

SENATE ECONOMICS REFERENCES COMMITTEE

FINANCIAL REGULATORY FRAMEWORK AND HOME OWNERSHIP

Australia and New Zealand Banking Group Limited (ANZ)

Questions on notice

1. What proportion of total home loans do loans to first home buyers constitute for your organisation, in terms of their total value?

First home buyers¹ constitute 8.3 per cent of ANZ's total pool of home loans by outstanding balance, as at 30 September 2024.

2. What proportion of home loans to first home buyers go to those in the regional metro centres, as compared to capital cities?

The proportion of home loans to first home buyers in capital cities is 85 per cent of ANZ's total pool of home loans by outstanding balance, as at 30 September 2024.²

The proportion of home loans to first home buyers in regional areas is 14 per cent of ANZ's total pool of home loans by outstanding balance, as at 30 September 2024.

The proportion of home loans first home buyers overseas is 1 per cent of ANZ's total pool of home loans by outstanding balance, as at 30 September 2024.

3. What is the average size of home loans to first home buyers your organisation issues?

The average size of home loans to first home buyers is \$536,141 based on the outstanding balance of loans to first home buyers, as at 30 September 2024.

5. What is the average age of first home buyer your organisation grants a home loan to?

The average age of a first home buyer when they entered into the loan is 33.8 years, based on first home buyer loans granted by ANZ between 1 October 2023 and 30 September 2024.

¹ ANZ first home buyers are defined as home loans to customers who have applied for a loan as a "First Home Buyer" to purchase or construct a residential property for owner occupation as the predominant loan purpose.

² Calculated using Australian Bureau of Statistics (ABS) remoteness classifications: [Remoteness Areas](#), ABS Website. We have assumed 'Major Cities of Australia (including CBD)' are capital cities and all other categories are regional.

6. What proportion of home loans to first home buyers go to singles and how many go to couples?

The proportion of first home buyer loans that are to a single account holder is 42 per cent based on the outstanding balance of first home buyers loans, as at 30 September 2024.

The proportion of first home buyer loans that are to joint account holders is 58 per cent based on the outstanding balance of first home buyers loans, as at 30 September 2024.

We do not have the information to identify whether joint account holders are 'a couple'.

7. What proportion of home loans to first home buyers go to those who receive a guarantee or security from a family member who is not a spouse?

The proportion of home loans to first home buyers who receive a guarantee or security is 12 per cent of ANZ's total pool of loans to first home buyers by outstanding balance, as at 30 September 2024.

The above statistic represents the proportion of all first home buyer loans that have a guarantee or security. We do not have the information to separate out if a guarantee is from a spouse, family member or other relationship.

8. Of the first home buyers granted a home loan by your organisation, how many of these customers:

a. Used a government scheme to assist with paying their deposit?

b. Made use of another government scheme or incentive to assist in the purchase of their property, such as the First Home Buyers Guarantee?

ANZ does not participate in the federal government first home buyer assistance schemes.

ANZ does not have information available on customer participation in state government first home buyer assistance schemes.

Questions on notice from Committee Chair, Senator Andrew Bragg

1. How does the existing serviceability buffer impact prospective first homeowners?
2. Do you think a dynamic serviceability buffer would be a better approach and potentially increase first home ownership?

[Questions 1 and 2 are answered jointly]

Overview of serviceability buffer

Paragraph 4 of Attachment C to APRA's Prudential Standard APS 220 Credit Risk Management (**APS 220**) states that banks must apply a serviceability buffer of at least 3.0 per cent over a loan's interest rate to assess the serviceability of a borrower.³ That paragraph further provides that 'APRA may vary the minimum level of the buffer between 2.0 and 5.0 per cent.'⁴ In setting the buffer at 3 per cent in 2021, APRA referred to, among other things, very low interest rates and rapidly increasing housing prices.⁵ In confirming the buffer at this level in 2024, APRA considered interest rate uncertainty, the economic outlook, household debt, inflation and geopolitical instability.⁶

Implicit in the language of APS 220 is recognition that banks can set serviceability buffers above the minimum level prescribed by APRA. Paragraph 32 of Prudential Practice Guide APG 223 Residential Mortgage Lending (**APG 223**) notes the buffer set by banks 'would reflect the potential for interest rates to change over several years'.⁷

The minimum serviceability buffer has previously been 2 per cent⁸ and 2.5 per cent⁹, with the former figure used in conjunction with an interest rate floor of 7 per cent.^{10,11}

In these senses, the buffer is 'dynamic' in that (a) it has changed over time; (b) APS 220 allows the minimum buffer to be calibrated within a defined range at APRA's discretion; and (c) banks can set a higher buffer if that is prudent for the risks that they are facing. In its current construct, the buffer does not automatically rise or fall in response to changes in the cash rate target (or other variables, such as the factors APRA considered in 2021 and 2024); it requires a decision from either APRA or a bank within

³ [Federal Register of Legislation - Banking \(prudential standard\) determination No. 14 of 2022](#)

⁴ Ibid.

⁵ [Letter to ADIs Strengthening residential mortgage lending assessment.pdf](#)

⁶ [APRA keeps macroprudential policy settings steady | APRA](#)

⁷ See paragraph 32 of APG 223 published in July 2019; available at: [Microsoft Word - APG-223-July-2019.docx](#)

⁸ See paragraph 32 of APG 223 published on February 2017; available at: [APG-223_1.pdf](#)

⁹ See paragraph 32 of APG 223 published on July 2019; [Microsoft Word - APG-223-July-2019.docx](#)

¹⁰ See paragraph 33 of APG 223 published on February 2017; available at: [APG-223_1.pdf](#)

¹¹ This media release has a useful explanation of the history of the buffer construct: [APRA proposes amending guidance on mortgage lending | APRA](#)

the boundaries provided by APS 220. This reflects the approach of APRA (and banks) to considering a range of factors in setting the buffer.

Dynamic serviceability buffer

If the buffer adjusted automatically based on the cash rate target (or another variable), it would change the maximum amount that could be borrowed by first homeowners and the amount of financial risk that they assume as the cash rate target moved (relative to a static buffer). To the extent the buffer fell, this would increase the maximum amount that first homeowners could borrow and the amount of financial risk. Conversely, as the buffer rose, it would decrease these amounts. Whether this would help first homeowners secure a home compared to the current way of setting the buffer may depend on several factors. It is difficult to assess the impact of these factors without modelling. Factors to consider include:

- A dynamic buffer would change the maximum amount available to all borrowers; not just first homeowners. As such, if the buffer were to fall with increases in the cash rate target, this may not necessarily increase the borrowing power of first homeowners relative to that of other borrowers who are seeking to buy homes. This would depend on whether the buffer is more relevant to first homeowners than to other borrowers across the banking system (particularly those borrowers who are competing for the houses sought by first homeowners).
- In an environment where the cash rate target is being lowered, an automatically rising buffer would decrease the maximum amount that first homeowners could access (relative to a static buffer). Again, to the extent that first homeowners are more reliant on using their maximum borrowing capacity, then they may be impacted by this disproportionately relative to other borrowers who are seeking to buy homes.

If a dynamic serviceability buffer were only applied to first homeowners, and the dynamically set buffer were lower than the static buffer applicable to other borrowers (e.g. in a time of higher interest rates), then the issue in the first bullet point above could fall away. However, a dynamically set buffer may, in times of lower interest rates, end up being higher than a static buffer. This could enhance, rather than diminish, the issue in the second bullet point above. Of course, other factors would be relevant to the utility of such a construct including that this could, at times, see a lower buffer apply to a cohort of borrowers who may exhibit higher risk characteristics than other borrowers. It would also be important to assess this idea against consumer protection regulation.

Serviceability exceptions

Beyond these points, it may be that APRA's existing policy framework could be used to help first homeowners secure a house (acknowledging that APRA's mandate does not focus on this specific policy objective).

As APRA identified in its submission to the Committee, it allows banks 'to lend to borrowers that do not meet standard serviceability criteria, provided that these "exceptions to policy" are managed prudently and limited.'¹²

It is possible to conceive how such an exception could potentially help first homeowners and other early-stage homeowners. Specifically, APRA noted that 'banks could look through periods of temporarily low income, should they have confidence in borrower's future repayment capacity'.¹³ Extending this to target early-stage homeowners, a bank could theoretically look beyond a borrower's current income where they have confidence this will grow over time. That is, future (higher) incomes could be considered on exception not merely where a low income is a temporary deviation from a prior income but also where it reflects the early stages of a borrower's career. However, such an exception would need to be approached carefully to ensure borrowers to whom it applied were not provided with credit that is unaffordable (including in line with the requirements of the *National Consumer Credit Protection Act 2009* (Cth)). This could lead to unacceptable financial hardship. To help avoid this, banks would need confidence in their assessments of future income levels (among other measures).

- 3. If a lower capital risk weighting was applied to first home buyer mortgages, are there any guarantees the bank could provide that a lower interest rate would apply for first home owners?**
- 4. Are there mechanisms to ensure lower interest rates would apply to first home buyers if a lower capital risk weighting system was instituted**

[Questions 3 and 4 are answered jointly]

APRA prescribes risk weights to different types of assets to reflect their credit risk. Banks must hold capital against lending in accordance with the risk weights. The objective is to ensure that financial institutions are adequately capitalised to withstand economic shocks and protect the interests of depositors.

The simplest way to translate any reduced capital levels from lower risk weights for first homeowner mortgages would be for APRA to stipulate that such risk weights can only be applied when the bank prices those mortgages at a rate for borrowers that reflects such reduced capital.

- 5. How does the Credit Act impact the ability of the bank to consider future earnings prospects of first home buyers? Do you have suggestions about improvements to the Credit Act?**

We do not have any suggestions concerning changes to the *National Consumer Credit Protection Act 2009* (Cth) in respect of first home buyers.

¹² See submission number 45 on the Committee website; available at https://www.apf.gov.au/Parliamentary_Business/Committees/Senate/Economics/Homeownership/Submissions

¹³ Ibid.