

Bendigo and Adelaide Bank's response to additional questions on notice from the inquiry into Australia's financial regulatory framework and home ownership received on 25 October 2024

All responses are current as of November 2024, unless stated otherwise.

Question No.	Question	Bendigo and Adelaide Bank Response
1	<i>How does the existing serviceability buffer impact prospective first home owners?</i>	It's our Bank's view, that an interest rate buffer plays an important role as a safety net, especially to prospective first homeowners, who are usually taking on a significant debt obligation for the first time. The existing 3 per cent serviceability buffer acts to ensure customers (including first home buyers) have some capacity to cope with increased interest rates, changes in living expenses and any other unexpected life events, with a reduced risk of financial difficulty. However, it results in first home buyers having serviceability assessed at an interest rate above 9 per cent, with the current mortgage rates available to most of this cohort being above 6 per cent. Accordingly, we are seeing a proportion of prospective first home buyers failing serviceability tests and not being able to enter the housing market, despite being able to meet repayment obligations at current rates. Further, the existing buffer settings do not consider any potential or likely income growth of the borrower, further impacting younger first home buyers who are generally in the early stages of their careers. A readjustment of how APRA sets the buffer could be considered to take into account the current interest rate cycle, having the impact of raising the buffer during the bottom of the cycle and lowering when at, or near, the top.

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2	<i>Do you think a dynamic serviceability buffer would be a better approach and potentially increase first home ownership?</i>	Our Bank is supportive of a more dynamic serviceability buffer to ensure this measure reflects where we are within the interest rate cycle. A more dynamic approach to the serviceability buffer would encourage a review of the current buffer rate and, at this point in the interest rate cycle, could prompt consideration of a lower buffer – reflective of the buffer in place the last time we were at this point in the cycle.
3	<i>If a lower capital risk weighting was applied to first home buyer mortgages or any class of mortgage for that matter, are there any guarantees the bank could provide that a lower interest rate would apply?</i>	Our Bank considers lower risk weighting would provide more pricing flexibility, subject to specific risk factors relating to each individual borrower. However, a gap exists in capital requirements for most mid-tier banks compared to major banks who are assessed under the internal ratings based approach for regulatory capital purposes ("IRB approach"). Narrowing this gap would enable a more competitive playing field. If addressed, this would enhance the range of competitive offerings to all homebuyers including first home buyers.
4	<i>Are there market or regulatory mechanisms to ensure lower interest rates would apply to first home buyers if a lower capital risk weighting system was instituted?</i>	While there are no regulatory mechanisms to ensure lower interest rates would apply to first home buyers only, our Bank believes if risk weightings were lower, it would allow greater pricing flexibility for this cohort of borrowers. The key market mechanism would be competition, which as noted in question 4, currently favours the large banks operating under the IRB approach to the detriment of smaller banks and hence consumers.
5	<i>What is your total percentage of first home delinquencies compared to the remaining mortgages?</i>	First home buyers account for 9.6 per cent of the total amount of mortgage holders who are in 90+ days of arrears or who have reported as being impaired in making repayments to their mortgage.

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		First home buyers make up 16 per cent of our Bank's total residential lending book. Accordingly, this cohort is underweight for the 90+ days arrears when compared to other customer cohorts.
6	<i>Would linking lenders mortgage insurance to risk weightings be a workable approach?</i>	Lenders Mortgage Insurance (LMI) enables customers to get into housing with a lower deposit amount through providing assurance to the lender that they will be able to recover the full amount of the loan, in the event of a default. The cost of LMI is based on the customers' loan-to-value ratio (LVR) and is usually required for mortgages with LVRs greater than 80 per cent. When a customer holds LMI, it reduces their risk-weighting, lowering the amount of capital APRA requires standardised banks to hold against the loan. When assisting prospective first home buyers, we take into consideration a variety of factors to calculate borrowing costs. This includes the impact of LMI and risk weightings, as well as any applicable first home buyer incentives. Our Bank continues to explore ways to keep LMI premiums affordable for first home buyers. We would welcome any further information or analysis from the Committee on this question to support further consideration.