



# Residential Lending Policy

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## 1 Introduction

Firstmac's lending guidelines have been developed to assist Originator/Mortgage Managers in writing mortgage loans with a risk profile consistent with that expected of AAA rated mortgage loan securities and industry best practice generally.

Firstmac is prepared to look at the merit of loans on an individual basis. Ultimately however, if mortgage insurance is unavailable on a transaction, Firstmac cannot accept the loan into the program unless specifically allowed under Firstmac policy. Any exceptions to policy may be considered on case by case basis by Firstmac credit and if supported, must be mortgage insured.

This should be read in conjunction with other Firstmac updates, guidelines and operations manuals which together form the basis for providing residential loan funding under the mortgage program.

Firstmac's lending guidelines are governed by the Firstmac Credit Committee Charter.

All loans submitted and processed through Firstmac or the Firstmac Residential Program must comply with this Policy, the specific requirements of the Firstmac Residential Lending Policy and all other guidelines and procedures as advised from time to time by Firstmac to Originators / Mortgage Managers / Agents / Brokers and other introducers. All parties must also ensure that they also comply with the specific Responsible Lending requirements.

The Firstmac policy, procedures, guidelines and requirements need to be complied with as they are designed to ensure that Firstmac complies with its Responsible Lending obligations for all applications (including loan variations and additional advances). If the loan application form or information provided on any given application does not adequately demonstrate that the Originator / Mortgage Manager / Agent / Broker have undertaken an appropriate level of enquiry or loan assessment, then Firstmac may request that additional information be provided and submitted.

All loans being documented must also comply with the requirements in the Documents and Procedures Manual as amended from time to time, under the Firstmac Residential Program.

## 2 Purpose of the Lending Policy

This policy contains guidelines for residential lending nationwide. It is intended as an easy reference manual to lending guidelines, acceptable credit standards and macro processes.

The principles presented in this policy should not be interpreted as a set of inflexible rules, but as a set of guidelines, to be practiced in association with prudent lending practices and common sense. Every application should be assessed on its own merit.

Loans that are outside the guidelines presented in this policy may still be considered if there are inherent strengths to the transaction; credit risks can be mitigated with justification and sufficient supporting documentation can be provided which would enable the loans to be approved.

## 3 Responsibilities

All parties have particular responsibilities to be fulfilled to ensure prudent lending practices are followed:

Originator / Mortgage Manager or Originator / Mortgage Manager Agents or Brokers must perform the following tasks:

- Conduct loan interview, discuss loan options and determine the most suitable loan product for the customer
- Advise the customer about the approval process
- Assist customer with the preparation of the loan application if required
- Sight all original verification documents required in support of the loan application, check their authenticity and obtain copies for the file noting on them that they have sighted the original document and forward copies to the Originator/Mortgage Manager in the case of Originator/Mortgage Manager agents or in the case of Brokers dealing direct with Firstmac to Firstmac.
- Complete the Customer Identification and Verification form after comparing the borrower and their signature with the photographic ID and taking a copy of the identification documents or any other identification procedures as advised and required by Firstmac.

In addition, Originator/Mortgage Manager **only** must perform the following tasks:

- Using the White Pages or Yellow Pages Telephone Directory, independently verify the telephone number of the employer/accountant and contact the employer /accountant by telephone to confirm employment details. A file note is raised noting the name of the caller; the number called; the date and time of the call and the name/position of the person providing the confirmation and full details of what was confirmed ie income, length of employment, position etc. Print a copy of the White / Yellow Pages listing submit with the loan package and retain a copy on file. NOTE. Under no circumstances are mobile phone numbers or numbers supplied by third parties to be used.
- Obtain credit reports on all parties to the loan application together with associated companies; proprietorships; possible matches and cross-linked files
- Obtain valuations of the security properties
- Prepare and submit Lender's Mortgage Insurance application for approval

### **3.1 Firstmac credit**

Originator / Mortgage Manager DLA approvals:

- Undertakes a review of the loan application to ensure compliance with program parameters
- Advises Originator/Mortgage Manager of any errors to be corrected
- Monitors correction of identified errors
- Performs Valuer checks
- Audits employment confirmations on a random basis
- Undertakes ongoing audit

Firstmac approvals:

- Undertakes a credit assessment of the loan application and a review of the loan application to ensure compliance with program parameters

- Advises the Originator / Mortgage Manager if more information is required or of any special conditions. It would be expected that the requirement for additional information would occur rarely as the Originator / Mortgage Manager would supply all the required information with the application
- Approves, declines or defers the application
- Undertakes ongoing audit

### **3.2 National Consumer Credit Protection Act (“NCCP”)**

#### Introduction

The Uniform Consumer Credit Code was replaced by the National Credit Code (“NCC”) on 1 July 2010.

The NCCP requires all businesses operating in the consumer credit to:

- Be licensed or appointed a credit representative (subject to certain exceptions)
- Comply with the National Consumer Credit Code
- Engage in responsible lending practices

The NCCP applies to Firstmac and also to mortgage and finance brokers. It is important that employees and any agents of Firstmac know how the NCCP affects the policies and procedures and processes of Firstmac. Ongoing compliance with the NCCP is mandatory.

All Originators / Mortgage Managers / Introducers and their representatives and employees involved with any credit related activities under the NCCP are required to observe and comply with the guidelines and Responsible Lending requirements.

Firstmac expects any Mortgage Managers / introducers to suggest or recommend to an applicant only those arrangements for finance that the Mortgage Manager / introducer genuinely and reasonably believes are ‘not unsuitable’ to the needs of that applicant after undertaking an assessment of the applicant’s capacity to repay the loan. This standard applies to all loans and not just NCC regulated loans.

The Originator / Mortgage Manager / Introducer warrants and represents that each of their staff and/or representative processing a mortgage loan application which is assessed and submitted to Firstmac has been trained on and understand their obligations under Firstmac’s Lending Policy and requirements and obligations under the NCCP including the responsible lending obligations.

If there are any queries, please direct them to your contact or BDM at Firstmac.

### **3.3 Responsible Lending provisions**

There are key responsible lending provisions and obligations contained in the NCCP which includes the following:

- making reasonable enquiries about the consumers’ financial situation and circumstances, and their requirements and objective
- taking reasonable steps to verify the consumers’ financial situation
- making a preliminary (Originator / Mortgage Manager / introducers) or final assessment (lenders) about whether the credit is ‘not unsuitable’ for the consumer

- providing a copy of the assessment on request if assistance is provided (Originator / Mortgage Managers / introducers) or credit is provided (lenders)

Credit will be unsuitable, if at the time of the assessment it is likely that:

- a consumer will be unable to comply with their financial obligations under the proposed credit contract, or could only comply with substantial hardship; or
- the proposed credit contract will not meet the customer's requirements or objectives

All loans submitted and processed through Firstmac or the Firstmac Residential Program must comply with this Policy, the specific requirements of the Firstmac Residential Lending Policy and all other guidelines and procedures as advised from time to time by Firstmac. All parties must also ensure that they also comply with the specific Responsible Lending requirements.

The Firstmac policy, procedures, guidelines and requirements need to be complied with as they are designed to ensure that Firstmac complies with its Responsible Lending obligations for all applications (including loan variations and additional advances). If the loan application or information provided on any given application does not adequately demonstrate that an appropriate level of enquiry or loan assessment have been undertaken, then Firstmac may request that additional information be provided and submitted.

Set out below are the minimum that Firstmac requires to comply with its responsible lending obligations for all loan applications (including loan variations and additional advances) submitted by Originators, Mortgage Manager, brokers and introducers.

The details below serve only as a guide that can be customised to ensure these satisfy the specific way Originators, Mortgage Manager, brokers, introducers choose to interact with customers.

In addition to complying with all the current Firstmac lending policy and underwriting requirements as amended from time to time, Firstmac also requires that all Originators, Mortgage Manager, brokers and introducers make specific enquiries relating to the following:

- is customer aware of information relevant to his/her/their loan application that has not been provided and may have an adverse impact on his/her/their financial circumstances,
- is customer aware of any future change in his/her/their employment which may adversely affect his/her/their ability to meet his/her/their current and future financial obligations.
- does customer anticipate any increase to his/her/their expenses/liabilities over the next 12 months (e.g. ill health or disability, a possible claim requiring payment, end of interest free or honeymoon period on a loan);
- does customer anticipate any decrease to his/her/their income during the next 12 months (e.g. extended leave, retirement, reduction in overtime);
- does customer anticipate any reduction in profit/income/cash flow to his/her/their business activities during the next 12 months.

Originators, Mortgage Manager, brokers and introducers will also need to take into account and consider the following:



- ability of the customer to meet his or her financial obligations under the Proposed Contract or ability to meet obligations without substantial hardship
- take reasonable steps to verify the customer's financial situation
- assess according to the information provided by the customer about their objectives and requirements
- with regard to the stated loan purpose, there is an obligation to determine whether or not a loan is "not unsuitable" and an important part of that is to identify in more detail about the stated purpose (if it is too general or is not clear eg "future investment purposes") and what the funds are to be used for and ensure that the settlement proceeds are applied so far as we are able for that purpose.

### **Assessment**

All Originator / Mortgage Manager / introducer must make the preliminary assessment within 90 days of when the credit assistance is provided. This will be when the Mortgage Manager / introducer assist the borrower to apply for a loan or an increase to a loan. Assisting a borrower arrange a settlement is not credit assistance, and so the assessment does not need to be within 90 days of loan settlement.

Lenders must make the assessment within 90 days of when the loan contract is entered or loan principal amount is increased (120 days if the loan is used for the purchase of residential property **and** is secured by a mortgage over that residential property). The time limit for new loans relates to the date of the credit contract, not the loan settlement date, whereas the time limit for loan principal amount increases relates to the date the loan principal amount is increased, not the contract date.

The assessment must state the period the assessment covers.

In order to demonstrate compliance with the law, Originator / Mortgage Manager / introducer and lenders will need to keep a record of the steps taken to make reasonable enquiries; to verify the consumers' financial situation. The Originator /Mortgage Manager / introducer must retain a written (includes electronic) copy of the preliminary assessment and provide it to borrowers on request made within seven years of the date of the credit assistance. Note that these procedures apply equally to principal increases as to new loans. The assessment can be wholly in electronic form (ie a suitable record on a system) but needs to contain a statement that a credit assessment has been made on a specified date and the period for which it applies.

## **4 Security requirements**

All loans must be secured by registered first mortgages over acceptable real property. Acceptable real property includes freehold title (Torrens Title, Strata Title, Community Title, Common Law) and Crown leasehold (providing the lease runs for at least 5 years past the maturity date of a loan).

Security properties must be for residential use and must be in good condition, free of defects, well presented and readily saleable. Acceptable security includes houses; home units; flats; apartments; town houses and villas; and vacant land zoned residential or rural-residential.

Where a security property does not fall into one of the above categories and is not an unacceptable security, it may be submitted for consideration on a case by case basis to senior DLA holder and is subject to Firstmac's other standard policy considerations.

**Unacceptable security includes:**

- Studio Apartment or bed-sitter (no separate bedroom)
- Serviced apartments
- Title is leasehold strata
- Company title units
- Display home / relocatable homes
- Kit homes
- Dual key apartments
- Retirement homes and villages
- Income producing rural properties or farms
- Income producing properties - Backpacker hostels or boarding-houses
- Properties not connected to water (except in clearly recognized urban areas) and power
- Properties with an area in excess of 10 hectares and properties with restrictive usage
- Properties designed, zoned, or used for commercial purposes (excluding residential home units in a commercially zoned development)
- Properties to be constructed by an owner-builder (in whole or part)
- Leasehold properties (other than Crown Land with a term of at least 5 years past the maturity of date of a loan in the ACT)
- Purple Title (W.A.), or Moiety Title (S.A.)
- Under a "time share" arrangement
- Limited Title (any defects)
- Contaminated land
- Properties with life tenancy
- A strata title home unit less than 40 sqm
- Properties subject to the Western Lands Act
- Properties subject to 'mines subsidence' or land slip
- Properties that are unique, or have restrictive usage
- Properties located on an unsealed road and / or considered remote / bush style / shack.
- Units in a strata hotel/motel
- Resort style dwellings
- Security boundary located within 50 metres of High Voltage Transmission lines
- Located on an island without sealed road connection to mainland
- Vacant land exceeding 2.2 hectares
- Vacant land without signed fixed cost building contract
- Conversions (other than warehouse conversions)
- Unit developments where the development is held on one title and the number of dwelling exceeds 1 unit

Any exceptions to this may be considered on case by case basis by Firstmac credit and if supported, must be mortgage insured.

#### **4.1 High Density apartments / units**

A High Density apartment is a strata titled home unit or apartment in a postcode defined as High Density Location as per the Firstmac Acceptable Security Location guide, and part of a development comprising more than 35 apartments. The following apply to these types of security:

- maximum LVR 80%
- valuation should include comparable sales outside the development, and details of any resales within the development
- security must be in a prime location
- LVR and concentration restrictions may apply to individual developments
- maximum of up to 50% of gross rental accepted for servicing
- minimum floor size of 50sqm (40sqm in high demand locations) in living area, excluding balconies and car space.
- borrower should be a 'high net worth' with net assets of at least \$500,000
- houses within high density locations are exempt from this policy, as are home unit developments comprising a total of 35 apartments or less
- each application will be assessed by Firstmac on case by case basis.

Any exceptions to this may be considered on case by case basis by Firstmac credit and provided it is supported, must be mortgage insured.

## **5 Geographic location**

Security properties can be within all states and territories of Australia and be located in capital cities, metropolitan areas and regional centres with a minimum population of 5,000. The security property should reside as much as possible within the town boundaries. Specific Firstmac DLA Discretion - exceptions will be considered on case by case basis.

### **5.1 Security concentration**

Firstmac may impose a restriction on the number of properties accepted as security in any one (1) development to limit concentration of exposure. Any such restriction will be considered on a case-by-case basis.

#### **Concentration limit**

As part of risk management, Firstmac may set prudential concentration limits (eg on individual projects, developments or buildings, areas) to help monitor and manage exposures in line with business objectives, these may include security type (e.g. vertical/horizontal development), geography, product.

## **6. Borrowers, guarantors, and mortgagors**

It is a requirement of the National Credit Code (NCC) that a mortgage cannot be taken from anyone other than a borrower or a guarantor. Borrowers and guarantors can be individuals, corporations or trusts.

### **6.1 Age of borrower / guarantor**

- Firstmac does not discriminate against borrowers on the basis of age however: Firstmac does not lend to or accept guarantees from persons under the age of 18.
- Where a borrower is unlikely to repay their loan during their working life consideration should be given as to how it will be repaid eg from superannuation or sale of assets. For example a 90% loan to a 60 year old borrower to purchase a principal place of residence, with no assets of consequence, could be deemed to be unconscionable as the only way out once the borrower is unable to work is the sale of the house.

### **6.2 Joint borrowers**

Where there are joint borrowers it is important to ensure that:

- No borrower is acting under the duress of another
- All borrowers receive a benefit from the loan
- All borrowers are fully informed with regard to all aspects of the loan

### **6.3 Corporate borrowers & trusts**

Loans to corporate borrowers must be supported by the unlimited joint and several guarantees of the company director/s, unless waived by Firstmac and the Mortgage Insurers e.g. nominal directors will not normally be required to provide a guarantee.

Where a loan is to an individual/s who own/s a company, and the servicing of the loan is dependent upon the income derived from that company, the guarantee of the company must be obtained.

Loans to trusts are to be provided to both the trust and the trustee/s in their own right. Where the trustee is a company, the unlimited joint and several guarantees of the directors of the trustee company will be required.

In order to reduce the risk of challenges to the validity of guarantees, guarantors are required to obtain independent legal advice regarding the provision of a guarantee. In certain circumstances Firstmac may consider waiving this requirement e.g. sole trader company. Independent financial advice may also be required for guarantors.

Trustee/s of a Self Managed Superannuation Fund (SMSF) are acceptable borrowers. Please refer to Firstmac's SMSF lending policy requirements.

### **6.4 Hybrid Trusts**

These are a combination of discretionary and unit trusts which are very complex and tax driven. The loan structure required to gain the benefit of the trust and our inability to identify the beneficiaries of any cash flow make them unsuitable borrowers and we do not lend to this type of trust.

### **6.5 Non-English speaking borrowers**

Firstmac will lend to non-English speaking borrowers, however they must employ the services of a qualified, independent and professional translation service and provide a certificate verifying the

documents have been independently translated.

A template of the acceptable certificate is available from Firstmac Online.

### **6.6 Non-resident borrowers**

In the case of loans to non Australian residents (other than New Zealand residents) the lender must ensure that the Debtor has a current irrevocable and unlimited power of attorney in favour of an Australian resident which is suitable for service of notices in respect of Housing Loans, and there must be an Australian address for notices to be given.

### **6.7 Powers of Attorney**

Firstmac does not accept loan applications or legal documents, signed under power of attorney except in the case of corporate borrowers. There have been several instances where even though powers of attorney have been registered with the respective Titles Offices they have not been signed by the donor and we have no way of verifying whether or not they are genuine unless we deal directly with the borrower in which case there should be no need for an attorney. In addition there have been cases where the attorney has raised money for their own personal benefit which is illegal unless specifically provided for in the power of attorney, otherwise all actions of the attorney must be for the benefit of the donor.

Where the borrower is overseas, special arrangements can be made for the delivery and execution of documents subject to a business case being put to Firstmac.

### **6.8 Maximum Total exposure**

The maximum exposure to any one borrower is \$2.5million. Exposures above this amount may be considered on an exceptional and a case by case basis. Any such exceptions where supported by Firstmac Credit must be mortgage insured.

## **7 Loan purpose**

Applicants must provide full details of the loan purpose to assist in the determination of the loan's status under the NCC (refer National Credit Code section of the Program Overview).

Acceptable loan purposes include:

- Purchase owner occupied residential property
- Purchase investment residential property
- Construction of residential property owner occupied or investment (not owner- builder)
- Re-finance existing owner occupied or investment residential property loans
- Personal debt consolidation
- Purchase of shares / investments
- Purchase of vacant residential land
- Home renovations.

- Any other legal purpose related to consumer goods and services; travel and holidays; household and personal goods; motor vehicles approved by Firstmac and Lender's Mortgage Insurers.
- Business
- Re-finance an existing business loan or part of an existing business loan
- Purchase plant and equipment
- Purchase an existing business
- Equity release / cash-out

The correct loan purpose must be identified – simply stating “future investment” is not acceptable. Firstmac may require evidence to support the purpose such as contracts of sale for investment purchases.

**EQUITY RELEASE / CASH-OUT POLICY** - Any loan or loan component that is given directly to the borrower is considered cash-out regardless of the proposed loan purpose. Purpose must be clearly identified in all cases.

Where the loan purpose includes an amount for home renovations or improvements, provided the current “as is valuation” of the security property can support the proposed amount within current LVR policy, then any loan draw-downs for these renovation or improvements may not need to be controlled by Firstmac or be supported by formal quotes and progress valuations to confirm the completed works.

Full Doc Loans-

- Greater than 90% LVR no cashout
- 85% to 90% LVR maximum 20% cashout of security value
- up to 85% LVR unlimited cash out

The following loan purposes are not acceptable:

- Refinance which includes more than 3 unsecured debts (not home loans or investment loans) regardless of the LVR. Any refinance must be supported by evidence of satisfactory repayment history over most recent 6 months (3 months for credit card and other unsecured debts)
- Refinance greater than 80% LVR which includes cash out, other than for a defined investment purpose, “Not General Investment Purposes” or Home Improvements, which cannot be supported by written quotation or documentation.

### **7.1 Loan applications which require Mortgage Insurance cover**

All applications must comply with the requirements of the Firstmac Lending policy and guidelines.

Loan applications with any of the following features are required to be mortgage insured up front and are NOT available on a NON MI basis:

LVR exceeds 80%

Loan Amount exceeds \$750,000



Any Self Certified (Lo Doc) loan applications for any loan amount

Any loan application for Non Resident borrowers

Any additional advances to existing loans which are currently mortgage insured

Any construction loan

Cash Out – where the funds disbursed is not in line with the stated loan purpose

Business loan – where the loan purpose includes business related purposes and loan amount is over \$500,000

Sales / purchases without the intervention of an agent and non-arms-length transactions

Credit Bureau report reveal any prior default (paid or unpaid), judgement or bankruptcy

Completed dwellings and Vacant Land properties which exceed the Maximum LVR & Loan Amounts in Section 8.

The following are also required to be mortgage insured up front and are NOT available on a NON MI basis:

**Security property for loan application which involve any of the following:**

- Property is in new development, housing estate, unit sale by the developer
- Living area is under 50sqm (excluding balcony and garage)
- Valuation report contains any risk ratings of 4 or 5, or adverse commentary
- Any securities located outside of Category 1, 2 or 3. Any security policy exceptions may be considered provided there is LMI cover in place
- which are unacceptable under existing Firstmac policy.

General Firstmac DLA discretion - Any policy exceptions may be considered on case by case basis by Firstmac Credit and provided it is supported by Firstmac Credit, it must be mortgage insured up front.

**8 Loan amount**

Maximum loan amounts apply as follows (capitalised LMI premium can be added to the maximum LVRs and loan amounts. Note that the maximum LVR is 90%): Any loan application above 80% LVR must be mortgage insured.

Loan type	Security type	Maximum LVR	Maximum loan balance
Fully Verified	Owner Occupied	90% (inclusive of capitalised premium)	\$750,000
	Investment Dwellings	90% (inclusive of capitalised premium)	\$750,000

	Vacant Land with construction contract	90%	\$600,000
Self Certified (Lo Doc) #	Owner Occupied Investment Dwellings	80%	\$750,000
	Vacant Land with construction contract	80%	\$550,000

# Self Certified (Lo Doc) is only available as Additional Advances and on an exception basis. These will be considered on a case by case basis and only for existing clients up to maximum additional advance of \$100,000.

### 8.1 Maximum LVR & Loan Amounts

Any loan application above 80% LVR must be mortgage insured.

Doc Type	Property Type	LVR	Category 1/ Metro postcode	Category 2 / Regional postcode	Category 3 / Other postcode
Full Doc	House / Unit	0 – 80%	\$750,000	\$750,000	\$500,000
		80.01% - 90%	\$750,000	\$600,000	\$450,000
		90.01% - 95%	NA	NA	NA
Full Doc	Vacant Land (up to 2.2ha)	0 – 90%	\$600,000	\$400,000	\$200,000
		90.01% - 95%	NA	NA	NA
Self Certified (Lo Doc)	House / Unit	0 - 80%	\$750,000	\$750,000	\$500,000
Self Certified (Lo Doc)	Vacant Land	0 - 80%	\$600,000	\$400,000	NA

Maximum loan amount apply on a 'per security' basis. Loan amounts greater than the above may be considered on case by case basis. Categories refer to Firstmac Acceptable security location guide.

## 9 Repayment types

Firstmac offers the following repayment options:



<b>Term loans</b>	<ul style="list-style-type: none"> <li>• Principal &amp; Interest amortising over the term of the loan</li> <li>• Blended Interest Only and Principal &amp; Interest which allows for an initial interest only period of up to 10 years then amortising over the remaining loan term</li> <li>• Interest only with no amortization, maximum 10 years</li> </ul>
<b>Line of Credit Facilities</b>	<ul style="list-style-type: none"> <li>• LOC must be Interest Only for maximum of 10 years, after which it reverts to P&amp;I amortization.</li> </ul>

## 10 Loan term

<b>Principal &amp; interest</b>	30 years
<b>Blended product</b>	Interest only period of 10 years maximum. Overall loan term of 30 years
<b>Interest only</b>	10 years maximum
<b>Line of Credit</b>	30 years, LOC must be Interest Only for maximum of 10 years, after which it reverts to P&I amortization

## 11 Interest rate options

The interest rate options available are:

- Variable
- Fixed for terms of 1, 2, 3, 4, or 5 years

**NB:** Fixed rates may not be available on all products – refer to individual product specifications.

Break costs may apply where a fixed interest rate term is broken.

## 12 Split loan options

Except for Construction Loans, borrowers may create sub-accounts within the loan and receive separate statements for each sub-account. These sub-accounts must have the borrowers name in the title followed by an identifying name (or names) and may relate to:

- Loan purpose – personal, investment, business, refinance, purchase
- Loan type – variable rate, fixed rate, P&I, Interest Only
- Security type – owner occupied, investment, property 1, property 2
- Product type – standard loan product, line of credit

There is no fee charged where sub-accounts are established upon settlement of the loan.

Where the borrower elects to establish sub-accounts after settlement of the loan, a fee will be

payable except in those cases where the sub-account comes into being as a result of a portion of the loan being fixed.

### 13 Loan-to-Valuation Ratio (LVR)

The maximum loan-to-valuation ratios (exclusive of LMI capitalisation) are:

Loan purpose	Max LVR
Owner Occupied Purchase (Inclusive of LMI Capitalisation)	90%
Investment Purchase (Inclusive of LMI Capitalisation)	90%
Construction – Owner Occupied & Investment Purchase (Inclusive of LMI Capitalisation)	80%
Line of Credit for Personal Use	90%
Refinance	90%
Overseas Investors	80%
Vacant Land	80%
Self-Certified (Lo Doc) – additional advances on selected basis only	80%
Business borrowers (Inclusive of LMI Capitalisation)	90%

These loan-to-valuation ratios apply to all loan types, being interest-only, principal and interest or a blended product of the two.

Any loan application above 80% LVR must be mortgage insured.

### 14 Repayments

Repayments must be by way of a direct debit against a nominated account with a financial institution or on some products by electronic salary crediting (refer to individual product specifications). In all cases we must hold a signed direct debit authority against a nominated bank account even though it is not active as is the case with salary crediting. Repayments are not to be made directly to an Originator / Mortgage Manager.

Repayments may be made either weekly, fortnightly or monthly.

Borrowers may make additional principal payments to their loan account at any time or pay a regular nominated amount in excess of their normal loan repayment. There is no penalty for such payments provided the loan balance is not reduced to less than 50% of the original loan amount during the first five (5) years. Where the loan is reduced by more than 50% during 1 to 5 years,

refer to Early Repayment Fees. Break costs may be payable if principal reductions are made during a fixed rate period.

If a borrower has elected to make the minimum repayment on their Firstmac loan and a rate rise occurs, Firstmac will automatically increase the loan repayment amount to cover the interest rate rise.

Similarly, if a borrower has chosen to repay a fixed amount greater than the minimum repayment and a rate rise occurs, Firstmac will automatically increase the loan repayment to cover the minimum repayment amount in the event that the fixed amount originally set no longer covers the minimum repayment amount required.

#### 14.1 BSB details

Borrowers are able to credit their account using a number of methods and will require our BSB to facilitate the transfer.

Transaction type	BSB
For electronic transfers including direct salary crediting, internet and phone transfers	704 997
For over the counter transactions (Westpac & Bank of Melbourne only)	034 867

Borrowers must use their own account number (x-reference not application number) in conjunction with the information above.

## 15 Redraw

A redraw of excess payments is available on most Firstmac loan products subject to the loan not being in default at the time of the request. The availability of the redraw facility is always at the discretion of Firstmac.

For most loans a redraw may be effected by way telephone, Internet request (funds transfer and biller payment) or by contacting the Originator / Mortgage Manager by telephone or in writing (refer to individual product specifications). Where the loan account has transactional functionality, additional access to redraw funds is available by way of ATM and EFTPOS facilities.

## 16 Security Valuations

The valuation report must be for mortgage lending/security purposes and must be performed by a registered licensed valuer acceptable to Firstmac and the Lender's Mortgage Insurers. Details of currently approved valuers can be obtained by contacting Firstmac or by accessing the Firstmac website. Valuations must comply with the valuation standards as set out in Annexure 2.

Generally Firstmac will not accept valuations more than three (3) months old (from the proposal date) but may consider exceptions to this policy upon application with the consent of the Lender's Mortgage Insurer, where applicable.

The valuation must be addressed to “First Mortgage Company Home Loans Pty Ltd” or the appropriate Special Purpose Vehicle (SPV) if there is one applicable.

The valuation must also note that the valuation can be relied upon by:

- Firstmac Limited and its associated companies
- Genworth Financial Mortgage Insurance Pty Limited
- QBE Lenders’ Mortgage Insurance Limited

and the respective related companies of these insurers, as advised.

Where applicable, approved Valuers should be advised of any inducements associated with the purchase and asked to provide relevant comment. Such inducements may be in the form of rental guarantees from the vendor, subsidisation of costs such as stamp duty or legal fees being included in the purchase price, trade dollars, or rebates.

Originator / Mortgage Managers should read the valuation report carefully to ensure:

- The valuation report is assigned to the relevant interest parties
- The borrower(s) name(s) is / are spelled correctly
- The security property address is correct
- The security property details are acceptable including house type; land size; description; covenants to title; easements; land fill; local government zoning and any adverse features raised by the valuer
- The valuation is signed and dated by a qualified valuer. The valuation should provide details as outlined in the Australian Property Institute (API) PropertyPRO Pro-forma Report (a copy can be obtained from Firstmac Credit).

If a valuation is conditional upon a certain requirement e.g. a survey report or pest inspection, this requirement must be satisfied.

Originator / Mortgage Managers are not to provide a copy of the valuation or disclose the valuation amount to any third party e.g. a broker or the borrower/s, as the valuation is for mortgagee purposes only.

### **16.1 Valuation variation - acknowledgement by proposed borrower(s)**

Firstmac recognises that situations do arise where valuations on properties offered as security may vary downwards against the purchase price.

In these instances, full and open disclosure of the situation must be made to the borrower (excepting the amount of the valuation, which must remain confidential so as not to breach engagement terms of the Valuer) and the borrower’s instructions sought on whether to proceed with the proposed loan, given that other loan assessment criteria has been satisfied.

A valuation variation is deemed to occur when a valuation is 10% or more below the purchase price of the proposed security.

Upon receipt of a valuation which falls within the above category, the Originator / Mortgage Manager must immediately inform the proposed borrower in writing advising the following:

- The lender's valuation has produced a variation below the purchase price.
- The lender is still willing to lend (subject to other successful lending criteria).
- The borrower should be encouraged to make their own enquires about the value of the property.
- The proposed borrower must acknowledge receipt of the variation notice to signify that they acknowledge the variation and still wish to proceed with the loan.

The Originator / Mortgage Manager **must not** quote the valuation amount as the valuation is for lending purposes only and is addressed to the lender and associated parties.

A template of the Valuation Variation Acknowledgement is provided in Annexure 1 and is available to Originators / Mortgage Managers (on their letterhead) at Firstmac Online. Cosmetic changes are allowed but the essence as denoted above must be retained.

The borrower acknowledgement of the valuation variation is to form an integral part of the loan documentation and as such must be a condition of Firstmac loan approval and included/referenced in Firstmac's Schedule 4.

## **16.2 Off-the-Plan purchases – revaluation and increased borrowing at settlement**

Firstmac recognises that an off-the-plan purchase may present a situation where the borrower seeks to increase borrowing (at the time of settlement) in the light of an improved valuation of the subject property.

Normal lending criteria will apply (specifically, re-application and assessment for the increase) but the following additional criteria in respect to the revaluation and request will also apply.

### **16.2.1 Mortgage insurance approval**

Where an existing loan is mortgage insured, an increase to the loan must be mortgage insured or be mortgage insurable. Firstmac policy toward managing such loan increase requests prior to settlement for the purchase will reflect the current policies of mortgage insurers.

### **16.2.2 Period of time from exchange of purchase contract to settlement for purchase**

The settlement for the purchase (and increased borrowing) must be at least 12 months from the exchange of contract to purchase.

### **16.2.3 Valuation – increased borrowings**

An updated valuation will be required to support the application for increased borrowing. The valuation must specifically address comparables external to the subject. For a valuation to be acceptable, it must be less than 90 days old. This requirement applies to additional loans and variations.

### **16.2.4 LVR (Lending Value Ratio)**

Where loans are mortgage insured, they must be in line with Mortgage Insurer policy with respect to such lending.

### **16.2.5 Other**

All other policy terms and conditions for the lending remain unchanged.

### **16.3 Valuations – sales / purchases without the intervention of an agent and non-arms-length transactions**

It is the responsibility of the Originator/Mortgage Manager to correctly advise the valuer of all matters that may affect the valuation such as the fact that no agent is involved or that it is a non-arms-length transaction.

Firstmac will accept loans where there is no agent involved in the sale or it is a non-arms-length transaction provided the valuer has commented within the valuation report acknowledging awareness of the terms of the sale and that the valuation represents fair market value as defined by the memorandum upon which the API pro-forma valuation is based.

### **16.3 Builder / Developer Sales in Queensland – Section 27c Certificate**

More information and enquiry is required in relation to new units or houses in Queensland, where the builder / developer or a related party is the vendor, to ensure the sale prices are not over inflated and to minimise the possibility of fraud. The following additional checks apply to this security type:

- A copy of the Section 27c Certificate must be supplied to Firstmac and the valuer for all purchases of new property in Queensland.
- The valuer must confirm in the valuation report that they have sighted the Section 27c Certificate and the total commission involved in the transaction.

Specific Firstmac DLA Discretion - may be considered on case by case.

## **17 Valuation panel**

For a valuer to be accredited and approved, valuers must be registered with either the Real Estate Valuers Registration Board or the Australian Property Institute Inc.

All panel valuers must comply with Firstmac's minimum valuation requirements as well as the requirements of the specific mortgage insurers – refer to Annexure 2 for full details.

Valuers are required to provide written confirmation of their registration/licensing arrangements together with evidence of an acceptable level of current Professional Indemnity Cover.

Valuers must only value properties located within the geographic areas in which they operate.

Firstmac reserves the right to restrict the number of valuers on the panel but will work with Originators/Mortgage Managers to ensure that there are sufficient valuers on the panel to meet the needs of the Originator/Mortgage Managers.

### **17.1 General**

Firstmac will not settle any loan that has a valuation that does not conform to the requirements of this policy.

## 18 Lender's Mortgage Insurance (LMI)

All loans which fall into the parameters outlined in Section 7.1 must be 100% lender's mortgage insured with Cash Flow Cover or mortgage insurable. Where an existing loan is mortgage insured, Firstmac may require Cash Flow Cover on this loan.

Lender's Mortgage Insurance (LMI) is protection for the lender, as it insures against any shortfall of monies in the event of a forced sale of the security property. The borrower must be made aware that this is the case and that it does not cover the borrower if any repayment is missed or loss incurred as a result of loan default.

The current approved insurers are:

- Genworth Financial Mortgage Insurance Pty Limited
- QBE Lenders' Mortgage Insurance Limited

and respective related companies of these two insurers, as advised.

In some instances, Firstmac will pay the LMI premium - please refer to the individual product specifications for details.

Current LMI premium scales are available on the Firstmac website.

Firstmac will not be responsible for any premium where an Originator / Mortgage has incorrectly quoted or advised a borrower that no premium is payable by the borrower.

Where a borrower seeks a variation to a loan which is currently mortgage insured after it has settled, any LMI premium or administration fee charged by a Lender's Mortgage Insurer is always payable by the borrower, regardless of whether or not the borrower was required to pay the premium on the original loan. With all additional advances: Firstmac will pay MI premium on all increases > \$50,000 provided LVR remains below 80% and total borrowings does not exceed \$750,000.

As a duty of disclosure under the Insurance Contracts Act 1984 attaches to applications for LMI cover, the Originator / Mortgage Manager must ensure that any matter known, or that could reasonably have been expected to be known, and that would be relevant to the insurers decision to accept the risk, is disclosed. To withhold information relevant to the insurer's decision to insure a loan could make the insurance policy invalid and jeopardise Firstmac's position.

Firstmac will not allow any loan to settle where the LMI undertaking has any approval condition outstanding.

## 19 Employment and income

### 19.1 Employment confirmation

Employment should be permanent, stable and with a potential term that matches or exceeds the proposed loan term.

The following table describes the types of employment and minimum term that is acceptable.

If the borrower was retrenched from a previous position and has only recently commenced new employment, this would be a valid reason for a change in employment outside of the term noted.

The type of employment is also important as the more employable the borrower, the more forgiving we can be to recent employment changes.

Type of employment	Requirements
Permanent full time	<p>Minimum 2 years continuous employment in the same industry, or Minimum 12 months with current employer</p> <p>Where the borrower is within a probation period, application may be considered based on the merits and strengths of the borrower's overall position.</p> <p><b>Specific Firstmac DLA Discretion</b> - may be considered on case by case subject to strong mitigants plus:</p> <ul style="list-style-type: none"> <li>- Minimum of six (6) months in current employment or 12 months in current industry, or</li> <li>- If in current employment for less than six (6) months, must have been in previous employment for at least two (2) years in the same field, or</li> <li>- If in current employment for more than six (6) months but less than 12 months, must have been in previous employment for at least 12 months in the same field.</li> </ul>
Permanent part time	<p>As above.</p> <p><b>Specific Firstmac DLA Discretion</b> - may be considered on case by case subject to strong mitigants plus minimum of six (6) months in current employment or 12 months in current industry and if a primary borrower, a stable employment history over a two (2) year period must be demonstrated.</p>
Casual	<p>Minimum of 12 months in current employment.</p> <p>Exercise caution if casual employment is the sole source of income.</p> <p>Where this is the case make enquiries with employer as to prospects for continuity of employment, and an application may be considered on case by case basis.</p>
Second job	<p>Minimum of 12 months continuous employment.</p>
Contract	<p>Minimum of 12 months employment in the same industry and a demonstrated level of overall employment continuity.</p> <p>Treat with caution if contract employment is of a short-term nature.</p>
Self employed	<p>Minimum two (2) years trading in the current business.</p> <p><b>Specific Firstmac DLA Discretion</b> - exceptions may be considered on case by case where a borrower has only 12 months trading in the current business and 2 years in previous employment with similar occupation or field.</p>



	<p>Note:</p> <p><b>Specific Firstmac DLA Discretion and policy exceptions</b> are at the discretion of Firstmac and may be considered on a case by case basis subject to: the borrower's circumstances, the overall strength of the loan proposal, satisfactory enquiries and explanation to queries, support by strong mitigants and factors in the loan application, all other policy and requirements being met.</p>
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An individual is considered self-employed when they receive the majority (i.e. more than 50%) of their income, including wages, from a business:

- in which they are the sole trader, a partner, director or shareholder; and
- where they have management control of the company

**Example**

A husband and wife running their business through a company structure and paying themselves wages from that business are considered self-employed, although, technically, they are PAYG income earners by virtue of the fact that they receive wages.

However, because they are the owners of the business and have management control of the company, they are considered self-employed.

Applicants are considered self-employed if they are engaged as:

- sub-contractors (common in the building and transport industries)
- professional consultants (common in the IT and Professional Services industries)
- operate a company structure in which they are “employed”

**19.2 Confirming employment and income**

**19.2.1 For all loans**

- Obtain employer’s telephone number from an independent source eg Telstra’s White or Yellow Pages (i.e. do not rely on numbers given by borrower or on letterhead) or from an ABN website or reference source. Print out copy of White or Yellow Pages enquiry ABN Search or other source and attach to file.
- Phone the employer in all instances to confirm borrower is employed and Ensure that the person spoken to is a person of authority (ie owner of business, paymaster, personnel manager or line manager)
- Complete a Borrower Employment & Income Verification Formal File Note
- Obtain printout of Employer ABN number for government and non-government employers.

The requirements of the mortgage insurer must also be observed whether or not they are inconsistent with provisions in this policy.

For fully verified loans:-

- Verify that employment, time in position and income are consistent with that disclosed in application. If possible, obtain confirmation of continued employment.
- If the employer refuses to confirm any details then a note, including the name of the person they spoke to, to this effect should be made on the Borrower Employment & Income Verification Formal File Note

Where a borrower is self-employed or a company/trust

Originator / Mortgage Managers or in the case of Broker loans Firstmac will need to verify the nature of the business activities and for fully verified loans financial details by contacting the borrower's accountant.

Again, a Borrower Employment & Income Verification Formal File Note must be made.

Self employed borrowers are required to provide evidence of being self employed and a valid ABN and be registered for GST (unless legitimately exempt) for at least 2 years and confirmed in writing by their accountants. Firstmac requires all applications to be supported by full asset and liabilities details.

**NOTE** In all instances check that the information obtained is consistent with the loan application.

### 19.2.2 Self-Certified (Lo Doc) loans

LVR	Requirements
≤ 80% LVR	Current ABN & GST to be provided to confirm self-employment (registered for at minimum two (2) years)  <b>or</b> Current ABN & GST plus a letter from Accountant confirming the applicants' have been self-employed for a minimum period of two (2) years.

### 19.3 Evidence of income

This must be verified in accordance with Section 19.

#### 19.3.1 Salary and wage earners

Original documents must be provided with copies taken and originals returned to the customer.

Except for Self Certified (Lo Doc) loans, PAYG borrowers must provide either:-

- two of the three most recent computer generated pay slips for the borrower(s) showing as a minimum borrower name, employer's name and ABN current salary/wage and year-to-date earnings or
- most recent three months statements from a financial institution showing regular salary credits with the name of the employer evident.

If these documents are not unavailable we may consider at least two of the following documents from each borrower:-

- The employment contract
- The most recent PAYG Summary or Australian Taxation Office (ATO) Assessment Notice.
- A letter from the employer that is on company letterhead and contains details of gross annual income, (identifying any base income separately), role or position, length of employment, the basis of employment (full or part time, or casual) and breakdown of the salary package (if applicable)
- One most recent computer generated payslip

If income has increased since the previous tax year, a recent pay slip will be required to substantiate the increase.

Once obtained the documents must be reviewed in order to ensure:-

- The income is consistent with the year to date figure appearing on the payslip
- The employer's full details (business name, ABN and contact details) are clearly stated.
- The letter of employment if obtained is signed and dated.

Firstmac / Originator / Broker must be satisfied that the employer is a legitimate business or company, for example by checking that the employer's stated ABN is correct and current.

These details are publicly available from the Australian Business Register website <http://www.abr.gov.au>.

### **19.3.2 Self employed applicants /companies /trusts. Except for Self-Certified (Lo Doc) loans**

Full Doc - For Self employed and company borrowers are required to demonstrate and provide evidence that they have been self employed and trading in the same or current business for at least 2 years. These will need to be verified by a valid ABN and be GST registered (unless legitimately exempt) and other documentation satisfactory to Firstmac.

Self-employed borrowers must provide the most recent two (2) years full business and personal tax returns. Interim or draft financials are unacceptable.

Where a company or trustee is the borrowing entity, the most recent two (2) years full tax returns are required for the company and director/guarantors and/or for the trustee, trust and trust beneficiaries. Where possible tax returns should be supported by the latest available ATO Assessment Notice. The most recent tax returns should be no more than 18 months old. Specific Firstmac DLA Discretion - exceptions will be considered on case by case basis.

Interim or draft financials are unacceptable.

Full balance sheets and profit & loss statements must also be provided.

The above documents should be reviewed to ensure:-

- The Accountant's details are clearly stated on the documents and
- The applicant has a registered ABN
- The applicant is registered for GST unless legitimately exempt.

These details are publicly available from the Australian Business Register website <http://www.abr.gov.au>.

### **19.3.3 Self Certified (Lo Doc) Borrowers**

All self employed borrowers must have:

- An active ABN for at least 2 years and
- GST registration for at least 12 months.

Declared income and Assets and Liabilities position must be verified through:

- Most recent 12 months BAS statements from the ATO, and
- BAS statements will be required for each trading entity where the borrower declared income from more than one trading entity on the application, and
- Most recent 6 months personal transaction account statements (for the primary trading account only).

Note – as a reasonableness criteria, the income declared by Self Employed borrowers should be no greater than 40% of the Gross Business Turnover as supported by the BAS statements.

All borrowers must sign a Self Certified (Lo Doc) declaration.

Where a borrower is aged 65+ years AND they do not have an ABN for over two years they must provide an asset and liability statement, which may need to be substantiated, to demonstrate that they may reasonably be expected to have the ability to service the borrowings AND a reasonable explanation of how the funds are to be used.

Where any borrower has an ABN for over two years or they are a PAYG Self Certified (Lo Doc) they must provide a reasonable explanation of how the funds are to be used.

Where there is any evidence on file or the Veda / CRAA credit report that may contradict details on the application such as self employed investor but we have evidence that they may be receiving a pension this should be fully explained.

## **20 Assessing the ability to repay**

Establishing the applicant's true debt servicing capacity is vital to assessing ability to repay. It is not in the best interests of the applicant, Originator / Mortgage Manager or Firstmac for borrowers to take on more debt than they can manage.

If the borrower cannot demonstrate an ability to repay, regardless of the financial standing of any intending guarantor, the application should not normally be approved. Only in exceptional and clearly justifiable circumstances should the application be approved based wholly or partly on the repayment capacity of a guarantor.

Such circumstances may arise where borrowers have taken action to safeguard their assets in case of professional negligence claims. These actions can include:

- dissemination of income to family members;
- diversion of funds to related business entities.

This can lead to loan applications where the applicant has little or no income. Instead, the customer offers a guarantee by another person (often the spouse), or a related business, in support of the borrowing. In these circumstances, the guarantor must obtain independent legal and financial advice.

When assessing loan applications supported by a guarantee, ensure the guarantor has the ability to meet the borrower's commitments in the event of the borrower defaulting. Guarantors should be assessed in the same way as primary borrowers.

When assessing an application, ensure that:

- any tax minimisation activity is clearly legal;
- the source of income is clearly legal;
- there is a clear benefit in the transaction to the borrower and to any guarantor (an exception may arise where a parent provides security for the borrowings of a child).

Consult Firstmac if you have any doubts with regard to the above.

A person should not be included as a borrower or a guarantor to a loan merely to add weight to the loan application.

### **20.1 Self-Certified (Lo Doc) loans**

Evidence of self-employment i.e. ABN number and accountant details are to be submitted with all applications. Refer to Section 19 above.

Where a borrower's income or business income declared is over \$75,000, there must be a valid GST registration in place. If the GST is not registered, a detailed explanation surrounding the exemption must be sought from the borrower's accountant. If the explanation is not satisfactory to Firstmac, Firstmac may consider capping the acceptable income for debt servicing purposes to maximum of \$75,000.

## **21 Acceptable income for debt service purposes**

The following is a guide to acceptable income for Firstmac for the purpose of calculating debt service capacity. Variations may occur between different mortgage insurers.

Acceptable Income type	Maximum % allowable for servicing	Guidelines & Requirements
<b>Personal Borrowers &amp; Guarantors</b>		
PAYG Salary and wage	100 (75% for non residents and for any foreign sourced income)	Employment requirements & verification must be met. Gross salary is net of superannuation
Salary sacrifice	100	Where employee voluntarily sacrifices a portion of their salary, 100% of the sacrifice may be taken into account. The amount of the sacrifice will need to be confirmed by the employer in writing or by telephone. <b>Specific Firstmac DLA Discretion</b> For Not For Profit organisations (eg in healthcare industry), where it is common for employees to have benefits via salary sacrifice, may consider including as net income for servicing.
Superannuation	100	Only super amounts in excess of the legislative requirements may be added back to gross income
Overtime	100	Must be regular or a condition of employment and continuity is likely. This will need to be confirmed by the employer in writing or by telephone. Averaged over past 2 years. This may be reduced for a specific industry, eg non essential industry. <b>Specific Firstmac DLA Discretion</b> - May accept up to 100% provided it is condition of employment AND consistent and continuous.
Shift allowance	100	Must be a condition of employment and is an industry standard. This will need to be confirmed by the employer in writing or by telephone.
Commission	100	Up to 100% may be considered for servicing provided: -1 year continuous in same job or 3 years continuous employment in same field. -Commission must be a permanent part of income evidenced by: electronic pay-slips, letter from employer, tax returns for previous 2 years. -consistent and constant for minimum of 2 years -maximum year on year increase capped at 120% of previous year. <b>Specific Firstmac DLA Discretion</b> - exception assessed on case by case.
Bonus	100	Up to 100% may be considered for servicing provided: -1 year continuous in same job or 3 years continuous

		<p>employment in same field.</p> <p>-Bonus must be a permanent part of income evidenced by: electronic pay-slips, letter from employer, tax returns for previous 2 years.</p> <p>-consistent and constant for minimum of 2 years</p> <p>-maximum year on year increase capped at 120% of previous year.</p> <p><b>Specific Firstmac DLA Discretion</b> - exception assessed on case by case.</p>
Part Time / Casual	100	<p>1 year continuous in same job.</p> <p><b>Specific Firstmac DLA Discretion</b> - exceptions may be considered - If not 1 year continuous in current job, to maximum of 50%.</p>
Second job	100	<p>1 year continuous in same job or 3 years continuous employment in same field.</p>
Contract income	100	<p>Assess on case by case.</p>
Rental income	80	<p>80% of Gross rental, subject to the High Density apartments/units rental income parameters in Section 4.1.</p> <p><b>Specific Firstmac DLA Discretion</b> - may be considered on case by case basis.</p>
Social Security benefits & government pension (excludes Unemployment and Sickness Benefits)	100	<p>When assessed/considered permanent for next 5 years.</p> <p>Part A and Part B - For each dependant, must be entitled to receive benefit for next 5 years (ie children under 11 years).</p>
Child Support / maintenance (non taxable income)	100	<ol style="list-style-type: none"> <li>1. Provided child support &amp; maintenance agreement is registered with Child Support Agency (CSA) and child support is confirmed for a minimum of next 5 years, with maximum age for each allowable dependant being 13 years.</li> <li>2. Evidence must be provided to demonstrate these have been paid for the past 6 months.</li> <li>3. Evidence of current year's CSA Notice of Assessment advising amount payable, and bank statements showing payments over immediately prior 6 month period.</li> <li>4. Private child support arrangements are not acceptable.</li> </ol>
Maternity Leave income and Parenting payments	50	<p>Employer Maternity Leave Payment and government Paid Parental Leave Payment (Working Parent Payment) may be acceptable on the basis that:</p> <ul style="list-style-type: none"> <li>- this income is currently being paid and maternity leave period has at least 6 months to expiry,</li> <li>- this income will continue to be paid until the applicant returns to work date as per confirmation letter from the employer.</li> </ul> <p>In situations where the maternity leave pay period or</p>

		income has stopped, then no income can be taken into servicing.
Disability Pension	100	Continuous payment for past 2 years
Defence Force Pension	100	This would need to be supported by satisfactory written documentation.
Other Pension	100	Continuous payment for past 2 years. Acceptable where pension is long term. Unemployment benefits are not acceptable.
Maintenance (other non-child type)	100	Continuous payment for past 2 years
Car Allowance	100	100% against corresponding car loan repayments or added to gross taxable income
Fully maintained car	NA	Up to \$5000 pa added to gross income
Investment income (interest, dividends)	100	Income as disclosed in tax returns and Income level to be evidenced over minimum 2 year period. Acceptable provided income is assessed as being reasonably sustainable over the long term.
Taxation benefits in the form of tax rebates / refundable tax offsets / tax free government payments	100	Provided these are rebates and tax free eg government subsidized schemes such as NRAS, and is sustainable for minimum of 4 years
Self Employed and Company borrowers NPBT (Net Profit Before Tax)	Refer to criteria in this section	Refer to Section 19 above for more details and requirements. Originators / Mortgage Managers should contact Firstmac if in doubt as to the treatment of any income not noted above. Minimum of the last two (2) years income (NPBT) should be taken into account when assessing the debt service capacity. Current ABN to be provided to confirm self-employment (2 years minimum term of registration). Where income is consistent over the 2 year period, the last year's income may be used. If income has increased or decreased substantially (+/- 20% as a guide) over the last 2 years, a note must be made as to the reason for the variation. In such circumstances, the income to be used for debt service purposes should be discussed with Firstmac. Maximum increase in year on year is capped at 120% of previous year. The income to be used for debt service purposes is the Net Profit Before Tax (NPBT).
Allowable Add-backs - some expenses may be added-back to the NPBT		In certain cases, some expenses may be added-back to the NPBT. <b><u>Allowable Add-backs</u></b>



		<ul style="list-style-type: none"> <li>• Director's income/salaries (where not already included in calculations)</li> <li>• Director's superannuation in excess of 9% of gross income</li> <li>• Building depreciation (Maximum of 20% of total assessable income). Specific Firstmac DLA Discretion - exceptions may be considered on case by case up to Maximum 30%.</li> <li>• Interest on loans being refinanced</li> <li>• Non-recurring expenses (these would need to be confirmed by accountant)</li> </ul>
Allowable Add-back – Investors		Add-back of deductible interest paid on all investment loans. Has to be supported by the latest tax returns or other satisfactory documentation. Calculated at a specified maximum rate as determined by Firstmac.
Not Acceptable Income type		<p>The following income or similar sources are not acceptable:</p> <ul style="list-style-type: none"> <li>• Workers Compensation</li> <li>• Income from boarders</li> </ul>

## 22 Loan serviceability calculation

Serviceability should be calculated using the Firstmac Debt Service Ratio (DSR) calculator.

The DSR calculator is to be prepared and submitted with each application.

Net Serviceability Factor should be a minimum of 1.0. Firstmac requires net disposable income ("NDI") ie income after tax and assessed living costs to cover at least total fixed commitments.

Lender's Mortgage Insurers may require a higher factor for first home buyers using FHOG as part or all of their source of deposit.

The deductions for total monthly commitments should include the following items:

- All regular debt repayment commitments
- Rent / board (if the rent / board does not cease on loan approval)
- Maintenance payments
- Any other fixed regular monthly commitments such as HECS repayments
- Minimum of 3% on the total credit card limit
- Living Allowances/costs based on independent benchmarks ie ABS' Household Expenditure Measure (HEM), Henderson Poverty Index. These allowances are reviewed regularly.
- Fixed rate repayments may be used provided fixed rate term has 5 or more years to expiry
- Other discretionary commitments – these vary according to a borrower's circumstances and any material items should be considered and taken into account in assessing, if necessary.



The debt servicing qualification is calculated on the principal and interest repayments over the full term of the loan up to 30 years.

Default servicing rate used for new loans is generally set at the higher of lender's standard variable rate or margin of 1.5% added to the higher of Firstmac's standard variable rate or the average standard variable rate of the 4 major banks. This rate is reviewed regularly by Firstmac.

For Line of Credit loans, assume the loan is drawn to the credit limit.

### **22.1 Notional Rental Expense**

Where the borrower is purchasing an investment property, and is residing with family or friends either rent-free or at an unusually low cost, a notional rental expense of \$150 per week (\$650 per month) per applicant may, at Firstmac's discretion, be included as an existing commitment when assessing serviceability. The Notional Rental expense will not apply to loans for the purchase of vacant land.

Specific Firstmac DLA Discretion - Exceptions may be considered on a case by case basis where customer can demonstrate that they are living with parents.

### **22.2 Joint income and joint commitments**

Where the borrower has existing joint commitments with other parties who are not part of the loan application, 100% of the existing commitment is to be included in calculating serviceability for the new loan. Specific Firstmac DLA Discretion - Exceptions will be assessed on a case by case basis provided satisfactory documentary evidence is provided to demonstrate non joint and several liability.

If the borrower shares a positive income source such as rental income with parties not included in the loan application, the tax return or certificate of title is to be used to ascertain the ownership percentage. The ownership percentage will be applied to the gross joint income to determine the amount used in calculating serviceability.

## **23 Credit history**

A credit report must be obtained on each borrower and guarantor, whether individual or company and each associated company or business name disclosed by the credit report.

The credit report can only be performed when a Privacy Act Authority is held for that person or entity.

Originator/Mortgage Managers must ensure they hold a duly completed Privacy Act Authority for every borrower and guarantor, as substantial penalties apply to both individuals and companies for misuse of the Credit reporting system under the provisions of the Privacy Act 1988 and the Privacy Amendment Act 1990.

### **23.1 Credit reports**

It is a standard requirement that the credit report demonstrates a clear credit history (ie no defaults, judgements or other adverse listings).

Specific Firstmac DLA Discretion - exceptions may be considered subject to an acceptable explanation for any adverse listing however the adverse listing must have been subsequently cleared.

Any decision in this regard will be at the discretion of Firstmac.

Firstmac considers borrowers with the following credit history to be high risk and unacceptable and will decline such applicants:

- adverse listings, ie Bankruptcy
- total number of Defaults (Paid or Unpaid Defaults) of 2 or more present on the Veda report
- adverse listings, ie. 1 or more Unpaid Defaults.
- adverse listings, ie. 1 or more Defaults (Paid or Unpaid Defaults) with credit provider / lenders.
- adverse listings, ie 1 or more judgements

Generally, an application involving an individual who has been discharged from bankruptcy will not be approved, however, it may be considered if:

- the reason for the bankruptcy is a valid one and can be verified, e.g. the collapse of a business - not just over-indulgence in consumer credit.
- it can be confirmed that the client did endeavour to resolve his/her financial problems and make an arrangement with the lenders prior to being declared bankrupt.
- a reasonable time has elapsed since the bankrupt was discharged and they have made a concerted effort to re-establish themselves by rebuilding their asset base without the need to resort to borrowing.

All debts listed on the application should be checked against the credit report to confirm current borrowings.

All credit enquiries listed on the credit report that are less than 12 months old should be investigated further to ensure that there are no undisclosed debts.

A notation is to be made against each enquiry listed confirming the outcome of the enquiry. A copy of this is to be provided to Firstmac.

Credit reports held on borrower loan files must be marked as "obsolete" or "no longer current".

The credit report should not be more than 30 days old at time of credit assessment.

Where a borrower has only been recorded for six months or less extreme care should be exercised to confirm their identity.

Specific Firstmac DLA Discretion. Any application with more than 1 default on Veda / CRAA credit report will be declined. If the default is less than \$1,500 and is paid in past 6 months, it may be considered as an exception provided the reason was due to an accidental misplacement.

Applications with any ex-bankrupts will not be acceptable.

Any arrears on refinances will be declined. The only exception will be one missed payment in the most recent 6 months which was rectified within 30 days.

## 24 Confirmation of debts

### 24.1 Non-disclosure of debts

Non-disclosure of debt may sometimes be identified when investigating credit report enquiries.

Non-disclosure of debts should be viewed on an individual basis, as sometimes they are a genuine oversight, however non-disclosure of debts would normally result in the loan being declined or an approval being withdrawn.

### 24.2 Current debt position

Mortgage loans should be listed individually on the asset and liability statement identifying property address, lender, loan amount and repayments in need by identifying them as A, B, C, etc.

Ensure Credit Cards, Line of Credit Facilities, Personal Loans, Leases and Hire Purchase agreements are listed individually on the Asset & Liability statement and include the amount borrowed and the amount and frequency of the repayments. This can be determined by obtaining the last three (3) months transaction statements or copies of agreements if necessary.

For Serviceability calculations use 3% of the total limit of all credit cards. Some flexibility is allowed in this area, particularly for borrowers with a high level of income that may have a large number of credit cards that are not regularly used, or use their line of credit correctly by sweeping balances at the end of each month.

### 24.3 Outstanding rates, body corporate charges

Where we are refinancing an existing debt or providing a further advance the borrower should provide evidence that all rates, statutory charges (land tax, water rates etc) and body corporate charges where applicable are up to date.

## 25 Savings history and proof of deposit and source

For loans over 90% LVR where savings history is required this must be verified by Firstmac and/or the Originator and/or the Lender's Mortgage Insurer. This will be satisfied by sighting original documents in accordance with Section 3.

Where genuine savings are comprised of deposit funds held in account(s) with a financial institution, this will be satisfied by sighting the original of the following documents in the name(s) of the borrower(s) dated not older than 3 months prior to the date of the loan application in accordance with Section 3:-

- Savings or account statements on a financial institution's stationery
- Passbooks
- Loan statements on the lender's letterhead showing accelerated payments

Internet statements are only acceptable if all the following are present:-

- The borrower(s) name
- Account number

- Individual transactions are itemized and there is a running account balance; and
- The logo of the bank or financial institution is present.

If the borrower's name or the logo is not displayed on the internet statements, a separate bank issued statement must be provided to verify these details.

Once obtained the documents must be reviewed in order to ensure:-

- Savings are genuine and evident over a three-month period, with no lump sum or unusual deposits (large deposits may be acceptable if investigated and explained satisfactorily)
- The statements are genuine

If other acceptable alternatives are being relied upon in lieu of genuine savings (eg shares managed funds or equity in other real estate etc) then documents evidencing ownership for a period of at least three months must be obtained. For example – a certificate or statement if shares, managed funds or other investments are being utilized or a rates notice and loan statement (if applicable) if equity in other real estate is being utilised.

Loans that do not meet this particular qualification will still be considered although they will be treated with care as an inability to save may indicate a future inability to meet loan repayments. A statement from a Real Estate agent confirming regular rental payments over the past six (6) months may assist in such cases.

## **25. 1 Evidence of funds to complete**

The source of funds to complete the transaction must be clearly identified on the application and where available, evidence such as bank statements, security deposit receipts etc. should be provided with the application. In some instances evidence of funds to complete may be required as a condition of approval.

### **25.1.1 Gifted funds**

3% genuine savings required as a minimum for loans with LVR in excess of 80%.

For all investment Loans – require to demonstrate minimum 10% of purchase price as genuine savings or equity in other real estate where the loan purpose is purchase or construction, and LVR exceeds 85%. Specific Firstmac DLA Discretion - limited exceptions may be considered to 5% on a case by case basis.

Gifted funds are generally acceptable as part of the borrower's equity over the minimum 3% genuine savings requirement, or they may be used towards legal fees or further improvements to the home (i.e. fences, driveways).

The use of gifts is usually where the borrowers are young and have parents, relatives or close associates wishing to assist them.

The applicant/s must provide a statutory declaration from the person/s gifting the funds declaring that it is a true gift and not repayable.

Evidence of the source of the gifted funds may also be requested.

### **25.1.2 First Home Owners Grant (FHOG)**

Firstmac are accredited to process the FHOG and require the fully completed and signed original FHOG application, as well as certified copies with the completed Customer Identification Checklist.

Mortgage Insurers may assess FHOG loans on different ratios and guidelines.

## **26 Refinances, Variations and Substitutions**

Loans to refinance existing loans are acceptable however, good conduct of the credit facility being refinanced is mandatory. Copies of the most recently issued loan and account statements on the lender's letterhead, verified in accordance with Section 3 for at least six (6) months (or three months for credit card debts) for all loans being refinanced must be obtained together with evidence of repayments being maintained since the last statement was issued to verify good repayment history.

Where the statement is greater than 6 months old the borrower must provide other evidence that the loan repayments are up to date eg a copy of deposit payment receipts, internet statements, or statements on a financial institution's stationery showing the deductions being made from another account. This evidence should be no later than three months old at the date of the loan application. Internet statements are only acceptable if all the following are present:-

- The borrower(s) name
- Account number
- Individual transactions are itemized and there is a running account balance; and
- The logo of the bank or financial institution is present

This information should be reviewed to identify if:-

- There has been no more than one late payment (30 days or more overdue) in the last six month period.
- A missed payment remains unpaid
- Any number of dishonoured payments or
- The loan is, or has been, outside of the approved limit or scheduled balance during the prior six month period.

Where any of the above are identified a proposal may be considered where we are provided with a detailed and acceptable written explanation.

Evidence that all rates, statutory charges, and body corporate fees are up to date will also be required and where they indicate that the borrower may be in arrears satisfactory evidence of payment must be provided prior to settlement.

### **26.1 Internal refinances and further advances**

For any loan increases (top-ups) and further advances,

- existing loan must have been operating for at least 3 months, and
- minimum of 3 months satisfactory repayment history is required, and
- only one top up / additional loan is permitted within any 3 month period.

Evidence that all rates, statutory charges, and body corporate fees are up to date and have been paid in a timely manner will be required together with evidence that replacement fire insurance, except for body corporate insurance, will be required before the refinance or further advance proceeds.

## **26.2 Variations and Substitutions**

Any variations or substitutions to existing loans must be submitted to Firstmac for assessment and approval.

## **27 Identifying borrowers**

Under the Anti-Money Laundering and Terrorist Financing Act 2006 (Cth) ("AML/CTF Act"), Firstmac must identify certain information collected about an individual's identity before it provides them with services and products. Please refer to Firstmac's requirements and procedures regarding collection and verification of this information.

Firstmac's agreements with the Originator / Mortgage Manager Agents or Brokers appoint them as an agent of Firstmac and require all the Originator / Mortgage Manager Agents or Brokers to adopt the Firstmac customer identification procedures (and any other AML/CTF obligations). In addition, any Originator / Mortgage Manager Agents or Brokers introducing borrowers must have undertaken acceptable AML/CTF training and must agree to undertake on-going education and training as required.

Originator / Mortgage Manager must provide Firstmac with a completed Customer Identification Checklist for each borrower, guarantor and company director as required by the Anti Money Laundering and Counter Terrorism Legislation or any other identification procedures as advised and required by Firstmac. Each Checklist should be completed by the party taking the application eg broker. Firstmac's approved form is available on the Firstmac website, alternate forms may be approved by Firstmac. Birth Certificates and/or Naturalisation Certificates are not acceptable forms of identification.

The Customer Identification Checklist or any other identification procedures as advised and required by Firstmac must be completed by a staff member of the Originator / Mortgage Manager. At least one piece of photographic evidence e.g. passport; drivers licence is to be sighted and compared to the applicant. Clear copies of the evidence certified by the person must be submitted with the application and kept on file.

Where a broker dealing directly with Firstmac conducts a face to face interview with borrower they need to submit fully completed and signed Checklist or any other identification procedures as advised and required by Firstmac.

Electronic Verification of identity. Firstmac may also verify the identity of a borrower, guarantor and company director using information held by a credit reporting agency provided it has the express

consent and authorization of the individual whose identity is being verified as permitted under the Anti-Money Laundering and Counter Terrorism Financing Act 2006 ("AML/CTF Act").

In the event of any inconsistencies between this manual and the Firstmac AML/CTF Program as amended from time to time, the Firstmac AML/CTF Program will prevail.

## **28 Early repayment fees (These only apply to loans originated pre 1 July 2011)**

### **28.1 Deferred Establishment Fee (DEF)**

All loans are subject to payment of a Deferred Establishment Fee (DEF) should the loan be repaid early.

The DEF is charged when a loan is repaid in full during the first five (5) years of the loan term. The amount payable varies dependent on the product and should be confirmed by reference to the Originator / Mortgage Manager and / or the Loan Agreement.

### **28.2 Proportional DEF**

#### **28.2.1 Accelerated repayments**

A proportional DEF may also be payable should the balance of the loan account be reduced to less than 50% of the original loan amount during the first five (5) years of the loan term.

The amount of the fee is half the DEF that would have been payable had the loan been repaid in full. Should the remaining loan be paid out within 5 years, the appropriate DEF should be calculated on the remaining balance.

#### **28.2.2 Release of security**

A proportional DEF is also payable upon the release of a security during the first five (5) years of the loan term.

The amount of the fee payable is the same percentage of the DEF payable as the released security represented of the total security at the time the loan settled unless the LVR is increased on the remaining security in which case it will be calculated on the amount the loan is reduced by.

The amount of the fee charged is deducted from any fee that may subsequently become payable.

## **29 Fixed rate break costs**

Fixed rate loans attract break costs where the loan is repaid either in full or in part and where the interest rate at which the repaid amount can be re-lent is less than the actual fixed interest rate of the loan at the time of repayment.

## **30 Offset accounts**

Where a loan product includes a 100% Redraw Offset Account all loan repayments and additional payments to the loan account can be credited to the Redraw Offset Account.



Loan repayments are debited from the Redraw Offset Account and applied to the loan sub-account/s and redraws are debited from the Redraw Offset Account.

Borrowers will receive separate account statements for the loan account and Redraw Offset Account.

### 31 Self-Certified (Lo Doc) loan conversions

Self-Certified (Lo Doc) borrowers who have obtained the last two (2) years taxation returns and financial statements are eligible to have their loan re-assessed to see if they qualify for a fully verified loan.

If the borrower qualifies, Firstmac will require a new, fully completed loan application form and may require an updated valuation depending on the age of the current valuation held together with fully verified income documentation, tax returns ATO notices etc.

All costs incurred in the changeover are borne by the borrower/s.

### 32 Loan products

Full details of the Firstmac loan products are available on the Firstmac website and are contained in the loan product specification sheets and product summary matrix.

With regard to non-standard loan products the following is provided in summary:

#### 32.1 Foreign resident loans

Loan amount	Maximum LVR
≤ \$ 500,000	80%
>\$ 500,000 & ≥ \$ 750,000	75%

The above are also the maximum exposure allowed to a borrower.

The standard income and employment policies apply to Non-Resident borrower. In addition, acceptable income evidence should also be translated into English and converted to Australian dollars at current exchange rate. Maximum of 75% of overseas sourced income (converted to Australian dollars) may be used for assessing serviceability. On an exceptional and case by case basis, up to 90% may be considered.

Applicants must be high net worth clients with a strong net asset and cashflow position.

For the purposes of these guidelines, a non-resident is deemed to be any person without permanent residency status, or any person who resides and is employed in another country. See also **Non-Resident Borrowers** for further conditions. Non-resident self employed, company or business borrowers are not acceptable.

Written evidence of Foreign Investment Review Board (FIRB) approval is required.

Non-resident borrowers must have a bank account with an Australian bank in Australia into which

rental payments are made and from which loan repayments can be drawn. They must also give an Australian resident an irrevocable power of attorney with the power to accept service of notices.

Loans to New Zealand borrowers may be made under the standard terms that apply to Australian residents.

### **32.2 Construction loans**

The Firstmac Construction Loan is available for both fully-verified and Self-Certified (Lo Doc) loans (excluding Home Run products).

Borrowers can finance up to 80% of the purchase price or valuation (whichever is the lesser) of an owner occupied or investment property with full income evidence.

For owner occupation construction, Firstmac will require an occupancy certificate and the owners may be allowed to complete items such as driveways and landscaping at their own expense subject to provision of reasonable written quotes. The valuation will need to be based on land cost/value and total construction costs, including the above items.

For investment property construction, Firstmac will require a building construction contract to be on a full "turnkey" basis, able to be occupied upon completion.

The construction period is limited to a period of 12 months from commencement of construction. Upon completion of the construction, the interest rate will convert to the standard rate for the product.

In the event that the construction period exceeds 12 months, Firstmac will charge an additional interest rate loading of 0.50%pa.

Construction may only be undertaken by a licensed / registered builder. Owner builders are not acceptable.

Prior to the first drawdown Firstmac will require:-

- Copies of the plans approved by the relevant Local Authority
- Evidence of Builders registration / licence and contractors insurance
- Builders fire and general insurance
- The signed final building contract.

Prior to final drawdown, Firstmac will require:-

- Certificate of Occupancy from the relevant Local Authority or council

Split options and redraws are not available on construction loans.

A maximum of 5% of the fixed-price building contract may be released at settlement of the land (all states except WA). In WA a maximum of 6.5% of the fixed price building contract may be released.

Progress valuations are undertaken at each stage of construction where a draw down of the loan is requested.

It should be noted and the builder should be aware that a condition of all construction loans is that



Firstmac is required as a condition of its mortgage insurance to retain sufficient funds at all times as estimated by Firstmac's valuer to complete the project despite the wording of the building contract. Borrower's contribution and any extras are to be paid prior to payment of any draws by Firstmac.

### **32.3 Self-Certified (Lo Doc) loans**

Income verification is not required for Self-Certified (Lo Doc) loans.

Applicants are required to provide an income declaration confirming their income and acknowledging that the lender has relied on the income declared in assessing serviceability.

The Self-Certified (Lo Doc) Income Declaration form is available from the website and must be completed in full including income and repayments.

Confirmation of self-employment must be obtained as detailed previously herein.

### **32.4 Fixed rate loans**

Some Firstmac loans can be fixed for a period of 1, 2, 3, 4 or 5 years.

When a borrower applies for a fixed rate loan, the interest rate is not set until the day of settlement. The interest rate for that particular day will be applied to the borrower's loan for the fixed term required.

If a variable rate loan with offset is converted to a fixed rate loan, the offset will no longer be available.

### **32.5 Business loans**

Loans will be considered for business purposes up to a maximum of 90% LVR to \$500,000. Loans with LVR over 80% will require MI cover up front.

Borrowers require a minimum of two (2) years self-employment in existing business.

If income from a business being purchased is required to support the loan, the business must have been operating for a minimum of two (2) years. Income is to be supported by the last two (2) years financial statements.

Acceptable Loan Purposes for Business Loans:

- Refinance business loans
- Purchase of plant and equipment
- Purchase of business
- Working capital < \$50,000

Unacceptable Loan Purposes for Business Loans:

- Repayment of shareholder loans

### **32.6 Lines of credit loans**

The Firstmac Line of Credit Loan is a non-amortising credit facility with a maximum term of 30 years. Line of Credit must be Interest Only for maximum of 10 years, after which it reverts to P&I amortization.

The facility may be fully verified or Self-Certified (Lo Doc) and may be stand alone or in addition to other borrowings.

Access to funds is the same as for a redraw of excess payments however the Line of Credit also has cheque book access.

Monthly payments of interest are required, as interest is not capitalised to the loan.

### **33 Fire insurance**

For purchase and refinances Panel Solicitors are responsible to ensure that adequate replacement fire insurance is in place.

For further advances it is the responsibility of the originator – other than for body corporate insurance – to ensure that replacement fire insurance is adequate and current prior to the further advance proceeding.

### **34 Title insurance**

All loans must have title insurance in place through First Title Australia, unless there is specific prior written approval from Firstmac. Title insurance is to be arranged via the panel solicitor and is required to be in place prior to settlement.



## Annexure 1 Valuation Variation Acknowledgement template

**(Originator / Mortgage Manager letterhead)**

Date

Borrower(s) / Name(s)  
Borrower(s) Street Address  
Suburb State Postcode

Dear Salutation Borrower/s Name/s

### Application for Finance - Security Property situated at address

#### Valuation Variation Notice

We wish to advise that our lender's panel valuer (who is used to determine the security value coverage for the proposed security property) has valued the property at a figure 10% or more below the purchase price.

The valuation is arranged for the lender's mortgage purposes only and you cannot rely upon it for your own purposes in determining the value of the property.

Valuations prepared for lending purposes are conservative and reflect a value based on comparable sales evidence and assuming a sale of the property can be realised within a reasonable time frame.

The notice is issued for the purposes of informing you of the variation and to allow you to make your own enquiries as to the value of the property should you so desire.

Despite the reduced valuation, the lender is prepared to proceed with your loan application, should you wish to continue.

If you wish to proceed, please acknowledge receipt of this notice and confirm your desire to proceed.

If you would like to discuss the matter further please do not hesitate to contact us.

Yours sincerely

Originator / Mortgage Manager Name

I / We acknowledge receipt of this Valuation Variation advice and confirm that I/we wish to proceed with the loan application.

**Signed:** \_\_\_\_\_ **Signed:** \_\_\_\_\_

## Annexure 2 Firstmac Valuations Standards and Valuer Accreditation

### Valuation minimum standards

- The valuation of a proposed mortgage security is an integral part of Firstmac policy and risk management
- To ensure the valuation of the residential property is accurate and reliable, it is imperative that any entity which gives instructions for preparation of a valuation, and the valuer meet certain minimum standards
- Firstmac's Valuation minimum standards (**Valuation Standards**) set out the basis on which Firstmac is prepared to accept residential property valuations for lending purposes and is intended to outline Firstmac's expectations with regard to instructions for the preparation of valuations and valuers with respect to residential property valuations

The Valuation Standards are designed to establish consistent minimum standards for the provision of residential property valuations for Firstmac and for LMI purposes.

### Application

The Valuation Standards apply to:

- any valuation report for Firstmac or for LMI purposes and/or relying on a valuation report in support of a loan application;
- any party involved in arranging a valuation report for Firstmac or for LMI purposes; and
- any valuer providing a residential property valuation submitted to Firstmac or for LMI purposes.

From time to time Firstmac may also issue supplementary valuation guidance notes that are to be read and interpreted in conjunction with the Valuation Standards.

Firstmac reserves the right to not accept a residential property valuation submitted to Firstmac which does not meet the Valuation Standards.

To the extent that a particular section of the Valuation Standards cannot be complied with, such non-compliance must be raised with Firstmac and prior approval sought for an alternative means of complying with the relevant section.

Specific Firstmac DLA Discretion - Firstmac Credit may approve exceptions to non-compliance with particular sections of the Valuation Standards on a case by case basis depending on the relevant circumstances. Any exceptions are to be referred to Manager Loan Processing, Head of Credit or Head of Risk, Compliance and Legal.

### A - Valuer Accreditation

1. When appointing a valuer (#) to its panel to perform valuations, Firstmac and any of its authorized parties, will act prudently and ethically.
2. Before appointing a valuer to perform residential property valuations, Firstmac requires the following minimum due diligence with satisfactory results:
  - Obtain company profile and resume of each of the principals/directors of the valuer;

- Obtain a list of current lender clients as references and check references to ensure the valuer's previous history is acceptable;
  - Ascertain which geographic areas are covered by the valuer, and in which geographic areas the valuer specialises;
  - Ascertain the number and experience of residential mortgage security valuers – employees and contractors - on staff and evaluate the capacity of the valuer to service the relevant geographic areas;
  - Conduct a search of the Department of Fair Trading (or equivalent state/territory body) valuer register;
  - Ascertain whether the valuer has an internal compliance and peer review process; and
  - Perform A.S.I.C. company director searches on each principal/director of the valuer and consult with LMI (in need) regarding any adverse findings.
3. For existing valuers who perform residential property valuations for Firstmac, Firstmac expects compliance with these Valuation Standards.
  4. Firstmac and any of its authorized parties shall use reasonable commercial endeavours to monitor and ensure that these Valuations Standards are met.

(#) Valuer is any firm, company or individual. A valuer is an individual valuer employed or engaged, via contractual arrangements or otherwise, by a valuer (if not a sole trader).

## **B – Acceptable Valuer qualifications**

### **Valuer obligations**

1. In all cases, the inspecting valuer shown on a valuation report to Firstmac is required to be a current financial member of the Australian Property Institute (**API**) or other recognized valuation industry body.
2. Firstmac will only accept residential property valuations from a valuer registered or licensed in the state or territory in which the relevant property is located. Such registered or licensed valuers must be one of the following classifications of API members (or such equivalent classifications in any other recognised valuation industry body) and hold Certified Practising Valuer (CPV) status or Residential Property Valuer (RPV) status:
  - Provisional Member (PMAPI)
  - Associate (AAPI)
  - Fellow (FAPI)
  - Life Fellow (LFAPI)
3. Where the property is located in a state or territory in which a valuer is not required by law to be licensed, the valuation must be by a valuer who is a member of the API (or other recognized valuation industry body) as above.
4. Valuation reports signed by a Provisional Member (PMAPI) with Residential Property Valuer (RPV) status are only acceptable when co-signed by a supervising Member who is a Certified Practising Valuer (or equivalent). The supervising Member must confirm they have reviewed the valuation and working papers, and based upon such review and appropriate questioning obtained reasonable satisfaction that the value opinion contained in the valuation has been reached based on reasonable grounds.
5. Valuations completed by a Provisional Member (PMAPI) of the API who does not have RPV status are not acceptable unless a CPV is the primary signatory. In signing as the primary signatory the CPV does so in accordance the API Rules of Conduct. The role of the Provisional Member is as a trainee valuer.
6. Valuation reports signed by an Associate (AAPI) who does not have Certified Practising Valuer status are only acceptable when co-signed by a supervising member who is a Certified

Practising Valuer (or equivalent). The supervising Member must confirm they have reviewed the valuation and working papers, and based upon such review and appropriate questioning obtained reasonable satisfaction that the value opinion contained in the valuation has been reached based on reasonable grounds.

7. Firstmac will not accept residential property valuations undertaken by a Student Member, Graduate Member (GAPI) or Provisional Associate (PAAPI) of the API (or equivalent members of other recognizable valuation industry bodies).

## **C - Professional indemnity (PI) insurance**

### **Acceptable PI cover – Valuer obligations**

1. A valuer performing residential property valuations for Firstmac or for LMI purposes must have and maintain professional indemnity (“PI”) insurance which:-
  - covers the acts and omissions of all valuers without exclusion, in any way involved in the preparation or provision of valuations for Firstmac or for LMI purposes;
  - does not have a deductible (or excess) for any single occurrence greater than \$50,000;
  - does not have a limit of liability in respect of any single occurrence less than \$1 million; and
  - does not have an aggregate limit of liability of less than \$2 million.The amount of required PI cover (as above) may be higher as advised by Firstmac.
2. The directors, employees, contractors and other representatives of a valuer performing residential property valuations for Firstmac or for LMI purposes, must not act in a manner that will void or reduce the indemnity extended to them under their PI insurance policy (e.g. failure of the valuer to report circumstances that may give rise to a claim).
3. A valuer performing residential property valuations for Firstmac or for LMI purposes must agree to have and maintain PI insurance in accordance with this section for at least 7 years after the last date on which the valuer provided a residential property valuation for Firstmac or for LMI purposes.
4. A valuer must notify Firstmac or its agent immediately of any changes to their company structure, including change of director/s or changes to the trading entity such as, company or trading name, ABN etc.

### **Acceptable PI Cover**

1. Before appointing a valuer to perform residential property valuations, Firstmac will:
  - ensure that each valuer appointed to its panel to perform residential property valuations for Firstmac or for LMI purposes has Acceptable PI Cover as described above at the time of seeking appointment;
  - provide written certification to its LMI (where required), on an annual basis, that all appointed valuers have Acceptable PI cover;
  - obtain on an annual basis from each appointed valuer (or their broker or insurer) evidence of Acceptable PI Cover by way of a full copy of the policy and provide such copy to Firstmac within 14 days of any request. A Certificate of Currency alone is insufficient; and
  - require a valuer to disclose to Firstmac (who will in turn disclose to its LMI where required) any exclusions or unusual or onerous conditions imposed on any appointed valuer by a PI insurer promptly after becoming aware of any such exclusions or conditions.
2. For existing valuers who perform residential property valuations for Firstmac, Firstmac and its authorized parties expect compliance with section 1 above.



## **D - Ethical conduct**

When appointing and instructing a valuer to perform valuations, Firstmac and its authorised parties shall act ethically and in accordance with the Valuation Standards.

### **Valuer obligations**

A valuer providing a residential property valuation report for Firstmac or for LMI purposes shall ensure that its directors, employees, contractors and other representatives at all times act in accordance with the API Code of Ethics & Rules of Conduct (or other equivalent professional standards and codes of conduct) and the Valuation Standards.

## **E – Valuation instructions**

When instructing a valuer to perform a valuation for Firstmac or for LMI purposes, under no circumstances is anyone other than Firstmac or its authorized parties entitled to give instructions to the valuer.

Where valuations are for LMI purposes, Firstmac will:

- Require instructions to a valuer to be in accordance with the API Residential Valuation & Security Assessment Supporting Memorandum (or other equivalent professional standards and guidelines) and these Valuation Standards.
- Firstmac may, at its absolute discretion, approve the use of valuation management / ordering systems by Firstmac's Agents. Such systems should randomly allocate the instructions to an appropriate valuer from Firstmac's panel of valuers. Firstmac's Agent should not be able to select or influence the selection of the valuer at any point.
- Require Originator / Mortgage Manager must retain a copy of the valuation instructions with the credit/lending file. Where an agent instructs the valuer on behalf of Firstmac, Firstmac may require a copy of the valuation instructions and retain this with the credit/lending file.
- Firstmac should ensure that the valuer specifically states the name of the instructing party on the valuation report and the report is extended for use by LMI.

### **Valuer obligations**

- A valuer performing a residential property valuation for Firstmac or for LMI purposes should not accept valuation instructions from Firstmac or its authorized parties where those instructions are not in accordance with the API Residential Valuation & Security Assessment Supporting Memorandum (or other equivalent professional standards and guidelines) and the Valuation Standards.
- The names of both the instructing party and the lender should be separately and clearly stated on all valuation reports performed for LMI purposes.
- Instructions to perform a residential property valuation received from Firstmac or its authorized parties should not be accepted by a valuer who does not have local knowledge and competence in the geographical area of the property being valued.

## **F - Valuation report**

### **Valuer obligations**

1. The API 'PropertyPRO' pro-forma template developed for residential mortgage valuation work is Firstmac's preferred residential mortgage valuation report format.

2. Unless otherwise agreed with Firstmac, valuation reports not submitted in the PropertyPRO or similar format will not be accepted by Firstmac.
3. Where a valuation report supports an application for Firstmac or for LMI purposes, the valuer providing the valuation report is in all cases required to:
  - Complete the report in accordance with: (a) the API Code of Ethics & Rules of Conduct, and the API PropertyPRO Residential Valuation and Security Assessment Pro-forma Supporting Memorandum; or (b) other equivalent professional standards, codes of conduct and guidelines, and (c) the Valuation Standards.
  - State that the property is suitable for prudent mortgage lending purposes or the property is in satisfactory internal/external condition; habitable; readily saleable; and not adversely affected by any easements, restrictions, environmental, planning or heritage issues that affect marketability.
  - Stipulate that Firstmac (or others as nominated by Firstmac) is entitled to rely on the valuation report for lending and LMI purposes;
  - Supply a signed copy of the completed valuation report in electronic PDF format noting the qualifications of the prime (inspecting valuer) and any supervising or co-signatory valuer;
  - Provide a detailed list of any defects or recommended repairs, including an approximate cost to complete the required work;
  - Prominently highlight any limitations or exclusions; and
  - Ensure that an internal inspection of the property has been undertaken for preparation of the Valuation report, unless otherwise agreed by Firstmac.

## **G - Panel management**

1. Firstmac:
  - Will have a documented service level agreement with each valuer appointed,
  - Will annually verify that each valuer appointed to its panel for performance of valuations has Acceptable PI Cover,
  - Will review the performance of its valuer regularly, which includes a hindsight review process,
  - Will have a dispute resolution process in place,
  - Or its authorized parties will immediately notify Firstmac's LMI (where applicable) when it becomes aware of a potential claim against a valuer in respect of a valuation performed for Firstmac or for LMI purposes and/or relied upon in support of a loan proposal to Firstmac.
2. Firstmac will ensure that any valuation report relied upon in support of a loan to Firstmac or an LMI proposal is not more than 3 months old at the date the proposal for Firstmac/LMI is made.
3. Firstmac will provide to its LMI (where applicable) with any proposal for LMI, copies of all valuations in respect of the property received by the lender in the period of 12 months prior to the date the proposal for LMI is made.
4. Requires valuers to notify Firstmac or its agent immediately about any change of director(s) or company details.

### **Annexure 3 Firstmac Valuation Guidelines for Mortgagee In Possession (MIP) valuations**

Firstmac requires that a Valuer instructed for an MIP property be different to the original Valuer. Firstmac reserves the right in its absolute discretion to either accept or reject a valuation notwithstanding these requirements. The Valuer engaged by Firstmac will be instructed to comply with these valuation requirements.

Valuation reports are required to make reference to the following:

1. The valuation is being prepared to assist Firstmac (and the mortgage insurer, where applicable) in achieving the best sale result for the property.
2. The valuation is not being instructed for mortgage security purposes, and references to 'First Mortgage' or 'prepared for mortgage security purposes' should be deleted. Standard references and disclaimers used specifically for mortgage security valuations should be deleted where standard format permits.

#### **Basis of Valuation**

1. The property is to be valued on the basis of its highest and best use as defined by Australian Property Institute (API) guidelines.
2. The assessment of market value of the property should reflect a typical marketing period for the class of property in the current market conditions. The expected selling period should accompany the market value. Where the expected selling period is greater than 6 months, a separate comment should be made on the dynamics of the market.
3. A single valuation figure, being the assessed market value, should be recorded for the value in line with traditional valuation practice. In addition, a market value range may be included based on the valuer's opinion of current market sentiment and interpretation of comparable sales. No mention or reference to a forced sale range or forced sale figure will be accepted.
4. A detailed description of the property in accordance with API standards is required.
5. To the extent a valuer is qualified; valuer is to provide comment on any necessary repairs (including estimated cost) and/or maintenance work that if carried out, would increase the marketability of the property within its market segment.
6. Provide an 'As Is' market value and 'As if Complete' market value where necessary repairs and/or maintenance work are recommended to be undertaken.
7. Provide details of current zoning and any applicable approvals that will have an impact on the value or marketability of the property.
8. Provide short comment on the market conditions for similar properties in the local area at the time.
9. Provide comment on the most appropriate method of sale for the subject property.
10. A comprehensive list and detailed information on the most recent comparable sales should be provided, with specific comment as to the relevance of the assessment of the subject property's value. Relevant comparable sales older than 3 months may be used in this assessment however a detailed explanation on the adjustment made to account for present market conditions must be provided.

#### **Comments Required in Valuations**

- Include any negative or positive features which may impact on marketability or early sale of the property (i.e. termite damage, specialised use, easements and incomplete renovations). Please advise if there is a need for building, pest, strata or any other third party reports.

- Comment on any possible issue where improvements do not appear to have council approval or may not meet building codes/legislation.
- Include previous sale of subject property if sold in last 3 years, and briefly comment on reason for variance to the currently assessed value.
- Comment on whether the property would incur a GST liability when sold.

Include photographs of the subject property from the front, rear and internally. Photographs should highlight any major defects or areas of repair.

Please include the current Insurance Replacement Cost and estimated rental value.

Comment on any issue the Valuer believes the Mortgagee should address in relation to Public Liability (for example, where the condition of the property could pose a risk of injury, such as a swimming pool may not have fence, unusually exposed drainage or wiring etc).

The Valuer's report is to be treated as confidential and Valuers are requested to not discuss the values within their report with real estate agents (this does not exclude the sharing of relevant information).

Valuations **must** be carried out by an AAPI (CPV) or FAPI (CPV) Valuer who has experience in valuing in the specific property area.

Firstmac (and the mortgage insurer, where applicable) may request further updates on the valuation if the property has not sold in 3 months.