



11 November 2019

Ms Katrina Squires  
Acting General Manager, Policy Development  
APRA  
1 Martin Place  
SYDNEY NSW 2000  
By email: ADIpolicy@apra.gov.au

Dear Ms Squires

## Capital treatment of mortgages under the First Home Loan Deposit Scheme

Thank you for the opportunity to make a submission to the 28 October 2019 consultation on the capital treatment of mortgages under the First Home Loan Deposit Scheme (FHLDS). The ABA supports the First Home Loan Deposit Scheme as it will help more Australians achieve home ownership.

The ABA welcomes further clarity on the capital treatment for guarantees under the Scheme. A clear understanding of the capital treatment is critical for an ADI's mortgage product development and consequential approval under the scheme.

### **Eligible FHLDS loans**

The ABA supports APRA's proposal to allow ADIs to treat eligible FHLDS loans in a comparable manner to mortgages with a loan to valuation ratio (LVR) of 80 per cent. In the case of ADs using the standardised approach, this would equate to a risk weighting of 35 per cent which is equivalent to 80 per cent LVR mortgages.

The ABA would like APRA to confirm that all loans written under the FHLDS would be "eligible loans for the purpose of receiving a 35 per cent risk weight.

### **Internal Ratings approach Banks (IRB) risk weighting**

The ABA recommends that the final capital treatment clearly allows IRB banks to apply the same IRB capital treatment to FHLDS mortgages as it does for its other IRB 80 per cent LVR residential mortgages. The consultation does not specify how IRB banks would apply a capital adjustment to FHLDS accounts. The consultation only references the capital treatment under the APS 112 Standardised approach. It is recommended that the text be clarified to ensure that LVR for FHLDS may, if relevant, be treated commensurately in any models used for RWA calculation under APS 113.

### **Equivalent regulatory requirements to be applied**

While the letter clearly specifies the capital treatment an FHLDS loan to be equivalent to an 80 per cent LVR loan, it is unclear whether the treatment extends beyond capital treatment to include reporting requirements. At present, higher LVR loans are required to be reported separately.

The ABA proposes that APRA allow FHLDS loans be treated for regulatory reporting purposes the same as parental guarantees. Under the current framework, loans covered by parental guarantees are not considered high LVR given that their effective LVR is 80 per cent or less. The ABA would recommend that FHLDS loans are also treated in this manner, as if banks were required to categorise



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FHLDS loans as high LVR lending, this could be expected to limit the capacity of non-IRB banks to offer these loans to their customers.

Please contact myself using my contact details below if you have any queries about this matter.

Yours sincerely

Karen O'Brien  
Policy Director