



Discussion Paper

Residential mortgage lending reporting requirements for authorised deposit-taking institutions

24 October 2016

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Preamble

This paper outlines APRA's proposal to revise the residential mortgage lending reporting requirements for ADIs. These changes will ensure APRA collects the financial and risk data that are an essential input to its supervision of ADIs and in monitoring risks at an industry level.

The proposal aims to balance financial safety with reporting burden on ADIs by complying with the Australian Government's best practice regulation process. This process involves a rigorous cost-benefit analysis of the impact of the proposed reporting requirements, culminating in publication of a Regulation Impact Statement.

This paper is accompanied by a draft reporting standard, reporting form and instructions.

APRA is inviting comments on the proposals in this paper and on the draft reporting form and instructions. Following consideration of submissions received, APRA expects to release the final reporting standard with form and instructions in the first half of 2017. The first reporting period is expected to be for the quarter ending 31 December 2017.

Written submissions should be forwarded by 10 February 2017, preferably by email to:

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

Important

All information in submissions will be made available to the public on the APRA website unless you indicate that you would like all or part of your submission 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 which is not in the public domain and which is identified as confidential will be protected by section 56 of the *Australian Prudential Regulation Authority Act 1998* (APRA Act) and therefore will ordinarily be exempt from production under the FOIA.

Glossary

Term	Definition
ADI	Authorised deposit-taking institution
APG 223	<i>Prudential Practice Guide APG 223 Residential Mortgage Lending</i>
APRA	Australian Prudential Regulation Authority
APRA Act	<i>Australian Prudential Regulation Authority Act 1998</i>
D2A	Direct-to-APRA reporting software
Domestic book	The domestic books are the Australian licensed ADI's unconsolidated operations and transactions that are booked or recorded inside Australia, with Australian residents and non-residents, and does not consolidate Australian and offshore controlled entities.
Facility limits	The limit of funds made available to borrowers, including outstanding balances and any additional amounts available to be drawn without additional authorisation or approval.
FOIA	<i>Freedom of Information Act 1982</i>
FSCOD Act	<i>Financial Sector (Collection of Data) Act 2001</i>
Households	Individuals or groups of individuals whose dealings with other sectors are for personal or household purposes.
Level 1	A prudential consolidation of the ADI itself or the extended licensed entity. Refer to <i>Prudential Standard APS 001 Definitions</i> for further detail.
Level 2	A prudential consolidation based on the global operations of an ADI and its subsidiary entities. Refer to <i>Prudential Standard APS 001 Definitions</i> for further detail.
Licensed book	Licensed book includes the business of an ADI on a standalone basis, excluding subsidiaries and associates.
Loan vintage	The length of time since the origination of a loan.
LVR	Loan-to-valuation ratio
RBA	The Reserve Bank of Australia

Term	Definition
Serviceability assessment rate	The interest rate used in the ADI's serviceability assessments, such as an interest-rate floor or actual interest rate plus interest-rate buffer.
SMSF	Self-managed superannuation funds (SMSFs), superannuation entities regulated by the Australian Taxation Office.
Term loans	Loans extended for a fixed period, with a maturity date by which the loan must be repaid. Includes redraw facilities attached to fixed-term loans.

Chapter 1 – Introduction

Residential mortgage lending constitutes the largest credit exposure in the Australian banking system and, for many ADIs, well over half their total credit exposures.

This concentration of exposure necessitates APRA's close scrutiny of ADIs' lending practices. In November 2014, APRA released *Prudential Practice Guide APG 223 Residential Mortgage Lending* (APG 223) to provide guidance to ADIs on sound risk management practices for residential mortgage lending¹. APG 223 outlines prudent practices in areas, such as sound loan origination criteria, appropriate security valuation methods, the management of problem loans, and monitoring relevant risk data. APRA is currently consulting on updates to APG 223, as outlined on the APRA website².

1.1 ADIs' existing residential mortgage lending reporting requirements

ADIs currently report residential mortgage lending data to APRA on reporting forms under the *Financial Sector (Collection of Data) Act 2001* (FSCOD Act), and in response to *ad hoc* information requests pursuant to APRA's general powers under the APRA Act.

One key source of information is *Reporting Standard ARS 320.8 Housing Loan Reconciliation* (ARS 320.8), made under the FSCOD Act. This reporting standard requires ADIs with more than \$1 billion in residential term loans to report 99 data items each quarter on *Reporting Form ARF 320.8 Housing Loan Reconciliation* (ARF 320.8), using the Direct-to-APRA (D2A) reporting software each quarter.

ADIs must report information on ARF 320.8 on their housing lending activity, including information on loan purpose (either owner-occupied or investment loans), balances of existing loans, new

loan approvals and features of loans. ARF 320.8 collects this information on loans on the domestic books for banks and licensed books for non-bank ADIs.

ARF 320.8 was introduced in 2008 and has not been updated since then. There is now a significant gap in APRA's ability to monitor the credit risk and lending practices of ADIs. Only 31 of the 109 locally incorporated ADIs are required to submit ARF 320.8. Many of the loan characteristics that are factors for assessing credit risk (as outlined in APG 223) are not covered, such as portfolio loan-to-valuation ratio LVR breakdowns, loan performance, security type and borrower serviceability. ADIs report loans only on a domestic books basis and exclude certain types of borrowers under ARS 320.8, such as non-resident households, household trusts and self-managed superannuation funds (SMSFs), meaning some relevant lending activity is not captured. Furthermore, some of the data items reported on ARF 320.8 are no longer relevant to APRA's supervisory needs.

These information gaps in the D2A reporting mean APRA must request additional information on residential mortgage lending to undertake meaningful analysis for individual ADIs and the ADI industry as a whole. The additional data received are not subject to APRA's formal data quality assurance processes, they are not stored in APRA's centralised data warehouse and may not be of publishable quality.

These *ad hoc* requests can impose an increased regulatory burden on entities. Due to their variable scope and requirements, it can be difficult for ADIs to allocate resources and provide ongoing quality assurance. Some ADIs have informally expressed a preference for reporting requirements to be collected through D2A wherever possible, and for all reporting requirements to include a clear statement of purpose and instructions.

1 <http://www.apra.gov.au/adi/Pages/May-2014-response-PPG-residential-mortgage-lending.aspx>

2 <http://www.apra.gov.au/adi/PrudentialFramework/Pages/APG-223-Residential-mortgage-lending-Oct16.aspx>

ARF 320.8 is due 20 business days after each reference quarter. The Reserve Bank of Australia (RBA) also uses data reported on ARF 320.8 in the development of policies to promote financial stability, and to monitor the transmission of monetary policy.

ADIs currently report information on the balance on loans that are impaired or past-due in *Reporting Form ARF 220.0 Impaired Facilities*. This does not include any loan characteristics other than a split between owner-occupied and investor.

ADIs using the Standardised Approach to calculating credit risk capital requirements also report some information about residential mortgage lending on *Reporting Form ARF 112.1A Standardised credit risk - On-balance sheet assets*, *ARF 112.2A Standardised credit risk - Off-balance sheet exposures*, while ADIs using the internal-ratings based (IRB) approach report some information on and *ARF 113.3A IRB Retail - Residential mortgages*. Only limited detail on characteristics of the loans is reported on these forms.

Chapter 2 – Proposed changes to APRA’s residential mortgage lending data collection

To better enable APRA’s supervisory monitoring and oversight of residential mortgage lending, and reduce the reliance on *ad hoc* information requests, APRA proposes to introduce a new reporting standard under the FSCOD Act, *Reporting Standard ARS 223.0 Residential Mortgage Lending* (ARS 223), and a new form, *Reporting Form ARF 223.0 Residential Mortgage Lending* (ARF 223.0).

These changes will enable APRA to maintain its supervisory intensity of residential mortgage lending and address emerging risks, while removing some unnecessary reporting burden on ADIs.

All locally incorporated ADIs will be subject to ARS 223.0 and required to submit ARF 223.0, 28 calendar days after the end of each calendar quarter. While smaller ADIs are currently not required to submit ARF 320.8, residential mortgage portfolios typically make up the majority of their balance sheet. Comprehensive supervisory monitoring of the credit risk of these ADIs is therefore dependent on obtaining information about their residential mortgage lending. APRA expects that much of this information will already be available by ADIs for their own internal monitoring purposes.

ARF 223.0 will collect information on both the portfolio stock and the new lending activity each quarter. ADIs with a Level 2 group will need to complete ARF 223.0 on a Level 2 basis, and other ADIs on a Level 1 basis.

Depending on their level of residential mortgage lending activity in Australia, branches of foreign banks may also be required to submit ARF 223.0 each quarter, as directed by APRA.

The proposed reporting standard, form and reporting instructions are available on the APRA website³.

2.1 Details of outstanding residential mortgage loans

In order to accurately assess the risk profile of the residential mortgage loan portfolio of an ADI or the industry as a whole, APRA needs to have relatively detailed information on residential mortgage loan portfolios.

ADIs currently report outstanding loan balances to households and some loan characteristics on ARF 320.8, split by purpose of the loan. ADIs currently report the balance on impaired or past-due loans in ARF 220.0, split between owner-occupied and investor loans with no further detail.

The proposed ARF 223.0 will capture loans to households as well as borrowers which have similar risk profiles to households, such as loans to family trusts and SMSFs and to non-residents. ADIs will be required to report new information including: facility limits; a more detailed breakdown by LVRs; loan vintage; loans subject to lenders mortgage insurance; loans secured by property overseas; and loans secured by a unit or apartment.

The definitions used in ARF 223.0 have been streamlined to better align with ADIs’ own internal information management systems. For example, the definitions of an owner-occupied loan and an investor loan have been updated. These changes should make it easier to report and therefore reduce the ongoing reporting burden.

More detail about problem loans will be required than is currently reported on ARF 220.0. ADIs will be required to report past-due loans according to risk characteristics (such as loan type, origination

³ <http://www.apra.gov.au/adi/PrudentialFramework/Pages/residential-mortgage-lending-reporting-requirements-ADIs-Oct16.aspx>

channel and LVR), mortgage loans with hardship arrangements, mortgagee in possession loans, loans less than 90 days past due and new non-performing loans in the quarter.

2.2 Details of new loans

In addition to portfolio metrics, information on the risk profile of new loans is essential for analysis of ADIs' credit risk.

ADIs currently report limited information on new loan approvals on ARF 320.8, including breakdowns on purpose, some loan features and LVRs. Revolving credit is not captured on ARF 320.8.

ARF 223.0 will require ADIs to report loans originated during the quarter, rather than loans approved, as this is a better and more reliable measure of loans affecting an ADI's risk profile. Details on new loan originated to trusts operated by households, such as family trusts and SMSFs, will be included in reporting, as well as loans to non-residents. Originations of revolving credit facilities will also be reported.

ADIs will be required to report more detailed data on loans originated during the quarter than is required on ARF 320.8, including information on borrowers, loan-to-income ratios, collateral type and location and a more granular breakdown by LVR. Most of the existing detail on loan approvals reported on ARF 320.8 will continue to be reported for originations on ARF 223.0, such as loan purpose and loan features.

ADIs will also be required to report information on the average variable interest rate and average loan serviceability assessment rate of loans originated during the quarter. These data will be used to analyse changes in serviceability parameters.

2.3 Use of ARF 320.8

APRA's needs for regular statistics on mortgage lending activity will be largely met by the proposed ARF 223.0.

However, the RBA relies on the information reported on ARF 320.8 to perform its role. The RBA will become the primary user of ARF 320.8 and has requested that APRA continue to collect the form

on its behalf from ADIs with over \$1 billion of residential mortgage term loans each quarter.

The RBA is currently reviewing ARF 320.8 and intends to consult ADIs on revised reporting requirements in late-2016. Both APRA and the RBA are working together to minimise reporting burden by limiting the overlap between collections, and by streamlining concepts and definitions.

2.4 Next steps

After considering the feedback received in response to the discussion paper, APRA expects to issue a response paper and finalise the content and format of ARS 223.0 in the first half of 2017. The new reporting requirements would commence for the quarter ending 31 December 2017.

Chapter 3 – 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 impact of the proposed changes and, specifically, the marginal compliance costs ADIs are likely to face. Given that APRA's proposed reporting requirements may impose some compliance costs, respondents may also indicate whether there are any other requirements relating to ADI reporting that should be improved or removed to reduce compliance costs. In doing so, please explain what they are and why they need to be improved or removed.

APRA also requests feedback on the proposed reporting requirements, the extension of reporting on residential mortgage lending to ADIs with less than \$1 billion in residential mortgage loans, and the ability of ADIs' data source systems to align to the concepts and definitions in the proposed data requirements. APRA welcomes any suggestions for changes to definitions that will improve data quality and reduce reporting burden. Specifically, APRA seeks feedback on the proposed definitions in the reporting instructions for owner-occupied loans, investor loans, household trusts and newly originated loans.

The proposed reporting requirements, like all reporting requirements under the FSCOD Act, will utilise XBRL (eXtensible Business Reporting Language) and the Standard Business Reporting (SBR) taxonomy. ADIs that use XBRL and the SBR taxonomy to map or tag their financial information can streamline their reporting processes and reduce the manual intervention required. There are several concepts on the proposed form that overlap those of other APRA reporting, allowing for the re-use of existing SBR taxonomy tagging on source data systems.

APRA requests feedback on the cost incurred in responding to past information requests regarding residential mortgage lending. APRA expects the introduction of ARF 223.0 to reduce the frequency and detail of these requests for the majority of ADIs.

Feedback on compliance costs under the proposed changes 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

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



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