

20 March 2025

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General Manager, Policy
Australian Prudential Regulation Authority

Via email: PolicyDevelopment@apra.gov.au

Dear Mr Beckett

APRA consultation on clarifying the treatment of Higher Education Loan Program

COBA welcomes the opportunity to provide feedback on the proposed targeted changes on how Authorised Deposit-taking Institutions (ADIs) consider Higher Education Loan Program (HELP) debt repayments when assessing home loan applications.

COBA is the industry association for Australia's customer-owned banks (mutual banks and credit unions). Collectively, our sector has over \$182 billion in assets and is the fifth largest holder of household deposits. Our members range in size from less than \$200 million in assets to around \$25 billion in assets – all significantly smaller than our ASX-listed peers. Customer-owned banks account for around two thirds of the total number of domestic ADIs and deliver competition and market leading levels of customer satisfaction in the retail banking market.

COBA believes that the financial regulatory framework should continue to encourage home ownership, and we support efforts to reducing barriers to borrowers being able to purchase homes sooner. Over 78% of all home loans written by the customer-owned banking sector are for owner-occupied housing, demonstrating our sector's commitment to helping Australians own their own home.

Removal of HELP debt from debt-to-income reporting

COBA supports removing the need to consider HELP debt as 'debt' under the debt-to-income (DTI) ratio reporting requirements. Under current arrangements, HELP debt increases the APRA-reported DTI ratio, which factors into lending decisions, which can then limit a customer's borrowing capacity. As noted in APRA's letter, this is supported by the income-contingent nature of HELP debt. As such, removing HELP debt from DTI reporting may be useful to improve access to finance for particular creditworthy borrowers and lower barriers to purchasing a home.

Treatment of HELP debt in serviceability assessments

COBA supports amending APG 223 Residential Mortgages to clarify that it is reasonable for banks to remove HELP repayments, where it is expected to be repaid in the near term. We appreciate APRA providing guidance indicating that it considers a period of 12 months remaining on the debt as being 'near term'. This will assist our members to understand APRA's expectations when exercising this

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discretion. COBA members anticipate this targeted adjustment will marginally change the way lenders treat HELP debt, which will improve outcomes for borrowers. This change is not expected to cause additional cost, as ADIs already have relevant provisions on debt treatments within their credit policies.

While we support this guidance, we believe that ADIs should be able to exercise discretion in determining serviceability exceptions, particularly when it comes to the near-term definition, on a case-by-case basis depending on the borrower's individual circumstances. This will allow lenders the flexibility to exercise the exception according to their own risk appetite.

COBA members understand APRA's expectation that the exceptions are to only be used if managed prudently and are limited. To assist in this, we would welcome further APRA guidance on its expectations on the exceptions as a share of banks' total housing lending, on loan serviceability overrides, and how it intends to approach implementation. Greater flexibility in housing lending approaches for smaller banks will ensure that our members will not be at a disadvantage when compared to larger banks with more substantial loan books, for example, when it comes to managing limits with smaller loan books.

Please do not hesitate to contact [REDACTED], Policy Advisor ([REDACTED]) if you have any questions about our submission.

Yours sincerely

[REDACTED]

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Chief Executive Officer