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Senator Andrew Bragg | Chair
Senate Select Committee on Productivity in Australia
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Senate
Parliament House
Canberra ACT 2600

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Dear Chair

Senate Select Committee on Productivity in Australia – Supplementary submission

Thank you for your letter on behalf of the Committee regarding the Committee's interest in how Australia's regulatory frameworks impact housing finance and administrative burden for lenders and households.


Building on our submission dated 19 February 2026, this submission sets out APRA's key prudential requirements of authorised deposit-taking institutions (ADIs) in managing risks in housing lending. APRA's requirements aim to promote financial safety and stability by ensuring that ADIs are managing the impact of credit risk – the risk of borrower default. APRA's principles-based approach to setting these requirements provides flexibility by avoiding excessive prescription where possible. Our requirements have been calibrated to promote resilience and support credit availability.

The Attachment to this letter sets out as context:

- **APRA's prudential requirements for housing lending:** APRA's prudential standards establish key requirements of ADIs in managing their housing credit risk. APRA's standards cover risks to ADIs over the life cycle of a housing loan, 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. APRA adopts a principles-based approach to setting these requirements, avoiding excessive prescription where possible and minimising any undue administrative burden for borrowers and lenders.
- **APRA's mandate:** As Australia's prudential regulator, APRA's mandate is to provide Australians with a safe and stable financial system. Our focus on housing lending stems primarily from the high concentration of residential mortgages on banks' balance sheets, one of the highest globally. A build-up of risks in this portfolio could present material risks to the safety and stability of the Australian financial system, hence the importance of Australia's unquestionably strong capital settings.
- **Current trends in housing lending:** APRA monitors risks in housing lending and the impact of ADIs' lending practices for access to credit on an ongoing basis. Housing credit growth is above the post-GFC average and aggregate household indebtedness remains high by historical and international standards. In this environment, APRA has recently introduced additional macroprudential controls. These controls are pre-emptive, providing a prudent guardrail against a build-up of future risks.

Appendix A provides more details relevant to the Inquiry.

Yours sincerely



Therese McCarthy Hockey,
Executive Board Member

Appendix A: Further Details

Prudential requirements for housing lending

As Australia's prudential regulator, APRA's focus on housing lending reflects the concentrated exposure of the banking sector to residential mortgages. These loans make up over 60 per cent of ADIs' loan portfolios – a high percentage by both historical and international standards. APRA has a keen interest in ensuring the quality of ADIs' mortgage portfolios remains sound, which is critical to the ongoing health and stability of the financial system. A stable financial system is essential to attracting the capital that households and businesses need to grow and invest, thereby supporting long-term productivity.

Prudential Standard APS 220 Credit Risk Management (APS 220) sets out APRA's key requirements of ADIs in managing credit risk across all types of lending, including housing lending. Prudential standards are supported by prudential practice guides (PPGs), which set out APRA's expectations of sound practice. Key guides for credit risk are *APG 220 Credit Risk Management (APG 220)* and *APG 223 Residential Mortgage Lending (APG 223)*.

APRA understands that the Inquiry is interested in how regulatory settings impact on housing finance, including the administrative burden on borrowers and lenders. There are generally two key assessments that a bank will undertake when a borrower applies for a housing loan:

- the first relates to the borrower's ability to repay the loan they have applied for (serviceability assessment);
- the second focuses on the overall level of borrower indebtedness, measured as the level of savings or equity that a borrower has relative to the property valuation (commonly referred to as the loan-to-valuation or LTR ratio), or the total debt of the borrower relative to their income (commonly referred to as the debt-to-income or DTI ratio).

APRA's key requirements relating to these assessments are set out below. In short, APRA adopts a principles-based approach to setting its prudential requirements, avoiding excessive prescription where possible. This approach allows for flexibility and minimises any undue administrative burden for borrowers and lenders. For example, APRA's standards support the use of automation with appropriate controls, an important driver of efficiency for customers. We are also proportionate in the way we apply our supervisory framework, placing more heightened scrutiny on the largest and most complex entities – including in the application of macroprudential lending limits.

Serviceability assessments

Under APS 220, ADIs must make a prudent assessment of a borrower's ability to repay the housing loan they have applied for. This would typically involve an assessment of whether a borrower has sufficient income to cover repayments on a new housing loan, building in buffers and taking into account existing expenses and debt commitments. Certain factors that APRA requires banks to consider in their serviceability assessments for housing loans are explained below.

The serviceability buffer

Under APS 220, ADIs must assess all new borrowers' ability to meet their housing loan repayments at an interest rate that is at least 3.0 percentage points above the loan product rate. This provides an important contingency for risks over the life of the loan, requiring borrowers to have an income buffer against shocks that may otherwise result in default. Importantly, shocks could stem from a range of sources, including from rising interest rates, a reduction in borrowers' income or an increase in their expenses.

Income and expenses

Under APS 220, ADIs must consider the borrower's repayment capacity against the risk of a decrease in income or cash flows. This typically relates to less stable or non-salary sources of income, such as bonuses or overtime. APRA's prudential practice guide APG 223 notes that a prudent ADI would apply discounts of at least 20 per cent to these forms of income, reflecting their greater uncertainty.

APS 220 requires ADIs to consider the borrower's expenses, including the collection of reasonable estimates from borrowers. APS 220 notes that expense benchmarks must not be used as a substitute for making reasonable enquiries, but does not include prescriptive requirements for how banks must make these enquiries.

Serviceability exceptions

APRA's prudential standards provide flexibility for ADIs to lend to borrowers that do not meet standard serviceability criteria, provided that these 'exceptions to policy' are managed prudently and limited. This approach allows banks to consider additional indicators of repayment capacity beyond those captured in the standard serviceability test, where appropriate. For example, banks could look through periods of temporarily low income, should they have confidence in borrowers' future repayment capacity. For a borrower seeking to refinance, banks could also consider past repayment behaviour. Under APRA's prudential standards, exceptions to serviceability policy must be prudently monitored and reported – they currently account for less than 5 per cent of new housing lending.

Borrower indebtedness

Loan to valuation ratios

APRA has not put in place formal macroprudential limits on lending at high LVRs. High LVR lending standards have remained sound and these riskier forms of lending are currently contained. Under APRA's capital framework, higher-LVR loans attract higher capital requirements. This reflects their higher risk.

Debt to income ratios

In November 2025, APRA announced that it would introduce a macroprudential limit on lending at high debt-to-income ratios. From 1 February 2026, this limit would allow ADIs to lend up to 20 per cent of their new mortgage lending at debt of six times income or more.¹

In setting this limit, APRA's objective was to pre-emptively contain a potential build-up of housing-related vulnerabilities in the financial system. At a system level, high DTI lending remains well below the limit. As at December 2025, lending at DTIs of greater than or equal to six times accounted for less than 10 per cent of total lending.

Current trends in housing lending

APRA regularly monitors risks in housing lending, in close consultation with other regulators. We also pay close attention to the impact of ADIs' lending practices for access to credit.

Currently, housing credit is growing at an annual rate of 7.1 per cent, which is above the post-GFC average of 5.8 per cent. Aggregate household indebtedness also remains high by both historical and international standards, while housing loans continue to be the largest source of lending on banks' balance sheets.

A potential indicator of overly restrictive prudential regulatory settings could be a migration of housing lending to non-bank lenders, which are not subject to APRA's rules. However, non-bank lenders continue to account for a small share of housing lending in Australia, at less than 5 per cent.

APRA's mandate

As Australia's prudential regulator, APRA's mandate is to provide Australians with a safe and stable financial system. This objective is critical to the Australian community's financial wellbeing and the long-term growth of the Australian economy.

However, APRA does not pursue a 'safety at all costs' agenda. Our prudential framework, by design, is aimed at minimising any undue cost of regulation for industry. Our standards and supervisory practices ensure that financial institutions can fulfil their vital and productive roles in the economy, supporting long-run growth and investment.

The aim of prudential regulation is to ensure that, under all reasonable circumstances, financial promises made by the institutions APRA supervises are met within a stable, efficient, and competitive financial system. As the prudential regulator of ADIs, APRA seeks to assure depositors that their deposits are safe and the Australian community that the financial system is stable.

Financial regulatory context

Australia's current financial regulatory framework, and APRA's mandate, has its origins in the 1997 Wallis Inquiry into the financial system.² The Wallis Inquiry established Australia's 'twin peaks' regulatory model, under which:

- The Australian Securities and Investments Commission (ASIC) would be responsible for market conduct and consumer-protection for financial services; and
- APRA would be responsible for the prudential supervision of financial institutions and for promoting the stability of the Australian financial system.

The maintenance of sound housing lending standards is important to both regulators. As the financial safety regulator, APRA's focus is the risk that poor lending practices could undermine an ADI's financial soundness and financial system stability. ASIC's focus is on market conduct and consumer protection, aiming to address any poor lending practices, by either ADIs or non-ADI lenders.

ASIC's key expectations for lenders are set out in responsible lending obligations, under the *National Consumer Credit Protection Act 2009*. ASIC also administers specific design and distribution obligations, which require ASIC-regulated entities to design financial products that meet the needs of consumers in their intended target market.

¹ The limits allow ADIs to lend up to 20 per cent of new investment loans funded at DTI greater than or equal to six times, and up to 20 per cent of new owner-occupied loans funded at DTI greater or equal to six times.

² Commonwealth of Australia, Financial System Inquiry Final Report (Wallis Inquiry) (March 1997) <https://treasury.gov.au/publication/p1996-fsi-fr>