RESPONSES TO QUESTIONS TAKEN ON NOTICE: House of Representatives Standing Committee on Economics hearing on 6/8/2015

Australian Prudential Regulation Authority

Question One: Mr Husic (transcript page 27)

Mr HUSIC: […] Have you publicly released the questions that you asked the individual ADIs to help obtain the data that you received?
Mr Byres: Heidi was responsible for that, so I might let her answer that one.
Ms Richards: The actual survey was a series of hypothetical borrower balance sheets. Essentially the banks filled out details of how they would assess income and expenses and other parameters for those particular borrowers. We have not actually put that particular survey out into the public domain, but it is effectively available to banks that have participated, and I know it has made the rounds of the industry. It is not particularly secret what we included in that survey.
Mr HUSIC: Are you able to provide that on notice?
Mr Byres: I do not see any reason why we couldn't, so I am happy to do so.

Answer:

APRA undertook a hypothetical borrower exercise with 17 large ADIs at the start of 2015. ADIs were asked to assess four hypothetical mortgage applicants, and provide information on the maximum amount that they would lend to these borrowers. ADIs also provided APRA with their assumptions on borrower living expenses and debt repayments, as well as the amount of income recognised in the serviceability assessment.

The exercise included a range of borrower types, including two owner-occupier loans and two investor loans. APRA specified detailed assumptions on each borrower, including on income, living expenses, and existing mortgage or other debt commitments. A summary is presented below:

- **Borrower 1**: Joint applicant with two dependent children applying for a principal and interest owner-occupied loan. The borrowers have a combined pre-tax salary income of $145,000 (annual), with some other non-salary income (approx. $15,000). Borrowers have an existing credit card, but no other debt. Declared living expenses were $3000 per month. The borrowers wish to borrow $650,000 (an LVR of 85 per cent).
- **Borrower 2**: Single applicant, with two dependent children applying for an interest only owner-occupied loan. The borrower has a pre-tax income of $60,000 (annual), and some overtime income ($5000 over past 12 months). The borrower, who has no existing debt and declared living expenses of $1,600 per month, wishes to borrow $350,000 (an LVR of 95 per cent).
- **Borrower 3:** Single applicant, with no dependents, applying for an interest only investor loan. The borrower has a pre-tax salary income of $150,000 (annual), plus bonus and dividend income ($20,000). Declared living expenses were $1,600 per month. The borrower has an existing mortgage of $350,000 and some credit card debt. The proposed rental income from the new investment property is $20,000 (annual). The borrower wishes to borrow $350,000 (an LVR of 85 per cent).
- **Borrower 4:** Joint applicant with three dependent children, applying for an interest only investor loan. The borrowers have a pre-tax salary income of $325,000 (annual), plus bonus and dividend income ($40,000). The borrower has an existing mortgage of $750,000 and some credit card debt, with declared living expenses of $4000 per month. The proposed rental income from the new investment property is $50,000 (annual). The borrower applied to borrow $750,000 (an LVR of 75 per cent).

Findings from the exercise were discussed in a recent speech by Wayne Byres, "Sound lending standards and adequate capital: preconditions for long-term success" (13 May 2015).

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Question Two: Mr Conroy (transcript page 30)

Mr CONROY: I just want to go to your December 2014 letter, which focused on three areas, and in particular investor lending and—it is not a hard limit—the 10 per cent benchmark on annual investor credit growth. That letter was sent out in December 2014.

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Mr CONROY: So Mr Khoo, in the letter you say that the benchmark:
… will be an important risk indicator that supervisors will take into account when reviewing ADIs' residential mortgage risk profile …
Has that begun? Has your team started going through the ADIs, looking at the risk indicators and taking into account whether they are exceeding the 10 per cent?
Mr Khoo: Yes.
Mr CONROY: Are there still banks or ADIs exceeding that 10 per cent?
Mr Khoo: There are ADIs which were well above the 10 per cent at the time when we started this work. We have been working with them to ensure that they meet their commitments to APRA.
Mr CONROY: I am not asking for names—that would be inappropriate—but how many ADIs are still above 10 per cent?
Mr Khoo: A small number.
Mr CONROY: What is a small number?
Mr Khoo: I could not tell you off the top of my head.
Mr CONROY: Could you give me a range? Is it zero to 10, 10 to 20, 20 to 30?
Ms Richards: Among the larger ADIs, it might be about a dozen. We publish those numbers on our website as well. We publish monthly statistics on investor housing lending, among other things.
Mr CONROY: Could you take that on notice and provide—whether as a link or a cut and paste—the latest figures on how many are exceeding the 10 per cent?

Answer:

APRA publishes data on individual banks' investor lending in the Monthly Banking Statistics. As at June 2015, this data showed that 17 banks had an annual investor housing credit growth rate of more than 10 per cent.

The link to Monthly Banking Statistics can be found on APRA's website.