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APRA's 3pc Stress Test Keeps Borrowers Locked Out

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Thousands of Australians hoping to buy a home or refinance remain blocked from accessing more affordable loans, after the Australian Prudential Regulation Authority (APRA) confirmed it would maintain its 3 per cent mortgage serviceability buffer.

The rule requires lenders to assess borrowers' ability to repay loans at an interest rate 3 percentage points higher than the actual loan rate being applied for. For example, a borrower seeking a loan at 6 per cent must demonstrate they can afford repayments at 9 per cent.

The policy, introduced in its current form in 2021, was originally designed to protect borrowers from future interest rate hikes. At that time, the Reserve Bank of Australia's cash rate was just 0.1 per cent, and some variable home loans were available below 2 per cent.

Since then, the economic environment has shifted. The official cash rate peaked at 4.35 per cent before easing, and many economists now expect a rate cut cycle. However, APRA has chosen to keep the buffer in place, arguing it remains a prudent measure to protect borrowers and the financial system.

Critics argue that the rule is now outdated and disproportionately affects younger and lower-income Australians trying to enter the housing market. According to Coalition housing spokesperson Michael Sukkar, nearly 40 per cent of first home buyers were blocked from securing loans due to the buffer, based on figures cited during the 2025 federal election campaign.

The stress test also affects existing borrowers looking to refinance. In some cases, people paying 6 per cent on their current loan are unable to switch to a lower rate, say 5.5 per cent, because they cannot meet the 8.5 per cent assessment requirement. This difference could equate to savings of more than $300 per month on a $1 million loan or $114,000 over the life of a 30-year mortgage.

Some lenders may offer exceptions, assessing select borrowers using lower buffers of 1 or 2 per cent. However, this flexibility is not available to all applicants.

The ongoing cost-of-living crisis, rising house prices, and stagnant wage growth have compounded the challenge for many prospective buyers. Despite calls for a review, APRA has indicated that the buffer will remain in place for the foreseeable future.

Industry observers say the regulator's cautious approach could see more Australians remain locked out of homeownership or stuck in higher-rate mortgages, even as the broader economic outlook begins to shift.