

ASF MARKET GUIDELINE

RMBS ARREARS CALCULATION & REPORTING

September 2023

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 Market Guideline aims to improve consistency and comparability in defining whether and by how much a mortgage loan is current or in arrears.

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

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.

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 Guideline 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.

RMBS Standard - Arrears Reporting

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

Calculation of Arrears Amounts

This guideline 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 Guideline, it is recommended 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 separately and in addition to the Scheduled Balance 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:

- 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.
- 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.
- 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; $(\text{Current Loan Balance} - \text{Scheduled loan Balance}) / \text{Monthly Scheduled Payment} \times (365.25 / 12)$.
- 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.
- A loan may include 2 or more sub-accounts and the Current Loan Balance will represent the aggregate balance of all loan sub-accounts including any offset accounts that are treated as a sub-account.
- 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.
- 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.

Non-performing, Hardship and Restructured Loan Reporting for ADIs

APRA has specified required regulatory reporting of loans that are not classified as 'performing' loans and loans past due (if well secured) once unpaid amounts reach 90 days past due under ARS 220 (Credit Quality).

APRA has noted sound practices with respect to prudential reporting on loans with hardship (or similar payment concessions), under APG 223 Residential Mortgage Lending, which would include:

- arrears continuing to accrue based on the original scheduled payments until the loan is brought back into performing status;
- hardship or collections decisions and activities that include some form of ongoing concessions beyond that normally available are required to be reported as 'restructured loans'; and
- appropriate loan-loss collective provisioning for loans subject to hardship applications, given the potentially higher ultimate loss rates on these loans.

As per APS 220.1 paragraph 95, these loans may be reclassified to 'performing' status for APRA reporting purposes when sufficient payments have been made such that the amount owed is remains less than 90 days' worth of payment for a minimum duration of six months and the borrower has resolved its financial difficulty.

The ASF recognises that ADIs are required to report arrears in accordance with APRA requirements for regulatory reporting purposes.

The ASF also notes that for the purpose of reporting arrears to RMBS investors in a comparable and consistent manner, it is preferable the APRA regulatory reporting requirements for ADIs be adopted in the reporting of arrears in an RMBS transaction, given those requirements align with 'Note and Clarification' 2 above.

Terminology

Term	Definition
ADI	Authorised Deposit-Taking Institution
AGN	ADI Guidance Note
APRA	Australian Prudential Regulation Authority
APS	Prudential Standard made under the Banking Act 1959 and used by APRA to set prudential rules for ADIs.
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.

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