Rural Assistance Authority Credit Policy

Purpose

The purpose of this credit policy is to guide the measurement, monitoring and management of loans under the administration of the Rural Assistance Authority (the RAA). Risk Management Strategy. Together these controls form the RAA's credit risk ecosystem.

The scope of this policy includes all credit related aspects of lending for the RAA.

Policy Statement

The RAA is committed to fulfilling its role under the *Rural Assistance Act 1989* (the Act).

The Lending Credit Risk processes include:

- the credit risk assessment and approval process for new and increased lending;
- the management, regular review and assessment of credit quality of the lending portfolios;
- development of robust policies and procedures to measure, identify and manage lending credit risks; and
- establishing appropriate mitigation strategies and processes to reduce the consequence and/or probability of lending credit risk should it materialise.

The RAA is committed to observing responsible lending practices. The mandate of the RAA requires it to lend to borrowers at times when they may be at heightened credit risk. It is therefore important that this credit policy is followed consistently by all lending staff to ensure the safe, fair and efficient administration of loans for RAA's customers.

Board and Management Responsibilities

It is the responsibility of the Chief Executive (CE) and Senior Management team to ensure that adequate risk identification, assessment and mitigation practices are in place for the effective oversight and management of core enterprise risks, including lending credit risk.

The RAA Board's responsibility specific to lending credit risk is to approve the RAA's credit risk policy

CE and Senior Management responsibilities specific to lending credit risk include:

- day to day risk management decision making involving risk identification, assessment, approval, mitigation, monitoring and escalation;
- considering the lending credit risks RAA may be exposed to when launching new products, commencing new business, implementing new systems, engaging third parties and when developing the annual strategic plan;
- maintaining lending credit procedures and policies that represent the risk appetite for each lending program;
- ensuring that the RAA is appropriately resourced to manage credit risk;
- ensuring that appropriate reporting is in place to enable effective management and control of lending credit risk; and
- ensuring loans are managed within appropriate and approved credit policies and procedures.

This policy is to be used by all staff, consultants and other experts who are involved in the assessment, monitoring and management of loans under the administration of the RAA.

LENDING APPROACH

The RAA lends money responsibly and for the purposes determined by the Act.

Loan types

The RAA manages a wide variety of loan types in alignment with its role under the Act.

Where the RAA is required to administer a new loan type, a risk assessment is carried out to identify potential credit risks.

Responsible lending

To manage and minimise the level of lending credit risk inherent in each loan, loan serviceability calculations are performed to assess the borrowers' ability to repay the debt. The loan serviceability assessment criteria include:

- making reasonable inquiries about the customer's financial situation, and their requirements and objectives;
- taking reasonable steps to verify the customer's financial situation; and
- making an assessment about serviceability and capacity to repay using living expense benchmarks for personal lending and the sustainability of cash flow surpluses for business and agribusiness borrowers.

The RAA may vary loan assessments for different loan types where appropriate, for example if a loan is designed for disaster response or resilience building. Serviceability requirements are regularly reviewed to ensure that they reflect the RAA's position on managing Credit Risk.

Any proposals that are outside the approved lending approach must be referred to the RAA CE for consideration.

Loan security

The RAA may require security for a loan as part of its mandate under the Act to reduce the potential exposure to lending credit risk. The RAA will satisfy itself that the security offered is adequate for the approved loan type.

To support this risk approach, the types of acceptable security, valuation process and the maximum Loan to Value Ratio (LVR) for mortgage lending is detailed in RAA Credit Risk documentation.

Security is required for all loans unless specified otherwise in the loan terms. The RAA may conduct unsecured lending in unusual circumstances. To reduce the potential exposure to unsecured lending, the RAA will limit unsecured lending at the portfolio level and limit the level of exposure to any single customer.

Loan variation

The RAA may consider a loan restructure for customers if their financial position or circumstances have changed and the original terms and conditions cannot be met, or they are unable to meet the original repayments. Loan variations may assist customers experiencing financial hardship, entity restructure, succession, property purchase, property sale, or a new loan.

All loans that are considered for restructure or are assessed for additional provisioning in accordance with accounting standard AASB 9 Financial Instruments.

Financial hardship

The RAA will ensure that it has the systems to identify financial hardship and act in a timely manner when such hardship is noted. Upon detecting early signs of financial hardship, the RAA aims to pro-actively discuss possible financial hardship with customers.

Open channels of communication with customers will be established to manage financial hardship and the RAA will encourage customers to reach out if they are experiencing difficulty.

The RAA will consider cases of genuine financial hardship sympathetically and in line with policy delegations and management guidance for collecting on arrears.

MEASURING, MONITORING AND REPORTING

Measuring and monitoring

The RAA maintains appropriate systems and processes to support the proactive monitoring of the credit quality of loan portfolios and compliance with this Credit Policy. A number of measurement methodologies are in place to monitor the credit risk exposure of the RAA at both the portfolio and individual borrower levels. A loan grading system is used to categorise loans by probability of default (PD) and loss given default (LGD).

Reporting

The RAA CE and Board will monitor inherent and emerging credit risks and the credit quality of the loan portfolios via the RAA's quarterly reporting.

Provisioning

The RAA classifies and measures its financial assets, including loans in its portfolio, in accordance with the principles of accounting standard AASB9 Financial Instruments.

Training

The RAA is committed to providing appropriate training resources to enable our staff to meet their lending obligations and avoid liability and loss to themselves and the RAA. All new staff involved in lending are provided with baseline training in the credit practices of the RAA to ensure a consistent experience in line with this Credit Policy for all RAA customers.

RAA lending staff have the obligation to make proper use of the training and support provided.

ASSURANCE

The RAA views assurance as an important credit management practice to ensure that learnings can be captured and the RAA service can be improved for the benefit of all customers.

Assurance is conducted regularly through internal reviews and independent audit of credit practices.

Legislation and Delegations

Rural Assistance Instrument of Delegation (Provision of Rural Assistance and Related Functions of the Authority) 2020

Rural Assistance Act 1989 No 97

AASB9 Financial Instruments Contact

For more information, contact: rural.assist@raa.nsw.gov.au and mark alert to the Credit Risk Manager.