Reporting Guidance

ARF 223.0 Residential Mortgage Lending

This reporting guidance is to assist ADIs in reporting the information required by *Reporting Form ARF 223.0 Residential Mortgage Lending* (ARF 223.0). This guidance highlights and explains differences between the reporting instructions, prudential standards and other reporting to APRA.

Terms shown in ***bold italics*** are defined in the reporting instructions.

Residential mortgage lending

ADIs are required to report on ARF 223.0 information on loans to certain counterparties that are secured by residential mortgages. The definition of such loans in ARF 223.0 does not give consideration to the treatment of the loan under prudential standards.

The treatment of a loan secured by a residential mortgage under the prudential standards can be different depending on the process and circumstances of an individual ADI. One ADI may categorise some loans differently to anther ADI based on its approach under the prudential standards. This is reflected on the relevant credit risk reporting forms.

The scope of loans to be reported on ARF 223.0 is defined as a specific subset of an ADI's loans. This allows for consistent reporting of loan characteristics by all ADIs. For many ADIs, this will not be consistent with what is considered residential mortgage lending under the prudential standards.

Households and other counterparties

ADIs are required to report information on loans to both ***resident*** and ***non-resident households*** in sections A and B of ARF 223.0.

The definition of ***households*** in ARF 223.0 is consistent with other reporting to APRA such as:

- *Reporting Form ARF 320.0 Statement of Financial Position (Domestic Book)* (ARF 320.0);
- *Reporting Form ARF 323 Statement of Financial Position (Licensed Book)* (ARF 323.0); and
- the proposed economic and financial statistics (EFS) to be collected on behalf of the Australian Bureau of Statistics (ABS) and Reserve Bank of Australia (RBA)[1].

This definition is sourced from the ABS *Standard Economic Sector Classifications of Australia (SESCA), 2008.*

Classification of loans by their security

ARF 223.0 captures all lending to certain counterparties that is secured by ***residential property.*** Loans secured by residential property include:

- loans for the construction or purchase of dwellings for owner-occupied and investment purposes;

[1] http://www.apra.gov.au/adi/PrudentialFramework/Pages/EFS-collection-formal-consultation-Jan17.aspx

- revolving credit or redraw facilities;
- loans held by offshore operations within the Level 2 consolidated group;
- loans to non-residents; and
- loans secured by residential property overseas.

Exclude any loans (e.g. credit cards) that may be indirectly secured through an 'all monies mortgage' or similar provision.

Where a facility is cross-collateralised by both residential property and other types of security such that it is not possible to separate the facility, include the entire facility in ARF 223.0, with no consideration of any security that is not residential property. For example, do not include the value of non-residential security when calculating loan to valuation ratios.

This treatment for reporting ARF 223.0 may not necessarily be consistent with the requirements of *Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk* (APS 112), *Prudential Standard APS 113 Capital Adequacy; Internal Ratings-based Approach to Credit Risk* (APS 113) or other APRA reporting.

Loan purpose

Loans are further categorised based on the predominant purpose of the funds: for ***owner-occupied, investment,*** or ***non-residential purposes.*** For example, a loan secured by ***residential property*** used to buy shares should be reported on ARF 223.0 as ***non-residential purposes.***

This differs from other APRA reporting forms, such ARF 320.0 and ARF 323.0 and the proposed EFS forms, where loans for ***non-residential purposes*** are not reported as housing loans. This difference is deliberate, as ARF 223.0 seeks to quantify the full residential mortgage lending risks faced by ADIs.

The concept of predominant purpose is intended to align with the proposed EFS forms. Loans are reported against the predominant purpose for which the funds are used. If a loan is redrawn such that the redraw is larger than the previous loan balance, the entire loan is reclassified to the purpose of the redraw. Where an ADI does not know purpose of a redraw, assume it is for ***non-residential purposes.***

For further information and examples, see "Identifying (predominant) purpose class and sub-class" in *Reporting Guidance: ABS/RBA Reporting Concepts*.

Measures of loans

The ***credit limit*** is the same as the concept of 'credit limit' in the proposed EFS forms.

For example, the ***credit limit*** of a ***term loan*** is the amortised value, even if excess repayments have been made. The credit limit of a loan should generally be greater than or equal to the ***credit outstanding.***

For loans where the availability of funds may be contingent on milestones in a construction project or other similar arrangements, the ***credit limit*** is the maximum amount available at any point throughout the life of the loan.

The ***credit outstanding*** is the same as the concept of 'credit outstanding' in the proposed EFS forms and should represent the remaining balance that the borrower must repay (gross of ***offset accounts***).

For example, a ***term loan*** with an amortised value of \$100,000, excess repayments of \$20,000, and no redraws has a credit outstanding of \$80,000.

New funded loans

The concept of ***funded*** aligns with that in the proposed EFS forms. A loan is considered funded once any portion of the funds are made available for the borrower to draw down according to the terms of the contract, irrespective of whether any funds have yet been drawn or not.

Include refinancing of existing loans where a new application is received, a new credit assessment decision is made or a new loan replaces the existing loan. Include both internally and externally refinanced loans.

Definition of residential property

For ARF 223.0, a definition of residential property has been included in the instructions to ensure consistency in reporting. This definition is sourced from the ABS *Functional Classification of Buildings, 1999 (Revision 2011)* and is consistent with the proposed EFS forms.

Loan-to-valuation ratio (LVR) categories

The measurement of LVR for outstanding loans is defined in Attachment D of APS 112.

The categories (or 'buckets') of LVRs on ARF 223.0 have been determined to allow for monitoring of lending activity of ADIs. These buckets are deliberately different to those for the risk-weighting categories in APS 112 and in other reporting requirement. The additional buckets in ARF 223.0 allow for more in-depth analysis of residential mortgage lending risks.

Residents and non-residents

The definition of residents and non-residents is consistent with other reporting to APRA such as ARF 320.0 and consistent with the *Standard Economic Sector Classification of Australia* (SESCA).

New loans

The concept of new ***funded*** loans aligns with the concept of new ***funded*** loans in the EFS forms.

Loans with temporary modifications due to financial difficulty

The classification of temporary modifications due to financial difficulty includes, but is not limited to, temporary modifications made due to hardship. Include all loans modified in line with the *National Credit Code*, and any other loans with temporary changes to terms due to financial difficulty. This does not necessarily align with restructured loans per the requirements of *Prudential Standard APS 220 Credit Quality*.

Impaired customer credit history

ADIs are to use judgment in determining what constitutes impaired credit history, but at a minimum this should include all customers with instances of prior bankruptcy, debt restructuring, hardship concessions, or significant arrears at least 90 days past due.

Low documentation loans

ARF 223.0 collects the balance outstanding of low-documentation loans. These are loans where, prior to origination, the ADI has not fully documented and verified the borrower's income. This could be, for example, as the borrower is self-employed and does not have access to payslips or other documentation used in credit assessments.

New past due or impaired loans

New past due or impaired loans are also reported on *Reporting Form ARF 220.0 Impaired Facilities* (ARF 220.0). ARF 223.0 differs slightly as it includes loans to non-residents and excludes loans secured overseas. ARF 220.0 excludes loans to non-residents in the housing loan breakdown, and does not consider the location of the security.