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# Australian first-home buyers face higher than ever loan default risk, says report

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Report from LF Economics also says asset-rich, income-poor parents are taking on serious financial liabilities by helping children buy a home

'First-home buyers will have to commit an increasingly large proportion of their incomes to mortgage costs, regardless of dwelling price trends,' the LF Economics report says. Photograph: Paul Miller/AAP

In their attempts to enter the housing market, first-home buyers are exposing themselves to a higher risk of defaulting on mortgage repayments than ever before, while parents are increasingly taking on serious financial liabilities by assisting their children to buy a home, a report from economic consultancy LF Economics says.

First-home buyers allocate a hefty proportion of their income to accumulating a large deposit for a home, only to spend between two and three decades "paying down jumbo-sized mortgages", the report says.

While taking on long-term mortgages and saving hard may not be new, LF Economics says both deposits and loan sizes are bigger today than at any other time in history.

“First-home buyers will have to commit an increasingly large proportion of their incomes to mortgage costs, regardless of dwelling price trends,” the report says.

“But increasingly, first-home buyers are dependent on their parents to varying degrees to first provide financial assistance for a deposit and then use their homes as collateral to secure mortgages. This results in fast-tracking home ownership for their children, regardless of their ability to make mortgage repayments over the long term.”

This leaves many parents in a dangerous predicament should their children experience difficulties making loan payments, the report says.

“In reality, many parents (the baby-boomer cohort) are asset-rich but income-poor,” the report says. “The blunt fact is few parents have enough savings and other liquid assets on hand to meet their legal obligations without selling their home if their children default.

“Government and regulators have neglected the welfare of first-home buyers by providing the first-home owners grant, which inflates prices, and allowing parental guarantees, both of which provide the illusion of easy access to home ownership.

“While dwelling prices inflate, risks appear quite manageable, but meeting mortgage costs for decades thereafter is the most difficult task of all.”

It is more difficult for first-home buyers today to meet mortgage repayments over numerous decades because unemployment and underemployment are rising, the report says. As well as facing job insecurity, first-home buyers find it difficult to save given Australia consistently ranks high by global standards in terms of cost of living expenditures.

First-home buyers frequently enter the market with small deposits, as low as 10% of the purchase price of a property, which means they also risk negative equity if dwelling prices fall even slightly. On top of this, Australia is in the midst of the largest housing bubble on record, the report says.

“Between 1996 and 2015, real housing prices have risen by 141%,” the report says. “This surge in prices is why the housing market is so unaffordable. The government, central bank (RBA), prudential regulator (Apra), Fire sector (finance, insurance and real estate industries) and their economists predictably deny the existence of a housing bubble, believing a severe downturn in the residential property market simply cannot occur.

“Yet, in reality, these various stakeholders have been adding significant fuel to the fire in a ‘no margin for error’ environment.”

The report comes as Housing Industry Association data released on Thursday shows that new home sales fell 5.3% in February, following two months of gains. Detached house sales slipped 3.9%, while multi-units sales plummeted 10.6%.

HIA chief economist Harley Dale warned that key leading housing indicators, like new home sales and building approvals, would cool this year and next.

“Stage one of a down cycle in new home building will be moderate, but signs of a sharper contraction in subsequent stages may emerge as the year progresses,” he said.

An associate professor of property with the University of Melbourne, Dr Piyush Tiwari, agreed with LF Economics that asset-rich but cash-poor parents were exposing themselves to risk by helping their children enter the housing market.

"We have a lot of households who have retired and are living in highly valued suburbs, and they have been living in that home for a very long time, seeing its value increase. The homes are relatively old. The problem is that while their house value is high, they are not able to extract the value from that property. So there is a problem of people living asset-rich but income-poor."

He said there were not enough retirement home developments being built so that people could sell their assets, downsize, but remain in their community.

"I do agree with the report that there is a lot of stress on parents of homeowners for these reasons, however I don't believe there is enough evidence that we are in a housing bubble," Tiwari said.

"A housing bubble is not simply a function of house price to income. There are many other factors to consider [which are] contributing to house prices, and one is the desirability of housing as an asset, which is quite strong in Australia still. Negative gearing is another factor."