16 January 2026

Sydney

Senator Nick McKim | Chair
Select Committee on the Operation of the Capital Gains Tax Discount
Parliament House
Canberra ACT 2600

1 Martin Place (Level 12), NSW 2000
GPO Box 9836, Sydney NSW 2001
Australian Prudential Regulation Authority
02 9210 3000 | **apra.gov.au**

Dear Senator

Select Committee on the Operation of the Capital Gains Tax Discount

APRA welcomes the opportunity to assist the Select Committee on the Operation of the Capital Gains Tax Discount with its inquiry. In your letter to APRA, you indicated the Committee's interest in risk weights for housing lending as compared to business lending and potential impact on Australia's productivity growth. To assist the Committee with its work, this submission also outlines APRA's role in promoting financial safety and stability, and APRA's key requirements of authorised deposit-taking institutions (ADIs) in managing prudential risks in housing lending.

APRA's mandate in supervising ADIs is to protect the interests of depositors and to promote financial stability. This objective is critical to the Australian community's long-term financial well-being – a safe and stable financial system enables households and businesses to confidently borrow, save and invest for the future. Financial failures and instability can result in significant social and economic harm. In delivering on our mandate, we aim to get the balance right and we do not pursue a 'safety at all costs' agenda. We maintain a close and open dialogue with industry and peer regulators to ensure our actions are proportionate and risk-based.

APRA's prudential requirements for housing lending aim to ensure that banks are making sound credit decisions over the long term, both individually and in aggregate. These requirements are calibrated to promote resilience and support credit availability, particularly in times of stress. APRA focuses on three key areas:

- **Lending standards:** APRA's prudential standards set out APRA's key requirements of ADIs in managing their credit risk. Credit risk – the risk of a borrower being unable to repay outstanding debts – represents one of the key prudential risks for the Australian banking system. APRA's requirements encompass all types of lending, including loans to households, small business and large corporates. They require ADIs to have appropriate oversight and governance structures, maintain sound lending standards at the point of origination and actively monitor the risk of borrower default until the loan is repaid. As part of the serviceability assessment, APRA sets a minimum serviceability buffer to be applied over a loan's interest rate, currently set at 3 per cent. ADIs must also assess potential for declines in less stable forms of income, such as rental income for investors.

- **Capital settings:** APRA's capital framework ensures that regulated institutions hold sufficient capital to absorb unexpected losses and remain resilient during periods of stress. Capital requirements are risk-based, meaning the amount of required capital depends on the riskiness of lending. For example, in residential mortgage portfolios, investor loans typically attract higher risk weights than comparable owner-occupier loans, reflecting observed differences in risk. While APRA understands that capital requirements may impact on the availability and pricing of credit, capital requirements are not the key driver of lending behaviour. Australian banks have traditionally prioritised residential mortgages due to their historically low default rates and stable returns, and this preference has remained consistent despite subsequent amendments to APRA's capital framework – such as the introduction of higher mortgage risk weights for larger banks in 2016 and lower SME risk weights in 2023. In implementing this, APRA's requirements for mortgages have been set above international standards, recognising the higher risk arising from the Australian bank concentration in residential mortgages (1.4 times Basel requirements for owner-occupier and principal-and-interest, 1.7 times Basel requirements for investor or interest only). Recent lending trends indicate that APRA's capital framework has not impeded business lending, with business lending growing at a faster rate than housing lending.

- **Macroprudential policy:** APRA can also use macroprudential policy measures to mitigate risks to financial stability at the system-wide level. APRA's macroprudential policy tools build resilience in the financial system during good times, and guard against excessive risk-taking. They can also provide flexibility to support the flow of credit in times of stress. In deciding what the appropriate macroprudential policy settings should be, APRA takes a forward-looking approach and regularly assesses a range of indicators of system risk. These indicators include trends in credit growth and leverage, growth in asset prices, lending conditions and financial resilience. APRA also engages with peer agencies on the Council of Financial Regulators (CFR) about the macroprudential risk environment and before making any changes to its macroprudential policy settings.

In 2025 APRA observed an increase in investor activity in the housing market. While overall lending standards remain sound, APRA is seeing early signs of a pick-up in some higher risk lending including a modest uplift in high debt to income (DTI) lending, particularly for investors. Against this backdrop, APRA has acted pre-emptively to contain the potential build-up of housing-related vulnerabilities by activating DTI lending limits from 1 February 2026. The DTI lending limits are not currently binding and are not expected to have a near-term impact on borrowers' ability to access credit; any material effect is expected to fall mainly on investor lending, given investors typically borrow at higher DTI ratios than owner occupiers. APRA has also set separate caps for investor and owner-occupiers to ensure that higher risk investor lending does not impact credit availability for owner-occupiers.

Together with other members of the CFR, APRA will continue to monitor and assess the risks in the residential mortgage lending market and consider additional measures, if needed.

APRA recognises the importance of the issues the Committee is exploring for the Australian community and looks forward to assisting the Committee with its work on this inquiry.

Yours sincerely

[redacted]

Ian Beckett
A/g Executive Director, Policy and Advice