. There's no slowdown in our business but the mortgage is generally the highest priority, or whichever collector is harassing them the most," May says.

"Do a budget and work out what you can afford in terms of basic mortgage repayments.

"You don't have to pay it in a lump sum but you don't want a default notice after 90 days.

"If you continue to ignore the issue, you'll get a letter of eviction, which is different for every lender and circumstance.

"I know it's embarrassing to talk about getting into this situation. No one expects it.

"It throws people off balance but bite the bullet and be honest, ask for help, even if it is a friend or family member."

Non-conforming low-doc loans usually have delinquency levels more than three times the rate of regular loans.

Loan Market chief operating officer Dean Rushton says self-employed people often apply for low-doc loans, which often have higher interest rates than full document loans and larger minimum deposits.

But he says these low-doc loans have been harder to obtain since the global financial crisis and also as a result of the new National Consumer Credit Protection laws.

"These people have felt the impact of interest rate rises last year, so they are hit with a double whammy if they also have a struggle to obtain finance" Rushton says