

## Australia's quiet credit crunch

*Michael Fingland CEO Vantage Performance, October 2026*

*Why the risk this time sits in business mortgages, not the family home.*

*Australia is not in a 2008 style banking collapse. It is in something more awkward: inflation still above the Reserve Bank's target, living standards per person already weak, official rates still rising, and a large slab of SME and mid-market lending sitting outside the major banks at 12 to 15 per cent. Put those together and the vulnerable loan segment of this cycle is not the average owner occupier mortgage. It is the business mortgage, the development facility, and the private credit line that filled the gap when the majors stepped back.*

*This is what the indicators say when they are read as a set.*

### **This does not look like a soft landing**

Headline inflation is still running around 3.5%. Trimmed mean inflation (the Reserve Bank's preferred core measure) was 3.6% in the year to July 2026 and has stopped falling. The Bank itself does not expect inflation back in the middle of the 2% – 3% band until early 2027. The cash rate is 4.35%. Markets went into the 29 September meeting pricing a lift to 4.60%, a 15 year high and the fourth increase this year. Another move after that is no longer a fringe view.

Growth has not collapsed. It is hollowing out. Headline GDP has been scraping along, 0.3% in the first quarter of 2026, while real GDP per capita has spent much of the past few years going sideways or backwards. That is the recession households feel even when the official line stays barely positive.

The labour market is turning, not breaking. Unemployment rose to 4.6% in August from 4.5% in July, the highest of the post Covid expansion. It is still low by Australian history. The direction is what matters. If it continues to rise from here consumer spending will fall further impacting the earnings profile of SME and mid-market companies.

Housing is already in a correction. National home values are down between 5% to 10% and 10% to 25% declines are plausible in particular suburbs and price tiers. Auction clearance rates spent long stretches of 2026 below 50% as buyers vacated the market. The big issue here is confidence. As people notice a drop in the value of their home they spend less which hurts the economy.

Around that sits a cost shock that policy cannot wish away. Conflict involving Iran and the continuing war in Ukraine pushed diesel and fertiliser sharply higher earlier

in 2026. Urea later came off its war peak as supply rerouted; diesel and some phosphates have stayed expensive. Retail power bills remain a drag on household budgets. The US 10 year Treasury yield has been in the high-4s to low-5s, tight enough to lift Australian wholesale funding and mortgage pricing before the Reserve Bank even moves.

Corporate insolvency volumes have been at multi-decade highs, with construction and hospitality overrepresented. That is the classic late tightening pattern: working capital businesses fail first.

None of this is 1970s inflation and none of it is 2008. It is stagflation pressure with an Australian twist, high household debt, housing as the main store of wealth, and an economy that has used population growth to keep headline GDP positive while output per person stagnates or declines.

## **The missing channel: private credit**

The piece that turns a squeeze into a potential major credit event is the private capital market.

Australian private credit has grown about 540% in a decade. ASIC and APRA put the sector around \$200 billion. Industry estimates run to \$220 to \$300 billion once real estate private credit and bank warehouses that fund non-bank lenders are included. APRA estimates that's only about 3% of the banking system, which is why it has described system wide risk as contained. However, against corporate lending the share is already near 14%, and closer to 18% in commercial property. That's significant for two critical segments of the Australian economy.

This growth had a simple cause. After the GFC, and again as APRA tightened serviceability to strengthen the main stream banking system, debt to income limits and risk weights on SME and commercial property, the majors pulled back from development, second mortgage, thin covenants and irregular cash flow. Private funds, SMSFs, family offices and some super money stepped in. Distress does not start in the whole system. It starts in the book the banks no longer wanted.

Pricing tells you the risk. Bank business rates sit around 9% to 10%. Clean first mortgage private credit is often 8% to 13%. Second mortgages, caveats, tighter SME and development debt commonly sit at 12% to 18%. That is not a modest premium. It is a risk compensation for the lenders to those borrowers the banking system had declined.

## **Three features make this the soft spot of the cycle.**

First, it funds the same sectors already failing. Property is estimated at 40% to 60% of Australian private credit. Construction dominates insolvency lists. The Bathla collapse is the case study: a Western Sydney developer went down owing about \$3.4 billion across more than 40 lenders and hundreds of special purpose vehicles, leaving thousands of dwellings unfinished.

Second, the money is stickier until it is not. Funds mark loans infrequently. Impaired assets can sit at book value to protect fees. When investors want out, the gate comes down. That has already started: redemption locks around Bathla exposures, stop orders on some products, a listed Metrics real estate fund suspended after a material write down. Illiquidity hides losses, then reveals them together.

Third, the banks are not off the field. Warehouses, fund finance and residual exposures mean a messy unwind washes back onto the majors. The Reserve Bank Governor has already said as much. APRA's 3% is the direct book. The indirect book is larger.

ASIC is no longer in the "please lift standards" phase. Late September language was "beyond warnings" and "prepare for enforcement": valuations, fees, related parties, default definitions, liquidity. That tone usually arrives after the credit cycle has turned, not before.

## **Not US subprime. The same mechanics, different loan.**

The useful comparison is not "Australia is about to repeat the GFC." It is that the vulnerable mortgage this time is a business mortgage.

US subprime was weaker borrowers, layered leverage, products that only worked if prices and cheap refinance kept going, origination that outran supervision, and losses that appeared first outside the core banks. Australia's business book in 2026 has a version of that. Banks left the field. Non-banks filled it at subprime like coupons. Security is often commercial property, a development site, or the owner's home. Structures are opaque. Valuations lag. When collateral falls 10% and auctions clear below 50%, the same weak link that sat under California tract housing sits under Australian sheds, sites and guarantees.

Stress is already leaking from the firm to the household. SME owners carry home mortgages about 50% larger than other borrowers and are already a little more delinquent on the personal loan. ATO tax defaults are up sharply, construction ATO defaults about 25% higher year on year. Business loan demand has been rising for liquidity, not expansion. Asset finance has been falling. That is survival borrowing.

The analogy breaks on scale and plumbing, and that distinction matters. US subprime was a huge share of new home lending, sliced into CDOs and sold globally. Australian private credit is large in corporate and commercial property terms and still small relative to the deposit taking system. Most of the paper is secured and privately held, not a trillion dollar tradable ABS market. Major bank commercial arrears remain contained by history. Owner occupier arrears are still low. Fitch's RMBS data has not shown a residential blow-up from the 2026 hikes.

So the honest label is a mid-market and property-backed credit event, not a nationwide home loan collapse. Talking yourself into "it isn't subprime, so it's fine" is the error. It is a different animal that can still do a lot of damage to firms, trades, regional property and anyone whose super or SMSF sits in a 10 per cent "income" fund that is really a construction loan.

## **How the damage would run**

Refinancing by private credit stops at 12% to 15% interest rates when funds gate redemptions or reprice risk. Developers and leveraged SMEs cannot roll facilities. Administration follows. Stock sits unfinished. Trades do not get paid. Collateral values fall further because the only bid was the next private lender. SME owners drain or default on the home mortgage that guaranteed the business. Banks tighten warehouses and residual commercial property lines, which starves the next layer of non-bank credit. Insolvencies stay high in construction, hospitality and small production. Unemployment drifts up. Housing stays weak.

That is a credit crunch in the real economy. It shows up as unpaid invoices, stalled builds, and businesses that look fine until the facility expires. It is ugly for mid-market Australia. On current size it is not a freeze of the whole financial system.

## **Outlook**

The base case is slow, uneven and uncomfortable conditions. Inflation grinds down into 2027 rather than collapsing. Unemployment drifts toward 5% rather than 7%. Housing falls further from peak, another mid single digit national decline is easy to see; 10% plus in Sydney and Melbourne high end and some regional pockets is already happening. Farm and energy intensive margins stay under pressure. Private credit keeps growing on paper while credit quality and liquidity get harder.

The downside case is no longer remote but is in fact quite probable. One or two more cash rate increases, US long yields holding near 5% or higher, another energy spike given the stalemate in the Iran conflict and impact on Russian oil production

from the Ukraine war, and a cluster of redemption gates would turn the per capita recession into a proper mid market credit crunch: sharper property falls, a wider insolvency wave, and slower growth than the Reserve Bank's base case.

The upside requires core inflation to roll over faster than it has this year, the RBA Board to stop after this meeting, and diesel and construction stress to ease together. Possible. Not the way 2026 has behaved so far.

The policy tension is the same one the indicators have been shouting: the Reserve Bank is still tightening into weak per capita demand while supply shocks and a less transparent lender cohort are live. That is how you get inflation above target, living standards falling, and firms failing at the same time.

## **What to watch**

Official unemployment will lag. The tells over the next two quarters are more redemption gates and NAV write downs in property and SME funds, warehouse lines pulled or repriced, and construction insolvencies staying elevated even if headline GDP stays positive.

If those stay contained, private credit is a painful re-pricing of the risk banks refused. If they cluster, it is the amplifier that turns a cost of living crisis into a business mortgage crunch.

**Australia does not need a US style subprime machine to get hurt. It only needs a large, fast grown book of 12% to 15% loans against assets that are already falling, funded by investors who can lock the gate.**

**That book exists. The first cracks are visible. The question is no longer whether the risk is real. It is how wide it spreads.**