



To: All Authorised Deposit-Taking Institutions

REINFORCING SOUND RESIDENTIAL MORTGAGE LENDING PRACTICES - CONSULTATION ON REVISED PRUDENTIAL PRACTICE GUIDE

The Australian Prudential Regulation Authority (APRA) has today released for consultation a revised *Prudential Practice Guide APG 223 Residential mortgage lending* (APG 223).

APG 223 sets out APRA's expectations for prudent residential mortgage lending practices, including guidance on addressing credit risk within ADIs' risk management framework, applying sound loan origination criteria and appropriate security valuation methods, managing hardship loans and establishing a robust stress-testing framework.

Additionally, in December 2014, APRA announced further steps to reinforce sound residential mortgage lending practices. Since that time, APRA has been working closely with ADIs to improve practices in relation to residential mortgage lending standards, particularly in the area of assessing borrower serviceability. Following on from this, APRA is proposing to incorporate amendments into APG 223 which provide more detailed guidance on areas such as:

- quantitative serviceability parameters, including the application of interest rate buffers and floors as set out in APRA's December 2014 letter to industry, haircuts for non-salary income such as rental income, treatment of interest-only loans and estimation of living expenses; and
- other qualitative measures including compliance with responsible lending requirements, monitoring of serviceability policy overrides, and the treatment of self-managed superannuation fund loans and other specific loan types.

This guidance is consistent with expectations for prudent practices communicated to ADIs through APRA's supervisory process over the last two years. As a result, it is not expected to require material change to ADIs' existing lending practices.

While the quality of loan underwriting in the residential mortgage lending market has improved, APRA is continuing to maintain its close monitoring of investor lending and other areas that may contribute to risks in the housing lending market. To support its supervision of mortgage lending activity, APRA is separately consulting on enhanced regulatory reporting requirements in relation to residential mortgage lending:

<http://www.apra.gov.au/adi/PrudentialFramework/Pages/residential-mortgage-lending-reporting-requirements-ADIs-Oct16.aspx>.

Revised draft *Prudential Practice Guide APG 223 Residential mortgage lending* can be found at: <http://www.apra.gov.au/adi/PrudentialFramework/Pages/APG-223-Residential-mortgage-lending-Oct16.aspx>

APRA welcomes comments on the draft prudential practice guide. Submissions can be provided to mortgagelending@apra.gov.au by 19 December 2016 and addressed to:

Ms Heidi Richards
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Policy and Advice Division
Australian Prudential Regulation Authority

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.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Pat Brennan', is enclosed in a thin black rectangular border.

Pat Brennan
Executive General Manager
Policy and Advice Division