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Dear Mr Byres

Consultation on Revisions to Prudential Practice Guide APG 223 Residential Mortgage Lending

I am writing on behalf of the Housing Industry Association (HIA) in relation to the advice released by the Australian Prudential Regulation Authority (APRA) on 21 May 2019 to Authorised Deposit-taking Institutions regarding potential changes to *Prudential Practice Guide APG 223 Residential Mortgage Lending*.

The proposed changes to this Practice Guide are of keen interest to our members and will directly impact on lending to their customers. HIA wishes to provide the following comments in support of the proposed changes to the Practice Guide.

The residential building industry is a key sector of the domestic economy and is currently experiencing a significant downturn. While the market is cyclical in nature and a downturn was not unexpected, the speed and nature of the change has been exacerbated by several factors related to the arrangements for housing finance. Of most note, access to housing finance is a key factor in the decline. Reduced market confidence due to falling house prices and modest employment growth are also important factors.

The APRA guidance to ADIs set out in Practice Guide APG 223 is also a key factor in the approach taken to assessing serviceability. The factors set out in your letter dated 21 May 2019 clearly make the case for a change.

The need for changes is evident in the latest building approvals numbers from the Australian Bureau of Statistics which show that new home building approvals are still on the decline. April 2019 marked the weakest month for detached house approvals since June 2013. The decline in approvals throughout 2018 has been the sharpest since the introduction of the GST in July 2000.

The slowdown in approvals means there is less work entering the pipeline. Years of pent up demand for new housing created a bulging pipeline of work which was one of the markers of the recent housing boom. This pipeline of work had, until recently, managed to ward off the declines in overall new dwelling commencements, particularly in the multi-unit sector. However the December 2018 quarter fell well short of expectations. Preliminary data estimate that only 46,000 starts were recorded in the quarter, well short of the 53,000 recorded in the same quarter in 2017. Detached house commencements fell by 7.6 per cent in the December 2018 quarter, while multi-unit commencements fell by an alarming 25.9 per cent.

Housing credit growth in March 2019 is the lowest it has been since records began almost 42 years ago. The number of loans to both owner-occupiers and investors is down across all segments of the market. The number of loans to owner-occupiers for the purchase of new dwellings has decreased by 18.0 per cent in the 12 months to March 2019 compared to the previous 12 months. The number of loans to owner-occupiers for the purchase of established dwellings has decreased by 9.5 per cent over the same period. The value of loans for alterations and additions has also substantially declined, down by 23.2 per cent in the 12 months to March 2019 compared to the previous 12 months.

The proposals to alter Practice Guide APG 223 by removing the 7 per cent serviceability floor rate, increasing the serviceability buffer to 2.5 per cent and clarifying the expectation with respect to a 'buffer' used by ADIs when assessing lending capacity are considered pragmatic changes and will better reflect the needs of the home lending market today.

The proposed changes recognise the need for ADIs to consider the broader economic factors in place at the time of assessing lending capacity, interest rate cycles and the historical trends and risks associated with loan evaluation criteria. Allowing ADIs greater flexibility to do this, in particular by removing the recommended 7 per cent serviceability floor, is considered an appropriate approach.

HIA is grateful for the opportunity to provide feedback on the proposed revisions to the Practice Guide and would be happy to discuss this matter further should that be of assistance. I can be contacted on [REDACTED].

Yours sincerely
HOUSING INDUSTRY ASSOCIATION LIMITED

[REDACTED]
Graham Wolfe
Managing Director