Senate Economics References Committee

ANSWERS TO QUESTIONS ON NOTICE

Financial Regulatory Framework and Home Ownership

Agency: Australian Prudential Regulation Authority
Question No: 2
Topic: Risk Weightings Table
Reference: Spoken
Senator: Senator Bragg

Question:
Senator Bragg: In terms of the risk difference between owner-occupier and investor loans, what is the difference in capital to be held between the two classes of loans?

Dr Carmody: As I noted before, there is essentially a table, and it does vary by loan to value ratio and whether there is or is not there is mortgage insurance in place for those higher ones. We can certainly notice provide you with a table. As I mentioned, it is in Standard 112, but I can point it out specifically.

Senator Bragg: I think it would be useful to see the different permutations.

Answer:

Prudential Standard APS 112 *Capital Adequacy: Standardised Approach to Credit Risk*[1] sets out the risk weights for standard residential property loans in Table 1 of paragraph 16. A copy of this table is extracted below:

Table 1 Risk weights for standard loans

<table>
<tr><th colspan="2" rowspan="2">LVR (%)</th><th colspan="7">Risk weight (%)</th></tr>
<tr><th>≤ 50</th><th>50.01 - 60</th><th>60.01 - 70</th><th>70.01 - 80</th><th>80.01 - 90</th><th>90.01 - 100</th><th>> 100</th></tr>
<tr><td rowspan="2">Owner-occupied principal-and-interest</td><td>LMI</td><td rowspan="2">20</td><td rowspan="2">25</td><td rowspan="2">30</td><td rowspan="2">35</td><td>40</td><td>55</td><td>70</td></tr>
<tr><td>No LMI</td><td>50</td><td>70</td><td>85</td></tr>
<tr><td rowspan="2">Other standard residential property</td><td>LMI</td><td rowspan="2">25</td><td rowspan="2">30</td><td rowspan="2">40</td><td rowspan="2">45</td><td>50</td><td>70</td><td>85</td></tr>
<tr><td>No LMI</td><td>65</td><td>85</td><td>105</td></tr>
</table>

In this table LVR stands for Loan to Value Ratio and LMI for Lenders Mortgage Insurance.

A lower risk weight for owner-occupier loans also applies to the six ADIs are subject to APS 113 *Capital Adequacy: Internal Ratings-based Approach to Credit Risk*[2] (APS 113). APS 113 allows APRA-approved models developed by the ADIs to be used as inputs to specified risk weight formulas. These risk weights are subject to a "scaling factor" and APS 113 Attachment A, paragraph 13-15 specifies a lower scaling factor for owner-occupier loans than for other types of residential mortgages.

[1] https://www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Standard%20APS%20112%20-%20Capital%20Adequacy%20-%20Standardised%20Approach%20to%20Credit%20Risk.pdf.
[2] https://www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Standard%20APS%20113%20Capital%20Adequacy%20-%20Internal%20Ratings-based%20Approach%20to%20Credit%20Risk.pdf