GRF_116_1 Probable Maximum Loss for LMIs - Standard Loans

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Standard loan

A standard loan is one which meets the criteria defined in Attachment A of *Prudential Standard GPS 116 Capital Adequacy: Insurance Concentration Risk Charge* (GPS 116).

100% cover

100% cover provides insurance for 100% of the loan amount.

Top cover

Top cover provides insurance for less than 100% of the loan amount.

Pool cover

A pooled LMI policy, or pool cover, is lenders mortgage insurance underwritten and issued in respect of a pool of loans. For clarity, each loan is not individually insured.

Section 1: ADI

Report in this section information relating to loans approved, advanced and funded by an authorised deposit-taking institution (ADI). An ADI has an in force authority under subsection 9(3) of the *Banking Act 1959*.

Section 2: Non-APRA regulated

Report in this section information relating to loans approved, advance and funded by entities that are not ADIs.

Instructions for specific items

Sections 1 and 2 - 1.1 and 2.1: 100 per cent and top cover

(1) LVR greater than (%)

The Loan-to-Valuation Ratio (LVR) is the ratio of the amount of the loan to the value of the secured residential property, as at the date of origination of the loan. Where the mortgage insurance premium is capitalised in the loan amount, the LVR must be calculated including the premium; that is, the loan amount must be increased by the amount of the capitalised premium, irrespective of whether the premium is insured.

The inclusion of a First Home Owners Grant in the deposit for a mortgaged property will not otherwise increase the LVR of a loan.

LMIs are required to report the sum insured according to the following categories: LVR of less than 60.01, 60.01 to 70, 70.01 to 80, 80.01 to 85, 85.01 to 90, 90.01 to 95, 95.01 to 100, and greater than 100 per cent. Report the relevant category by selecting the appropriate lower and upper bound percentages in Columns 1 and 2.

(2) LVR less than or equal to (%)

The Loan-to-Valuation Ratio (LVR) is the ratio of the amount of the loan to the value of the secured residential property, as at the date of origination of the loan. Where the mortgage insurance premium is capitalised in the loan amount, the LVR must be calculated including the premium; that is, the loan amount must be increased by the amount of the capitalised premium, irrespective of whether the premium is insured. The inclusion of a First Home Owners Grant in the deposit for a mortgaged property will not otherwise increase the LVR of a loan.

LMIs are required to report the sum insured according to the following categories: LVR of less than 60.01, 60.01 to 70, 70.01 to 80, 80.01 to 85, 85.01 to 90, 90.01 to 95, 95.01 to 100, and greater than 100 per cent. Report the relevant category by selecting the appropriate lower and upper bound percentages in Columns 1 and 2.

(3) Coverage proportion (%)

This is the percentage of cover for which the insurance provides over the loan amount.

Select from the appropriate coverage proportion percentage: 20, 25, 30, 35, 40 or 100 per cent."

(4.1) < 3 years

(4.2) 3 < 5 years

(4.3) 5 < 10 years

(4.4) >= 10 years

Age is the length of time from the date of origination of the loan to the date of calculation for the purposes of determining the seasoning factors in Attachment A of GPS 116.

Report the sums insured for the LMI policies according to the following categories: age of less than three years, three to less than five years, five to less than 10 years, and more than 10 years.

(5) Total sum insured

The sum insured is the original exposure amount for an LMI as stated in the mortgage insurance policy.

It is automatically calculated as the sum of Columns 4.1 to 4.4 multiplied by their corresponding seasoning factors.

(6) PD factor

The probability of default (PD) is the risk of default by the borrower. It varies according to LVR as per Attachment A of GPS 116.

This is automatically determined from the LVR percentages in Columns 1 and 2.

(7) LGD factor (100% cover)

Loss given default (LGD) is the loss to the LMI upon default by the borrower. It varies according to LVR as per Attachment A of GPS 116. The LGD factors are for 100% cover.

This is automatically determined from the LVR percentages in Columns 1 and 2.

(8) LGD factor (top cover)

This is the LGD factor for top cover. It is automatically calculated as Column 7 divided by Column 3, subject to a maximum of 100%.

(9) PML

For each individual LMI policy, the probable maximum loss (PML) is the sum insured multiplied by the seasoning, PD and LGD factors applicable to the policy. It is determined in accordance with Attachment A of GPS 116.

It is automatically calculated as Column 5 multiplied by Column 6 multiplied by Column 8.

Sections 1 and 2 - 1.2 and 2.2: Pool cover

(1) Weighted-average LVR (%)

Input the weighted-average LVR as a percentage for each pool. The weighted-average LVR should be calculated outside of the reporting forms and should not be based on summarised data.

(2) Weighted-average age

Input the weighted-average age (in years) for each pool. The weighted-average age should be calculated outside of the reporting forms and should not be based on summarised data.

(3) Seasoning factor

This is the seasoning factor corresponding to the weighted-average age of the pool.

It is automatically determined from the weighted-average age in Column 2.

(4) Total sum insured

Report the sum insured for pools of loans. The sum insured is the original exposure amount for an LMI as stated in the mortgage insurance policy.

(5) PD factor

This is the PD corresponding to the weighted-average LVR of the pool.

It is automatically determined from the weighted average LVR percentage in Column 1.

(6) LGD factor

This is the LGD corresponding to the weighted-average LVR of the pool.

It is automatically determined from the weighted-average LVR percentage in Column 1.

(7) PML

This is automatically calculated as Column 4 multiplied by Column 3 multiplied by Column 5 multiplied by Column 6.

GRF_116_2 Probable Maximum Loss for LMIs - Non-Standard Loans

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Non-standard loan

A non-standard loan is a loan predominantly secured by residential property which does not meet the criteria for a standard loan as defined in Attachment A of GPS 116 and/or where APRA has given a direction that the loan should be classified as a non-standard loan.

100% cover

100% cover provides insurance for 100% of the loan amount.

Top cover

Top cover provides insurance for less than 100% of the loan amount.

Pool cover

A pooled LMI policy, or pool cover, is lenders mortgage insurance underwritten and issued in respect of a pool of loans. For clarity, each loan is not individually insured.

Section 1: ADI

Report in this section information relating to loans approved, advanced and funded by an Authorised Deposit-taking Institution (ADI). An ADI has an in force authority under subsection 9(3) of the *Banking Act 1959*.

Section 2: Non-APRA regulated

Report in this section information relating to loans approved, advance and funded by entities that are not ADIs.

Instructions for specific items

Sections 1 and 2 - 1.1 and 2.1: 100 per cent and top cover

(1) LVR greater than (%)

The Loan-to-Valuation Ratio (LVR) is the ratio of the amount of the loan to the value of the secured residential property, as at the date of origination of the loan. Where the mortgage insurance premium is capitalised in the loan amount, the LVR must be calculated including the premium; that is, the loan amount must be increased by the amount of the capitalised premium, irrespective of whether the premium is insured. The inclusion of a First Home Owners Grant in the deposit for a mortgaged property will not otherwise increase the LVR of a loan.

Lenders mortgage insurers (LMIs) are required to report the sum insured according to the following categories: LVR of less than 60.01, 60.01 to 70, 70.01 to 80, 80.01 to 85, 85.01 to 90, 90.01 to 95, 95.01 to 100, and greater than 100 per cent. Report the relevant category by selecting the appropriate lower and upper bound percentages in Columns 1 and 2.

(2) LVR less than or equal to (%)

The Loan-to-Valuation Ratio (LVR) is the ratio of the amount of the loan to the value of the secured residential property, as at the date of origination of the loan. Where the mortgage insurance premium is capitalised in the loan amount, the LVR must be calculated including the premium; that is, the loan amount must be increased by the amount of the capitalised premium, irrespective of whether the premium is insured. The inclusion of a First Home Owners Grant in the deposit for a mortgaged property will not otherwise increase the LVR of a loan.

Lenders mortgage insurers (LMIs) are required to report the sum insured according to the following categories: LVR of less than 60.01, 60.01 to 70, 70.01 to 80, 80.01 to 85, 85.01 to 90, 90.01 to 95, 95.01 to 100, and greater than 100 per cent. Report the relevant category by selecting the appropriate lower and upper bound percentages in Columns 1 and 2.

(3) Coverage proportion (%)

This is the percentage of cover for which the insurance provides over the loan amount.

Select from the appropriate coverage proportion percentage: 20, 25, 30, 35, 40 or 100 per cent.

(4.1) < 3 years

(4.2) 3 < 5 years

(4.3) 5 < 10 years

(4.5) >= 10 years

Age is the length of time from the date of origination of the loan to the date of calculation for the purposes of determining the seasoning factors in Attachment A of GPS 116.

Report the sums insured for the LMI policies according to the following categories: age of less than three years, three to less than five years, five to less than 10 years, and more than 10 years.

(5) Total sum insured

The sum insured is the original exposure amount for an LMI as stated in the mortgage insurance policy.

It is automatically calculated as the sum of Columns 4.1 to 4.4 multiplied by their corresponding seasoning factors.

(6) PD factor

The probability of default (PD) is the risk of default by the borrower. It varies according to LVR as per Attachment A of GPS 116.

This is automatically determined from the LVR percentages in Columns 1 and 2.

(7) LGD factor (100% cover)

Loss given default (LGD) is the loss to the LMI upon default by the borrower. It varies according to LVR as per Attachment A of GPS 116. The LGD factors are for 100% cover.

This is automatically determined from the LVR percentages in Columns 1 and 2.

(8) LGD factor (top cover)

This is the LGD factor for top cover. It is automatically calculated as Column 7 divided by Column 3, subject to a maximum of 100%.

(9) PML

For each individual LMI policy, the probable maximum loss (PML) is the sum insured multiplied by the seasoning, PD and LGD factors applicable to the policy. It is determined in accordance with Attachment A of GPS 116.

It is automatically calculated as Column 5 multiplied by Column 6 multiplied by Column 8.

Sections 1 and 2 - 1.2 and 2.2: Pool cover

(1) Weighted-average LVR (%)

Input the weighted-average LVR as a percentage for each pool. The weighted-average LVR should be calculated outside of the reporting forms and should not be based on summarised data.

(2) Weighted-average age

Input the weighted-average age (in years) for each pool. The weighted-average age should be calculated outside of the reporting forms and should not be based on summarised data.

(3) Seasoning factor

This is the seasoning factor corresponding to the weighted-average age of the pool.

It is automatically determined from the weighted-average age in Column 2.

(4) Total sum insured

Report the sum insured for pools of loans. The sum insured is the original exposure amount for an LMI as stated in the mortgage insurance policy.

(5) PD factor

This is the PD corresponding to the weighted-average LVR of the pool.

It is automatically determined from the weighted average LVR percentage in Column 1.

(6) LGD factor

This is the LGD corresponding to the weighted-average LVR of the pool.

It is automatically determined from the weighted-average LVR percentage in Column 1.

(7) PML

This is automatically calculated as Column 4 multiplied by Column 3 multiplied by Column 5 multiplied by Column 6.

GRF_116_3 Probable Maximum Loss for LMIs - Commercial Loans

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Commercial loan

A commercial loan is a loan that is not predominantly secured by a registered mortgage over residential property, and/or where APRA has given a direction that the loan should be classified as a commercial loan.

Instructions for specific items

(1) Factor

The probable maximum loss (PML) for a commercial loan is the sum insured multiplied by 8%.

(2) ADI

Report the sum insured for individual lenders mortgage insurer (LMI) policies insuring commercial loans that are approved, advanced and funded by an authorised deposit-taking institution (ADI).

(3) Non-APRA regulated

Report the sum insured for individual LMI policies insuring commercial loans that are approved, advanced and funded by a non-ADI.

(4) Total sum insured

The sum insured is the original exposure amount for an LMI as stated in the mortgage insurance policy.

(5) PML

This is automatically calculated as Column 4 multiplied by Column 1.

GRF_116_4 LMI Concentration Risk Charge

These instructions must be read in conjunction with the general instruction guide.

Instructions for specific items

(4) Summary

These columns represent the total sum insured and probable maximum losses (PMLs) across all loans types, coverage types and origination channels.

Amounts are automatically derived from corresponding amounts in *GRF 116.1 Probable Maximum Loss for LMIs – Standard Loans* (GRF 116.1), *GRF 116.2 Probable Maximum Loss for LMIs – Non-Standard Loans* (GRF 116.2) and *GRF 116.3 Probable Maximum Loss for LMIs – Commercial Loans* (GRF 116.3).

1.1 Standard loans

This is automatically calculated as the sum of Items 1.1.1 to 1.1.4.

1.1.1 ADI - 100 per cent and top cover

This amount is automatically derived from Columns 5 and 9 of Table 1.1 in GRF 116.1.

1.1.2 ADI - pool cover

This amount is automatically derived from Columns 4 and 7 of Table 1.2 in GRF 116.1.

1.1.3 Non-APRA regulated - 100 per cent and top cover

This amount is automatically derived from Columns 5 and 9 of Table 2.1 in GRF 116.1.

1.1.4 Non-APRA regulated - pool cover

This amount is automatically derived from Columns 4 and 7 of Table 2.2 in GRF 116.1.

1.2 Non-standard loans

This is automatically calculated as the sum of Items 1.2.1 to 1.2.4.

1.2.1 ADI - 100 per cent and top cover

This amount is automatically derived from Columns 5 and 9 of Table 1.1 in GRF 116.2.

1.2.2 ADI - pool cover

This amount is automatically derived from Columns 4 and 7 of Table 1.2 in GRF 116.2.

1.2.3 Non-APRA regulated - 100 per cent and top cover

This amount is automatically derived from Columns 5 and 9 of Table 2.1 in GRF 116.2.

1.2.4 Non-APRA regulated - pool cover

This amount is automatically derived from Columns 4 and 7 of Table 2.2 in GRF 116.2.

1.3 Commercial loans

This is automatically calculated as the sum of Items 1.3.1 and 1.3.2.

1.3.1 ADI

This amount is automatically derived from GRF 116.3.

1.3.2 Non-APRA regulated

This amount is automatically derived from GRF 116.3.

1.4 Total

This is automatically calculated as the sum of Items 1.1, 1.2 and 1.3.

(5) LMI Concentration Risk Charge (LMICRC) calculation

This represents the years for the Prescribed Stress Scenario which is in the form of a three-year economic or property downturn. The PML must be allocated in the proportion of 25 per cent to year one, 50 per cent to year two and 25 per cent to year three of the downturn.

2.1. PML

This represents the total PML across all loan types, coverage types and origination channels. Total PML is automatically allocated in the proportions of 25 per cent to year one, 50 per cent to year two and 25 per cent to year three of the Prescribed Stress Scenario.

2.2. Adjustment to the PML

For a lenders mortgage insurer (LMI) no longer writing new business (i.e. in run-off), the sum insured is expected to decrease over the three-year scenario and it may be appropriate for an LMI in run-off to adjust its PML downwards. The methodology for adjusting an LMI's PML in a run-off situation must be approved by APRA and documented in the LMI's Reinsurance Management Strategy (ReMS).

A reduction in PML is to be entered as a positive amount. Do not enter any other adjustments to PML in this field.

2.3. Adjusted PML

This is automatically calculated as Item 2.1 less Item 2.2.

2.4. Available reinsurance

Report the amount of available reinsurance for each of the three years of the Prescribed Stress Scenario. The methodology for calculating available reinsurance is detailed in Attachment A of GPS 116.

2.5. Allowable reinsurance

This is the lesser of *Available reinsurance* and 60 per cent of the Adjusted PML. It is automatically calculated by the form.

2.6. PML net of reinsurance

This is automatically calculated as Item 2.3 less Item 2.5.

2.7. Net premiums liability deduction

In determining the LMI Concentration Risk Charge (LMICRC), this is the value of the deduction from the PML, allowed under GPS 116, for net premiums liability of the LMI that relates to an economic downturn.

It is to be reported as a positive amount.

2.8. Adjustments to LMICRC as approved by APRA

If APRA is of the view that the Standard Method for calculating the LMICRC component of the prescribed capital amount does not produce an appropriate outcome in respect of a reporting insurer, or a reporting insurer has used inappropriate judgement or estimation in calculating the LMICRC, APRA may adjust the LMICRC calculation for that reporting insurer.

An increase in the LMICRC is to be reported as a positive amount.

2.9. LMI Concentration Risk Charge

This is automatically calculated as Item 2.6 less Item 2.7 plus Item 2.8.

2.10. LMI Concentration Risk Charge / PML

This is automatically calculated as Item 2.9 divided by Item 2.3.

GRF_116_5: Probable Maximum Loss for LMIs – Additional Information

These instructions must be read in conjunction with the general instruction guide.

Explanatory notes

Section 1: Inwards reinsurance

This section relates to policies held with the insurer by other lenders mortgage insurers (LMIs).

Section 2: Large liability exposures by originator

Information is to be reported in this section for the five largest liability exposures by originator.

Calculation of LMICRC

The information on this form will not directly affected the calculation of the LMI concentration risk charge

Specific reporting instructions

Section 1: 1.1

(1) LVR greater than (%)

(2) LVR less than or equal to (%)

(3) Coverage proportion (%)

(4.1.) < 3 years

(4.2.) 3 < 5 years

(4.3.) 5 < 10 years

(4.4.) >= 10 years

Refer to instructions for the corresponding columns in Section 1: 1.1 of GRF 116.1.

(5) Total inwards reinsurance

Report the total inwards reinsurance exposure for the LMI relating to 100 per cent and top cover loans.

This is automatically calculated as the sum of Columns 4.1 to 4.4 multiplied by their corresponding seasoning factors.

(6) Of which non-APRA regulated

Report the total inwards reinsurance exposure relating to policies insuring 100 per cent and top cover loans that are approved, advanced and funded by non-ADIs.

(7) Of which non-standards loans

Report the total inwards reinsurance exposure relating to policies insuring non-standard, 100 per cent and top cover loans.

Section 1: 1.2

(1) Weighted average LVR (%)

(2) Weighted-average age

Refer to instructions for the corresponding columns in Section 1: 1.2 of GRF 116.1.

(3) Total inwards reinsurance

Report the total inwards reinsurance exposure for the LMI relating to pool cover loans.

(4) Of which non-APRA regulated

Report the total inwards reinsurance exposure relating to policies insuring pool cover loans that are approved, advanced and funded by non-ADIs.

(5) Of which non-standard loans

Report the total inwards reinsurance exposure relating to policies insuring non-standard, pool cover loans.

Section 1: 1.3

(1) Total inwards reinsurance

Report the total inwards reinsurance exposure for the LMI relating to commercial loans.

(2) Of which non-APRA regulated

Report the total inwards reinsurance exposure relating to policies insuring commercial loans that are approved, advanced and funded by non-ADIs.

Section 1: 1.4

(1) Total inwards reinsurance

This is automatically calculated as the sum of Column 5 of 1.1, Column 3 of 1.2 and Column 1 of 1.3.

(2) Of which non-APRA regulated

This is automatically calculated as the sum of Column 6 of 1.1, Column 4 of 1.2 and Column 2 of 1.3.

(3) Of which non-standards loans

This is automatically calculated as the sum of Column 7 of 1.1 and Column 5 of 1.2.

Section 2

(1) Large exposures

This indicates the ranking of the five largest liability exposures by a number from 1 to 5.

(2) Originator

Report the name of the originator.

(3) ACN / ABN

Where relevant, this column reports the Australian Company Number (ACN) of the originator reported in column 2. In cases where the originator doesn't have an ACN but it does have an Australian Business Number (ABN) or an Australian Registered Body Number (ARBN), the ABN or ARBN should be reported. If the originator does not have an ACN, ABN, or ARBN the column should be left blank.

Input the number without spaces.

(4) Sum insured

Report the total sum insured for the originator.

(5) Open policy (%)

Open policy is a legal arrangement whereby a lender is given direct underwriting control for mortgage insurance policies without reference to the LMI, subject to the transaction meeting certain underwriting requirements. Report the percentage of insurance policies, by value, written under open policy