



Housing stress sparks inquiry

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AN inquiry into home lending practices is to be launched as new research reveals a sharp jump in the number of households going into debt or drawing on their savings to make ends meet.

The financial divide is growing between those struggling under debts and those with the resources to pay off their home, according to Melbourne Institute research.

Rising interest rates and the drought have led to an increase — from 10.8 per cent to 15.1 per cent over the past year — in the number of people running into debt or drawing on their savings.

The parliamentary inquiry, which will report before the

election, responds to concerns that lenders are breaching the banking code in their tough treatment of people in financial difficulties.

Leader of the inquiry, Liberal Bruce Baird, said it would also look at declining credit standards and the level of home loan defaults.

“Given comments by the governor of the Reserve Bank and a recent report by the banking ombudsman, we wanted to see if there were issues in the approaches taken by the various banks.”

Labor committee member Craig Emerson said parliamentarians were particularly concerned about western Sydney and the Illawarra region where many people now owe more on their mortgages than their

homes are worth.

“Committee members support the deregulation of the financial system but one consequence has been that existing and new entrants into the market have sought to capture market share as a top priority and that has led to very aggressive lending practices,” he said.

The Melbourne Institute research shows that the number of people devoting more than half their salary to debt has increased from 5.9 to 7.5 per cent over the past year.

Financial stress is greatest in rural districts, where the number of people running into debt or drawing on savings has soared from 9.9 to 20.8 per cent.

But there has also been an increase in metropolitan areas. The number of people succeed-

ing in saving some of their income in metropolitan districts has dropped from 57.7 per cent to 50.7 per cent in the past year.

The study confirms Reserve Bank research showing that people with the highest debt service burdens are generally those with higher incomes.

More than 80 per cent of people earning less than \$40,000 a year spend less than 10 per cent of their income on debt. Most are either in the rental market or, in the case of age pensioners, have a fully paid-off home.

The survey nevertheless found that 28.8 per cent of the people who spend more than half their income on debt service earn \$50,000 or less.