CUSTOMER OWNED BANKING ASSOCIATION
www.customerownedbanking.asn.au
LEVEL 11, 35 CLARENCE STREET, SYDNEY NSW 2000 GPO BOX 4686, SYDNEY NSW 2001

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Dr Katrina Ellis
General Manager, Statistics
Australian Prudential Regulation Authority

via email: statistics@apra.gov.au

Dear Dr Ellis

Additional Items – ARS 223 new residential mortgage reporting requirements

Thank you for the opportunity to provide further comment on ARS 223 Residential Mortgage reporting.

COBA is the industry association for Australia's customer-owned banking institutions – mutual banks, credit unions, and building societies. Collectively, the sector we represent has $106 billion in assets and more than 4 million customers. These institutions make up more than 70 per cent of APRA's domestic ADIs.

In our February 2017 ARS 223 submission, COBA proposed that APRA delay implementation timelines and APRA take measures to reduce the recoding of ADI loan books. COBA appreciates APRA's decision to extend the implementation timelines, particularly for the smallest ADIs who are not subject to the ad-hoc reporting that ARS 223 seeks to streamline through the D2A system. COBA also supports APRA's revised categorisation of loans to 'loan purpose' rather than by security.

While COBA's earlier submission asked APRA to reconsider loan-to-income ratio reporting, APRA has retained this requirement. Given APRA's position, COBA seeks clarification on the gross income definition and the use of debt-to-income (DTI) ratios.

COBA provides the following comments on the proposed additional data items.

Clarification on gross income for loan-to-income and debt-to-income calculations

COBA members seek further clarification on the 'gross income' definition. APRA has previously noted that loan-to-income (LTI) ratios "come with some definitional challenges".[1] These same 'definitional challenges' also exist for DTI ratios.

While APRA has clarified that gross income does not incorporate haircuts from an ADI's serviceability policy, there are still some questions about what constitutes 'gross income'. For example, which payments are included in gross income and does this includes payments such as superannuation guarantee contributions, allowances and location payments? Further clarification is also required how to assess casual or temporary income given the variable hours and income.

[1]Heidi Richards, A prudential approach to mortgage lending, Macquarie University Financial Risk Day, Sydney, 18 Mar 2016

COBA recommends that as part of ARS 223 outreach that APRA consider the use of an open 'question and answer' session for ADIs prior to implementation to ensure that all ADIs have the opportunity to seek clarification and receive the same reporting advice. This should reduce individual requests to supervisors, reporting uncertainty for ADIs and the need to resubmit any forms.

One member notes that their loan origination system can capture ratios for the majority of their loans, but they unable to efficiently do so for manually underwritten loans. In this case, the marginal cost to extend reporting to these manually underwritten loans does not exceed the benefit as these loans do not constitute a large proportion of their portfolio.

New Zealand example of using debt-to-income as a macroprudential measure

COBA notes that RBNZ is currently consulting on the use of DTIs as part of their macroprudential toolkit.

COBA suggests that if APRA was to consider using DTIs as a macroprudential measure that APRA should take note of New Zealand's approach and undertake industry consultation. This consultation is important as there are issues that must be discussed before using DTIs in this manner. For example, COBA members note that comparison of DTIs across different borrower types is difficult as they do not discriminate between different types of debts.

This consultation will ensure that any future macroprudential measures are consistently and fairly applied and do not have any unintended consequences.

Private unincorporated business lending secured by residential mortgages

COBA member feedback notes it is simpler for smaller ADIs to report 'all other loans' secured by residential mortgages (i.e. those for non-housing purposes) rather than lending to private unincorporated businesses secured by residential mortgages.

It will be costly for some ADIs to report loans specifically to private unincorporated businesses as they may need to recode their existing loan books to determine if these loans are to these types of businesses. This cost could be avoided by APRA removing this requirement for smaller ADIs and using the existing 'non-housing purposes' figures in ARS 223 for these purposes.

Please contact Mark Nguyen at mnguyen@coba.asn.au or 02 8035 8443 if you wish to discuss any aspect of this submission.

Yours sincerely

LUKE LAWLER
Head of Public Affairs