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 Risk¹ sets out the risk weights for standard residential property loans in Table 1 of paragraph 16. A copy of this table is extracted below:

		Risk weight (%)						
LVR (%)		≤ 50	50.01 - 60	60.01 - 70	70.01 - 80	80.01 - 90	90.01 - 100	> 100
Owner-occupied principal-and-interest	LMI	20	25	30	35	40	55	70
	No LMI					50	70	85
Other standard residential property	LMI	25	30	40	45	50	70	85
	No LMI					65	85	105

Table 1 Risk weights for standard loans

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 Risk² (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-

 $[\]frac{11/Final\%20Prudential\%20Standard\%20APS\%20113\%20Capital\%20Adequacy\%20-\%20Internal\%20Ratings-based\%20Approach\%20to\%20Credit\%20Risk.pdf$