



REPORTING PRACTICE GUIDE

RPG 223.0 Residential Mortgage Lending

January 2018

Disclaimer and Copyright

While APRA endeavours to ensure the quality of this publication, it does not accept any responsibility for the accuracy, completeness or currency of the material included in this publication and will not be liable for any loss or damage arising out of any use of, or reliance on, this publication.

© Australian Prudential Regulation Authority (APRA)

This work is licensed under the Creative Commons Attribution 3.0 Australia Licence (CCBY 3.0). This licence allows you to copy, distribute and adapt this work, provided you attribute the work and do not suggest that APRA endorses you or your work. To view a full copy of the terms of this licence, visit <https://creativecommons.org/licenses/by/3.0/au/>

Contents

Contents	3
About this guide	4
Residential mortgage lending	5
Security types and loan purposes	5
Classification of loans by their security	5
Definition of residential property	6
Loan purpose	6
Borrower types and characteristics	6
Households and other counterparties	6
Residents and non-residents	7
Impaired customer credit history	7
Measures of loans	7
Borrower's gross income	7
Credit limit	7
Credit outstanding	7
New funded loans	8
Loan-to-valuation ratio (LVR) categories	8
Increases in credit limits	8
Loan types and characteristics	8
Loans with temporary modifications due to financial difficulty	8
Low documentation loans	9
New past due or impaired loans	9
Glossary	10

About this guide

Reporting practice guides (RPGs) provide guidance on APRA's view of sound practice in particular areas. RPGs frequently discuss legal requirements from legislation, regulations or APRA's prudential and reporting standards, but do not themselves create enforceable requirements.

This RPG seeks to assist authorised deposit-taking institutions (ADIs) in complying with APRA's reporting requirements as set out in *Reporting Standard ARS Residential Mortgage Lending* (ARS 223.0).

This guide should be read in conjunction with:

- ARS 223.0;
- *Reporting Standard ARS 701.0 ABS/RBA Definitions* (ARS 701.0); and
- *Reporting Guidance RPG 701.0 ABS/RBA Reporting Concepts for the EFS Collection* (RPG 701.0).

This guidance highlights and explains differences between the reporting instructions for *Reporting Form ARF 223.0 Residential Mortgage Lending* (ARF 223.0), prudential standards and other APRA reporting requirements.

This guide does not seek to provide an all-encompassing framework, or to replace or endorse existing industry standards and guidelines.

Not all of the practices outlined in this RPG will be relevant for every ADI.

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 another 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.

Security types and loan purposes

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 **dwelling**s for **owner-occupied** and **investment** purposes;
- **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 requirements.

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 Economic and Financial Statistics (EFS) collection administered on behalf of the Australian Bureau of Statistics (ABS) and Reserve Bank of Australia (RBA)..

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 *Reporting Form ARF 320.0 Statement of Financial Position (Domestic Books)* (ARF 320.0) and *Reporting Form ARF 323 Statement of Financial Position (Licensed ADI)* (ARF 323.0) and the **EFS collection**, 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 **EFS collection** as described in ARS 701.0 and RPG 701.0. 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, as per RPG 701.0. 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” and “Residential property purpose – owner-occupied and investor housing” in RPG 701.0. Examples of the treatment of holiday homes, construction and bridging loans, multiple borrowers, and other common scenarios are discussed in RPG 701, and the same approach should be used in ARF 223.0.

Borrower types and characteristics

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:

- ARF 320.0;
- ARF 323.0; and
- the **EFS collection**.

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

Residents and non-residents

The definition of residents and **non-residents** is consistent with other reporting to APRA such as ARF 320.0, and is consistent with the SESCO.

Impaired customer credit history

ADIs are to use judgment in determining what constitutes **impaired customer 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**.

Measures of loans

Borrower's gross income

For the purposes of reporting **loan-to-income** (LTI) and **debt-to-income** (DTI), **borrower's gross income** is to be reported as gross (before tax) income, before any haircuts or discounts applied by the ADI's serviceability policy, and excluding compulsory superannuation contributions.

This does not reflect the income used in a serviceability assessment.

Credit limit

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

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.

Credit outstanding

The **credit outstanding** is the same as the concept of 'credit outstanding' in the **EFS collection** 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 **EFS collection**. 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; and
- **externally refinanced** loans.

Where a loan is reported as **funded**, the vintage of the loan (in item 4) is reset for reporting purposes.

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.

Increases in credit limits

Item 13 refers to increases in **credit limits** that do not meet the definition of **funded**. This item is intended to capture any instance of additional credit being provided that is not already reported.

Loan types and characteristics

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*.

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.

Glossary

Terms that are defined in ARS 223.0 or in this guidance appear in ***bold italics***.

ABS	Australian Bureau of Statistics established under the <i>Australian Bureau of Statistics Act 1975</i> .
ADI	Authorised deposit-taking institution
APRA	Australian Prudential Regulation Authority established under the <i>Australian Prudential Regulation Authority Act 1998</i> .
APS 112	<i>Prudential Standard APS 112 Capital Adequacy: Standardised Approach to Credit Risk</i>
APS 113	<i>Prudential Standard APS 113 Capital Adequacy: Internal Ratings Based Approach to Credit Risk</i>
ARF 220.0	<i>Reporting Form ARF 220.0 Impaired Facilities</i>
ARF 320.0	<i>Reporting Form ARF 320.0 Statement of Financial Position (Domestic Books)</i>
ARF 323.0	<i>Reporting Form ARF 323.0 Statement of Financial Position (Licensed ADI)</i>
ARS/F 223.0	<i>Reporting Standard/Form ARF 223.0 Residential Mortgage Lending</i>
EFS	Economic and financial statistics
EFS collection	Comprises the <i>EFS reporting standards</i> and data collected under the <i>EFS reporting standards</i> .
EFS reporting standards	Has the meaning given in <i>Reporting Standard ARS 701.0 ABS/RBA Definitions for the EFS Collection</i> .
RBA	Reserve Bank of Australia
RPG	Reporting practice guide
SESCA	Standard Economic Sector Classifications of Australia



© APRA