



# ASF Guideline on Treatment of COVID-19 Hardship

4 August 2020

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Lenders to small business and consumers are offering borrowers affected by the COVID-19 pandemic various support options (COVID-19 support), including:

- deferral or reduction of scheduled payments for a period; or
- waiver of interest for a period.

This includes lenders who are regulated by the Australian Prudential Regulation Authority (APRA), i.e. ADIs, and those who are regulated by the Australian Securities and Investment Commission (ASIC), i.e. non-ADIs.

Availability of the support options will be subject to each lender's policies and may be granted to borrowers who satisfy the lender's criteria for COVID-19 support.

This Guideline is intended to clarify the treatment and reporting of loans and accounts that have been classified as COVID-19 support cases and funded through securitisation transactions or facilities.

APRA has recently updated its [guidance](#) to regulated banks and other lenders in relation to their treatment of loans where such lenders have offered COVID-19 support options to small business and home loan borrowers/obligors with an option to defer or be granted a waiver of their repayments or interest for a period.

The securitisation industry supports an approach equivalent to that which APRA has confirmed for regulated ADIs..

This securitisation industry Guideline addresses a situation where:

- a borrower has or had been meeting their payment obligations prior to COVID-19 hardship as at 1 March 2020 (subject to the lenders policy for the particular receivable type but in any case being less than 90 days overdue) but chooses to take up a COVID-19 support package; or
- a borrower who had been meeting their payment obligations prior to COVID-19 hardship but then misses a subsequent payment and after being contacted, the lender is satisfied that the borrower would have qualified as a COVID hardship:

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1. the lender should not treat the period of the repayment deferral or waiver as a period of arrears; and
  2. the lender may choose to separately report the nature and terms of any repayment deferrals (or waiver) and the volume of such loans.

Lenders with warehouse facilities should review the terms of transaction documents and where necessary discuss the appropriate approach with their financiers.

This Guideline is based on the principle that accounts granted COVID-19 support should not be included in arrears calculations under securitisation financing arrangements.

It is suggested that this treatment will be applied for the following:

1. calculation of regulatory capital using the SFA in paragraph 17 of Attachment C of APS 120;
2. amortisation/stop funding trigger events;
3. pro-rata test within term RMBS transactions; and
4. spread traps within term RMBS transactions.

Lenders should consider and consult relevant credit rating agencies on the approach each will take to COVID-19 hardship accounts in the context of points 2, 3 or 4.

If, after the end of the COVID-19 support package, it becomes clear that a borrower's inability to meet loan payment obligations are no longer temporary, the relevant COVID-19 hardship account should be reported as past due and fall back in arrears. This means:

- the account should be classified as being in the initial arrears category of 0 – 30 days past due;
- for some consumer receivables such as credit cards, it may be appropriate for the account to be classified as being in arrears for the period from the start of the COVID-19 support period.

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