

Senate Economics Legislation Committee

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

2016 - 2017

Division/Agency: Australian Prudential Regulation Authority

Question No: 146

Topic: Mortgage debt classification

Reference: Written

Senator: Whish-Wilson, Peter

Question:

1. Since introducing macro-prudential controls on lending to property investors in 2015, in particular the 10% limit on annualised growth, has APRA investigated whether lending institutions changed their methods of classifying mortgage debt; i.e. debt for owner-occupiers or for investors?
2. Has APRA uncovered any instances of lending institutions having changing their classification method and subsequent reporting of mortgage debt?
3. Does APRA believe that data showing a 'switch' from investor growth to owner-occupier growth immediately following the introduction of macro-prudential controls is an accurate reflection of actual market activity at that time?

Answer:

1. Given the increased focus on residential mortgage lending, the Australian Prudential Regulation Authority (APRA) has supplemented its standard data collection with more regular reports and requests for information to improve the quality of the information available.

For example, APRA has collected information on where customers have switched between investor and owner-occupied (and vice versa) via regular queries and ad hoc collections, with the majority of these data shared with the Reserve Bank of Australia (RBA). This information has been used to compile a more rigorous measure of investor loan growth on which to base APRA's decisions.

2. A number of banks have revised their reporting of owner-occupied and investor housing. These reclassifications have been reflected in the published Monthly Banking Statistics (MBS). The respective issues of MBS included notices to alert users to significant revisions. In some instances, banks have also issued ASX announcements regarding reclassifications of their housing data published in MBS.

3. APRA's focus on investor lending growth led a number of ADIs to assess their practices for reporting the borrower type in APRA statistical returns, as well as for other purposes. The exercise highlighted that some ADIs have not had sufficiently robust practices for monitoring the investor/owner-occupier status of their borrowers, and some data submitted to APRA was previously incorrect. APRA required review of data and upgrade of reporting capabilities where warranted. As a result, some have strengthened their procedures, which has included identifying borrowers who were at one time investors and are now living the property, and vice versa. This has resulted in a significant amount of switching between loan types. APRA has worked with ADIs over the last 2 years to ensure the data reported is reliable. As APRA

receives data both before and after switching, APRA is able to adjust its measures of underlying lending growth to remove the impact of switching for its internal use.