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APRA

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To: All Authorised Deposit-taking Institutions

REGULATORY REPORTING OF LOANS WHERE HARDSHIP CONCESSIONS ARE GRANTED

APRA is aware that authorised deposit-taking institutions (ADIs) are obliged under consumer laws and banking codes to consider hardship variations to credit contracts for borrowers experiencing temporary financial difficulty. Hardship concessions granted by ADIs typically include a reduction in the interest rate or payment, lengthening of loan maturity, or full or partial deferral (capitalisation) of interest for a temporary period.

ADIs must have a full understanding of the risk profile of loans granted hardship forbearance and ensure the risks are appropriately reflected in internal management reporting, provisioning and capital adequacy calculations. APRA has seen some instances of ADIs re-ageing arrears on loans granted such concessions in order to prevent the triggering of collections processes. While this practice may be reasonable from an operational perspective, it can obscure prudent internal and regulatory reporting of past-due and impaired loans.

APRA has addressed the reporting issues with individual ADIs from time to time and is now issuing this guidance to ensure industry-wide consistency. Importantly, this guidance pertains to the measurement and reporting of loans and does not affect ADIs' management of lending relationships with borrowers.

APRA reporting definitions

This guidance addresses the appropriate regulatory reporting treatment and the supporting APRA statistical returns for consumer loans (residential mortgages, credit cards and other personal loans) that are granted hardship concessions. Definitions of categories of problem loans as discussed below are set out in *Prudential Standard APS 220 Credit Quality* (APS 220) and the associated *Guidance Note AGN 220.1 Impaired Facility Definitions* (AGN 220.1). APRA reporting form *ARF 220.0 Impaired Assets*, which is submitted by all ADIs on a quarterly basis, requires reporting of loans considered past-due but well secured (past-due) or impaired. Definitions of these categories are set out in AGN 220.1.

Past-due loans

Under AGN 220.1 (paragraph 15), a facility is to be reported as 90 days past-due when:

- at least 90 calendar days have elapsed since the due date of a contractual payment which was not met in full; and
- the total amount unpaid outside contractual arrangements is equivalent to at least 90 days worth of contractual payments.

A facility will remain outside contractual arrangements notwithstanding any waiver of payments unless the facility has been formally restructured.

In the case of loans granted hardship relief due to financial difficulty of the borrower, the following reporting treatment would be consistent with APS 220:

- unless a loan is formally restructured (see below), loans where regular contracted payments are reduced or temporarily suspended ***continue to accrue arrears*** for purposes of APRA reporting according to the original schedule of payments and would be reported as past due (if well secured) once unpaid amounts reach 90 days worth of payments as described in AGN 220.1;

- calculation of unpaid amounts may take into account amounts by which borrowers are 'ahead' on contractual payments prior to requesting hardship concessions;

- as per AGN 220.1 paragraph 20, these loans may be restored to performing status for APRA reporting purposes once sufficient payments have been made such that the amount owed is less than 90 days worth of payments; and

- past-due loans that are not well secured must be reported as impaired (see below).

Impaired loans

Impaired loans are those where there is doubt as to the timely full repayment of interest and principal. In the context of loans granted hardship concessions, APRA would normally expect the following to be reported as impaired:

- loans that reach 90 days past due based on the original contracted payment schedule, or are otherwise considered in default, and are considered not well secured. APRA would expect ADIs to reassess the value of the property or other collateral at the time the hardship concession is granted or when the facility reaches past-due or default status in order to make this determination;

- loans for which interest or principal amounts have been written off or a provision has been raised; and

- loans that have been formally restructured (see below).

Restructured loans

Some, but not all, impaired loans granted hardship concessions may be reportable to APRA as restructured facilities. Restructured facilities would be expected to include loans where the underlying loan terms (for example, principal, payment schedule, fees payable or interest rate payable) are contractually reduced or otherwise modified in a manner that would not be commercially available to other customers in good standing. Where loan terms have been modified on terms that are equivalent to those offered commercially (for example, a change from fixed to floating rate or from principal and interest to interest-only payments), with no concessions from the terms or criteria currently offered by the ADI to customers in good standing, the loan would not need to be reported as restructured.

Under AGN 220.1, a restructured loan may not be returned to non-impaired status until the loan has been fully performing under the restructured terms for at least six months or three payment cycles, whichever is greater.

Risk assessment

APRA expects ADIs to monitor trends in requests for, and approvals of, hardship concessions and to conduct regular assessment of the default and loss characteristics of these loans. This means that an ADI must have in place data and systems to allow it to readily identify, measure and report internally on hardship arrangements.

For example, APRA would expect ADIs to monitor key metrics such as:

- number, dollar amount and reasons for new requests for hardship concessions, by product type;
- number, dollar amount and types of new and outstanding hardship concessions granted; and
- cure rates, provisions and ultimate loss rates on hardship concession loans.

ADIs are expected to adopt loan-loss provisioning methodologies for loans granted hardship concessions that recognise the higher risk status of these loans and the increased likelihood that they may result in losses for the ADI. ADIs that are determining provisions under *Guidance Note AGN 220.3 Prescribed Provisioning* must allocate facilities granted hardship concessions to the appropriate category taking into account the reporting guidance set out above.

If you anticipate that adopting the above reporting guidance will lead to material changes to previously reported amounts of past-due or impaired loans, please notify APRA Statistics (adi_rfc@apra.gov.au). APRA does not, however, expect ADIs to recast prior submitted data. ADIs that are not able to implement this guidance for the next reporting period should contact their APRA Responsible Supervisor to agree a temporary transition timetable.

Yours sincerely

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