Unlocking Australian Credit: Is It Time for APRA, ASIC and Government to Rethink Lending Policies?

Australia has one of the strongest banking systems in the world. However, increasingly conservative lending policies are making it difficult for many creditworthy Australians to access finance.

First-home buyers face significant borrowing hurdles, existing homeowners struggle to refinance, investors face restrictive lending assessments, and self-employed borrowers and retirees often find their financial circumstances poorly recognised.

The challenge is not to weaken responsible lending standards, but to make them smarter, more flexible and better aligned with individual borrower risk.



A History of Lending Restrictions

Over the past decade, APRA has introduced several significant measures to control mortgage lending:

- **2014**: A 10% annual investor lending growth benchmark.
- **2017**: A 30% benchmark on new interest-only lending.
- **2018–2019**: Removal of both restrictions as lending standards improved.
- **2019**: Introduction of a minimum 2.5% serviceability buffer.
- **2021**: Increase in the serviceability buffer to 3%.
- **2026**: New limits restricting high debt-to-income lending to 20% of new owner-occupier and investor lending, assessed separately.

These changes demonstrate that lending restrictions can be adjusted as economic conditions evolve.

The question is whether today's regulatory framework is appropriately balancing financial stability with access to credit.

The Serviceability Challenge

One of the biggest obstacles remains APRA's 3% mortgage serviceability buffer.

A borrower obtaining a mortgage at 6% must generally demonstrate the capacity to service the loan at 9%.

For a $750,000 mortgage over 30 years, this means demonstrating the capacity to meet assessed repayments of approximately $6,035 per month, compared with actual repayments of approximately $4,497.

While this protects against future interest rate increases, it can unnecessarily restrict borrowers with substantial equity, stable incomes and strong repayment histories.

A more flexible, risk-based assessment could improve access to credit without compromising financial stability.

Ten Reforms Worth Considering

1. **Review the 3% serviceability buffer** – Consider 2.5% for standard borrowers and lower buffers for demonstrably low-risk borrowers.

2. **Introduce risk-based lending assessments** – Recognise strong repayment histories, stable income and low loan-to-value ratios.

3. **Make refinancing easier** – Allow existing borrowers with proven repayment capacity to access cheaper loans without unnecessarily restrictive reassessments.

4. **Review high debt-to-income limits** – Ensure portfolio restrictions do not unnecessarily constrain responsible lending.

5. **Provide greater interest-only flexibility** – Recognise legitimate investment strategies and cash-flow management where borrowers can meet future obligations.

6. **Modernise income assessments** – Better accommodate self-employed borrowers, retirees and Australians with substantial financial assets.

7. **Simplify lending through technology** – Use Open Banking and verified financial data to improve accuracy and reduce compliance costs.

8. **Encourage investment in new housing** – Differentiate lending that increases housing supply from borrowing that simply increases competition for existing properties.

9. **Reform stamp duty and downsizing barriers** – Encourage housing mobility and better utilisation of existing housing stock.

10. **Expand government support for construction finance** – Improve access to development funding and accelerate residential housing supply.

The Government's Role

Regulatory reform alone will not solve Australia's housing affordability challenges.

Increasing borrowing capacity without expanding housing supply risks simply driving property prices higher.

Government must complement credit reform through faster planning approvals, infrastructure investment, targeted first-home buyer assistance, stamp duty reform and incentives for new residential construction.

Greater cooperation between APRA, ASIC, Treasury and the banking industry could also deliver more consistent and practical lending assessments.

Conclusion: Smarter Lending, Not Weaker Lending

Australia has successfully strengthened its banking system over the past decade. However, the next stage of reform should focus on ensuring that prudent regulation does not unnecessarily exclude financially responsible borrowers.

A homeowner with substantial equity and a proven repayment history should not necessarily face the same lending restrictions as a highly leveraged borrower with uncertain income.

Similarly, an investor financing new housing supply should be assessed differently from one using excessive leverage to purchase existing property.

Australia does not need to choose between financial stability and access to credit.

With targeted APRA and ASIC reforms, supported by sensible government housing policies, we can achieve both.

The objective should be simple: protect consumers, maintain a strong banking system and make credit more accessible to those who can responsibly afford it.

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