



Notification of Banks' Phase Two COVID-19 assistance measures

Background to notification

On 30 March 2020, the ACCC granted interim authorisation (number AA1000482) to the ABA and its member banks (and their suppliers and agents where relevant) to discuss (including to share information), agree, and give effect to, any contract, arrangement or understanding between them (and third-party suppliers and/or agents) to benefit their customers that has the purpose of:

- deferring or varying loan facilities for customers in any sector of the economy or any customer segment impacted by COVID-19;
- supporting Government initiatives to provide emergency fiscal stimulus and cost relief for individuals and businesses; or
- ensuring continued high levels of customer service and access to banking services across the broadest possible range of times and locations

(**interim authorisation**).

Under the interim authorisation, the ABA is required to notify the ACCC of any financial relief programs or other arrangements that are agreed between member banks (and their agents or suppliers where relevant).

The ABA has notified two financial relief programs and a debit card program under the interim authorisation:

- **small business relief package:** the continued implementation by certain member banks of deferrals of loan repayments to customers under a small business relief package that were granted during the period of operation of a previous interim authorisation granted by the ACCC, and an agreement between member banks to implement the small business relief package going forward;
- **supplementary business relief package:** an agreement between certain member banks to implement supplementary support measures, including loan repayment deferrals for a broader group of Australian businesses affected by COVID19; and
- **debit card program:** a decision by certain member banks to implement a program to fast track the issuing of scheme or dual network debit cards to isolated and vulnerable customers in the Australian community for purposes of ensuring accessibility to banking services.

Certain member banks also individually and independently elected to offer non-business customers the option to defer mortgage and other loan repayments for up to six months.

As at 31 May 2020, member banks have provided more than 746,000 deferrals worth a combined \$227 billion.

The first wave of repayment deferrals are due to end in late September 2020 and progressively thereafter, which may coincide with the removal of government support programs, including JobKeeper. Member banks are continuing to grant deferrals, albeit at a slower pace. For these customers, their deferral period will expire in December 2020 and beyond. Without appropriate transitional arrangements, the cessation of loan repayment deferrals, coupled with the possible winding down of these large-scale government support programs, could cause disruption to customers' financial recovery and the timing and pace of the economic recovery more generally.

As customers approach the end of their six-month loan repayment deferral period, the ABA and certain member banks (**participating member banks**) have developed Phase Two of the COVID-19 assistance measures (**Phase Two COVID-19 assistance measures**), based on APRA's update to the temporary capital treatment set out in a letter to all ADIs on 9 July 2020 to facilitate ADIs returning



COVID-19 impacted borrowers to a sustainable financial position while ensuring systemic stability within the financial system.

Description of conduct notified

The ABA notifies the ACCC under the interim authorisation of an agreement between participating member banks to implement the Phase Two COVID-19 assistance measures from late September 2020 when the first wave of repayment deferrals come to an end to the benefit of customers for the following purposes contemplated in the interim authorisation:

- deferring or varying loan facilities for customers in any sector of the economy or any customer segment impacted by COVID-19; and
- supporting Government initiatives to provide emergency fiscal stimulus and cost relief for individuals and businesses.

A list of participating member banks is set out in **Appendix 1**.

In a letter to ADIs on 25 March 2020, APRA indicated that, under a specific capital treatment for loans under which repayment deferrals of up to six months are granted, ADIs would not need to treat the period of the deferral as a period of arrears (**temporary capital treatment**). In a letter to ADIs on 9 July 2020, APRA extended and amended the temporary capital treatment to apply to further assistance offered by ADIs including participating member banks (**amended capital treatment**). A description of the amended capital treatment is set out in **Appendix 2**.

Consistent with the amended capital treatment allowed by APRA, the Phase Two COVID-19 assistance measures will involve participating member banks assessing the financial position of each individual customer currently in a repayment deferral to assist them in a way that best addresses their individual circumstances, and broadly identifies three categories of customers:

1. Customers who can return to full repayments:

Customers who are able to return to full repayments at the end of their six-month deferral period will be expected to do so as it is in the customer's best interest to pay down their debt as soon as possible

2. Customers with ongoing financial difficulty, but with prospects of returning to a financially viable position:

Customers with reduced incomes and/or ongoing financial difficulty due to COVID-19 will be contacted as they approach the end of their deferral period, to ensure that wherever possible they can return to repayments potentially through a restructure or variation to their loan. If these arrangements are not in place at the end of a six-month deferral, customers may be eligible for an extension of their deferral for up to four months

Participating member banks may also grant new deferrals under the small business relief package, supplementary business relief package and to non-business customers impacted by COVID-19 in respect of mortgages and other personal loans, in each case where the customer is less than 90 days past due in terms of their repayments on their existing facilities at the beginning of the repayment deferral.

Any extension of existing deferrals or the granting of a deferral to a customer who contacts their bank for the first time on or after 1 October 2020 will not be automatic. It will only be provided to customers who, in each participating member bank's opinion, are in genuine need, and where, following an appropriate credit assessment, the participating member bank considers an extension is appropriate for the particular customer given their circumstances, including that there is a reasonable prospect of the customer being able to repay the loan on appropriate terms at the end



of the deferral period. For many customers, the period of any extended deferral may be less than four months.

During any extended deferral period, customers will be expected to work with their participating member bank to find a solution that is appropriate for the particular customer given their circumstances to assist them to return to repayments, for example a restructure or variation of their loans if appropriate.

3. Customers who continue to be financially impacted and whose recovery to a financially viable position is unlikely.

Customers who continue to be financially impacted by COVID-19 during or beyond any deferral period and who are unlikely to recover financially will be assisted through each bank's hardship process to determine the best long-term solution for their individual circumstances.

As participating member banks work with their customers to help them, where possible, recover from the impacts of COVID-19, they are committed to acting in accordance with the Guiding Principles of the ABA Banking Code of Practice, including:

- proactively communicating with customers in a clear and timely manner, about what will happen at the end of the repayment deferral, including providing information as to how the missed repayments may be made up (e.g. higher repayments or a longer loan term), as well as how customers can request further assistance;
- acting honestly and with integrity;
- being fair and responsible in their dealings with customers; and
- assisting customers experiencing financial difficulty.



Appendix 1 – Participating member banks

- AMP Bank
- Australia and New Zealand Banking Group Limited
- Bank Australia
- Bank of Queensland Limited
- Bendigo and Adelaide Bank Limited
- Citigroup Pty Ltd
- Commonwealth Bank of Australia
- ING
- Macquarie Bank
- MyState
- National Australia Bank Limited
- Suncorp Bank
- Westpac Banking Corporation

Appendix 2 – APRA capital treatment

Extract from APRA letter to ADIs dated 9 July 2020:

“Extension of repayment deferrals

- (1) In line with the treatment detailed in APRA’s letter of 25 March 2020, the treatment outlined below can be applied to a broad class of otherwise performing loans on which ADIs grant repayment deferrals. This includes loans that are less than 90 days past due and not impaired at the time deferral was granted.*
- (2) Under the temporary capital treatment, the period of deferral does not need to be treated as a period of arrears for APRA reporting purposes, nor do the loans need to be regarded as restructured or impaired. The counting of days past-due is paused when the repayment deferral is granted.² This temporary capital treatment is available until the earlier of either:*
 - a. ten months from when the initial repayment deferral was granted, e.g. where a borrower was initially granted a repayment deferral on 31 March 2020, the treatment expires on 31 January 2021; or*
 - b. 31 March 2021.*

The temporary capital treatment ends on 1 April 2021 for all loans, irrespective of when the repayment deferral was initially granted or the period remaining on a deferral.

- (3) Where an ADI grants a repayment deferral to a borrower from 1 October 2020, or extends the initial deferral beyond six months, the ADI must conduct an appropriate credit assessment of the borrower prior to granting the deferral, having regard to the individual circumstances of the borrower. As part of this credit assessment, the ADI must be satisfied that there is a reasonable prospect of the borrower being able to repay the loan on appropriate terms at the end of the deferral period. If the borrower already has the capacity to make repayments on some basis, a further deferral may not be in the best interests of the borrower.*
- (4) For loans granted repayment deferrals, an ADI must resume the counting of arrears for APRA reporting purposes at the end of the deferral period from the number of days past due at the time the initial deferral was granted, unless the loan is modified in accordance with the requirements set out below.*
- (5) Notwithstanding anything set out in this section, where an ADI determines that a borrower is unlikely to repay it must treat the loan as impaired.³*

The full letter to ADIs is available at: <https://www.apra.gov.au/sites/default/files/2020-07/Letter%20to%20authorised%20deposit-taking%20institutions%20-%20Treatment%20of%20loans%20impacted%20by%20COVID-19.pdf>

² For the purpose of the 90 days past-due criterion in paragraph 26(a) of APS 220, the days past-due of such loans will remain unchanged throughout the repayment deferral period.

³ Indicators of unlikelihood to repay are detailed in paragraph 26 of APS 220 and paragraph 77 of Attachment A to APS 113.