



22 September 2020

TO: ALL AUTHORISED DEPOSIT-TAKING INSTITUTIONS

REVIEW OF TREATMENT OF LOANS IMPACTED BY COVID-19

APRA has received and completed its review of all ADI comprehensive plans for the assessment and management of loans with repayment deferrals, provided in response to APRA's 9 July letter to all ADIs. Where applicable, any entity-specific feedback, or clarifying questions have been facilitated by APRA's supervisory teams.

APRA acknowledges that preparation and submission of these plans represents a significant milestone in the transition of borrowers who have been provided a repayment deferral, back to making repayments where possible. APRA appreciates the effort that has gone into the development of these plans, and in many cases, the material scale of the implementation effort that will be required to execute the plans.

Successful implementation of these plans remains a critical risk for both ADIs and borrowers. APRA therefore expects that ADIs will exercise appropriate governance and monitoring over all aspects of the plan's implementation, in order to identify and respond to any material issues that may arise. Any such issues should be immediately shared with APRA and the Australian Securities and Investments Commission (ASIC).

ADIs are encouraged to consider the following areas of better practice identified through our review of all the submitted plans:

- **Governance and oversight:** better practice provided for regular operational reporting to senior management to enable timely escalation of issues that may require management attention and oversight of progress against the implementation of the plan by the Board / Board Committee.
- **Customer engagement and contact strategies:** most plans appropriately allowed for sufficient time to contact customers and arrive at a credit decision prior to the expiry of the deferral. Better practice incorporated a series of contacts, using multiple contact mediums over an extended period of up to six weeks prior to deferral expiry. Further, most plans appropriately and definitively considered the treatment of loans for uncontactable customers. Where repayments are to be recommenced for these customers without contact, better practice involved close monitoring of the performance of these loans, and additional contact strategies where payments are subsequently missed.
- **Credit assessment processes:** as expected, plans included clear and well-articulated credit assessment processes in circumstances where the borrower requires additional assistance; restructured, extend the deferral or hardship/default. Better practice incorporated strong quality assurance processes and controls around customer conversations and credit assessment decisions to ensure consistency in customer outcomes were implemented. Better practice also included appropriate controls to detect system and process errors and ensure that borrowers receive assistance in a manner that is consistent with that which has been presented and offered to them by the ADI.

- **Credit management and resourcing:** whilst material additional resourcing has been committed by many ADIs to implement their plan, this was frequently based on best estimates of volumes and time taken for calls, with scope for material variation to occur. Better practice plans incorporated strong operational reporting capability, with regular oversight by Executive Management, and supported by contingency plans for identification, training and allocation of additional resources at short notice, should the need arise.

In addition to the above, ASIC notes that some plans included reference to borrowers accessing their superannuation as an option that could potentially be considered if borrowers are unable to resume repayments. ADIs should have appropriate controls in place to ensure that if they are informing borrowers about their ability to access superannuation, they are not providing unlicensed financial product advice and are ensuring compliance with requirements for giving financial product advice.

Any ADI queries in regard to this letter or other matters related to repayment deferrals should be directed to the APRA supervisory teams.

Yours sincerely

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