

Responsible Lending - Requirements and Objectives

R&O Guidelines for Brokers

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1. General Guidelines

The R&O questions seek to get information from the applicant on the following key items:

1. Reason for selecting a loan feature.
2. Plan for paying off the loan given the type of product the applicant has selected.
3. Plan for paying off the loan when an event occurs.

Use the following General Guidelines and more specific questions in the succeeding sections to ensure you discuss and capture the right kind and amount of information from the applicant relating to their requirements and objectives. Providing this same information to the Bank will minimise the possibility of the application you submit from being returned due to incomplete or unsatisfactory responses.

1. Have you discussed and recorded enough detail in the responses to understand or describe the reason/s why the applicant chose a specific loan type and/or loan features?
2. Have you discussed and recorded enough detail in the responses to understand or describe how the applicant will be able to repay the loan without experiencing financial hardship if certain events occur during the term of the loan? In the context of being able to repay the loan, are the applicant's responses reasonable?
3. When "Other" is selected as an answer instead of an option in a drop down list:
 - Have you discussed and recorded enough detail in the response to answer the question?
 - Does the answer you have recorded align with the other R&O responses provided by the applicant? Is there consistency on the R&O responses?
4. Have you checked to ensure the loan (type and features) requested align with the applicant's R&O and loan purpose?
5. Will you be able to justify your acceptance of the R&O provided by the customer if a review of the application is done by internal or external parties?

2. Specific Guidelines per Question

2.1 Foreseeable Changes

1. **If the Foreseeable Change is Within 3 Years or Beyond 3 Years** if "Other" is selected, have you provided enough detail to understand and describe what is going to change?
2. The following are examples of satisfactory responses:
 - a. Weekend overtime work comprising 10% of the applicant's income only present for the next 6 months.
 - b. Applicant will switch from Full Time work (40 hours per week) to Part Time work (20 hours per week) in 6 months.
 - c. Residual payment of \$25K on car lease will become due in 6 months.
 - d. Planning to take time off work for post graduate studies in the next 5 years.
3. The following are examples of unsatisfactory responses as they do not provide enough detail on the extent of the change and how it will impact the applicant's loan repayments:
 - a. Overtime
 - b. Employment arrangements
 - c. Car Payment
 - d. Further studies

2.2 Mature Age

If the applicant will reach 75 years OR will reach their planned retirement age during the term of the loan, it is required to record how the applicant plans to pay off the loan.

1. Have you provided enough detail to explain the applicant's plan to pay off the loan once they retire? Does the strategy seem reasonable or plausible?
2. The following are examples of satisfactory responses:
 - a. Sale of investment property in Melbourne, current valuation is \$1M.
 - b. Rental income from investment property in Artarmon, current rent is \$800 per week.
 - c. Sale of current home (approx. value of \$2M) and move to investment property currently being rented out.
3. The following are examples of unsatisfactory responses (these do not provide enough detail on the what the applicant's exit strategy is once they retire):
 - a. Reduction in expenses
 - b. Assistance from family
 - c. Inheritance
 - d. Win the lottery

2.3 Fixed Interest Rate

1. The following are examples of satisfactory responses when "Other" is selected as a reason for choosing a fixed rate loan:
 - a. Fixed rates will allow me to manage my cash flow better.
 - b. Will not stress about interest rate changes for the next 3 years.
2. The following are examples of unsatisfactory responses (these do not provide enough detail on the reasons why a fixed rate loan was chosen):
 - a. Fixed rates are better than variable rates at the moment.
 - b. Fixed rates are more practical for my current situation.
 - c. Fixed rate chosen because customer wants flexibility in repayments.

2.4 Interest Only and Interest in Advance

1. The following are examples of satisfactory responses:
 - a. Customer plans to maximise potential negative gearing benefits.
 - b. Independent financial and/or taxation advice.
2. The following are examples of unsatisfactory responses (these do not provide enough detail on the reasons why the applicant chose interest only or interest in advance repayments):
 - a. Choosing IO because I want the financial discipline that it imposes.
 - b. I don't really understand the difference, but a friend told me IO is a good idea.
 - c. Can't afford P&I (Principal and Interest) repayments at the moment.
 - d. IO will save me money.
 - e. IO product chosen because customer wants to pay off loan sooner and gain equity in their home faster.
 - f. IOA (Interest Only in Advance) chosen because customer wants to minimise any chance of default on their credit file.

2.5 Line of Credit Loans

1. The following are examples of satisfactory responses for choosing a line of credit:
 - a. Access to funds in case an immediate need for funds arises.
 - b. Access to funds for buying shares.
2. The following are examples of unsatisfactory responses for choosing a line of credit (these do not provide enough detail on the why the applicant chose to have a line of credit):
 - a. Customer wants to pay loan off early
 - b. I read about it in the newspaper and it seems like a good idea
3. The following are examples of satisfactory responses for strategies to pay off the line of credit:
 - a. Sale of investment property in Melbourne, current valuation is \$1M.
 - b. Rental income from investment property in Artarmon, current rent is \$800 per week.
 - c. Sale of 5,000 CBA shares, current share price is \$75.
4. The following are examples of unsatisfactory responses for paying off the line of credit (these do not provide enough detail on how the applicant will be able to pay off the line of credit):
 - a. Plans to reduce expenses
 - b. Inheritance
 - c. Increase in income expected
 - d. Win the lottery
5. The following are examples of satisfactory responses for paying off the line of credit if the line of credit is reduced or cancelled:
 - a. Sale of 4BR Holiday Farm in the Hunter Valley, current valuation is \$3M.
 - b. Sale of a commercial property/office suite in St.Leonards, current valuation is \$2.88M.
6. The following are examples of unsatisfactory responses for paying off the line of credit if the line of credit is reduced or cancelled (these do not provide enough detail on how the applicant will be able to pay off the line of credit):
 - a. Sale of Owner Occupied property
 - b. Sale of family home
 - c. Inheritance
 - d. I will repay from the relevant amount from cash on hand. (Why would they need a line of credit if they always have lots of cash on hand?)
 - e. I will use rental income (This does not work as a large amount will be needed to repay the debt on short notice.) to repay the relevant amount.

2.6 Refinance

1. The following are examples of satisfactory responses for stating the reason to refinance when there are no cost savings achieved by refinancing/debt consolidating existing loan/s:
 - a. Want to consolidate all my loans with Westpac (or St.George/BankSA/BoM).
 - b. Existing loan has a high annual fee, \$500 per annum.
2. The following are examples of unsatisfactory responses for stating the reason to refinance when there are no cost savings achieved by refinancing/debt consolidating existing loan/s (these do not provide enough detail on the reasons why the applicant would like to refinance existing loan/s):
 - a. A friend recommended it.
 - b. I read about it in the newspaper and it seems like a good idea.
3. The following are examples of satisfactory responses for requesting to refinance existing loan/s which has a shorter term than the new loan:
 - a. The lower interest rate and the lower monthly repayments are less stressful than keeping the existing loan with a shorter term.
4. The following are examples of unsatisfactory responses for requesting to refinance existing loan/s which has a shorter term than the new loan (these do not provide enough detail on the reasons why the applicant still want to proceed despite a longer term for the new loan):
 - a. I thought 30 years terms were standard.
 - b. I don't really pay attention to the loan terms.

2.7 Mixed Purpose

1. The following are examples of satisfactory responses for choosing “Cost saving” or “Other” as a reason for wanting a mixed purpose loan:
 - a. Will avoid monthly admin fees on separate loans.
 - b. Eliminate the need to manage separate loans.
 - c. Less stress in having one loan which still allows me to use funds for my occasional share investing.
2. The following are examples of unsatisfactory responses for choosing “Cost saving” or “Other” as a reason for wanting a mixed purpose loan (these do not provide enough detail on the reasons why the applicant would like to just have one loan):
 - a. A friend recommended it.
 - b. I don’t plan to claim tax deductions for the money I use for investments.

2.8 Alignment of Loan with R&O

1. Ensure there are no inconsistencies between the applicant’s stated R&O and the loan/product features
2. Ensure the R&O responses relating to repayment strategies (e.g. Foreseeable Changes, Mature Age, LOC repayment) and the strategy provided is reasonable or plausible (e.g. sale of assets is provided as a response and the value of the assets is likely to have sufficient value to cover the loan).