



06 August 2021

Gideon Holland
General Manager - Policy
Australian Prudential Regulation Authority
By Email: ADIpolicy@apra.gov.au

Dear Gideon,

APRA consultation on loans impacted by COVID-19: regulatory support

Thank you for the opportunity to comment on APRA's consultation on loans impacted by COVID-19: regulatory support. The Australian Banking Association (**ABA**) advocates for a strong, competitive, and innovative banking industry that delivers excellent and equitable outcomes for customers. The ABA promotes and encourages policies that improve banking services for all Australians, through advocacy, research, policy expertise and thought leadership.

On 8 July 2021, the ABA announced¹ support for customers affected by continuing COVID-19 lockdowns or those recovering from recent lockdowns (**ABA national support packages**). The support was made available to eligible small businesses and home loan customers significantly impacted by current lockdowns or recovery from recent lockdowns, irrespective of geography or industry.

On 19 July 2021, APRA announced a temporary regulatory modification for those banks offering certain financial assistance to borrowers impacted by COVID-19. The proposed APRA regulatory setting is similar to the approach announced by APRA in March 2020 during the depths of the COVID-19 pandemic. These 2020 and 2021 regulatory support measures were welcomed by all stakeholders across the economy. This temporary 2021 regulatory setting will allow ABA members, (and other banks that announced COVID-19 support packages that will provide affected borrowers with an option to defer their loan repayments) to support their small business, home loan and other retail customers through this period. Many of these customers just need some breathing space, some assistance via a temporary pause to help customers mitigate and manage some of the impacts of lockdowns.

APRA is providing a temporary regulatory treatment for loans impacted by COVID-19. For eligible borrowers, ADIs will not need to treat a repayment deferral as a loan restructuring or the period of deferral as a period of arrears.

APRA intends to formalise this regulatory support through a temporary amendment to Prudential Standard APS 220 Credit Quality (**APS 220**). The ABA has some minor comments on the proposed amendment (Attachment E to APS 220), our comments are included in the annexure to this letter.

If you have any questions, please contact me at [REDACTED]

Yours sincerely

[REDACTED]
Aidan O'Shaughnessy
Executive Director, Policy

Encl. (Annex A)

¹ Australian banks offer COVID-19 customer relief, <https://www.ausbanking.org.au/australian-banks-offer-covid-19-customer-relief/>



Annex A

ABA comments on draft Attachment E to amend the currently in-force Prudential Standard APS 220 Credit Quality determined on 7 Sept 2020.

Paragraph 4:

Paragraph 4 notes that APRA will grant capital concessions to deferrals provided to an eligible borrower between 19 July and 31 August. The ABA notes that banks started to offer this support to eligible impacted customers before this date, with lockdowns commencing in NSW in late June². After consultation with the ACCC the ABA announced³ the support packages on 8 July 2021. Although the number of eligible customers who sought and were granted assistance before 19 July is negligible in number, the ABA asks APRA to consider broadening the start date – revising the start date to 28 May – as Melbourne had a lockdown from 28 May until 11 June. This would ensure all eligible customers who sought and were granted deferral assistance from ABA members are treated and reported consistently. Should APRA be minded to amend the date to 28 May – ABA would welcome given the very small number of deferrals granted in May/June - APRA confirmation that those ADIs with a year end of 30 June 2021 would not have resubmit, via D2A, any year-end financial reports that may technically need a resubmission to reflect the impacts of the date change above.

Paragraph 5:

Paragraph 5 states: *For all COVID-19 loans that have been granted an eligible repayment deferral, an ADI must resume the counting of arrears for prudential purposes at the end of the deferral period from no less than the number of days past-due at the time the initial deferral was granted, unless the loan is modified in accordance with paragraph 7 of this Attachment’.*

If a customer makes payments within their deferral period and improves their arrears position, ABA believe this should be recognised at the end of the deferral period. The ABA ask APRA to consider a slight modification to the text of paragraph 5, our suggested additional text is underlined:

*For all COVID-19 loans that have been granted an eligible repayment deferral, **where a customer makes no payment in the deferral period**, an ADI must resume the counting of arrears for prudential purposes at the end of the deferral period from no less than the number of days past-due at the time the initial deferral was granted, unless the loan is modified in accordance with paragraph 7 of this Attachment’.*

Paragraph 7:

The ABA would like to confirm the industry approach to implementing the requirements of draft Attachment E, which is intended to ensure the best outcome for customers. In providing support to eligible customers, ABA members are setting their assessment criteria at a level that is both prudent and appropriately calibrated to the external environment. Customers that are ineligible for the treatment options announced by the ABA on 8 July⁴ are assessed in accordance with existing hardship processes.

As part of the 2021 support packages, ABA members are providing a range of treatment alternatives, including options to suspend either full or part loan repayments for up to three months. At the end of the assistance period any arrears will be capitalised and the days past due will be reset to zero - provided the customer recommences full repayment.

The ABA considers that the part and full repayment moratoriums, offered as part of the ABA 2021 national support package, aligns with the regulatory approach provided for in draft Attachment E to assist banks in supporting customers through this period. That is, that banks need not treat and report these loans as restructured under APS 220 despite arrears capitalising at the end of the period of assistance - which will be post 31 August 2021 (the end of the APRA regulatory support).

² New COVID-19 restrictions for Greater Sydney, <https://www.nsw.gov.au/media-releases/new-covid-19-restrictions-for-greater-sydney-23-june-2021>

³ Australian banks offer COVID-19 customer relief, <https://www.ausbanking.org.au/australian-banks-offer-covid-19-customer-relief/>

⁴ ibid