



28 October 2019

**TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS**

**CONSULTATION ON THE CAPITAL TREATMENT OF MORTGAGES UNDER THE FIRST HOME LOAN DEPOSIT SCHEME**

APRA is proposing to adjust its capital requirements for authorised deposit-taking institutions (ADIs) to support the Government's First Home Loan Deposit Scheme (FHLDS). The scheme aims to improve home ownership by first home buyers, through a Government guarantee of eligible mortgage loans for up to 15 per cent of the property purchase price. Recognising that the Government guarantee is a valuable form of credit risk mitigation, APRA is proposing to reflect this in the capital framework by applying a lower capital requirement to eligible FHLDS loans.

APRA intends to give effect to this lower capital requirement by adjusting the mortgage capital requirements set out in *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112). Specifically, recognising both the minimum 5 per cent deposit required of borrowers and the Government guarantee of 15 per cent of the property purchase price, APRA proposes to allow ADIs to treat eligible FHLDS loans in a comparable manner to mortgages with a loan-to-valuation ratio of 80 per cent. This would allow eligible FHLDS loans to be risk-weighted at 35 per cent under APRA's current capital requirements. Once the Government guarantee ceases to apply to eligible loans,<sup>1</sup> ADIs would revert to applying the relevant risk weights as set out in APS 112.

APRA invites feedback on this proposal, which will be subject to a two-week public consultation. APRA intends to release its response, including additional information on implementation for participating ADIs, as soon as practicable after the consultation period.

Written submissions on the proposal should be sent to [ADIpolicy@apra.gov.au](mailto:ADIpolicy@apra.gov.au) by 11 November 2019 and addressed to:

General Manager, Policy Development  
Policy and Advice Division  
Australian Prudential Regulation Authority

Yours sincerely,

John Lonsdale  
Deputy Chair

---

<sup>1</sup> This could be because the borrower pays down the loan to below 80 per cent of the property purchase price, refinances or uses the property for a purpose that is not within the scope of the guarantee.

### **Important disclosure notice – publication of submissions**

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.