SENATE ECONOMICS REFERENCES COMMITTEE
INQUIRY INTO HOME OWNERSHIP
16 OCTOBER 2024

Questions on Notice – Senator Pocock

1. What analysis or modelling has the RBA done in recent years on the impact of:
   (a) negative gearing and/or capital gains tax discount on house prices?
   (b) reforms to negative gearing and/or capital gains tax discount on affordability and home ownership rates?
2. Has the RBA made any response or given any consideration to the following recommendation for Australia in a recently released IMF report: *Tax breaks, including from capital gains tax discount and superannuation concessions, could be phased out to generate a more equitable and efficient tax system*

Answer:

The RBA has not conducted quantitative modelling on the impact of negative gearing and/or capital gains tax discount (or any reforms to these) on house prices, affordability or home ownership in recent years. Qualitative views on these issues were included in a 2019 Parliamentary briefing (previously released under FOI).

In the 2019 briefing we concluded that estimating the overall effects of potential changes to these policy settings is complex. We also concluded that our initial thinking agreed with analysis by the Australian Treasury and the Grattan Institute, which estimated only modest effects on housing prices, rents and supply.

The RBA has not responded to the IMF recommendation.

3. Has the RBA done analysis about the differential impact of higher interest rates on investors versus homebuyers—first home buyers and residential buyers more broadly?

Answer:

The RBA has not conducted significant analysis on this issue.

Some housing investors can more easily pass serviceability tests, and may therefore be better placed to meet repayment obligations when interest rates rise, than owner-occupiers (for a given loan amount) because:

- investors tend to have higher incomes and may have higher stocks of liquid assets
- the median reported income of investors in the RBA's Securitisation dataset is about 30–50 per cent higher than the median income of owner-occupiers
- investors earn rental income and can deduct interest expenses in their tax assessments.

On the other hand, investors may be servicing other large loans (including existing housing loans), which would both reduce their borrowing capacity and mean that higher rates have a larger effect on their total debt repayments. Higher interest rates may also affect investors' preferred leverage. In the current interest rate cycle, loan discharges have increased faster than new lending since the start of 2023, particularly for investors. The high level of investor discharges could reflect a degree of deleveraging by some investors; investors with higher debt burdens may be choosing to sell their investment properties and discharge the loan in response to higher interest rates.

4. Has any analysis been done in the Bank in relation to the 2014 and 2017 restrictions on lending? If there are internal reports also that went to the analysis of them, I would appreciate seeing those as well.

Answer:

The RBA has published reviews of the effectiveness of the 2014 and 2017 macroprudential policies imposing benchmarks on lending from authorised deposit-taking institutions (ADIs) to investors and to borrowers taking out interest-only (IO) loans. The purpose of these policies was to strengthen the resilience of the financial system by curbing growth in riskier forms of lending. These published reviews are the most comprehensive summary of the RBA's analysis and thinking on these issues, and are listed below:

Macroprudential policies to mitigate housing market risks (CGFS Papers December 2023)

In its review of housing policies in January 2019, APRA concluded that the investor and IO measures had been effective in strengthening resilience at both the individual lender level and the financial system level. This is notwithstanding several leakages being evident in the investor and IO interventions. For further details of these findings and related RBA analysis see 'Section 4. Effectiveness' in this report.

These policies also had effects on housing prices, despite that not being one of their objectives. Following the introduction of the investor lending limit, regions with heavy concentrations of investment properties exhibited weaker housing price growth post-policy implementation, compared with regions with heavier concentrations of owner-occupier dwellings.

Macroprudential Limits on Mortgage Products: The Australian Experience (RDP 2021-07)

This paper found evidence that the macroprudential policies implemented in Australia reduced growth in investor and IO mortgage products by 20 to 40 percentage points within a year of the policy announcements. The policies caused banks to increase interest rates for the targeted products, which was to some degree an intended consequence as banks were viewed to be under-pricing risk inherent in those loans. These findings are consistent with the policies achieving their objectives.

Implementation difficulties significantly influenced how the policies played out, particularly for the 2014 policy targeting investor lending. Banks reacted to the investor policy with a two-quarter delay. These results support conclusions in previous regulatory reports that banks' systems initially lacked the capacity to control growth in the targeted mortgage types; these were largely overcome by the time the 2017 policy targeting IO lending was implemented.

Chapter 5. Assessing the Effects of Housing Lending Policy Measures (FSR – October 2018)

The October 2018 *Financial Stability Review* concluded that, overall, the policy measures had helped reduce financial stability risks. At the time the policies were introduced, the riskiness of new borrowing was increasing against a backdrop of high and rising household debt relative to income. After the measures were introduced, the composition of new lending changed towards less risky types of loans.

The tightening of credit supply affected housing market conditions in some regions. The close relationship between debt and housing prices means that the policy measures targeting housing borrowing were likely to have influenced housing market conditions, despite this not being an objective of these policies.

The difference in housing price growth in the high and low investor regions following the policy measures suggests there was an impact on housing price growth. The average price growth in these two groups was very similar in the lead-up to the investor lending benchmark, but following the measures, the high investor regions experienced notably slower price growth than the low investor regions.

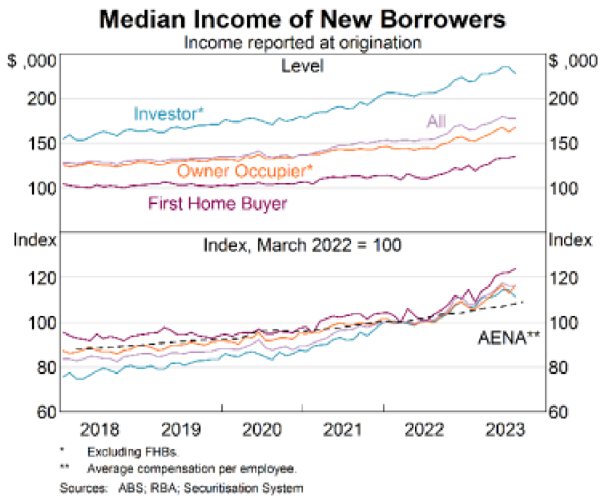
There was little evidence that the measures had excessively constrained aggregate credit supply or had a significant impact on housing construction or competition for lending.

Questions on Notice – Senator Canavan

5. Has the RBA had a look at the relative incomes of people buying their first home?

Answer:

Median incomes of first home buyers have long been lower than those of other home buyers. However, the median nominal income has increased more rapidly for new borrowers than other borrowers over the recent interest rate tightening period, and has risen faster than in previous years. Higher interest rates have been binding for lower income borrowers, particularly for first home buyers, and resulted in the median loan-to-income ratio of new loans declining substantially since early 2022.



The incomes of first-home buyers were examined in a 2022 RBA *Bulletin* article:

Are First Home Buyer Loans More Risky? (RBA Bulletin – March 2022)

In assessing the riskiness of loans to first home buyers, this *Bulletin* article examines the characteristics of first home buyers relative to other borrowers. Because first home buyers are generally younger than other borrowers and at an earlier stage of their working lives, they generally have lower incomes. Securitisation System data on loans originated over the year to January 2022 indicate that the median gross income of first home buyers was $114,000 versus $151,000 and $189,000 for other owner-occupiers and investors, respectively (for a discussion on the representativeness of the securitisation data, please see Hughes 2024). That said, data from the HILDA Survey show that first home buyers experienced faster income growth than other owner-occupiers on average for a couple years before and after taking out their loan.

6. Has the RBA had a look at whether or not access to mum-and-dad banks, so to speak—finance from parents—has a role in people being able to enter the housing market?

Answer:

There has been some anecdotal evidence from RBA liaison that the size of 'gifts' from parents to first home buyers has increased substantially. The RBA has not conducted further analysis of this issue.

Questions on Notice or in Writing – Senator Bragg

7. Is there an MOU at the moment between the Reserve Bank and APRA?

Answer:

Yes. See Joint Media Release: Memorandum of Understanding between the RBA and APRA | Media Releases | RBA.

This memorandum has been in place since APRA was created in 1998. The Review of the RBA recommended that it be refreshed and the two agencies are working towards doing that.

8. Are there any macro-prudential tools that can help drive the supply of housing?

Answer:

Macroprudential policies are designed to mitigate risks to financial stability at a system-wide level (APRA External Report). They are not intended to influence the supply of housing. Policies to influence the supply of housing lie within the purview of fiscal policy and planning regulations.

Reserve Bank of Australia
30 October 2024