

Senate Economics References Committee

ANSWERS TO QUESTIONS ON NOTICE

Financial Regulatory Framework and Home Ownership

Agency: Australian Prudential Regulation Authority
Question No: 4
Topic: Mortgage Risk Weighted Assets
Reference: Spoken
Senator: Senator Bragg

Question:

CHAIR: But it's a very easy thing to change based on various judgements, given that it sounds like you have lots of different permutations. Finally, I just want to ask you about the Murray financial system inquiry. That recommended that mortgage risk weights lift from 15 to 25 per cent, did it not?

Dr Carmody: Yes, that's correct. There was a focus on mortgage risk weights there. In addressing that, that was often referred to as ensuring that Australian banks are unquestionably strong. I think you heard some of the other evidence today that it allows access to international capital markets. But we've now got a framework that was comprehensively revised. It's influenced by the international circle Basel capital frameworks as well, which were informed by a lot of the learnings from the global financial crisis. And I think it's fair to say that we've got significantly stronger capitalisation in the Australian banking system today than at the time of that financial system inquiry, which I think underpins the strength of our systems.

CHAIR: So we're about 25 per cent now, are we?

Dr Carmody: It varies bank by bank, but we can certainly give you the information in those prudential standards.

CHAIR: Can you give me that as an overall figure, and also the percentage that first home loans would be, as a proportion?

Dr Carmody: I can certainly give it to you overall. As I said in an earlier answer, we'll have to look to see whether we've got that specific calculation for capital attributed first home buyers. If we do, we can certainly provide it.

Answer:

The industry average risk weight for mortgages is approximately 26 per cent as at June 2024.

APRA does not collect data on the risk weight applied for first home buyers. For owner-occupiers with principal and interest loans, the average risk weight was approximately 23 per cent. For all other mortgages, it was approximately 30 per cent.