



Australian Banking
Association



Clarifying the Treatment of HELP Debt Obligations APRA

20 March 2025

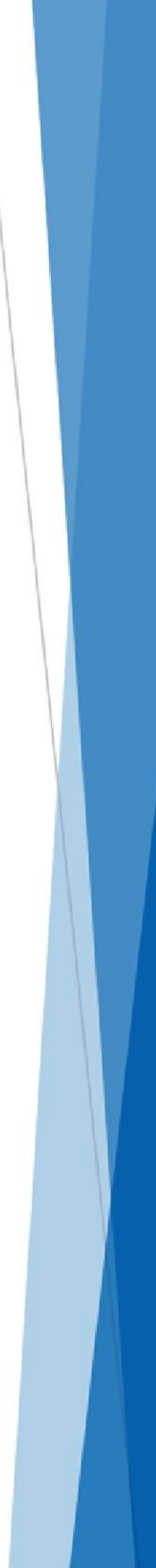




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Key Messages

The ABA:

- Supports the proposal to remove HELP debt from the calculation of debt-to-income ratios in *ARS 223.0 Residential Mortgage Lending*.
- Supports the inclusion of clarification on the treatment of HELP debt in serviceability assessment provided by the proposed new paragraphs in *APG 223 Residential Mortgage Lending*.
- Notes that there should be as much consistency as possible between the treatment of HELP debt in regulations and guidance provided by both APRA and ASIC.

Policy Lead: [REDACTED], Policy Director, [REDACTED]

About the ABA

The Australian Banking Association advocates for a strong, competitive and innovative banking industry that delivers excellent and equitable outcomes for customers. We promote and encourage policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

ABA submission to APRA

The ABA welcomes APRA providing clarity on the proposed targeted changes for Higher Education Loan Program (HELP) debt obligations and the constructive approach it is taking on this consultation.

The also ABA welcomes the clarity that is being provided by regulators on the treatment of HELP debt and seeks that a consistent approach be taken by both ASIC (in its update to *ASIC Regulatory Guide 209 Credit licensing: Responsible lending conduct* (RG 209)) and APRA in this process.

The following submission will consider the two proposals identified in APRA's letter to ADIs on 20 February 2025:

- Removal of HELP debt from debt-to-income (DTI) reporting; and
- Treatment of HELP in serviceability assessments.

Removal of HELP debt from DTI reporting

The ABA supports the proposed changes to the treatment of HELP debts in DTI reporting through its changes to *ARS 223.0 Residential Mortgage Lending*. These changes would reverse those introduced in June 2022, when APRA wrote to ADIs advising that those debts should be included in the reported numbers.

Given the income-contingent nature of HELP debts, whereby the debts are not required to be repaid if a borrower's income decreases below certain thresholds, its inclusion in the measure had the potential to distort the debt commitments of certain borrowers who have suffered declines in income. It also has the potential to disproportionately affect first homebuyers entering the housing market.

The clarity proposed by the removal of these debts from DTI reporting may assist in the provision of credit to some borrowers from some ADIs. In and of itself, their inclusion in DTI reporting was unlikely to change the circumstances of any individual borrower. However, APRA has the power to set limits on certain types of lending, such high debt-to-income lending, that it has indicated it will monitor. As such, inclusion of HELP debt could lead to an increase in reported high DTI lending at banks, which might make them act to restrict lending to avoid approaching levels APRA may be uncomfortable with.

While supportive of the change, we note that the reported DTI in the proposed amendments to ARF 223.0 may be different to the actual DTI used to assess a client's serviceability under the proposed amendments to APG 223. HELP debt will be removed from the calculation of DTI in the ARF 223.0 but will only be removed in the servicing assessment if the 'borrower is expected to pay off their HELP debt in the near term'.

Treatment of HELP in serviceability assessments

The ABA welcomes the clarity provided to the treatment of HELP debts in Paragraphs 52-54 of the draft *APG 223 Residential Mortgage Lending*.¹ We believe it captures an appropriate balance of the complexities of HELP debt obligations. On the one hand, it is prudent for banks to realise that HELP repayments are a mandatory government deduction that cannot be used to service a housing loan and ignoring them would give a distorted view of a borrower's ability to meet loan repayments (these points are communicated in Paragraph 52).

On the other hand, the size of the mandatory HELP repayment is more a function of the size of income rather than the size of the debt, so in some cases borrowers may have a sizeable repayment but a relatively modest outstanding debt that is likely to be paid off in the near term. In such circumstances,

¹ APRA could be clearer in their drafting that ADIs should consider a borrowers HELP debt only where relevant (i.e. not all borrowers will have HELP debt).

denying those borrowers credit or delaying them entry into the housing market may not be the most appropriate policy outcome.

As such, we welcome the clarifications in Paragraphs 53 and 54. It is appropriate that lenders have the ability to assess the specific circumstances of borrowers when considering HELP debt, in accordance with their own risk policies and frameworks. We note similar language on accounting for such circumstances is included in the new Paragraph 69 of ASIC's RG 209 and we welcome such consistency. It is important that there be as much consistency between the positions of ASIC and APRA as possible, so that these changes are not a reason to change competitive dynamics by encouraging lending to move to the non-prudentially regulated lending sector.

We note the additional wording in the letter to ADIs provided by APRA that 12 months "would not be unreasonable" for ADIs to consider when considering exceptions to lending policies to take account of the near-term full repayment of HELP debts. This differs from RG 209, which does not specify a time limit for bank considerations.

In our view, restricting the requirement to 12 months appears limited and may result in a very small proportion of customers that benefit from the relaxation of the measure. The remainder of the wording, especially "a borrower is expected to pay off their HELP debt in the near term" and "on the basis that the borrower will largely be unaffected by the repayments over the course of their mortgage, given the near term and income-contingent nature of the debt" provide sufficient guidance for ADIs to adopt prudent credit policy settings.

The ABA suggest that the decision on what an appropriate length of expected repayment is best left to a bank's risk policies and framework, taking into account the borrower's individual circumstances, rather than the need for a prescriptive example.

Finally, the ABA notes that APRA has chosen to provide this clarification in the form of guidance on loan serviceability overrides or exceptions, rather than incorporating it within the Standards directly. Given APRA's indications that it is closely monitoring the level of exceptions to credit policies, increasing the number of exceptions may not always be the most appropriate way of incorporating changes to lending procedures.² As such, APRA should consider incorporating these changes into the Standards directly or, alternatively, APRA should allow ADIs to assess and treat HELP debt excluded from serviceability as being within policy (not an exception) to the extent that the ADIs policies follow APRA's guidance on when it may be prudent to exclude HELP debt from serviceability.

If APRA were to require ADIs to treat instances where HELP debt is not included in serviceability as an exception, under APS 112 (Attachment A, Paragraph 5) it may require ADIs to treat these exposures as Non-Standard and attract higher risk weights. This may affect an ADIs appetite to grant these exceptions and/or having to price for the higher risk, which would be counter-intuitive to the intent of what the proposed change is trying to achieve. If APRA remains of the view that these instances should be treated as exceptions, we recommend that APRA permit ADIs to treat these as standard exposures and not attract higher risk weights.

We also note that in the letter announcing these changes APRA stated that it "will continue its existing supervisory focus on entity changes to exceptions rates". The ABA would expect that there would be understanding by APRA that introducing these changes could lead to an increase in some ADIs lending exceptions, which would be driven by the intent of these policy changes rather than banks necessarily being more aggressive in their lending practices. As such, we believe that such considerations should be understood by APRA in those cases.

² APRA letter to Industry, 9 June 2023 (<https://www.apra.gov.au/housing-lending-standards-reinforcing-guidance-on-exceptions>).