Submission 1

RESPONSES TO QUESTIONS TAKEN ON NOTICE: House of Representatives Standing Committee on Economics hearing on 18/3/2016

Australian Prudential Regulation Authority

Question One: Mr Kelly (transcript page 14)

Mr KELLY: Mr Byres, in your opening statement you said:

> … there is a compositional shift occurring as investors are less prominent and owner-occupiers account for a greater share of new lending.

That is in the housing market. Do you have any quantitative measures on that?
Mr Byres: We do not have particular limits, if that is your question, or if you are just after the statistics—
Mr KELLY No, what I am asking is: do you have any statistics to support that statement? When you say it is less prominent, is it five per cent less prominent or 10 per cent less prominent? What has the shift been when compared to other years?
Mr Byres: I would have to take that on notice and then we can give you the statistics. I have not got them at my fingertips. But the proportion of new lending for investors, off the top of my head, was 40-something per cent. It has probably come off five percentage points or something of that order. But I will take it on notice and send you the statistics.

Answer:

Authorised deposit-taking institutions' new housing loan approvals by purpose[1]

Share of new housing loan approvals

Year end	2008	2009	2010	2011	2012	2013	2014	2015
Owner-occupied	68.9	71.2	66.1	66.8	67.2	65.2	60.8	63.0
Investment	31.1	28.8	33.9	33.2	32.8	34.8	39.2	37.0

[1] ADIs with more than $1 billion of residential term loans, domestic books.
Source: *Quarterly ADI Property Exposures*, December 2015

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Question Two: Mr Kelly (transcript page 16)

Mr KELLY: … housing supply policy can have a significant effect on movements in the price of housing, which then could come back and put pressure on the risk factors to the banks.
Mr Byres: Yes.
Mr KELLY: That is a fairly highly regulated area of the economy, but there seems to be no coordination of its regulation. There does not seem to be anyone at state government, federal government or even local council level looking at whether we are getting enough supply through. Do you have a general comment to make about that?
Mr Byres: I do not think there is any lack of attention to the issue amongst the various arms of government, but I cannot really comment on the extent to which that is coordinated.
Mr ALEXANDER: Just following on from Craig (Alexander's) questions in regard to the possibility of oversupply: I understand that APRA does not include obligations on the part of off-the-plan apartment purchasers in its reporting on residential mortgage exposure. Is that correct?
Mr Byres: Sorry, could you say that again.
Mr ALEXANDER: APRA does not consider exposure of off-the-plan purchases in the exposure to banks.
Mr Byres: In terms of the—
Mr ALEXANDER: There are a lot of people who are entering into the market, buying off the plan—
Mr Byres: Yes.
Mr ALEXANDER: and there is an enormous amount of exposure there.
Mr Byres: Yes.
Mr ALEXANDER: If we are entering into a period where these things seem to rubber band, where we go to from undersupply to oversupply, this could represent oversupply. If they are owner occupiers and they have to go through and complete the purchase, they may end up with negative equity from day one. If they are investors and there is an oversupply, they may not be able to rent, so there could be problems. So there is, as I understand it, billions of dollars of exposure in this area. Do you have any way of calculating that?
Mr Littrell: We are going to have to take that on notice. If a lender has a committed facility, we collect that; but if they have an uncommitted arrangement we do not. It is better for us to take it on notice and give you the precise answer.
Mr ALEXANDER: There are probably some who would have a commitment from their bank, when the project is finished, to—
Mr Littrell: There are a range of levels of commitment, and the answer varies, as I understand it, a bit. We should really go back and check our statistical instructions and give you the exact answer.

Answer:

Statistics published by APRA on new residential term loans to households approved include the full amount of the loan, whether or not the funds have been advanced to the borrower.[1] APRA does not separately collect approvals for 'off-the-plan' purchases of residential property in its statistical collections.

Residential term loans to households do not include the undrawn portion of a loan, and hence would not include approved loans for a property where the sale has not yet been settled[2].

[1] These statistics are published in *Quarterly ADI Property Exposures.*
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Question Three: Mr Alexander (transcript page 18)

Mr ALEXANDER: The Reserve Bank controls inflation by the setting of interest rates. Interestingly, the CPI has not included housing inflation since 1998—is that correct?
Mr Byres: It does have some element of housing-related costs in it, but I will confess that I doubt that anyone at this table is an expert on CPI composition. We could take that on notice and find that out for you.

Answer:

Housing inflation is measured in the Consumer Price Index (CPI). The CPI is compiled by the Australian Bureau of Statistics (ABS) and measures the change in the prices paid by households for a basket of goods and services consumed. The weights for the basket of goods and services included in the CPI are based on the average weekly expenditure of households sourced from the ABS' *Household Expenditure Survey*.

The CPI measures the change in prices for the purchase of owner-occupied dwellings as well as the maintenance and ongoing costs incurred as a result of residing in a dwelling (such as utilities and council rates). Price changes in rents are also included in the CPI. As at December 2015, the housing group contributed 23.8 per cent to the all groups CPI. Expenditure on rents contributed 6.6 per cent to the Housing group and new dwelling purchases contributed 8.6 per cent[1].

[1] Source: ABS

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Question Four : CHAIR (transcript page 21)

CHAIR: …. specifically in relation to high LVRs: how many loans are there out there that are what you describe as a high LVR, approximately, and who are therefore particularly exposed in the event of declining asset values?
Mr Byres: I do not have the number of loans. We will take that on notice and tell you. Loans that are greater than 90 per cent LVR are just a touch under 10 per cent of new lending and loans that are greater than 95 per cent LVR are around three per cent of new lending.

Answer:

ADIs' new housing loan approvals by loan-to-valuation ratio (LVR)[1]

Share of total new loan approvals, year-end 2015

Loans approved 80%<LVR≤90%	14.5%
Loans approved LVR>90%	8.7%

Additionally, new housing loans with an LVR of 95 per cent or greater accounted for 3 per cent of new housing lending in the December quarter 2015. This data is based on informal survey data of 17 larger ADIs.

[1] ADIs with more than $1 billion of housing term loans, domestic books.
Source: *Quarterly ADI Property Exposures*, December 2015