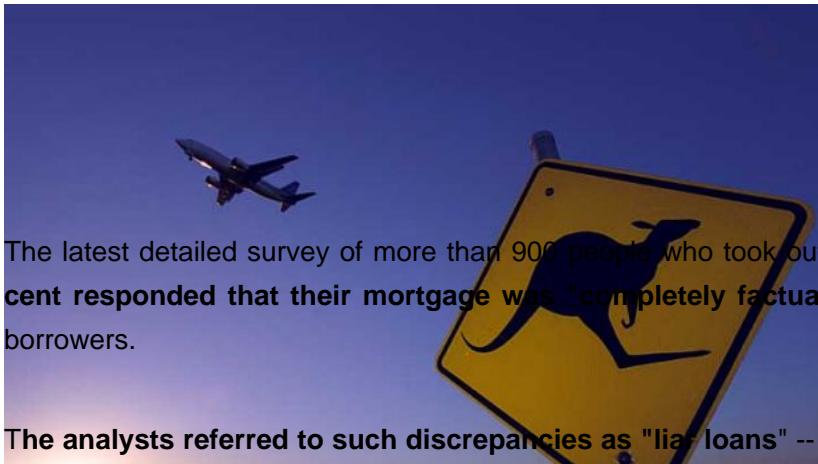


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UBS warns: Australian housing market built on \$500 bn of liar loans



The **UBS banking team** has released its annual survey on factual inaccuracies in Australian mortgage applications, and the results aren't pretty.

The latest detailed survey of more than 900 people who took out a home loan in 2017 has found that **only 67 per cent responded that their mortgage was "completely factual and accurate"**, down from 72 per cent of 2016 borrowers.

The analysts referred to such discrepancies as "**liar loans**" -- a phrase made popular in the US during the global financial crisis to describe loans approved with poor documentation.

If anything, UBS believes its survey would understate the prevalence of mortgage misrepresentations as some people would be nervous about admitting it, even anonymously.

"It is highly unlikely respondents would have stated that they misrepresented their mortgage application when in fact they were truthful," the bank noted in the report.

The report is based on a survey in July and August this year of 907 respondents across Australia who had taken out a mortgage within the last 12 months.

Analysts Jonathon Mott, Rachel Bentvelzen and George Tharenou then set out a comparative report based on their findings from 2015 and 2016.

"Given the rising level of misstatement over multiple years we estimate there are now approximately \$500 billion of factually inaccurate mortgages on the banks' books," the analysts said.

Given that the average scale of the misstatement across income, expenses, assets and living expenses was between 10-12 per cent, **UBS has warned that it makes Australia's banks even more vulnerable to a housing downturn than most people think.**

"This survey suggests many people have come to take house price inflation as a given and are prepared to be factually inaccurate on their mortgage application to ensure they get access to housing leverage," UBS warned in the report.

This analysis also suggests any significant fall in the housing market would be exacerbated if the true level of stress is underestimated by the banks and regulators.

The recent crop of borrowers are also more vulnerable because **they have borrowed at what now appears to be the height of property market values.**

The report also puts a particularly unflattering spotlight on mortgage brokers, finding a higher proportion of factually incorrect loan applications have come from this channel.

"Of the 2017 vintage, 37 per cent of respondents who used the broker channel and were not completely factual and accurate stated that their mortgage broker suggested they misrepresent the application," the report says.

Of those who received a mortgage directly from their banks, about 2 per cent said they were encouraged to be inaccurate in their application.