



23 May 2017

**TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS**

**RESPONSE TO SUBMISSIONS: NEW RESIDENTIAL MORTGAGE LENDING REPORTING REQUIREMENTS**

On 24 October 2016, the Australian Prudential Regulation Authority (APRA) released for consultation a proposal to revise the residential mortgage lending reporting requirements for authorised deposit-taking institutions (ADIs)<sup>1</sup>. This included introducing a new *Reporting Standard ARS 223.0 Residential Mortgage Lending* (ARS 223) and a new *Reporting Form ARF 223.0 Residential Mortgage Lending* (ARF 223.0), proposed to commence from the quarter ending 31 December 2017. The consultation package included the draft reporting standard and guidance.

APRA received six submissions from ADIs, industry associations and other interested parties. No submissions objected to the proposals, but some did raise concerns with timelines, data availability and specific definitions. This letter outlines APRA's response to issues raised in submissions, plans to implement ARS 223.0 and plans to add additional data items to ARF 223.0.

Together with this letter, APRA has today released an updated ARF 223.0. APRA will require ADIs to report on ARF 223.0:

- for ADIs that currently report on *Reporting Form ARF 320.8 Housing Loan Reconciliation* (ARF 320.8), from the reporting period ending 31 March 2018; and
- for ADIs that do not currently report on ARF 320.8, from the reporting period ending 30 September 2018.

The updates to ARF 223.0 incorporate feedback received during consultation, and balance the reporting burden on ADIs with APRA's need for data as an input to prudential supervision and monitoring of industry risks. These updates are discussed in Appendix A. APRA considers these updates to be final. The updated reporting requirements are available on the APRA website<sup>2</sup>.

In March 2017, APRA noted heightened industry risks relating to residential mortgage lending, and the need to monitor lending more generally.<sup>3</sup> As part of this monitoring, APRA proposes expanding ARF 223.0 to add additional data items on new loans by debt-to-income ratios, other increases in facility limits and loans to unincorporated private businesses.

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<sup>1</sup> <http://apra.gov.au/adi/PrudentialFramework/Pages/residential-mortgage-lending-reporting-requirements-ADIs-Oct16.aspx>

<sup>2</sup> <http://www.apra.gov.au/adi/PrudentialFramework/Pages/Response-to-submissions-New-residential-mortgage-reporting-requirements-for-ADIs.aspx>

<sup>3</sup> [http://www.apra.gov.au/MediaReleases/Pages/17\\_11.aspx](http://www.apra.gov.au/MediaReleases/Pages/17_11.aspx)

These data items were not included in the October 2016 consultation and are highlighted on the updated ARF 223.0. APRA requests feedback specifically regarding these additional data items, the proposed definitions, and ability of ADIs' data source systems to provide these data, as set out in Appendix B.


### Next steps

APRA has finalised ARS 223.0, with the exception of the additional data items for consultation in Appendix B. Following consideration of submissions received, APRA expects to finalise the additional data items for ARF 223.0 in the third quarter of 2017. The reporting standards, forms and instructions are available on APRA's website, to enable ADIs to commence implementing the revised reporting requirements for all but the additional items.

Written submissions regarding the proposed additional data items should be forwarded by 23 June 2017, preferably by email to:

Manager, Banking Statistics  
Australian Prudential Regulation Authority  
GPO Box 9836 Sydney NSW 2001  
Email: [statistics@apra.gov.au](mailto:statistics@apra.gov.au)

Yours sincerely



Katrina Ellis  
General Manager  
Statistics

## Appendix A - Responses to submissions

### Implementation schedule and quality assurance

APRA initially proposed that the first reporting period for the new ARF 223.0 will be the quarter ending 31 December 2017. Five of the six submissions raised objections with this proposed schedule, noting the volume of regulatory reforms underway, the burden of reclassifying existing loans, and the availability of key resources within the ADI. One respondent noted smaller ADIs currently do not report residential mortgage lending activity to APRA in ARF 320.8.

APRA expects that a prudent ADI with material exposures to residential mortgage lending would invest in management information systems that allow for appropriate assessment of residential mortgage lending risk exposures. *Prudential Practice Guide APG 223 Residential Mortgage Lending* (APG 223) outlines APRA's view on sound practices regarding management information systems. APRA expects that the majority of the information required by ARF 223.0 should already be available to ADIs for their own internal monitoring purposes.

Nonetheless, in response to feedback received, and given the volume of changes to reporting requirements underway, APRA has deferred the first reporting period for the new reporting requirements to:

- for ADIs that currently report on ARF 320.8, the period ending 31 March 2018; and
- for ADIs that do not report on ARF 320.8, the period ending 30 September 2018.

APRA will accept data submitted for the first two reporting periods from these dates on a best endeavours basis. However, APRA expects ADIs will be able to provide accurate, reliable information from the first reporting period. All information provided on ARF 223.0 must be subject to processes and controls developed by the ADI for the internal review and authorisation of that information. These systems, processes and controls are to assure the completeness and reliability of the information provided.

Two submissions asked if APRA intended to include ARF 223.0 on the list of forms where data are subject to external assurance under *Prudential Standard APS 310 Audit and Related Matters*. At this stage, APRA has no such intention.

### Relationship with the Economic and Financial Statistics (EFS) proposals

Four submissions noted the relationship with the proposals EFS data collection, to be collected on behalf of the Australian Bureau of Statistics (ABS) and Reserve Bank of Australia (RBA). A number of amendments have been made to maximise consistency in concepts and definitions, the most significant being reporting by loan purpose. Additionally, the reporting guidance includes additional detail explaining where the requirements of ARF 223.0 interact with those of the proposed EFS data collection.

### Scope of reporting

The scope of reporting on ARF 223.0 was proposed to include all loans secured by residential mortgages to households, household trusts, and self-managed superannuation funds (SMSFs),

for the Level 2 ADI<sup>4</sup>. Two data items relate to information on loans secured overseas, while the remainder of ARF 223.0 is limited to loans secured in Australia.

Four submissions raised concerns with the proposed definition of ‘household trusts,’ noting that this is not a common counterparty classification used in industry. Based on this feedback, APRA believes the costs of reporting loans to household trusts outweighs the benefits, and has removed the concept from ARF 223.0. Such loans will continue to be captured in other reporting requirements.

Two submissions noted that reporting at a Level 2 basis, including the global operations of an ADI, will introduce new reporting burden. However, only two data items are concerned with loans secured overseas. APRA believes reporting at a Level 2 basis is essential to build a full picture of ADIs’ residential mortgage lending activity, especially where such activity is secured in Australia.

Two submissions questioned the need to include the securitisation deconsolidation principle in the instructions to ARF 223.0. The principle has been included to maintain consistency with other regulatory reporting and ADIs’ capital adequacy requirements.

### **Defining loans by purpose**

The proposed ARF 223.0 defined owner-occupied loans, investor loans and loans for units or apartments based on the property used as security for the loan. Three submissions noted that this approach is inconsistent with both existing and new reporting requirements, such as the proposed EFS data collection.

In response to this feedback, APRA has revised the definition of owner-occupied and investor loans to be based on the purpose of the loan, consistent with the proposed EFS data collection. ARF 223.0 will now include data items on non-housing lending secured by residential mortgages, such as personal loans, to maintain reporting of all lending secured by residential property.

### **Classification of existing loans for reporting**

ARF 223.0 is designed to minimise the need for ADIs to reclassify existing loans, with the majority of reporting requirements based on concepts in APG 223. Four submissions noted that some ADIs’ internal management systems do not collect information on existing loans in line with some of the proposed definitions in ARF 223.0, such as classifying owner-occupied and investor loans based on security, the exact definition of units and apartments and loans to household trusts. APRA has removed the requirements to classify owner-occupied and investor loans based on security, and to report loans to household trusts. This significantly reduces the need for ADIs to reclassify existing loans, and reduces ongoing reporting burden.

ADIs that anticipate difficulty in meeting the requirements to classify existing loans should discuss arrangements with APRA.

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<sup>4</sup> Level 2 has the meaning given by *Prudential Standard APS 001 Definitions*

## Serviceability

ADIs will report new loans during the quarter that were exceptions to the ADIs' serviceability requirements. The definition of such exceptions originally included those due to waivers to serviceability verification requirements, such as verification of the borrower's income and expenses. This definition was in line with reporting advice circulated to ADIs in October 2016. One submission sought clarity on the scope of waivers, and further consultation with ADIs has shown that capturing this information on a consistent basis will be problematic given that ADI policies differ significantly on what is considered a waiver.

APRA has therefore split serviceability requirements into two data items. The first, 'exceptions to serviceability requirements', captures exceptions to ADIs' quantitative lending criteria, namely net income surplus requirements. APRA envisages that reporting of this item will be relatively consistent across industry. The second, 'serviceability verification waivers', captures material waivers to verification requirements. While reporting of this second item might not be consistent across industry, it will still provide a useful indicator of individual ADIs' lending practices over time.

APRA originally proposed that ADIs report loan-to-income ratios, based on borrowers' gross income as defined by the ADIs' serviceability policy. One submission questioned using gross income rather than net income. One submission noted that ADIs with a more conservative serviceability policy would report higher loan-to-income ratios. Given the complexities in estimating net income consistently, APRA has amended the reporting requirements in ARF 223.0 to be based on borrowers' gross income, without any discounts or haircuts.

## Existing reporting requirements

As part of its supervisory monitoring, APRA requests information from ADIs regarding residential mortgage lending on an *ad hoc* basis. Four submissions to the consultation asked if these requests will continue. ARF 223.0 is designed to replace these data requests, and APRA intends to either significantly reduce or cease the regular requests for individual ADIs once reporting on ARF 223.0 commences. However, given the risks identified in the housing market, *ad hoc* requests will continue to be a necessary part of APRA's prudential supervision from time to time.

The October 2016 consultation noted that the RBA will continue to rely on the information reported on ARF 320.8 to perform its role. In January 2017, APRA, the RBA and the ABS outlined their proposal to replace ARF 320.8 in the proposed EFS data collection.

## Publication of data

APRA currently publishes data collected on ARF 320.8 at an industry-level in the *Quarterly ADI Property Exposures* (QPEX). One submission asked whether APRA had plans to publish any data collected on ARF 223.0. APRA will review its ADI statistical publications, with consideration of ARF 223.0 and the proposed EFS data collection, and intends to consult on changes to QPEX in 2018.

## **Other clarifications of reporting requirements**

Submissions sought clarification on a number of specific definitions in ARF 223.0, such as the treatment of loans subject to hardship relief, loan-to-valuation ratio categories, low-documentation loans and customer credit history.

ARF 223.0 is accompanied by reporting instructions, which are mandatory requirements, and reporting guidance, which are to assist ADIs in understanding the reporting requirements. These have both been updated to address feedback raised in submissions.

## Appendix B - Proposed additional data items

In March 2017, APRA noted heightened industry risks relating to residential mortgage lending, and the need to monitor residential mortgage lending more generally. APRA therefore proposes including additional data items to ARF 223.0 regarding:

- borrower's debt-to-income ratios (items 10.1.5 and 10.1.6);
- additional information on increases in lending (items 13 and 13.1); and
- lending to private unincorporated business (items 14.1 and 14.2).

These items are highlighted on the updated ARF 223.0.

### *Request for cost-benefit analysis information*

To improve the quality of regulation, the Australian Government requires all proposals to undergo a preliminary assessment to establish whether it is likely that there will be business compliance costs. In order to perform a comprehensive cost-benefit analysis, APRA welcomes information from interested parties.

As part of the consultation process, APRA requests respondents to provide an assessment of the marginal compliance costs due to the additional data items listed above, given that the remainder of ARF 223.0 will be implemented as set out in this letter.

APRA does not expect these marginal compliance costs to be significant. Under APG 223, APRA expects ADIs to invest in management information systems that allow for appropriate assessment of residential mortgage lending risk exposures. Given the heightened industry-wide focus on residential mortgage lending, APRA believes the additional data items would be essential part of a prudent ADI's internal monitoring. APRA therefore expects ADIs would be able to report these additional data items at a low marginal cost.

Feedback on compliance costs relating to these additional data items can be provided to APRA using the template for costings available on the APRA website at:

[www.apra.gov.au/adi/Documents/Template-for-cost-savings-2015.xlsx](http://www.apra.gov.au/adi/Documents/Template-for-cost-savings-2015.xlsx)

The template is designed to capture the relevant costs in a structured way, including a separate assessment of upfront costs and ongoing costs.

### **Important disclosure notice - publication of submissions**

All information in submissions will be made available to the public on the APRA website unless a respondent expressly requests that all or part of the submission is to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as confidential in a separate attachment.

Submissions may be the subject of a request for access made under the *Freedom of Information Act 1982* (FOIA). APRA will determine such requests, if any, in accordance with the provisions of the FOIA. Information in the submission about any APRA-regulated entity that is not in the public domain and that is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* and will therefore be exempt from production under the FOIA.