HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ANNUAL REPORT 2016

1QW: Potentially misleading statements by the banks about the effect of APRA's regulatory requirements on interest rates

Submitted subsequent to hearing.

During the hearing on 13 September 2017, the committee questioned APRA about statements by the banks, which attribute interest rate increases to increases in APRA's regulatory requirements. An extract from p.23 of the Hansard is below:

CHAIR: *Mr Byres, to come back to my line of questioning earlier today, if the banks say that they are responding in a particular way to APRA regulation, do you assess whether or not that response is proportionate and reasonable?*
Mr Byres: *Generally, yes is the answer to that question.*

The committee asks that you provide documents, public or internal, including minutes or analysis, which show how APRA determined whether or not the following actions by the banks were proportionate and reasonable:

- Commonwealth Bank's decision to raise rates on interest only loans by 30 basis points on June 27, 2017
- Westpac's decision to raise rates on interest only loans by 34 basis points on June 20, 2017
- NAB's decision to raise rates on interest only loans by 35 basis points on June 23, 2017

The committee is not requesting that APRA conduct analysis on these matters after receipt of this letter. It is requesting information about the analysis conducted by APRA in relation to these matters at the time of the rate rises.

Answer:

APRA did not undertake specific analysis to determine a precise estimate of the likely impact on the mortgage lending rates of individual lenders in response to specific regulatory measures. Rather, its assessment was based on *a priori* expectations of likely responses by lenders, informed by amongst other things:

1. the extent of change in borrower behaviour required and the timeframe in which it was being sought (ie the material reduction in interest-only lending being sought in a relatively short timeframe);
2. the potential capacity of non-price measures to generate the required change in borrower behaviour;
3. the relative cost and repayment requirements of interest-only and principal and interest loans; and
4. learnings from earlier repricing decisions by lenders, and borrower responses, following previous measures to reinforce lending standards.

It is also important to note that these announcements were being made in the context of other coincident regulatory changes (eg the imminent announcement of 'unquestionably strong' capital requirements, and the introduction of the Net Stable Funding Requirement). These regulatory changes will likely increase banks' funding costs, all other things being equal.