

22 July 2014

Mr Neil Grummitt
General Manager, Policy Development
Policy, Statistics and International Division
Australian Prudential Regulation Authority

By Post & Email to: mortgagelending@apra.gov.au

Dear Mr. Grummitt,

RESPONSE TO APRA PRUDENTIAL DISCUSSION DRAFT PPG 223

Further to APRA's release of the Draft Prudential Guide "APG 223 – Residential Mortgage Lending" and following detailed review and discussion with our customers, RP Data is pleased to make the following submission for APRA's consideration.

1. About RP Data

RP Data is the leading provider of property related information, analytics and services to ADIs, mortgage originators, real estate market participants and government in Australia and New Zealand. Our clients include all the major Financial Institutions, Brokers, Federal, State and Local Government agencies, Real Estate Agents, Developers and Valuers. We are the leading national provider of property data and analytics serving over 75% of Australia's real estate agents and 90% of Australian financial institutions to support confident decision making and risk management across Australia's residential and commercial property markets.

RP Data holds Australia's largest and most comprehensive residential and commercial property database, covering 97% of all properties in Australia and New Zealand. Our systems are used more than 1 million times a month by industry professionals and we invest over \$15M per annum in data capture and enhancement to continually improve the depth and accuracy of our data. We support the lending industry through the provision of valuation platforms, outsourced services and analytics. We are the country's largest provider of Automated Valuation Models (AVMs) and residential property indices, such as the RP Data-Rismark Daily Home Value Index, which measures daily and monthly residential property values that are used by all major banks and relied upon by the Reserve Bank of Australia. The index is also published on the ASX and Bloomberg networks.

Further information on RP Data and our parent company CoreLogic is contained in *Appendix A*.

2. RP Data's Interest in responding to the Discussion Draft

While APG 223 provides guidance across a wide range of residential mortgage lending areas, many of which are clearly of specific relevance to ADIs (& Mortgage originators), APG 223 also makes specific recommendations in areas of RP Data's core business areas, namely:

- a. **Use of Valuations & Valuation management practises:** RP Data notes APRA's guidance with respect to valuation management in paragraphs 61 to 66.

RP Data is the market leader in the provision of residential property valuation services, valuation panel management, workflow management and valuation compliance services in Australia. RP Data's ValEx platform was launched in 2006 and now manages all of the residential property valuations ordered by two of Australia's big four lenders. Since its launch the ValEx platform has delivered over 4 million residential mortgage valuations for 79 lender clients via over 3,000 valuation firms. RP Data's VMS platform now manages all of the valuations ordered by two major Banks and several other ADIs.

RP Data's also provides desktop valuation solutions currently used by three major Banks to select, instruct and oversee valuations compliance. Products such as ValSafe calculate an independent and repeatable score measuring the estimated risk inherent in a residential valuation report, based upon factors like a property's complexity and deviation from an AVM, so that compliance teams can prioritise valuations to be audited and valuation firms can allocate instructions efficiently and appropriately.

The combination of all these services see RP Data manage over 120,000 lending based valuations per month, more than 95% of all residential mortgage valuations undertaken in the Australian market place.

- b. **Robust Performance Management Framework** - RP Data notes APRA's guidance with respect to prudent performance measurement, portfolio monitoring and benchmarking in paragraphs 6, 16 & 21.

Comparator, acquired by RP Data in January 2014, has been providing performance benchmarking and market diagnostics services to ADIs and banks in Australia through its syndicated mortgage studies for the past 10 years. Comparator's studies provide detailed insights into mortgage origination, lending exposure and channel use as well as productivity and efficiency metrics on a peer-to-peer benchmark and time series basis. Results are delivered annually and through quarterly management diagnostic studies (QMDs) providing timely performance assessment and reference points on lending volumes, LVR composition, borrower and loan purpose among many other metrics delivering a robust and trusted basis upon which to assess relative origination and portfolio performance.

- c. **Stress Testing and Portfolio Risk Management** (Use of analytics) – RP Data notes APRA's guidance with respect to the use of stress testing and analytical, scoring and indices in paragraphs 71, 76, 77, 91 & 92.

RP Data provides a range of analytical, scoring, electronic valuation and concentration risk solutions which support our customers to conduct portfolio stress testing, economic capital measurement and assess geographic concentration exposures. These include:

- RP Data's automated valuation models (AVMs) which have been developed in partnership with our parent company, CoreLogic, Inc. and in conjunction with our strategic partner Rismark. RP Data clients use our AVMs for loan origination purposes, portfolio management actions, collections strategy and portfolio stress testing.
- RP Data's AVM analytical model supports a variety of market indices including Australia's first audited, tradeable property market index which is used by both Banks and ADIs as a basis to analyse movements in residential property values, as well as a variety of other industry participants.
- In addition, we support banking and mortgage origination providers with a variety of property data derived analytical solutions such as geographic and other forms of concentration risk metrics and indicators.

3. **Observations on Current Industry practice (& Learnings from other markets)**

Following review of the discussion draft and after consultation with many of our customers, we would like to take the opportunity to comment on key aspects of the draft guidance as it relates to RP Data's core competencies and share our observations of current market practice. Additionally, we wish to highlight areas we foresee as potentially challenging to ADIs today. Given our knowledge and experience in other markets, we wish to highlight areas where we see further opportunity to improve current industry practice.

a. General Comments and Observations:

- We welcome the comprehensive and prescriptive nature of the guidance provided in the draft and the clarity this provides to both ADIs and market participants such as ourselves in detailing APRA's expectations of 'Market Best Practice'.
- While we see elements of what is articulated in the draft in practice today, considerable scope for greater consistency across ADIs exists. In particular, we believe significant benefit is to be achieved through greater standardisation of terminology and means of measurement. We note APRA's reference to this issue and believe, based upon our customer feedback, that significant transparency, effectiveness and oversight benefits would be achieved as a result of standardisation across a range of areas.
- We believe that to achieve this, greater industry collaboration is required. RP Data would welcome the opportunity to participate in such a discussion and participate in any industry collaboration as appropriate.
- We see the benefits of more effective use of data and analytics among our customers, but still see considerable scope for further development, particularly in the areas of AVMs and geographic analysis of concentration risk exposures. We also see the potential to address long standing data availability challenges such as the potential to use historical data to generate down-turn LGD or scenario modelling.

b. Specific Points of Relevance to RP Data's areas of Core areas of Business

i. Security Valuations

We note APRA's guidance on Security Valuations and AVMs (para 62.a, b & d)

- RP Data currently supplies a number of AVM models to ADIs for the purpose of mortgage origination and customer lifecycle management.
- We note that sophisticated lenders employ a combination of physical valuations, desktop valuations and AVMs to develop a risk based approach to meet their valuation requirements – market practice in this area currently differs widely across ADIs.
- Learnings from overseas markets (U.S. & U.K) – RP Data advocates the use of multiple AVMs, managed via conditional business logic such as an AVM Cascade solution, to ensure accuracy and timeliness with strong statistical confidence so as to address any geographical bias within a particular AVM provider's data.

ii. Performance Measurement

We note APRA's guidance with respect to portfolio measurement and specifically assessment and benchmarking of new origination mix, LVR composition and portfolio composition comparisons (para 16 & 73)

- RP Data's Comparator business unit currently supports Australia's leading ADIs to benchmark and assess their relative mortgage lending operations. Data is supplied on a confidential basis and presented to ADIs on an anonymised basis in the form of quarterly and annual studies.
- Study participants and APRA may see benefits from extending the breadth and depth of this study to provide a more granular and/or frequent basis of comparison.

- Additionally, the potential exists to provide greater market or relative performance insight through the study by overlaying other RP Data assets such as dynamic values, time on market, geographic concentrations, etc.

iii. Stress Testing and Portfolio Management (Analytics)

We note APRA's guidance with respect to stress testing and the use of analytical valuation measurement in portfolio assessment (para 94 & 77)

- RP Data currently supplies two major Banks with monthly updated AVMs for their entire portfolios – our understanding is that this data is used to conduct portfolio stress testing as well as lower risk origination and portfolio management actions such as redraw and top-ups.
- A third major incorporates AVM data as part of a process to assess economic capital weightings through the provision of an Enterprise Data License Agreement (EDL). This agreement provides RP Data clients with full access to RP Data's residential property data assets as well as other scoring and analytical valuation solutions, providing an illustration of the appetite ADIs have to better harness data to support risk management.
- In addition, RP Data is currently working with customers to develop geographic concentration risk reports to provide ongoing assessments of concentration risk exposures, taking account of time on market indicators, current equity and LVR exposures. Longer term, RP Data seeks to provide the ability to manage to an ADI's Risk Appetite, lending limits and geographic exposure limits through the generation of alerts linked to the mortgage originations processes.
- Finally, RP Data's parent CoreLogic has a HPI stress testing model that provides an example of analytical solutions blending industry and client data. This has allowed lenders to address challenges, such as developing portfolio stress testing and impairment forecasts, based upon combined industry and lender data. We are looking to develop a localised version for the Australian market.

iv. Collateral Management

We note APRA's guidance with respect to collateral management (para 67-68 & 70)

RP Data has worked with various ADIs in Australia to develop solutions associated with a holistic view of collateral and its management over time. These have included:

- Matching securities to the security register with Real Property identifiers;
- Conducting bulk data processes to enhance the quality of ADIs records by matching to the security register:
 - Subsequent sales that were not captured;
 - Valuation updates and subsequent full valuations not captured; and
- In addition, our data supports ADIs in the area of arrears management processes.

RP Data's ability to combine AVMs, title searches and other data assets provides the potential to develop an industry wide collateral management solution. This could take several forms and would require broad industry collaboration.

4. Conclusion

RP Data appreciates the opportunity to comment on APG 223. As part of our broad industry engagement, we see many aspects of what is contained in the draft in practice today. Nevertheless, we consider there are many opportunities to work with ADIs to help deliver incremental change towards industry best practice. We welcome the move to provide prescriptive guidance on best practice and believe this is likely to be particularly valuable to smaller/less mature ADIs.

We believe that we have a role to play in supporting ADIs to achieve best practice across our core areas of competency to achieve the objectives set out in APG 223 and that industry solutions, such as that provided by RP Data, can help to support strong industry growth underpinning robust risk management frameworks.

Yours sincerely



Graham Mirabito
Chief Executive Officer
RP Data Pty Limited

Appendix A – About RP Data

Since 1980, RP Data and its acquired businesses have been providing comprehensive information solutions to the Australian and New Zealand property industry. RP Data's clients include real estate agents, registered valuers, financial institutions, insurance companies, property investors, consumers and government departments and agencies (such as the ATO, Australian Valuation Office and the Reserve Bank). With our services, clients can obtain property information delivered in real time so they can make informed decisions in a highly competitive market.

RP Data is the leading national provider of property data and analytics to over 75% of Australia's real estate agents and 90% of Australian mortgage finance institutions, supporting confident decision making and risk management with respect to Australia's residential and commercial property markets.

RP Data holds Australia's largest and most comprehensive residential and commercial property database covering 97% of all properties in Australia and New Zealand, including monitoring the performance of \$4.4 trillion of residential assets and \$0.7 trillion of commercial property assets. The RP Data Rismark index is Australia's benchmark daily and monthly residential property index used by all major banks, the RBA and published on the ASX and Bloomberg networks.

RP Data has over 11,000 customers and 120,000 end users who rely upon our services to transact, manage and finance the \$5 trillion property assets class which accounts for 70 % of Australia's wealth. RP Data licenses property information from a number of sources, including from LPI and local councils. RP Data also collects and creates its own data and content.

RP Data is 100% owned by CoreLogic, a NYSE listed entity that is itself the leading financial, property and consumer information, analytics and services company in the United States. Through its expansive database comprising 200million property records, RP Data combines public, contributory and propriety data to develop decision-making analytics, coupled with its business services that bring insight and transparency to property markets.

Backed by 30 years of business service history, RP Data is the holder of the country's largest residential and commercial property database, providing an excellent platform to electronically value every single property in Australia on a weekly basis with an average of 30 million automated valuations being generated each month. Additionally RP Data platforms supervise 100,000 physical property inspections per month for the mortgage finance industry.

Used by thousands of corporations and consumers seeking property information, RP Data is proud to boast the Reserve Bank of Australia as one of our key customers along with many multi-national corporations, financial institutions, real estate professionals, developers, investors and more recently, the broader consumer market through our user-friendly consumer brand – myrpdata.com