

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY ANNUAL REPORT 2016

**6QW:** Geographically based restrictions

Submitted subsequent to hearing.

Mr KEOGH: At the 2017-18 Budget, the Government announced that it would introduce legislation to make it clear that APRA has the ability to use geographically based restrictions on the provision of credit where APRA considers it appropriate.

Was it APRA's view that its previously existing power did not allow it to impose such restrictions on a geographical basis?

AND

7QW - Mr KEOGH: If not, why did APRA not use such powers previously?

AND

8QW - Mr KEOGH: Given the introduction of the specific geographical power, does APRA intend to implement geographically different restrictions?

**Answer:**

APRA has taken a number of quantitative measures to address systemic risks in the residential mortgage lending sector. In late 2014, APRA issued supervisory guidance to authorised deposit-taking institutions (ADIs) indicating that it expected them to maintain growth in residential mortgage investment lending to 10 per cent annually. At the same time, it required ADIs to improve serviceability assessments, including the establishment of benchmarks for interest rate buffers within serviceability calculations. Earlier this year, APRA stated that it expects ADIs to limit interest-only mortgage lending to 30 per cent of their new activity. APRA supervisors have also been focusing attention on higher-risk areas of mortgage lending activity, such as interest-only lending at high loan-to-valuation ratios.

APRA considers that it has the ability to adopt these or other measures on a geographically targeted manner, either through the supervisory process or formal rules, should such a step be warranted. However, the proposed legislation will provide certainty as to APRA's ability to do so.

APRA has carefully considered but to date has not adopted geographically based measures for several reasons. The measures APRA has adopted in recent years to address risks in residential mortgage lending are based on promoting sound lending practices by ADIs, which is an important consideration on a national basis rather than being only relevant to particular regions. Geographically based measures can be difficult to implement, requiring very detailed data on property locations to be gathered, and possibly arbitrary lines to be drawn around 'target'

geographies. In addition there is some evidence that lending 'spills-over' from the targeted areas to surrounding areas, making the measures less effective over time.

Finally APRA notes that many ADIs and other lenders have for a considerable time chosen to impose lending restrictions according to location, type of property, and many other factors, according to their own assessment of risk.

APRA has no immediate plans to adopt geographically differentiated residential mortgage lending measures; however, APRA continues to monitor developments in residential mortgage lending standards and such options remain under consideration.