AUSTRALIAN
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Application for variation of registered CR Code - Hardship changes

Part III: Examples of the application of proposed changes

The following examples describe how ARCA considers the proposed provisions in the CR Code operate in particular circumstances. A credit provider (CP) will need to consider how the provisions apply to their own business or in different circumstances. The examples are for illustrative purposes only and present an outline of each scenario rather than the detailed interaction between the CP and individual customer. Differences in a CPs procedures and systems may result in variations in the approach described in the examples.

Paragraph 8A.2 establishes presumptions as to whether an overdue payment arrangement is or is not an FHA. Unless noted otherwise, the examples below assume there is no agreement that would displace the relevant presumption.

Set out below are examples demonstrating the operation of:

1. Paragraphs 8A.2 and 8A.3: when are FHAs formed?
   A. Overdue payment arrangements: temporary FHAs and promise-to-pay
   B. Upfront variation FHAs
2. Subparagraphs 8A.1(a) – (c): starting and ending FHAs
   A. Commencing a temporary FHA
   B. Commencing an upfront variation FHA
   C. Ending/Terminating a temporary FHA
   D. Varying terms after payment test/serviceability period
3. Paragraph 8: calculating RHI during a temporary FHA

In the examples below: • ‘Ordinary monthly payment’ means, as defined in the CR Code, the payment that becomes due and payable in relation to the consumer credit in a month (but does not include any payments that are overdue from previous months). • ‘NCC’ indicates a step taken by a CP to comply with the NCC. These examples do not list all steps required by the NCC in relation to financial hardship. See the note to paragraph 8A.2 in the CR Code.

1. Operation of paragraphs 8A.2 and 8A.3

A. Overdue payment arrangements: temporary FHAs and promise-to-pay

Example 1: ordinary monthly payments within one month

i. Customer tells CP that they will not make the next 3 weekly payments and then will restart ordinary monthly payments;
ii. CP records the promise-to-pay arrangement.

Outcome: Not a temporary FHA as ordinary monthly payments to recommence within one month (8A.2(b)). CP informs customer that RHI will show missed payments.

Example 2: ordinary monthly payments within one month; no hardship request

i. Customer tells CP that they will not make the next 3 weekly payments because they have lost their job;
ii. NCC: CP identifies possible hardship notice and suggests that the customer should talk to the CP's hardship teams.[1] Customer declines the referral;
iii. CP records the promise-to-pay arrangement.

Outcome: Not a temporary FHA as ordinary monthly payments to recommence within one month and no hardship request (8A.2(b)). CP informs customer that RHI will show missed payments.

Example 3: ordinary monthly payments not within one month

i. Customer tells CP that they will not make the next 3 weekly payments;
ii. CP's records show that the customer has provided similar notifications on multiple occasions over the previous 6 months;
iii. NCC: CP suggests that the customer should talk to CP's hardship team and customer accepts the referral;
iv. NCC: CP assesses customer's circumstances and offers 6-month arrangement of half payments (which the customer accepts);
v. CP records the temporary FHA.[2]

Outcome: Temporary FHA formed as revised arrangement involves payments less than ordinary monthly payments for more than one month and presumptions not displaced (8A.2(a)). CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded.

[1] This reflects the standard practice of many CPs (which maintain separate 'hardship teams'). Alternatively, this example could say "CP identifies possible hardship notice and asks if the customer would like to be assessed for hardship assistance".

[2] Alternatively, another CP could offer to vary the repayment up front which would involve a variation FHA and FHI=V would be recorded in the first month of the arrangement (as per subparagraphs 8A.3(b) and (c).

Example 4: ordinarily monthly payments within one month

i. Customer is 2 payments behind and says that they will pay 1.5 x ordinary monthly payments for 4 months starting with the next monthly payment;
ii. CP records the promise-to-pay arrangement.

Outcome: Not a temporary FHA as ordinary monthly payments to recommence within one month (8A.2(b)). CP informs customer that RHI will show missed payments.

Example 5: ordinary month payments within one month; explicit agreement for FHA

i. Customer is 1 payment behind and says that they think they can pay 1.5 x ordinary monthly payments for 2 months starting with the next monthly payment. Customer states that they want to give a hardship notice;
ii. NCC: CP assesses the customer's circumstances and offers a 4-month FHA arrangement at 1.25 x ordinary monthly payments (because the CP agrees customer is experiencing financial hardship and considers this is more suitable to customer's circumstances). Customer accepts.
iii. CP records the temporary FHA.

Outcome: Temporary FHA formed as customer has made a hardship request and customer and CP have explicitly agreed to a temporary FHA, although payments are to be at least ordinary monthly payments (8A.2(b)(iii)). CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded.

Example 6: ordinary monthly payments not within one month; payment test period

i. Customer is 2 payments behind and says that they will pay ordinary monthly payments starting with the next monthly payment;
ii. Customer notes that they have lost work hours due to COVID and they will have to not pay electricity bills and insurance in order to make those payments;
iii. NCC: identifies possible hardship notice and suggests that the customer should talk to the CP's hardship team and customer accepts the referral;
iv. NCC: CP assesses the customer's circumstances and offers 3-month temporary FHA of half payments (which the customer accepts);

Outcome A: Temporary FHA formed as revised arrangement involves payments less than ordinary monthly payments for more than one month and presumptions have not been displaced (8A.2(a)). CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded.

v. At end of 3-month arrangement, CP assesses customer's circumstances and determines customer is able to pay ordinary monthly payments (and customer agrees).

Outcome B: Temporary FHA formed as arrangement immediately directly follows and is in response to earlier temporary FHA (8A.2(b)(i)). CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded, and that, once the CP has confidence that the customer is able to meet their ongoing obligations, the CP will vary the contract to add the arrears back into the loan (which will mean a variation FHA will be recorded). Note: the information regarding the variation FHA may, depending on the CPs processes, be given at other points in the process.

vi. Customer pays ordinary monthly payments on time for 6 months and CP then agrees to 're-age' arrears.

Outcome C: Variation FHA formed (8A.3(a) and (d)).

Example 7: accelerated balance; not re-aged within 7 months

i. Customer is significantly in arrears and CP has accelerated the balance of the credit contract following expiry of section 88, NCC notice;
ii. Arrangement is put in place under which the customer will make payments that are 2 x the ordinary monthly payments that were previously required under the credit contract (before it was accelerated);
iii. CP's 're-age' policy does not apply as the balance has been accelerated.

Outcome: Temporary FHA as the presumption in paragraph 8A.2(b) does not apply (i.e. as 8A.2(b)(ii) is triggered), and CP and customer have not explicitly agreed otherwise[3]. FHI=A would be reported each month until balance is repaid. CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded.

Note: see our general comments in Part II, subparagraph 8A.2(c) regarding the reporting of RHI and FHI for accounts with an accelerated balance.

Example 8: overdue payment arrangement after hardship request; not FHA

i. Customer is 2 payments behind and requests an arrangement to not pay for a further 2 months.
ii. NCC: CP identifies hardship notice. CP assesses the customer's circumstances and advises the customer over the phone that they have declined the request as the CP does not consider there is a reasonable cause for the customer's inability to meet their obligations;
iii. Customer states that they will pay ordinary monthly payments and CP states that the arrangement put in place is not a temporary FHA;
iv. NCC: CP issues the required notice to the customer under s72(4), NCC.

Outcome: Temporary FHA not formed as hardship request rejected and CP has told customer the arrangement put in place is not a temporary FHA (8A.2(c)). CP informs customer that RHI will show missed payments.

[3] If the customer commenced those payments unilaterally, without a mutual understanding with the CP, no FHA would be formed.

Example 9A[4]: overdue payment arrangement after hardship request; temporary FHA

i. Customer is 2 payments behind on their home loan and requests an arrangement to not pay for a further 3 months.
ii. NCC: CP identifies hardship notice. CP assesses the customer's circumstances and advises the customer over the phone that they have declined the request as they consider the customer will not be able to meet their obligations under the contract even if a hardship arrangement was offered;
iii. NCC: CP issues the required notice to the customer under s72(4), NCC;
iv. Customer states that they will put house on market to pay out debt, and during that time they would like to not make payments. Customer provides details of sale process. CP accepts proposal.

Outcome: Temporary FHA formed as arrangement follows hardship request (although rejected) and CP has not told customer the arrangement put in place is not a temporary FHA (8A.2(c)). CP informs customer that RHI will reflect temporary FHA payments and FHI will be recorded.

Example 9B: overdue payment arrangement after hardship request; not FHA

i. Customer is significantly behind in payments on their home loan and requests an arrangement to not pay for a further 3 months.
ii. NCC: CP identifies hardship notice. CP assesses the customer's circumstances and advises the customer over the phone that they have declined the request as they consider the customer will not be able to meet their obligations under the contract even if a hardship arrangement was offered;
iii. NCC: CP issues the required notice to the customer under s72(4), NCC;
iv. Customer states that they will put house on market to pay out debt, and during that time they would like to not make payments. CP notes the proposal but tells the customer that the arrangement is not a temporary FHA.

Outcome: Temporary FHA not formed as hardship request rejected and CP has told customer the arrangement put in place is not a temporary FHA (8A.2(c)). CP informs customer that RHI will show missed payments.

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[4] Examples 9A and 9B demonstrate approaches to 'time to sell' arrangements. The decision whether to treat such arrangements as temporary FHAs will depend on the CP's internal policies and the circumstances of the individual customer. In its capacity as industry association, ARCA will work with its Members and other relevant stakeholders to develop guiding principles for how time to sell arrangements should be treated (recognising this may differ depending on the circumstances of the individual customer). Separately, the section 72(4) notice given to the customer will explain the customer's right to complain to AFCA.

B. Upfront variation FHAs

Example 10: upfront variation FHA following hardship request

i. Customer advises that they have lost their job and are not able to make their contractual payments;
ii. NCC: CP identifies possible hardship notice and suggests that the customer should talk to the CP's hardship team and customer accepts the referral;
iii. NCC: CP assesses the customer's circumstances and offers 3-months of $0 and a loan extension of 3 months to be done as a variation to the terms of the consumer credit (i.e. arrears will not accrue during that three months). Customer agrees;

    Outcome: Variation FHA formed and FHI=V recorded in first month that the reduced payments come into effect (8A.3(b) and (c)). CP informs customer that FHI will be recorded and RHI will reflect the varied payments.

    Note: At the end of the 3-month period, the repayments will return to normal and, if not done already, the CP will *process* the loan extension. The processing of the loan extension does <u>not</u> create a second variation FHA.

Example 11: upfront variation FHA following hardship request; further variation FHA

i. Customer advises that they have lost their job and are not able to make their contractual payments;
ii. NCC: CP identifies possible hardship notice and suggests that the customer should talk to the CP's hardship teams and customer accepts the referral;
iii. NCC: CP assesses the customer's circumstances and offers 3-months of $0 and a loan extension of 3 months to be done as a variation to the terms of the consumer credit (i.e. arrears will not accrue during that three months). Customer agrees;

    Outcome A: As per Example 8.

iv. At the end of the 3-month period, customer advises that they have a new job but won't start for 2 months.
v. NCC: CP identifies possible hardship notice and asks the customer if they would like to be assessed for a further hardship arrangement. Customer accepts the referral;
vi. NCC: CP assesses the customer's circumstances and offers further 2-months of $0 and a loan extension (on same terms as original variation FHA). Customer agrees.

    Outcome B: Variation FHA formed and FHI recorded in first month that the reduced payments come into effect under the second variation FHA (8A.3(b) and (c)). CP informs customer that FHI will be recorded and RHI will reflect the varied payments.

Example 12: variation FHA; compassionate grounds

i. Customer is diagnosed with terminal cancer and is not able to make payments on their home loan.
ii. NCC: CP identifies hardship notice. On compassionate grounds, CP agrees to stop repayments on home loan and cease charging interest. On the death of the customer, the CP will recover the loan balance from the proceeds of the sale of the home.

   Outcome: Variation FHA formed and FHI=V recorded in first month that the reduced payments come into effect (8A.3(b), (c) and (g)). CP informs customer that FHI will be recorded and RHI will reflect the varied payments (i.e. no payment required).[5]

Example 13: variation FHA; debt waiver

i. Customer informs CP of a permanent inability to meet the obligations under their personal loan.
ii. NCC: CP identifies hardship notice. CP assesses the customer's circumstances agrees to write-off balance of the loan.

   Outcome: Variation FHA formed and FHI=V recorded in month that the waiver is given and account is closed (8A.3(b) and(f)). Loan is closed for purposes of consumer credit liability information. CP informs customer that FHI will be recorded and RHI will reflect the varied payments (i.e. no payment required).

Example 14: no FHA; complaint resolution

i. Customer is significantly in arrears and complains that the loan should never have been approved and that the CP has breached its obligations to lend responsibly.
ii. NCC: CP considers the customer's complaint (i.e. <u>not</u> a hardship notice) and agrees to reduce the balance of the loan by half (being an amount the customer could have afforded when the loan was first assessed).

   Outcome: No variation FHA formed as variation not in response to hardship request (8A.3(b)).

[5] Subject to the CP's processes, the CP may also close the account so that no further RHI is recorded.

2. Operation of subparagraphs 8A.1(a) – (c)

The examples below demonstrate the operation of subparagraph 8A.1(a) – (c), particularly in relation to the first month in which the FHA is active and, for temporary FHAs, the last month (whether that is because the arrangement has naturally expired in that month or has been terminated).

CPs must choose a day in the month on which to assess RHI for an account. This could be the payment due date for the monthly payment, or a fixed date that is not tied to the payment due date for any specific account (e.g. the end of the calendar month). Whatever date is chosen will constitute the last day of the month to which RHI relates (as referenced in paragraph 8.1 of the CR Code).

Given credit providers can choose the day in the month on which to assess RHI, we have provided these examples based on two common approaches: "Payment Due Date Reporting"[6] and "Calendar Month Reporting"[7]. Where they produce a different outcome the examples below are worked through for both reporting approaches.

A. Commencing a temporary FHA

Note: In some of the examples below, a temporary FHA made in a month after a payment has already fallen due (including in the grace period), will result in FHI=A being reported for that month and RHI disclosed as RHI=0. This assumes that, in agreeing to the temporary FHA, the CP has agreed to not seek to collect on the already missed payment for the duration of the temporary FHA. Likewise, if the arrangement involves the customer making reduced payments for the duration of the temporary FHA, it is assumed that those reduced payments are to start from a date after the temporary FHA is made and the customer is not, as a condition of the temporary FHA, required to immediately pay any part of the payment already missed. If a condition of the temporary FHA is that the customer must immediately pay some or all of the payments already missed, this would need to be made clear to the customer.

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[6] That is, the CP assesses the status of the account at the end of the day on which the monthly payment is due or, if a grace period applies – and subject to the CP's process - after the grace period expires. If the payment frequency of the account is weekly or fortnightly, the CP will generally determine a date on or close to a payment due date in the month.

[7] As an example of fixed date reporting that is not tied to the payment date. That is, the CP assesses the status of the account at the end of the calendar month or, if a grace period applies – and subject to the CP's processes - after the grace period expires.

Example 15 – temporary FHA made before payment due:

i. Monthly payments due 12th of each month;
ii. Temporary FHA made 8 January for next 3 months of $0;[8]
iii. For January – March, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHA=A.

While there is not difference in the outcome between the different reporting approaches, this demonstrates the operation of subparagraph 8A.1(c)(ii) as for:

- **Calendar Month Reporting:** while it may be viewed that the temporary FHA has 'expired' by the end of March (i.e. because the last impacted payment fell due on 12 March), no payment has fallen due between that 'expiry' and the end of the month to which the RHI relates. Accordingly, as per 8A.1(c)(ii), the record for March should reflect the temporary FHA (in both RHI and FHI reported).

- **Payment Due Date Reporting:** unlike for Calendar Month Reporting, it is clear that the temporary FHA remains current on the relevant assessment day in March (i.e. 12 March being the payment due date).

Example 16 – temporary FHA made after payment due and after grace period (but within calendar month):

i. Monthly payments due 10th of each month;
ii. Payment on 10 January not made;
iii. Temporary FHA made 28 January for next 3 months of $0;

Payment Due Date Reporting	Calendar Month Reporting
iv. For January, CP would report RHI=1 (as determined by reference to the terms of the consumer credit); v. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.	iv. For January, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A (unless the CP and customer agree that temporary FHA is not to start until payment due on 10 February); v. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.

[8] In each example, the reference to a temporary FHA "for next 3 months of $0" means three future payments (and is understood by the customer to mean that). If the CP intends to include 'past' months in the offer of 3 months assistance, they will need to be clear on that point.

Example 17A – temporary FHA during grace period (RHI reported after grace period expires[9]):

i. Monthly payments due 28th of each month;
ii. Payment on 28 January not made (grace period applies);
iii. Temporary FHA made 5 February for next 3 months of $0 at that time, CP has <u>not</u> assessed/reported RHI for January;
iv. For January, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A (unless the CP and customer agree that temporary FHA is not to start until payment due on 28 February);
v. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.

Example 17B – temporary FHA during grace period (RHI reported before grace period expires[10]):

i. Monthly payments due 28th of each month;
ii. Payment on 28 January not made (grace period applies);
iii. CP does not wait for the expiry of the grace period, and for January has reported RHI=0 (as determined by reference to the terms of the consumer credit, including grace period);
iv. Temporary FHA made 5 February for next 3 months of $0 – at that time, CP <u>has</u> assessed/reported RHI for January (i.e. RHI=0);
v. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.

Example 17C: temporary FHA made during grace period (RHI reported after grace period expires):

i. Monthly payments due 14th of each month;
ii. Payment on 14 January not made (grace period applies)
iii. Temporary FHA made 24 January for next 3 months of $0; CP has <u>not</u> assessed/reported RHI for January;
iv. For January, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A (unless the CP and customer agree that temporary FHA is not to start until payment due on 14 February);
v. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.

Note: Example 17C is largely the same as Example 17A, however it demonstrates what happens when the grace period does not cross-over a calendar month. In this case, where the CP reports RHI after the grace period expires there is no difference between Payment Due Date Reporting and Calendar Month Reporting.

[9] i.e. CP waits until the grace period has expired before disclosing RHI relating to the payment due on 28 January. RHI would ordinarily reflect whether the payment had been made during the grace period.
[10] i.e. CP does not wait until grace period has expired before disclosing RHI relating to the payment due on 28 January. Therefore, CP discloses RHI=0.

Example 17D – temporary FHA during grace period (RHI reported before grace period expires):

i. Monthly payments due 14th of each month;
ii. Payment on 14 January not made (grace period applies);
iii. Temporary FHA made 24 January for next 3 months of $0;

Payment Due Date Reporting	Calendar Month Reporting
v. CP does not wait for the expiry of the grace period and, as at 24 January, has already assessed/reported RHI=0 for January (as determined by reference to the terms of the consumer credit, including grace period); vi. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.	v. As at 24 January, CP has not assessed/reported RHI for January due to Calendar Month Reporting; vi. For January, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A (unless the CP and customer agree that temporary FHA is not to start until payment due on 14 February); vii. For February – April, CP would report RHI=0 (as determined by reference to the terms of the arrangement) and FHI=A.

Note: Example 17D is largely the same as Example 17B, however it demonstrates what happens when the grace period does not cross-over a calendar month. In this case, where the CP reports RHI before the grace period expires there is a difference between Payment Due Date Reporting and Calendar Month Reporting.

B. *Commencing an upfront variation FHA*

Note: In each example below where there is an amount overdue when the variation FHA is made, it is assumed that the CP has also agreed to re-age payments those payments. See also note to Example 20A.

Example 18 – variation FHA made before payment due:

i. Monthly payments due 12th of each month;
ii. Variation FHA made on 8 January for next 3 months of $0;
iii. For January, CP would report RHI=0 and FHA=V
iv. No further FHI would be reported for February – March and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

Example 19: variation FHA made after payment due and after grace period (but within calendar month):

i. Monthly payments due 10th of each month;
ii. Payment on 10 January not made;
iii. Variation FHA made 28 January for next 3 months of $0;

Payment Due Date Reporting	Calendar Month Reporting
iv. For January, CP would report RHI=1 (as determined by reference to the terms of the consumer credit); v. For February, CP would report RHI=0 and FHA=V; vi. No further FHI would be reported for March – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).	iv. For January, CP would report RHI=0 and FHA=V;[11] and v. No further FHI would be reported for February – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

[11] See note to Example 20A.

Example 20A – variation FHA during grace period (RHI reported after grace period expires):

i. Monthly payments due 28th of each month;
ii. Payment on 28 January not made (grace period applies);
iii. Variation FHA made on 5 February for next 3 months of $0 – at that time, CP has not assessed/reported RHI for January;
iv. For January, CP would report RHI=0 and FHA=V.
v. No further FHI would be reported for February – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

Note: The expectation is that in agreeing to a variation FHA for the next 3 months, the CP will also agree to re-age the payment that has been missed. That is, the variation FHA will 'affect' the payment that has already fallen due provided it has not yet been reported on for RHI purposes. If the CP did not agree to 're-age' the payment that was due on 28 January as part of the variation FHA[12], the FHA would be recorded for the February month, i.e. FHA=V. Further, the CP would report RHI=1 in January (provided they report after the grace period) and RHI=2 in February (i.e. as the January payment which was not re-aged is now 30 – 59 days overdue). We understand that this would be an unusual approach and the CP would need to describe this outcome clearly to the customer.

Example 20B – variation FHA during grace period (RHI reported before grace period expires):

i. Monthly payments due 28th of each month;
ii. Payment on 28 January not made (grace period applies);
iii. Variation FHA made on 5 February for next 3 months of $0 – at that time, CP has assessed/reported RHI for January (i.e. RHI=0);
iv. For February, CP would report RHI=0 and FHA=V.
v. No further FHA would be reported for March – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

[12] That is, while the payments for the following 3 months were changed to $0, the customer was considered as still overdue in relation to the January payment.

Example 20C – variation FHA during grace period (RHI reported after grace period expires):

i. Monthly payments due 14th of each month;
ii. Payment on 14 January not made (grace period applies);
iii. Variation FHA made on 24 January for next 3 months of $0 – at that time, CP has not assessed/reported RHI for January;
iv. For January, CP would report RHI=0 and FHA=V.
v. No further FHI was be reported for February – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

Note: Example 20C is largely the same as Example 20A, however it demonstrates what happens when the grace period does not cross-over a calendar month. In this case, where the CP reports RHI after the grace period expires there is no difference between Payment Due Date Reporting and Calendar Month Reporting.

Example 20D – variation FHA during grace period (RHI reported after grace period expires):

i. Monthly payments due 14th of each month;
ii. Payment on 14 January not made (grace period applies);
iii. Variation FHA made on 24 January for next 3 months of $0;

Payment Due Date Reporting	Calendar Month Reporting
iv. CP does not wait for the expiry of the grace period and, as at 24 January, has assessed/reported RHI=0 for January (as determined by reference to the terms of the consumer credit, including grace period); v. For February, CP would report RHI=0 and FHA=V. vi. No further FHA would be reported for March – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).	iv. As at 24 January, CP has not assessed/reported RHI for January due to Calendar Month Reporting; v. For January, CP would report RHI=0 and FHA=V. vi. No further FHI would be reported for February – April and RHI for those months would be determined by reference to the terms of the consumer credit (which, as the contractual payments are $0, would be RHI=0).

Note: Example 20D is largely the same as Example 20B, however it demonstrates what happens when the grace period does not cross-over a calendar month. In this case, where the CP reports RHI before the grace period expires there is a difference between Payment Due Date Reporting and Calendar Month Reporting.

C. Ending/Terminating a temporary FHA[13]

In the examples shown in this section (relating to the last month of the FHA), there is no difference in the reporting between Calendar Month Reporting and Payment Due Date Reporting (however, differences may arise in some circumstances).

Example 21 – after monthly payment due:

i. Monthly payments due 10th of each month;
ii. Temporary FHA terminated 25 January;
iii. FHI=A should be reported for January (as the only payment in the month was subject to the temporary FHA). RHI reported against temporary FHA.

Example 22 – before monthly payment due:

i. Monthly payments due 25th of each month;
ii. Temporary FHA terminated 10 January;
iii. FHI=A should not be reported for January (as the only payment in the month is not subject to the temporary FHA). RHI reported against contract.

Example 23 – between fortnightly payments:

i. Fortnightly payments due on 5th and 19th of January;
ii. Temporary FHA terminated 10 January;
iii. FHI=A should not be recorded for January (as a payment falls due in the month after the temporary FHA has been terminated[14]). RHI reported against contract.

Example 24 – after both fortnightly payments:

i. Fortnightly payments due on 5th and 19th of January;
ii. Temporary FHA terminated 25 January;
iii. FHI=A should be recorded for January (as the last payment that fell due in the month was subject to the temporary FHA). RHI reported against temporary FHA.

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[13] The CP will need to assess when the temporary FHA was terminated. This will depend on whether the CP gives notice that the arrangement ‘has been’ terminated or ‘will be terminated within X days’.
[14] For Payment Due Date Reporting - assuming the CP assigns a monthly payment due date on or after 19 January . If the date used for reporting was between 10 – 18 January (inclusive), FHA=A *would* be reported for January.

D. Varying terms after payment test/serviceability period

The examples below assume that the payment test period is a temporary FHA (as per subparagraph 8A.2(b)(i)).

In the examples shown in this section, there is no difference in the reporting between Calendar Month Reporting and Payment Due Date Reporting as the account moves from a temporary FHA to a Variation FHA (however, see the footnote to Example 26 which shows that differences may arise is some circumstances).

Example 25 – after monthly payment due:

i. Monthly payments (and payment test payments) due 10th of each month;
ii. During payment test period, customer must make ordinary monthly payments in each of Jan – June;
iii. Customer satisfies requirements of payment test period and CP re-ages account on 15 June;
iv. CP would report FHI=A in June as the only payment due in June is subject to the payment test temporary FHA. RHI would be reported against temporary FHA.
v. CP would report FHI=V in July as the July payment is the first payment that is subject to the varied contract (even though the variation was agreed in June). RHI would be reported against the contract.

   Overall, the following would be reported for that customer (assuming original temporary FHA was 3 months of no payments):

   - Original temporary FHA: 3 x FHI=A[15]
   - Payment test temporary FHA: 6 x FHI=A
   - Variation FHA: 1 x FHI=V in July

Example 26 – between fortnightly payments:

i. Customer in payment test period and has fortnightly payments;
ii. Last payment under payment test period due on 1 June and is paid;
iii. Contract re-aged 10 June;
iv. Next contractual payment due 15 June;
v. In June, CP would report FHI=V and RHI as determined by the varied contract.[16]

   Note: We understand that the CP (which are subject to prudential standards) would separately need to ensure that there was the equivalent of 6 monthly payments to assess whether the payment test should end after the 1 June payment or 15 June payment. This example assumes that the CP has assessed that the payment test period is satisfied after the 1 June payment.

[15] Unless the initial arrangement results in 4 x FHI=A as illustrated in examples above.
[16] This assumes the CP uses the Calendar Month reporting approach or, if using the Payment Due Date approach, the RHI month ends on or after 15 June. If the RHI month ended after the re-age on 10 June and before 15 June, the FHA would not be reported until the following month (i.e. July).

3. Operation of paragraph 8 - calculating RHI during a temporary FHA

To confirm:

- No grace period applies to payments required under a temporary FHA;
- Section 6QA(5) will only operate to prevent the reporting of FHI during a temporary FHA if all outstanding payments under the credit contract are paid and that payment is made by the last day of the month used to assess the RHI.

Examples 27 and 28 demonstrate some of the key issues relating to the reporting of RHI during a temporary FHA and the application of section 6QA(5).

Example 27 is based on Payment Due Date Reporting. Example 28 is based on Calendar Month Reporting and demonstrates the additional complexity that form of reporting will cause to CPs. For instance, if the customer does not make a payment due under the temporary FHA by the due date, the CP will need to carefully consider how any discussions with the customer that happen between that date and the end of the calendar month affect the reporting of RHI. i.e. is a further temporary FHA created?

Example 27 – CP using Payment Due Date Reporting:

i. Monthly payments of $1000 due 25th of each month (customer currently up to date);
ii. Temporary FHA applies requiring half monthly payments ($500) for 9 months starting June:
iii. June: customer pays $500 on 25 June (FHA payment made; contractual arrears of $500 accrued)
    - ➢ CP reports FHI=A and RHI=0 (as determined by the terms of the temporary FHA)
iv. July: customer pays $500 on 27 July (FHA payment not made on time; contractual arrears of $1500 accrued as at 25 July and $1000 following late payment)
    - ➢ CP reports FHI=A and RHI=1 (as determined by terms of the temporary FHA)
v. August: customer pays $1000 on 25 August (FHA payment made; ordinary monthly payment made but contractual arrears of $1000 remain)
    - ➢ CP reports FHI=A and RHI=0 (as determined by terms of the temporary FHA)
vi. September: customer pays $2000 on 25 September (FHA payment made; no contractual arrears remain)
    - ➢ CP reports no FHI and RHI=0 (as determined by terms of the temporary FHA, although noting this is also correct as against the terms of the consumer credit).

    Alternative September: customer pays $2000 on <u>*27 September*</u> *(FHA payment not made on time; contractual arrears not cleared by 25 September)*
    - ➢ *CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA)*

vii. October: customer does not pay anything (FHA payment not made; contractual arrears of $1000)
    - ➢ CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA)
viii. November: customer does not pay anything (FHA payment not made; contractual arrears of $2000)
    - ➢ CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA and despite oldest outstanding payment under temporary FHA being >30 days overdue)
ix. December: CP terminates FHA on 10 December. Customer does not pay anything (contractual arrears of $3000 and oldest outstanding payment 60 – 89 days[17] as determined by the contract).
    - ➢ CP reports no FHI (as a payment falls due after FHI terminated) and RHI=3

    Alternative December: CP terminates FHA on <u>*27 December*</u>*. Customer does not pay anything (FHA payment not made; contractual arrears of $3000)*
    - ➢ *CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA – as FHA terminated after payment due date)*

[17] The age of the oldest outstanding payment depends on the precise circumstances and it may not be 60 – 89 days based on those circumstances.

Example 28 – CP using Calendar Month Reporting

i. Monthly payments of $1000 due 25th of each month (customer currently up to date);
ii. Temporary FHI applies requiring half monthly payments ($500) for 9 months starting June:
iii. Under Calendar Month Reporting, the CP will assess the status of the account at the end of each calendar month;
iv. June: customer pays $500 on 25 June (FHA payment made; contractual arrears of $500 accrued)
   - CP reports FHI=A and RHI=0 (as determined by the terms of the temporary FHA)
v. July: customer pays $500 on 27 July (FHA payment not made on time however is paid by end of calendar month; contractual arrears of $1500 accrued as at 25 July and $1000 following late payment)
   - CP reports FHI=A and RHI=0 (as determined by terms of the temporary FHA as at the end of the calendar month)
vi. August: customer pays $1000 on 25 August (FHA payment made; ordinary monthly payment made but contractual arrears of $1000 remain)
   - CP reports FHI=A and RHI=0 (as determined by terms of the temporary FHA)
vii. September: customer pays $2000 on 25 September (FHA payment made; no contractual arrears remain)
   - CP reports no FHI and RHI=0 (as determined by terms of the temporary FHA, although noting this is also correct against the terms of the consumer credit).

   Alternative September: customer pays $2000 on 27 September (FHA payment not made on time however is paid by end of calendar month; contractual arrears not cleared by 25 September however cleared by end of calendar month)
      - *CP reports no FHI and RHI=0 (as determined by terms of the temporary FHA, although noting this is also correct as against the terms of the consumer credit)*

viii. October: customer does not pay anything (FHA payment not made; contractual arrears of $1000)
   - CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA)
ix. November: customer does not pay anything (FHA payment not made; contractual arrears of $2000)
   - CP reports FHI=A and RHI=1 (as determined by terms of temporary FHA and despite oldest outstanding payment under temporary FHA being >30 days overdue)
x. December: CP terminates FHA on 10 December. Customer does not pay anything (contractual arrears of $3000 and oldest outstanding payment 60 – 89 days[18] as determined by the contact).
   - CP reports no FHI (as a payment falls due after FHI terminated) and RHI=3

   Alternative December: As per Example 27.

[18] The age of the oldest outstanding payment depends on the precise circumstances, and it may not be 60 – 89 days based on those circumstances.