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To whom it may concern

Submission on APRA's consultation on revisions to Prudential Practice Guide APG 223 on residential mortgage lending

The Mortgage & Finance Association of Australia (MFAA) is pleased to have the opportunity to comment on APRA's proposals outlined in the Chairman's letter dated 21 May 2019.

About the MFAA

With more than 13,500 members, the MFAA is Australia's leading professional association for the mortgage broking industry with membership covering mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage broking industry. The stated purpose of the MFAA is to advance the interests of our members through leadership in advocacy, education and promotion. To achieve this aim, the MFAA promotes and advances the broker proposition to a range of external stakeholders including governments, regulators and consumers, and continues to demonstrate the commitment of MFAA professionals to the maintenance of the highest standards of education and development.

Response

In light of the movement in market conditions over the recent past, the MFAA supports APRA's proposed changes to its guidance on the current serviceability assessment regime as it applies to residential mortgage lending in Australia.

We agree that the merits of a single floor rate across all lending products and customers is now unsuitable. APRA guidance that allows ADI's to review and set their own minimum interest rate floor in their serviceability assessments appears to us to be appropriate. This would, of course, ignore introductory (honeymoon) rates and those offered for a limited period. The addition to guidance that ADI's should incorporate an interest rate buffer of 2.5 per cent to their assessments also appears appropriate.

While the consultation paper states that lenders can determine their own level of floor rate based on their portfolio mix, risk appetite and other circumstances, we believe lenders should not be precluded from using the interest rate on a particular loan for a customer as the most appropriate floor rate for that loan and customer. That said, we note that implementation of such a regime is likely to be challenging for most lenders due to its inherent complexity.

The MFAA notes that there has been commentary that a reduction in the serviceability floor rate may come with an associated increase in risk. The MFAA is however of the view that, in an environment of differentiated pricing as currently exists, and given the present lower interest rate environment, that an adjustment to a more flexible floor rate as recommended in the proposal is entirely appropriate. We also expect that all lenders should continue to meet their obligations to make loans that are not unsuitable.

Conclusion

The MFAA agrees with the recommendation as outlined in APRA's consultation paper and believes that it is appropriate given changes in the lending sector over recent years. With the development of differentiated market products and pricing, it is more appropriate to have a flexible serviceability assessment regime that permits lenders to set appropriate rates. In our view, what has been proposed in APRA's consultation paper strikes the correct balance between maintaining consumer protection, allowing access to credit, and ensuring an appropriate level of competition between lenders.

The MFAA appreciates the opportunity to provide input on this very important issue and looks forward to ensuring that good consumer outcomes are achieved to maintain the viability of the Australian residential lending market.

Your sincerely

Mike Felton
Chief Executive Officer
Mortgage & Finance Association of Australia