

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

2017 - 2018

Division/Agency: Australian Prudential Regulation Authority

Question No: 79

Topic: Predatory Lending

Reference: Hansard page 110 (30 June 2017)

Senator: Whish-Wilson, Peter

Question:

Senator WHISH-WILSON: Is a bank required to take into account someone's age when they are issuing an investment loan? Is it one thing they would consider?

Mr Byres: It is not an explicit requirement on age, but it reflects the capacity to repay and likely sources of income in the foreseeable future to meet the obligations of the loan.

Senator WHISH-WILSON: Does a prudent banker lend \$445,000 to 64-year-old single woman on a \$9 a month buffer?

Mr Byres: Just based on you reciting that, it sounds like something we should have a look at.

Senator WHISH-WILSON: You will get a copy after this from the committee, in confidence.

I would like to seek the committee's permission to table it, at some stage. The interesting bit is that you have cracked down on interest-only loans. Is that correct? How prevalent are they? Are you able to drill down into the data in terms of age groups, for example?

Mr Byres: No, I cannot tell you age groups. But I will give you a few high-level bits of information. Interest-only lending has been running at about 40 per cent. So, of total lending, 40 per cent would be interest only and 60 per cent would be principal and interest. We have said we would like to see the proportion that is interest only come down to 30 per cent. That is the benchmark we have set, and we are paying particular attention to interest-only lending that is also high LVR, because that is a borrower who neither has equity nor is building equity in the loan, which is a higher risk proposition. Most interest-only lending is to investors, but there has been a material proportion of interest-only lending to owner occupiers, and that has also caught our eye because you want to make sure that people are not using an interest-only option just because it slightly improves their cash flow.

Senator WHISH-WILSON: If you could take it on notice when you get the document, I would be interested to know exactly how you define predatory lending, and whether that would be an example of predatory lending.

Mr Byres: You might share the same example with ASIC. We can compare notes with ASIC, because they would also probably have a perspective, given the responsible lending obligations under the Corporations Act.

Answer:

Over the past few years, APRA has intensified its scrutiny of the mortgage lending practices and risk profiles of Australian authorised deposit-taking institutions (ADIs).

APRA's supervisory work on lending standards for housing continues as a high priority.

The goal of this work, which started in late 2014, was to reinforce – and in some areas improve – sound lending standards for housing, particularly in relation to the manner in which lenders assessed the capacity of borrowers to service their loans.

Earlier this year, APRA also released *Prudential Practice Guide APG 223 Residential Mortgage Lending* (APG 223) which sets out APRA's expectations for prudent residential

mortgage lending practices, including guidance on applying sound loan origination criteria and appropriate security valuation methods and managing hardship loans. APG 223 is also consistent with responsible lending obligations that protect borrowers (administered by ASIC).

In response to this supervisory attention, debt serviceability assessments now appear to be both more prudent and more consistent across ADIs, relative to December 2014. APRA is continuing to engage ADIs on this issue to ensure that the observed improvements in sound underwriting practices are maintained. More recently, APRA has also been examining the extent to which loans are able to be approved outside an ADI's own (tightened) policy parameters.

APRA has raised the issue referred to by Senator Whish-Wilson with the ADI in question and is continuing to liaise with ASIC on the matter.