Australian RMBS Arrears Calculation & Reporting Standard ASF100.50

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Revision History

Version	Issue Date	Description	Author	Organisation
0.1	18 July 2010	Initial draft	Belinda Smith	ASF
0.2	6 Sept. 2010	Update	Belinda Smith	ASF
0.3	10 Sept. 2010	Update	Angelo Kalafatas	Perpetual Limited
0.4	22 Sept. 2010	Update	Chris Dalton	ASF
0.5	6 Oct 2010	Revise calculation	Chris Dalton	ASF
0.6	7 Oct 2010	Remove buffer	Chris Dalton	ASF
0.7	27Oct 2010	Add clarifications	Chris Dalton	ASF
0.8	9 Nov 2010	Days calculation	Chris Dalton	ASF
0.9	11 Nov 2010	Remove hardship	Chris Dalton	ASF
0.10	15 Dec 2010	Clarify categories	Chris Dalton	ASF
0.11	31 Jan 2011	WG Refinements	Chris Dalton	ASF

Reference Documents

Title	Date	Organisation
Australian Securitisation Standards 100.10, 100.20, 100.30 & 100.40	July 2010	ASF

1. Overview

The purpose of this document is to define a concise methodology for calculating and reporting mortgage loan arrears, in order to improve the consistency and clarity of performance information of collateral pools backing Australian RMBS. This Standard aims to improve consistency and comparability in defining whether and by how much a mortgage loan is current or in arrears. This Standard was developed by the Australian Securitisation Forum, and is consistent with other ASF Standards, specifically the RMBS Reporting Standards (ASF100.10, ASF100.20, ASF100.30, and ASF100.40).

Historically, issuers have reported their arrears using one of two methods:

1. **Scheduled Balance Method** – under this method, a mortgage loan is only classified as being in arrears if the Current Loan Balance exceeds the Scheduled Loan Balance irrespective of whether a borrower has any Scheduled Payments past due. Under this approach borrowers who are in distress and no longer making payments will not be in arrears until the actual loan balance exceeds the Scheduled Loan Balance.

2. **Missed Payments Method** – under this method a mortgage loan will be classified as being in arrears if a borrower is one or more Scheduled Payments past due. A mortgage loan will be treated in arrears if a payment is missed even though the Current Loan Balance is less than the Scheduled Loan Balance. This method provides an early warning sign, and hence will be a critical part of arrears management. However, the Missed Payments Method tends to overstate borrower stress, particularly in the short term arrears categories.

The ASF recognises that both methodologies are meaningful and have merits, but this Standard seeks to provide a single definition and reporting categorisation of loans in arrears, and to establish a minimum that issuers should meet when calculating and reporting arrears.

2. RMBS Standard - Arrears Reporting

The following outlines the ASF standard for reporting arrears on residential mortgage pools underlying RMBS:

Calculation of Arrears Amounts

This standard seeks to define a loan as being in arrears when the loan is not in compliance of the terms of the loan contract. The principal test is whether the amount outstanding under the loan is equal to or less than the contracted schedule balance at each periodic reporting date.

It is recommended that loans be assessed as being in arrears or not by taking into account all credits and debits to the borrower's loan account. This includes any increases in interest payment due to rate rises, loan fees, scheduled and unscheduled repayments of principal and any other costs and fees the borrower is contractually required to pay to the lender.

When is a Mortgage Loan in Arrears?

For the purposes of this Standard it is recommend that a loan be reported as being in arrears where the Current Loan Balance exceeds the Scheduled Loan Balance.

The Current Loan Balance should include the outstanding amount of the loan as at the Report Date, as well as all due and unpaid principal, interest, any penalty interest, and all other fees and costs charged to the loan balance. The ASF acknowledges that some lenders may or may not charge penalty interest, loan fees and charges and that the application of such will vary from lender to lender, and possibly between various loan products. The guideline should be that any amounts due under the loan contract from the borrower to the lender should be included in the loan balance when calculating and reporting arrears.

For the purpose of reporting arrears the full Current Loan Balance should be used including all amounts charged to the loan.

Arrears Reporting Methodology

For RMBS the ASF recommends that as a minimum, arrears should be reported using the Scheduled Balance Method. This will facilitate comparability across mortgage pools and issuers. An issuer may also wish to include reporting of arrears using the Missed Payment Method, if it so wishes, although this method may inflate the number and amount of arrears as it does not recognise any previous prepayments of principal made by the borrower.

Arrears should be calculated and reported as at the end of the Report Date for each portfolio or trust.

Arrears Categories

Arrears should be reported in the following categories:

Category	**Description**
Current	0 days. Current Loan Balance is equal to or less than the Scheduled Loan Balance, i.e. the loan is not in arrears
0 to 30 days	>0 days to <=30 days in arrears (up to 1 monthly payment in arrears)
31 to 60 days	>30 days to < =60 days in arrears (2 monthly payments in arrears)
61 to 90 days	>60 days to <=90 days in arrears (3 monthly payments in arrears)
90+ days	>90 days in arrears (more than 3 monthly payments in arrears)

Notes and Clarifications:

1. Loans should continue to be classified as being in arrears until the status of the loan is fully resolved. For example, loans in arrears should include any loans in possession and in the LMI claim submitted/pending stage.
2. Loans which are being restructured should be reported as being in arrears until such time as the new terms of the loan are agreed by the lender and borrower and the borrower is fully up to date with payments due under the restructured loan contract.
3. In the case of partial days in arrears, the convention should be to round up to the next whole day. For example, a loan that is 30.2 days in arrears should be reported in the "31 to 60 days" bucket. Partial days in arrears can arise where the number of days in arrears is determined by applying the formulae; (Current Loan Balance - Scheduled loan Balance) / Monthly Scheduled Payment x (365.25 / 12).
4. When a loan product permits a borrower to redraw principal any redrawing should be included in the balance of the loan when evaluating if the loan is in arrears.
5. In the circumstances where either fees or penalty interest are waived by the lender these amounts should not be included in the loan balance and they do not form part of the contracted balance due from the borrower.
6. It is recommended that the lender report any loans which were in arrears in the preceding reporting period which have been fully repaid and discharged in the current period. This is to highlight any instances of delinquent loans being refinanced.

3. Terminology

Capitalised terms used throughout this document are set out below:

Term	Definition
ASF	Australian Securitisation Forum
Current Loan Balance	The outstanding amount of the loan including interest, fees and other costs charged to the loan account as at each Report Date.
Monthly Scheduled Payment	The sum of all Scheduled Payments over a month (or monthly equivalent)
Report Date	As at the date of the report. This should be the end of collection period. However it is noted that the collection period will vary from program to program and Trust by Trust and is not always necessarily a calendar month.
RMBS	Residential mortgage-backed security
Scheduled Loan Balance	The principal balance of the loan, at a point in time, which reflects the amortisation of the loan by periodic payments of principal interest, and fees by the borrower over the contracted term of the loan.
Scheduled Payment	The minimum periodic loan instalment required to be paid by the borrower in respect of a mortgage loan.