

**SENATE STANDING COMMITTEE ON ECONOMICS QUESTION**  
**(Supplementary Budget Estimates 20 October – 21 October)**

---

Question: SBT 13

Topic: APRA - Concentrating Risk

Senator Williams asked:

Why is it that Joseph Healey and Mark Joiner of the NAB have argued that APRA is in fact concentrating risk by creating a bias towards creating a PONZI scheme with the weighting given to residential housing that creates a bias? What is that assumption fundamentally based upon?

Answer:

Under APRA's capital requirements for authorised deposit-taking institutions (ADIs) using the 'standardised' Basel II approach, loans secured by residential property attract a lower risk-weight (and hence capital requirement) than loans to unrated corporate and personal borrowers (which attract a 100 per cent risk-weight). The risk weights, which are consistent with those applying globally under the Basel II Framework, reflect the relative historic loss performance of broad categories of borrowers. Hence, lower risk-weights attach to loans to (and exposures guaranteed by or secured by claims on) Governments, other ADIs and investment grade corporate borrowers. As well, there are concessional risk-weights for certain loans (including commercial loans) secured by eligible residential mortgages. The risk-weight for residential mortgage lending (which can vary from 35 per cent to 100 per cent) depends, amongst other factors, on the loan-to-valuation ratio, the existence of lenders mortgage insurance and whether it is a standard or non-standard loan. A similar (but much more complex) relative risk assessment for counterparties applies to banks that have been approved by APRA to use the 'advanced' Basel II or internal ratings-based (IRB) approach to credit risk.

APRA does not set risk-weights to bias lending towards, or against, certain types of business. Consistent with our objectives of promoting the prudential soundness of ADIs, APRA seeks to ensure that differences in risk-weights are clearly justified by differences in credit risk. Within the context of the global framework, APRA has, over time, changed risk-weights for certain types of housing loans (e.g. it has increased risk-weights for non-standard loans) due to concerns about the heightened risk of such exposures within housing loan portfolios.