

Senate Economics Legislation Committee
ANSWERS TO QUESTIONS ON NOTICE
Treasury Portfolio
Budget Estimates
2017 - 2018

Division/Agency: Australian Prudential Regulation Authority
Question No: 77
Topic: Mortgage Risk Weights
Reference: Hansard page 97 (30 May 2017)
Senator: Whish-Wilson, Peter

Question:

Senator WHISH-WILSON: I am not sure how to probe you on that 'clean bill of health' thing—maybe later, as I have a couple of questions I might ask in relation to that. I want to ask about their own assessments of mortgage risk weights. The FSI report talked about narrowing the difference between the average mortgage risk weights for ADI institutions using IRB. The S&P downgrade of the second-tier banks last week brought this issue into close focus. You can take this question on notice if you do not have the information with you. What is the average of mortgage risk weights now applied to the major banks?

Mr Byres: Unless Pat has the figure—at present we are working towards an average of 25 per cent.

Senator WHISH-WILSON: Which you stipulated previously.

Mr Byres: Yes. It may not be precisely that at the latest quarterly data, but that is the aspiration we are working towards, and there are some modelling changes working through the system.

Senator WHISH-WILSON: How long will that take?

Mr Byres: I will take that on notice, but the plan was certainly to have it at around the middle of this year—so it is not that far away.

Answer:

In the most recent quarterly reporting to APRA (as at March 2017) the average reported residential mortgage risk weight across all Advanced IRB banks (i.e. 'major banks') was 24.34 per cent.¹

For the June 2017 quarter reporting, it is anticipated that recently approved changes to residential mortgage models and estimates will most likely increase the average mortgage risk weight for the major banks to around 25 per cent.

¹ This number is an exposure-weighted average and includes only Australian domiciled residential mortgages. The average includes only non-defaulted exposure and risk weighted assets, and includes an adjustment for Expected Loss – this method of preparation is most comparable to the Financial System Inquiry's 25 per cent target risk weight.