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Clarification note to all Authorised Deposit-taking Institutions (ADIs) on the completion of;

ARF 112.1A Standardised credit risk – On-balance sheet assets
ARF 112.2A Standardised credit risk – Off-balance sheet assets
ARF 110.0 Capital Adequacy

This note aims to address reporting of reverse mortgages and shared equity mortgages following recent clarification of treatment of such mortgages for capital purposes. Please refer letter from Charles Littrell, Executive General Manager, Policy, Research and Statistics to ADIs dated 5 July 2010. Click here to view letter.

ARF 112.1A Standardised credit risk – On-balance sheet assets

Reverse mortgages classified as non-standard eligible mortgage without lenders mortgage insurance with LVR 60.01%-80%, have an applicable risk-weight of 100%. This clarification of treatment of these types of reverse mortgages, unfortunately, cannot be accommodated in the current ARF 112.1A as line item 4.3.2 "LVR 60.01%-80%", has a risk weight of 75%. Pending a future revision to ARF 112.1A to address this situation, ADIs should report such mortgages under line item 4.3.3 "LVR 80.01%-90%" that allocates a 100% risk weight. The emphasis, at this time, is to ensure that reverse mortgages are reported according to their appropriate capital treatment.

ARF 112.2A Standardised credit risk – Off-balance sheet assets

The undrawn portion of the reverse mortgage should be reported in ARF 112.2A as a commitment in section 1.11. The undrawn portion of the reverse mortgage should be assessed for the certainty of drawdown and reported appropriately. Where the drawdown is certain, it should be reported in line 1.11.1.1 "Loans supported by eligible residential mortgages". Where the drawdown is not certain then the commitment should be reported in line 1.11.3 "Commitments with an original maturity of over one year".

ARF 110.0 Capital Adequacy

Reverse mortgages classified as non-standard eligible mortgage without lenders mortgage insurance with LVR greater than 100% are to be deducted from Tier 1 capital. This additional clarification also cannot be accommodated in the current ARF 112.1A as line item 4.3.5 "LVR>100.01%" has a risk weight of 100%. Pending any future revisions to ARF 112.1A, ADIs should instead report these loans as per ARF 110.0, in line item 2.14.9 "Other Tier 1 deductions as advised by APRA". Again, the emphasis, post the recent policy clarifications, is to ensure an appropriate alignment in reporting of reverse mortgages with their capital treatment.