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APRA details new rules for home lenders

APRA wants more information about a borrower's ability to pay back a loan.

MICHAEL RODDAN THE AUSTRALIAN 12:00AM January 11, 2018

The banking regulator will push ahead with rules requiring lenders to hand over more data about the levels of borrower indebtedness, after finetuning its reporting requirements in the wake of industry complaints about the rushed timetable for the new standards.

The Australian Prudential Regulation Authority yesterday finalised the rules governing the data that banks must hand over on their residential mortgage-lending operations.

APRA has been warning the banking sector of heightened risks in the $1.7 trillion residential mortgage market, and has been urging the banks to monitor lending more closely.

The regulator is requesting that banks give it information on borrowers' debt-to-income ratios, increases in debt limits and loans to unincorporated private businesses.

The rules will apply from the end of March for banks already reporting on the more stringent form, and from the end of September for other lenders.

Despite planning originally to require banks to give more information to the regulator by the end of last year, APRA delayed the rules by as much as nine months for some lenders.

APRA general manager of data analytics Katrina Ellis, who launched the new rules, has previously criticised lenders for their failure to invest in their data management systems.

Five of the six submissions in consultation with the regulator over the new rules complained they lacked "key resources" to be able to comply with APRA's information requests.

The rules will focus on loan-to-income and debt-to-income ratios, looking at borrowers' gross incomes excluding compulsory superannuation contributions. The rules will include borrowers who take up loans through their self-managed super funds. Property purchases through SMSFs have soared in popularity in recent years.

Borrowing through family trusts will also be scrutinised as part of APRA's data collection on lending to private unincorporated businesses, irrespective of whether the trust has a controlling interest in a business.

APRA will run a course for the banking sector "in the coming weeks" to make sure the industry gets across the new rules, which will give the regulator a greater insight into Australia's heavily indebted households. They stem from a warning in late 2014 that APRA would increase its supervision of the banks as lending standards were eroding amid historically low interest rates and growing levels of household debt.

The advent of the rules comes at what may be a turning point for the mortgage market.

APRA chairman Wayne Byres last year warned that the rate of non-performing loans, where borrowers were falling behind on mortgage repayments, had nearly reached "post-crisis" highs. Meanwhile, house prices in Sydney have started to fall after years of extreme growth. Housing markets in other major cities are also starting to soften, following clampdowns on property investment and risky selling of interest-only loans.

The regulator is now focusing on how lenders assess living expenses and total indebtedness, while banks have been told to devote more effort to the collection of realistic living-expense estimates from borrowers.

APRA has found banks are far too reliant on living-expense benchmarks, which could undershoot real living costs.

A common benchmark is the University of Melbourne's Household Expenditure Measure, which APRA has criticised for being too simplistic.

The Australian Securities & Investments Commission has launched legal proceedings against Westpac for allegedly using a statistical benchmark to assess living expenses instead of actual expenses provided by customers, which were considerably higher. Westpac plans to defend the allegations.

The regulator has found the number of borrowers being sold loans that are leveraged at six times their income has barely fallen in recent times.