Australian Business Economists

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Australian Prudential Regulation Authority

Banking on housing

Wednesday 26 August - Sydney

APRA

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Australian Business Economists Lunchtime Briefing
Sydney, 26 August 2015

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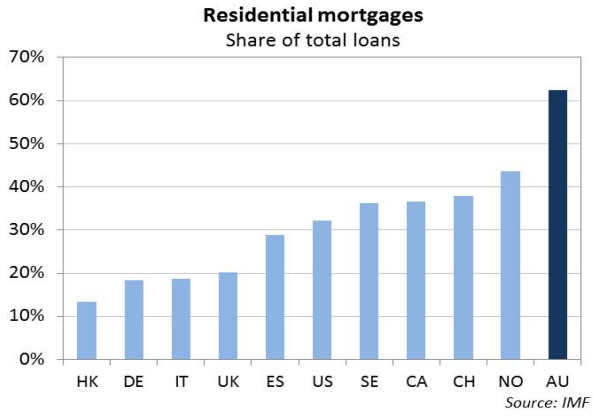
Housing lending

Housing lending:

- accounts for around 40 per cent of industry assets
- represents a little under two-thirds of the aggregate industry loan portfolio
- delivers around 50 per cent of industry interest income
- generates only 25 per cent of industry non-performing loans



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Turning up the dial

- 2011 and 2014 - sought assurances from Boards of larger ADIs regarding housing lending portfolios and credit standards
- 2013 - commenced more detailed data collections from larger ADIs
- 2014 - stress-tested the 13 largest ADIs against significant housing market downturn
- 2014 - issued Prudential Practice Guide on sound risk management practices for residential mortgage lending
- End 2014 - wrote to all ADIs about sound lending standards, and flagged possibility of supervisory action against individual ADIs.

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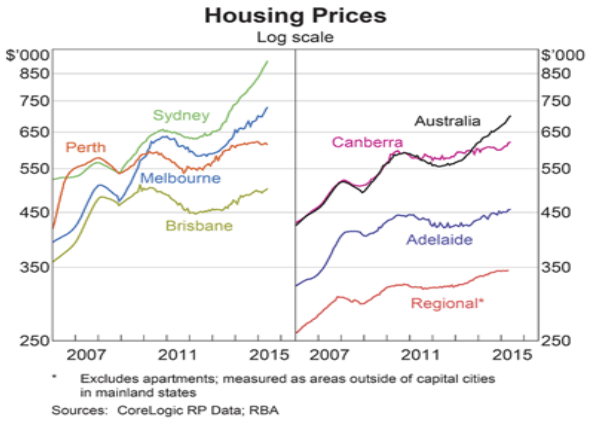
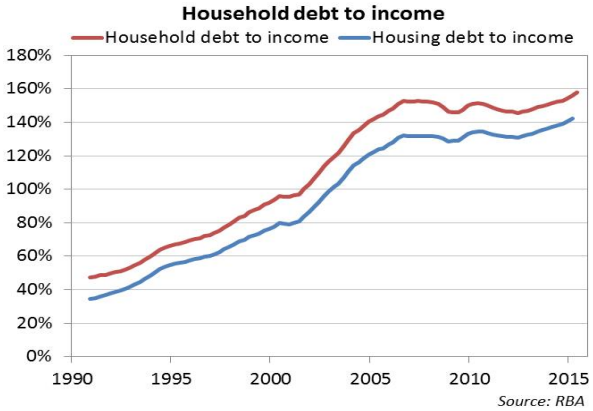
Housing lending conditions





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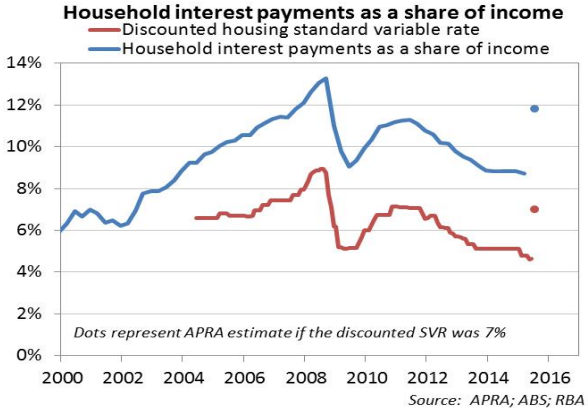
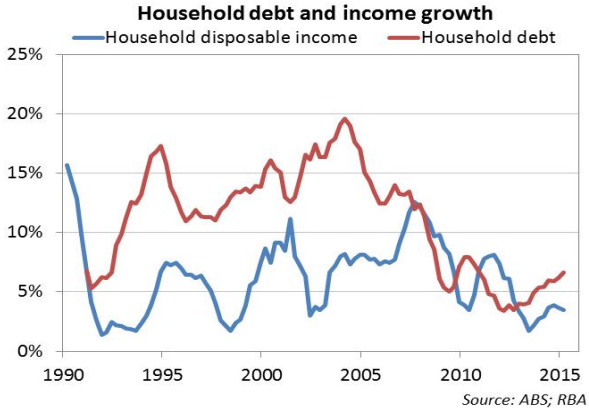
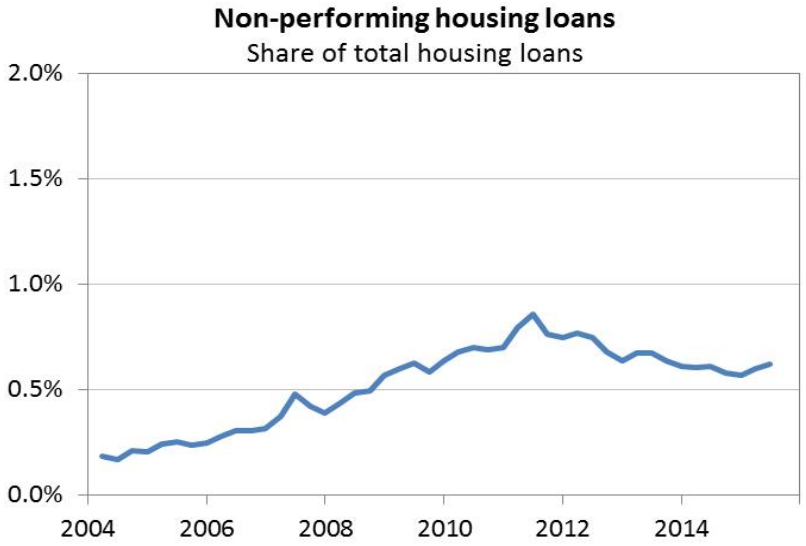




Housing loan portfolios



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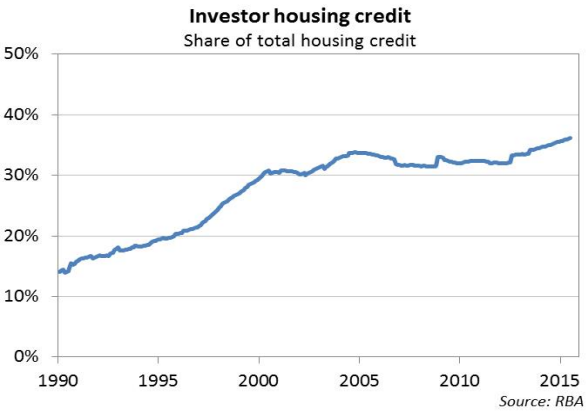

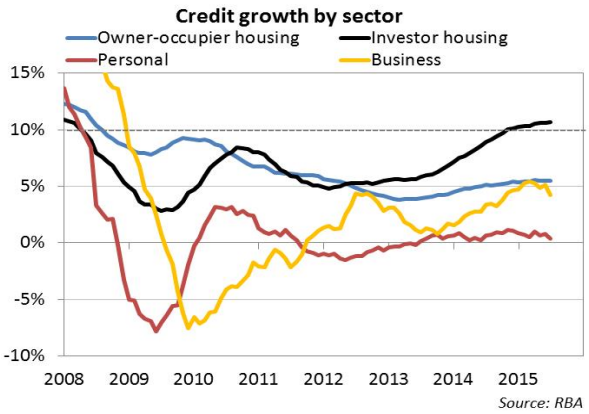

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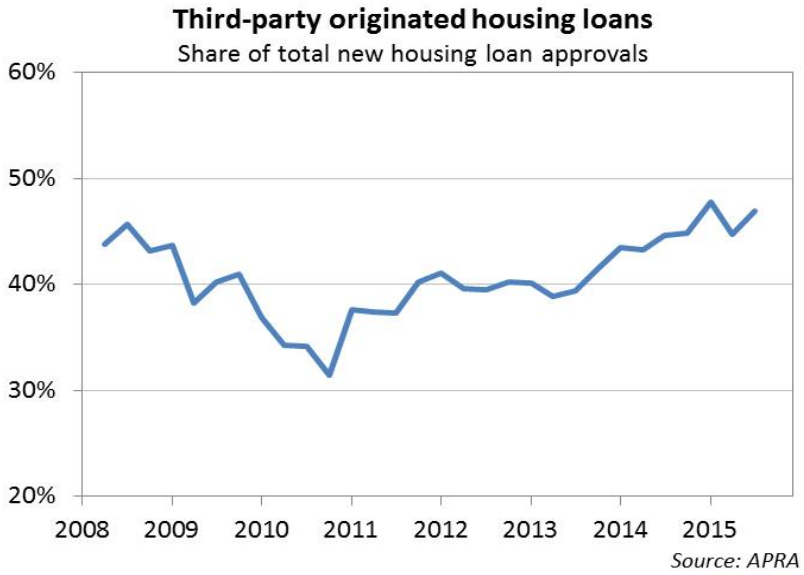

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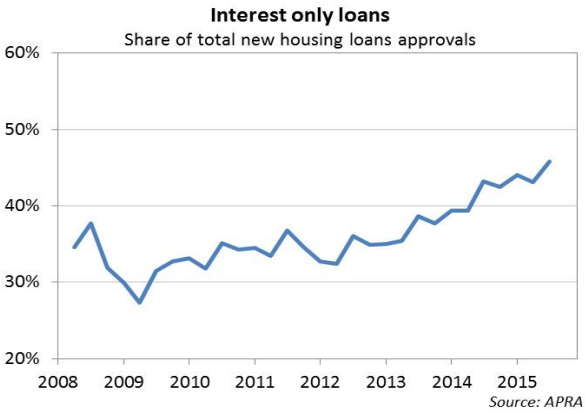

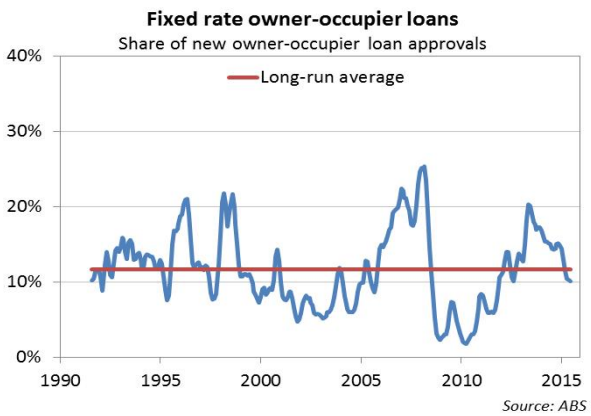

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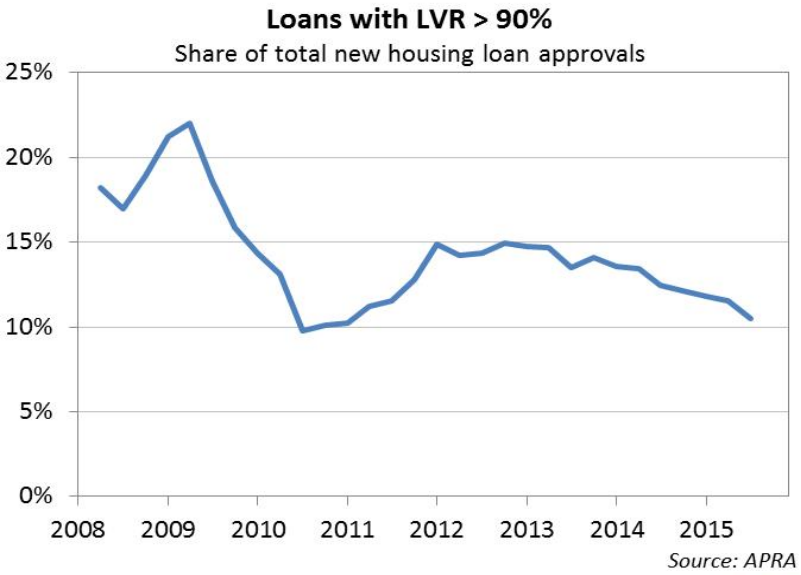

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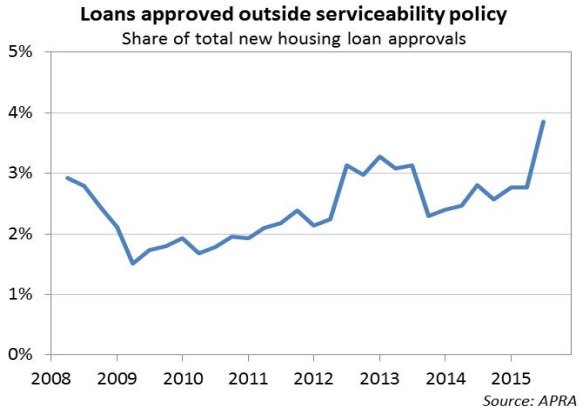
Lending standards

APRA review found:

- generous interpretations of the stability and reliability of borrowers' incomes
- borrowers assumed to be able to live with very meagre living expenses
- it was assumed interest rates would not rise much (or might rise on new debts but not existing ones)



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Is more action needed?

Should we employ geographically-focussed measures?

- APRA's mandate is banking system resilience, not housing prices
- The broader environmental factors apply beyond our two largest cities
- Sound lending standards are needed where price growth is subdued
- Parallels with New Zealand, with specific measures for Auckland market?
  - the RBNZ instituted measures for Auckland only after first instituting a range of measures that applied New Zealand-wide

Lenders maintaining a healthy dose of common sense is the best outcome

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Concluding remarks

Three observations:

- Lending for housing is a large and important part of the banking system
- The environment in which it is currently occurring is one of heightened risk
- There is reason to conclude that housing portfolio risk profiles might have increased, and underwriting standards softened, over time

Lenders need to calibrate policies and practices to environment

APRA cannot prevent cycles in prices. Our goal is to ensure the banking system is resilient to whatever market conditions might eventuate.

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